



NETWERK ALGEMENE EN KWANTITATIEVE ECONOMIE

NETHERLANDS NETWORK OF ECONOMICS

NAKE DAY 2002

Book of Abstracts

October 18, 2002

Dutch Central Bank, Amsterdam



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Dutch Central Bank

Amsterdam, October 18, 2002

Netwerk Algemene en Kwantitatieve Economie
Netherlands Network of Economics

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Ivo Arnold

"Further evidence on the link between fiscal and financial stability"

Finance

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abstract:

If respected and enforced, the Stability and Growth Pact should work to prevent fiscal laxity in the EMU. In addition, central bank independence and the prohibition of monetary financing have closed off an easy option to finance public debt. But these measures may be insufficient to guarantee monetary stability in the presence of fiscal uncertainty. Recent experiences suggest that governments have maintained their ability to finance public debt through the domestic banking system, which could destabilize the financial sector and have monetary repercussions. This paper explores the empirical relationship between public debt, bank ownership, financial structure and the composition of bank assets using a global cross-section. The cross-section evidence suggests that the debt-to-GDP ratio is strongly correlated with the composition of bank assets. A higher debt-to-GDP ratio increases the share of public loans in bank assets. This effect is stronger the higher the level of state ownership of banks. It is also robust to the inclusion of variables capturing the level of economic and financial development.

Rossella Bargiacchi

"Climate change scenarios and the precautionary principle"

FEW-Economics

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abstract:

Scientific understanding of climate change is still very limited, therefore according to what is stated in the Rio declaration of 1992 the “precautionary principle” should drive policies on emission control. However there is still a lot of confusion about how such principle should be implemented and what consequences it would have for abatement effort. This paper proposes a methodological approach where climate scenarios are treated like uncertain events and damage functions in each scenario reflect the risk of exceeding some threshold level of pollution. Thus, scenarios differ from each other in the distribution and impact of thresholds. In aggregating uncertainty across scenarios, “precautionary” behavior is modeled with convex-weighted rank dependent utility (RDU). Surprisingly, this does not always lead to lower levels of emissions. Numerical computations, however, show that convex-weighted RDU yields lower emission levels for most parameter combinations.

Roel Beetsma and Koen Vermeylen

"The effect of monetary unification on public debt and its real return"

FEE-Economics

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abstract:

We explore the implications of monetary unification for real interest rates and (relative) public debt levels. The adoption of a common monetary policy renders the risk-return characteristics of the participating countries more similar, so that the substitutability of their public debt increases after unification. This implies that the average expected real return on this debt increases. Also, the share of the debt issued by relatively shortsighted governments or of countries that initially have a relatively dependent central bank increases after unification. A transfer scheme that penalizes debt

increases beyond the union average is able to undo the interest rate effect of unification, but further magnifies the spread of the relative debt levels.

Charles Bellemare and Sabine Kröger

"On representative trust"

FEW-Econometrics and OR

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abstract:

Trust behavior in a laboratory is most frequently analyzed using responses of participants drawn from a student population. Unfortunately, the homogeneous nature of this population makes it difficult to measure precisely the causal effect of many relevant background characteristics on trust behavior. The present study adds to the trust literature by analyzing trust behavior from a representative population sample drawn from the Dutch Socio-Economic Panel of Tilburg University. An econometric model of trust is developed and used to analyze proposer and responder actions. Results of this model are then contrasted to existing results mainly based on student samples.

Klaas Beniers and Otto Swank

"On the optimal composition of committees"

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abstract:

To improve the quality of decision making, often committees are used to provide information. Moreover, committees facilitate the coordination of information collection. This paper examines the optimal composition of a committee from the principal's point of view. Committees are optimally composed of members with moderate preferences, alike the principal, if the costs of searching are low. The reason is that members with similar preferences as the principal collect pieces of information most valuable to the principal. In addition, the costs due to manipulation of information are minimized if the preferences of the principal and the members are consonant. If the costs of searching are high, then the principal prefers a committee composed of preference outliers. Outliers have a strong incentive to search for information. They may, however, manipulate pieces of information.

Leon Bettendorf and Peter Broer

"Age, wages and unemployment"

OCFEB - Economics

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abstract:

This paper investigates the relation between wage formation, unemployment, and age. It links the life cycle model with an imperfect labor market in which search costs create a surplus value for job matches, which is divided via wage bargaining. The analysis focuses on the age-dependency of the job value and of the wedge created by the search costs. The paper classifies the life cycle into four consecutive stages; active job search, zero job search with positive job values, a quitting phase, and full retirement. We show that the distortional impact of search costs is maximal during the second phase.

Beata Bierut

"On the optimal frequency of the central bank's operations in the reserve market"

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abstract:

We analyze the optimal frequency of open market operations carried out by a central bank with the objective of steering the overnight interest rate and its relationship with required reserves and standing facilities. For this purpose, we construct a simple model of the reserve market, assuming an error-correction mechanism for the commercial banks' reserve management. The results provide not only a theoretical underpinning to some stylized facts and assertions made in the literature but also an opportunity of making precise quantitative comparisons of interest rates' volatility under various frequencies of central banks' operations.

Lex Borghans

"Class teaching and individual instruction"

ROA

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abstract:

How does class size affect the way teachers teach? Possibilities to change teaching practices are likely to be the major mechanism to explain the effects of class size on student achievement. Hence, education is modeled as a production function in which class teaching and individual instruction are inputs. Class size reduction enables the teacher to increase both the time

devoted to class teaching and the time spent separately on each pupil, explaining the expected positive impact of smaller classes on achievement. The optimal adjustment of teaching practice depends on the complementarity of both teaching methods. It is shown that if teachers' preferences for both teaching methods differ from the actual production function, the effects of class size reduction can be reduced substantially and even become negative. Based on data from the California Class Size Reduction (CSR) and the international mathematics and science study TIMMS it is shown that teachers strongly substitute class teaching for individual instruction. The analyses suggest that overvaluation of individual instruction may be a cause of the small or negative effects of reduced class size which are typically found in both cross-sectional analyzes and class size experiments.

Martijn Brons

"Technical efficiency performance of urban public transit: a meta analysis"

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abstract:

The aim of this paper is twofold: (i) to provide a statistical overview of the literature on public transit efficiency performance; and (ii) to statistically explain the variation in technical efficiency findings reported in the literature. First, some concepts of efficiency will be introduced and discussed. Next, the different frontier methodologies that are used in the literature will be discussed. The analytical part of this paper consists of a statistical summary of the literature and meta-regression analyses for different samples of the literature in order to identify determinants of technical efficiency of public transit operators. For a sample of parametric studies no significant determinants are identified. For the sample of non-parametric studies geographical region, database type and efficiency frontier specification may

contribute to explaining the variance in technical efficiency findings. Further results show that there is no statistical difference in technical efficiency ratios between parametric and non-parametric studies.

Maarten Cornet

"Who owns the knowledge economy? A survey of patent policy issues"

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abstract:

The appropriability of the economic value of knowledge is difficult if knowledge is non-excludable. Governments grant patents to increase the excludability of knowledge at the social costs of monopoly pricing. We survey a number of discussions on patent policy: harmonization of patent systems, alternatives to patent policy, strategic patents, and patents on software, business methods and genes.

Josse Delfgaauw and Robert Dur

"From public monopsony to competitive market: More efficiency but higher prices"

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abstract:

This paper examines the consequences of creating a fully competitive market in a sector previously dominated by a cost-minimizing public firm. Workers in the economy are heterogeneous in their motivation to work in the sector. In line with empirical findings, our model predicts that firms in the competitive sector provide stronger monetary incentives to workers, reach higher

productivity, and employ fewer workers than the public monopoly. Allocative efficiency therefore increases. Nevertheless, prices of the sector's output rise as the competition between private firms for the best motivated workers leads to higher wage cost than under the public monopsony.

Dick van Dijk, Denise Osborn, and Marianne Sensier

"Changes in variability of the business cycle in the G-7 countries"

Econometric Institute

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abstract:

Volatility breaks are tested and documented for 19 important monthly macroeconomic time series across the G-7 countries. Across all conditional mean specifications considered, including both linear and nonlinear models with and without a structural break, volatility breaks are found to be widespread. This continues to hold when business cycle nonlinearities are allowed in the variance. Multiple volatility breaks are also examined, and these are found to be especially prevalent for short-term interest rates. Volatility breaks in industrial production and consumer prices are largely synchronous across the G-7. The facts established are discussed in the context of some explanations put forward in the literature to explain volatility breaks previously found for US series.

Robert Dur and Hein Roelfsema

"Why does centralization fail to internalize policy externalities?"

Tinbergen Institute

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abstract:

Centralization of political decision making often fails to produce the desired results. For instance, it is frequently argued that decision making within the European Union results in overspending and overregulation in some policy areas, while too low spending and too little regulation prevails in other policy areas. In this paper, we study a model in which delegates from jurisdictions bargain over the amounts of public goods provided by jurisdictions. Following Besley and Coate (2000) we show that local policy makers have an incentive to delegate bargaining to 'public good lovers' if all the cost of public goods are shared through a common budget. Consequently, overprovision of public goods results. If a sufficiently large part of the cost of public goods can not be shared among regions, underprovision of public goods persists under centralized decision making because local policy makers delegate bargaining to 'conservatives'. Underprovision is strongest when spillover effects are moderate: both in the absence of spillover effects and in the case of global public goods, centralized decision making produces the social optimum. Finally, we study financing rules that may help to avoid strategic delegation by local policy makers.

Adam Elbourne and Roelof Salomons

"Monetary transmission and equity markets in the EU"

Economics

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abstract:

We assess the role of equity markets in the transmission of monetary policy in the European Union. We use the VAR methodology to look for asymmetry in impulse responses. We conclude that although there is some variation in output responses across countries they may not be significant when confidence intervals are considered. There does appear to be some correlation across peak output impact, persistence of the original shock, and equity markets. The addition of stock market variables made differences to the inflation and output responses in Belgium, Finland, Germany, and Italy (for output) indicating that these variables capture some important features of these economies with relevance to the transmission mechanism of monetary policy.

Paul Elhorst, Uwe Blien, and Katja Wolf

"New evidence on the wage curve: A spatial panel approach"

Economics

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abstract:

The standard estimator introduced by Blanchflower and Oswald (1994) to determine the unemployment elasticity of pay controls for both regional and time period fixed effects. This paper argues that one should not control for

regional fixed effects when the wage curve is to be thought of as a long run relationship and not for time period fixed effects when the wage curve is to be thought of as a short run relationship. These two cases hold under the conditions that the correlation coefficients of the unemployment rate observed at single regions over time are large and diminish slightly over time and that the variation between the observations at one point in time exceeds the variation within the observations over time. Furthermore, one should not control for time period fixed effects when the unemployment elasticity is also thought to capture the downward effect of the national unemployment rate. The standard estimator also takes no account of the spatial relationship among regions. Ignoring this relationship may seriously bias the results. To investigate this, the East German wage curve is estimated including spatial effects using panel data classified into 114 administrative districts over the period 1993-1999.

Cornelis Gardebroek

"Are organic farmers less risk averse than non-organic farmers?"

Agricultural Economics

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abstract:

Perceived risks of organic farming are often suggested to be an impediment for non-organic farmers to switch to organic farming. If this hypothesis holds, organic farmers should be less risk averse than non-organic farmers. Using GMM, this paper estimates absolute Arrow-Pratt coefficients of risk aversion for a sample of Dutch organic and non-organic arable farmers. Using the non-structural approach to risk estimation developed by Antle, production risks, market risks and policy risks are jointly taken into account. Moreover, this approach allows for multiple outputs and avoids specifying functional forms

for the utility and production function. The results indicate that organic farmers are indeed less risk averse than their non-organic colleagues.

Harry Garretsen, Bas van Aarle, and Niko Gobbin

"Monetary and fiscal policy transmission in the Euro area: Evidence from a structural VAR analysis"

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abstract:

This paper studies the transmission of monetary and fiscal policy in the Euro area. To do so, a structural VAR model (SVAR) of monetary and fiscal policy transmission in the Euro-area is estimated. First, the EMU countries are considered as an aggregate entity and the SVAR model of the aggregate of EMU countries is compared with SVAR models of the United States and Japan. This exercise is useful to assess the effects of monetary and fiscal policy on the aggregate EMU economy and also to have a comparison with two other major economies. In general, the differences with the United States and Japan turn out to be relatively small. In a next step, SVARs are estimated for the individual EMU countries to gain more insight into cross-country asymmetries in the transmission of supply and demand shocks as well as of monetary and fiscal policies. It turns out that, compared to the EMU aggregate, individual EU countries often react rather differently to monetary and fiscal policy innovations whereas the cross-country differences to supply and demand shocks are rather limited.

Benedikt Goderis and Sylvester Eijffinger

"Financial crises, monetary policy, and financial fragility; A second-generation model of currency crises"

FEW-Economics

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abstract:

In this paper we present a model that combines the second-generation trade-off between costs of maintenance and abandonment with possible balance-sheet problems in the corporate sector. We show how debt levels can move a small economy from a fixed exchange rate to a floating exchange rate equilibrium or vice versa, simply by altering the trade-off faced by the monetary authorities. Even if the monetary authorities still have a substantial amount of foreign reserves available to guarantee the fixed value of the currency, they might choose not to and abandon the fixed exchange rate regime. Although it is often argued that first- and second-generation literature have not been able to explain the crisis in East Asia ('97-'98), our model suggests that adding corporate balance sheet positions to second-generation models could substantially improve the explanatory power of these models in the case of the Asian crisis.

Rolf Groeneveld

"Economic considerations in the optimal size and number of reserve sites"

Environmental Economics Group

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abstract:

Nature conservation competes with alternative land uses. Therefore, ecologists and economists have for long analyzed the optimal spatial configuration of reserve sites. One of these debates is concerned with the optimal size and number of individual reserve sites. This debate has so far been dominated by ecologists, but it also has important economic implications. In this paper I show that taking economic considerations into account leads to different solutions than if the analysis only focuses on ecological considerations. The analysis includes agricultural profits as the opportunity cost of nature conservation in a tractable analytical model to determine the economically optimal number of reserve sites given a fixed total reserve area. Furthermore, I analyze the effect of land trade and transaction costs on the optimal number of sites. Including economic considerations favors the choice of many small sites, although the possibility to offset conservation costs by land trade relaxes this conclusion.

Bas van Groezen

"International spillover effects of unfunded pensions and population ageing"

FEW-Economics

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abstract:

In this paper, we analyze to what extent differences in the size of unfunded social security cause international spillover effects and accordingly affect the well-being of successive generations. We focus on three questions. First, which region benefits from perfect capital mobility? Second, does a reduction of the unfunded part of social security always raise long-run utility if the interest rate exceeds the rate of economic growth? And third, to what extent are the effects of population ageing influenced by unfounded pensions abroad? In answering

the last question, two cases are considered: ageing in the European Union and in the OECD.

Marco Haan, Martin van Geest, Bart Los, and Yohannes Riyanto

"The Weakest Link: A field experiment in rational decision making"

FEW-Economics

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abstract:

We analyze the BBC TV game show "The Weakest Link", using data from 77 episodes, covering 13,380 questions. We focus on the banking decision, where a contestant chooses to secure an amount of money for the eventual winner, or to risk it on a general knowledge question. In the latter case, should he answer correctly, the amount at stake increases exponentially. We show that banking decisions are not rational: a crude rule of thumb performs substantially better than the contestants' strategies. Yet, at least to some extent, contestants do take their own ability into account, as well as the fact that questions become progressively more difficult.

Robert Haffner

"Price convergence in the European Union"

Foreign Fin. Relations Directorate

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abstract:

This paper assesses the progress in EU product market integration by analyzing price differentials in a multivariate framework for 22 industrialized economies and almost 200 product categories. Using the so-called Grubel-Lloyd index, we model changes in bilateral price similarities as a function of initial bilateral similarity levels, bilateral trade intensities, the bilateral correlation between expenditure shares and various variables reflecting EU membership, product category, tradability of the product and the presence of non-tariff barriers throughout 1985-1999. The results suggest that price structures within the EU are more similar than among other OECD countries, especially for energy products and consumer goods. After correcting for factors such as catching-up and trade intensities, prices in the EU have almost consistently converged faster than in the rest of the OECD. Finally, we find that the countries in the so-called D-Mark have not witnessed a significantly stronger tendency for prices to converge than countries which have had relatively higher exchange rate fluctuations. This casts doubts on the hypothesis that monetary union by itself will significantly increase product market competition.

Christian Hafner and Jeroen Rombouts

"Semiparametric multivariate GARCH models"

Econometric Institute

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abstract:

Estimation of multivariate GARCH models is usually carried out by quasi maximum likelihood (QMLE), for which recently consistency and asymptotic normality have been proven under quite general conditions. However, there are to date no results on the efficiency loss of QMLE if the true innovation distribution is not multinormal. We investigate this issue by suggesting a nonparametric estimation of the multivariate innovation distribution, based

on consistent parameter estimates obtained by QMLE. We give conditions under which the semiparametric efficiency bound can be attained. An application to a bivariate stock index series illustrates the results.

Daniel Haile

"Income distribution, pressure for redistribution and economic growth"

FEW-Economics

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abstract:

This paper analyzes the political economy of redistribution between two income groups in a dynamic economy. In contrast to traditional models, it provides theoretical linkages between lobbying activities, income distribution, and growth. It explains why the relationship between redistribution and inequality is non-monotonic. Moreover, it is shown that in the presence of investment indivisibilities in human capital and missing capital markets both the pressure for redistribution and the initial wealth distribution affect economic growth. Persistence in inequality could prevail when redistribution is blocked, creating multiple steady-state equilibria. The resulting relationships are explored both theoretically and quantitatively.

Bernard Hanzon

"A rational probability density approach to stochastic volatility estimation"

Department MAS2

Vrije Universiteit and CWI AMSTERDAM

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abstract:

In the area of financial time series the Black-Scholes model is often used. However, it is well-known that although the volatility is assumed to be constant in the Black-Scholes model, in practice it is varying. This has led to the investigation of more general models in which the volatility is allowed to vary. In one class of such models the dynamic behavior of volatility is described by some stochastic process. A problem with such models is that it is generally difficult to solve the volatility estimation problem for such models: the calculation of the conditional density of the volatility at some point in time, given the observations up till that same point in time, is usually a difficult task for which there are no closed form expressions. In the present paper a class of models of the same type will be presented, which however has the advantage that for these models the volatility estimation problem can be solved exactly. In our models all disturbances have a rational probability density function on the real line.

Ben Heijdra and Leon J.H. Bettendorf

"MINI: Main Insights Numerically Investigated"

FEW-Economics

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abstract:

In this paper we study the implications of population ageing in an economy with a sizeable non-traded goods sector. To this effect a highly stylized micro-founded macro model is constructed in which the age structure of the population is allowed to play a non-trivial role. The model distinguishes separate birth and death probabilities (thus allowing for net population change) and allows for age-dependent labor productivity (thus mimicking life-cycle saving and retirement from the labor force). Some key properties of the model are illustrated with the aid of some numerical simulations.

Albert van der Horst

"Structural estimates of equilibrium unemployment in six OECD economies"

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abstract:

The equilibrium rate of unemployment (ERU) is estimated for six OECD countries, using a structural approach. Key element of the approach is the wage curve, which states that there is a negative relationship between the level of unemployment and the wage level. The wage curve stems from a bargaining framework, where the negotiated wage also depends on other variables like wedge and replacement rate. The ERU results, if the wage curve is confronted with a labor demand curve. For the European economies, the ERU depends on the wedge, replacement rate, minimum wage rate and relative capital costs. For the United States, the ERU cannot be estimated.

Bas Jacobs and Sweder van Wijnbergen

"Optimal financing of human capital with capital and insurance market imperfections"

FEE - Scholar

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abstract:

Investment in human capital is sub-optimally low, because debt markets are imperfect due to asymmetric information and insurance markets are absent due to non-slavery considerations which preclude equity financing of education and income insurance. The government, however, can write equity

and insurance contracts that are dependent on the returns to the investment in human capital through the tax system. It is shown that equity financing of education coupled with income insurance is optimal and restores social efficiency in investments in human capital. A policy of subsidies on education to overcome market inefficiencies is sub-optimal.

Jan Jacobs and Vincent Tassenaar

"Height, nutrition, smallpox and economic development in the Netherlands in (the second half of) the 19th century"

Economics

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abstract:

This paper investigates the economic conditions of the Dutch population in the (second half of the) nineteenth century. It discusses income nutrition, smallpox, and their general consequences on stature. Time series of conscript heights (at age twenty) are compared with GDP per capita and nutrition and confronted with data on smallpox outbursts. Most of these series are recently constructed. We conclude that the improvement in health in our sample coincides with the upturn in economic conditions (GDP per capita and nutrition). Furthermore, we find evidence of a relation between height cycles and (lagged) GDP per capita cycles.

Yuan Ju

"Deregulation and transitional competition policy of the banking industry in China"

FEW-Econometrics and OR

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abstract:

Since 1979, the policy of reform and opening up has fundamentally changed China's economy and society. Differing from the experiences of "Big-Bang" (Shock Therapy) in the member countries of the CIS and in the CEE transition economies, China adopted the step-by-step reform (a strategy of gradualism) and followed the order of *rural reform* → *enterprise/city reform* → *financial reform*, with the target of constructing a market economy. During the course of the reform, as the critical part but late-reformed sector in the economy, the banking industry has also experienced such an unfinished transition and restructuring. In this paper, I analyze deregulation reform and the evolution of the competition policy in the banking industry and draw the conclusion that it is an alternative competition policy which is different from the usual one in developed countries mainly due to the transition period and the way that the reform takes. Some theoretical features about the *transitional competition policy* are discussed as well.

Richard Kleijn and Herman van Dijk

"Rationalizing the unit root in real exchange rates: Bayesian expectations on real interest differentials"

Econometric Institute

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abstract:

PPP is often rejected in empirical work. Short-run deviations from PPP have been explained, partially, by deviations from real interest parity. However, the deviations from PPP exhibit even then unreasonable persistence. In this paper it is suggested that temporary real long interest rate differentials may have a permanent effect on the real exchange rate. Especially for long term rates it is of substantial importance whether one uses expected/ex ante or ex post rates. The parity conditions are specified in terms of unobservable ex ante rates, while ex post rates are only observable at the end of the holding period of the

bonds. We deal with this feature by letting our exchange rate model include its own forecasts. A Kalman Filter is used to infer the unobserved target levels. Bayesian methodology allows us to quantify the effect of parameter uncertainty in measuring the persistence. The empirical results indicate that our structural specification improves forecasting performance and reduces persistence of deviations from PPP.

Thijs Knaap and Leon Bettendorf

"Ageing, interest scenarios, and the current account: Simulations for the Netherlands"

OCFEB - Economics

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abstract:

The ageing baby-boom generations in OECD economies will have an impact on the global supply and demand of capital over the next decades. The size and direction of this impact has been the subject of much research, which we survey. We study the effects of alternative interest rate paths on the Dutch economy with the IMAGE general equilibrium model, emphasizing developments of the current account. Further simulations consider alternative demographic projections and tax smoothing.

Clemens Kool, Rainer Haselmann, Stephanie Holle, and Thomas Ziesemer

"Sovereign risk and simple debt dynamics: The case of Brazil and Argentina"

General Economics

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abstract:

In this paper we develop a simple neoclassical growth model with perfect international capital mobility to analyze the international debt dynamics of developing countries in general and Brazil and Argentina in particular. We show that three different regimes can be distinguished: a stable steady state debtor regime, a stable steady state creditor regime and an unstable regime. A switch from a stable debtor or a stable creditor position to an unstable creditor regime maybe a sign of forthcoming trouble! We investigate this issue empirically for Brazil and Argentina over the period 1960-1999. Over the full sample, the evidence suggests that debt dynamics evolved according to the stable debtor case in both countries. Using a rolling regression technique, we find that indeed occasional switches to the unstable regime occurred. In particular, Argentina was in the unstable regime for most of the 1990s way before the Argentine debt crisis erupted.

Siem Jan Koopman and Rob Luginbuhl

"Modeling economic convergence using unobserved converging components"

FEWEB-Econometrics

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abstract:

We consider an unobserved component time series model for multiple time series that are subject to macroeconomic convergence. We model convergence as a reduction in dispersion over time by allowing a gradual reduction in the rank of the covariance matrix associated with the disturbance vector driving each unobserved component. The incorporation of these dynamics in a multivariate time series model allows for the identification of various types of convergence. For example, in a panel of macroeconomic time series from different countries, convergence in the rates of growth, the cyclical behavior and the overall variation in the series can be separately identified. The

convergence mechanism introduces two extra parameters that can be estimated simultaneously with the other parameters. A mix of EM and numerical maximization methods are used to obtain maximum likelihood estimates. The unobserved converging component model is applied to the per capita gross domestic product for six European countries: Germany, France, Italy, Spain, Netherlands and United Kingdom.

Marijke Kuiper

"Endogenous transaction costs and tradability in a micro economy-wide model: A stylized application with non-separable households"

Development Economics

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abstract:

This paper analyzes effects of transaction costs on household responses, adding to direct effects via price-bands, indirect effects through reduced availability of productive resources and through changes in price formation. A micro economy-wide model with non-separable household models is developed, in which transaction costs determine effective prices through an endogenous household-specific price-band. Moreover, transaction costs influence household divisions by claiming productive resources, and by affecting endogenous prices at household or micro-economy level. Comparison of two stylized village model specifications indicates that indirect effects of transaction costs reduce household supply response, despite reducing the range of prices for which households operate within their price-band. Results show that transaction costs need to be identified in terms of commodities used for transactions, and in terms of tradability of these commodities, to account for indirect effects of transaction costs.

Gerard Kuper and Daan van Soest

"Oil price volatility and energy use"

Economics

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abstract:

We examine the effect of energy price uncertainty on energy use for OECD countries and industries, using oil price volatility as an indicator. We measure volatility as the within-year maximum and minimum conditional standard deviation from a GARCH(1,1) model of oil prices. We find that uncertainty indeed has a significant impact on energy use. The effect is asymmetrical in the sense that volatility has a different impact on the use of energy rising if energy price rises or falls. On average, the effects on energy use and energy intensity are larger if energy prices drop.

Gerard van der Laan

"Cooperative games in graph structure"

Econometrics

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abstract:

In this paper we generalize the concept of coalitional games by allowing for any organizational structure within coalitions represented by a graph on the set of players of the coalition. A, possibly empty, set of payoff vectors is assigned to any graph on every subset of players. Such a game will be called a graph game. For each graph a power vector is determined that depends on the relative positions of the players within the graph. A collection of graphs will be

called balanced if to any graph in the collection a positive weight can be assigned such that the weighted power vectors sum up to the vector of ones. We then define the balanced-core as a refinement of the core. A payoff vector lies in the balanced-core if it lies in the core and the payoff vector is an element of payoff sets of all graphs in some balanced collection of graphs. We prove that any balanced graph game has a nonempty balanced-core. We conclude by some examples showing the usefulness of the concepts of graph games and balanced-core. In particular these examples show a close relationship between solutions to noncooperative games and balanced-core elements of a well-defined graph game

Lestano and Jan Jacobs

"Dating Asian financial crises 1971-2000: A comparison of method"

FEW-Economics

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abstract:

Generally, a financial crisis occurs if an index of currency pressure exceeds a threshold. This paper compares several financial crises dating methods, employing various definitions of a currency pressure index and different types of thresholds. Data on six South-East Asian countries, Indonesia, Malaysia, Philippines, Singapore, South Korea and Thailand is used for the period 1971-2001. A chronology of financial crises dates is derived which can be used to design as early warning systems.

Youwei Li, Bas Donkers, and Bertrand Melenberg

"A statistical analysis of microscopic simulation models in financial markets"

FEW-Econometrics and OR

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abstract:

The aim of this paper is to study microscopic simulation models for financial markets from a statistical point of view. Using the Levy, Levy, and Solomon (LLS) microscopic stock market model as an illustration, we demonstrate how various statistical procedures can be used to investigate microscopic simulation models. For instance, we use econometric techniques to study the stock return dynamics and the distribution of wealth over investors in the LLS-model. In addition, we investigate the robustness of the LLS-model with respect to its initial conditions and parameters.

Gert-Jan Linders, Henri de Groot, Piet Rietveld, and Uma Subramanian

"The institutional determinants of bilateral trade patterns"

Spatial Economics

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abstract:

This paper studies the effect of institutions on bilateral trade flows, using a gravity model approach. The gravity model relates bilateral trade to the size of, and distance between pairs of economies. We start from a standard gravity equation that incorporates the effects of basic cultural proximity, as well as economic integration, on trade flows. Aside from geographical distance and

cultural-historical background, the quality of governance and the extent of familiarity with the resulting framework of rules and norms affect the costs of doing business between any pair of countries. Therefore, this paper extends the gravity equation to include proxies for institutional quality and institutional homogeneity between trade partners. For this, we use indicators on political stability, regulatory quality, and other proxies that reflect the quality of governance, available from the World Bank. We test whether institutional homogeneity, institutional quality, or both, have an independent impact on trade volume between pairs of countries. To this effect, we find that, for example, having a similar institutional environment promotes bilateral trade by at least 50 percent.

Philip Marey

"Uncovered interest parity tests and exchange rate expectations"

ROA

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abstract:

Empirical tests of uncovered interest parity (UIP) or forward rate unbiasedness usually yield coefficients smaller than one, the theoretically implied value under the assumption of rational expectations. Experiments with an artificial foreign exchange market in this paper show that there is a relationship between the prevailing expectations mechanism and the sign and size of the UIP-test-coefficient. Markets with bandwagon expectations yield positive coefficients, while distributed lag expectations lead to negative coefficients. Regressive expectations are most likely to generate positive coefficients. Adaptive expectations tend to exhibit positive coefficients when traders adapt their expectations slowly and yield negative coefficients when learning increases.

Martin Martens and Jason Zein

"Predicting financial volatility: High-frequency time-series forecasts vis-a-vis implied volatility"

Econometric Institute

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abstract:

Recent evidence suggests option implied volatilities provide better forecasts of financial volatility than time-series models based on historical daily returns. In this study both the measurement and the forecasting of financial volatility is improved using high-frequency data and long memory modeling, the latest proposed method to model volatility. This is the first study to extract results for three separate asset classes, equity, foreign exchange and commodities. The results for the S&P 500, YEN/USD and Light, Sweet Crude Oil provide the most robust indication to date that volatility forecasts based on historical intraday returns do provide effective volatility forecasts that can compete with, and even outperform implied volatility.

Christoph Meng, Hans Heijke, and Catherine Ris

"Vocational and generic competencies: Allocation, mismatch and adjustment costs in European graduates labor markets"

ROA

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abstract:

In this paper, we investigate the role of generic and vocational competencies, acquired in different European education systems, during the transition from

higher education to the labor market. By doing this, we try to get a better insight into how well these education systems prepare for the labor market and what adjustments are involved in solving any mismatches. For that purpose, we analyze the allocation of graduates over occupations inside and outside the own educational domain, the incidence of on-the-job training and the return of allocation, in the sense of offering the graduates a comparative advantage in fulfilling tasks inside their own education domain, and training on wages. Using a sample of higher education graduates from nine European countries, containing rich information on educational attainment and present working situation, we underline the importance of vertical (difference in levels) and horizontal (difference in subjects) mismatches between the required and the acquired vocational competencies in determining training participation. Training is thereby necessary in order to attain a higher performance level in the job, inside or outside the own educational domain, and hence a higher wage level. The complementarity between generic competencies and learning by training and doing is also well established.

Debora Moolenaar

"Trends in Dutch juvenile delinquency, law enforcement and justice"

WODC-SIBa

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abstract:

This paper considers the trends in the number of suspects of juvenile delinquency in the Netherlands and the reactions of the Dutch law enforcement system. These trends are interpreted against the background of an econometric model, which relates trends in juvenile delinquency to demographic, social and economic trends. For various forms of crime a cointegration model is estimated using yearly data from 1965-2000.

Robert Mosch

"Trade and trust"

Tinbergen Institute

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abstract:

“Home bias” and “missing trade” are two phenomena for which the literature on international trade does not provide a satisfying explanation. 'Home bias' refers to the fact that the volume of trade within countries relative to that of international trade is much larger than trade theories predict. “Missing trade” refers to the gap between the volume of trade that would be optimal according to the theoretical literature and the actual volume of international trade. The first is much higher than the latter. We hypothesize that these two puzzles could be better explained, when trust problems would be given a more prominent place in the trade literature. The trust problem relates to the idea that the success of a transaction is always threatened by potential opportunistic behavior by one of the traders. This problem is especially important in international trade relationships, because cultural differences and higher obstacles to legal solutions then hamper trust formation. We test our hypothesis by estimating a gravity equation with trust variables. The results suggest that the level of trust between two countries has a direct influence on the volume of trade between these countries.

Richard Nahuis, Sjef Ederveen, and Henri L.F. de Groot

"Fertile soil for Structural Funds? A panel data analysis of the conditional effectiveness of European cohesion policy"

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abstract:

Structural Funds are the most intensively used policy instrument by the European Union to promote economic growth in its member states and to speed up the process of convergence. This paper empirically explores the effectiveness of European Structural Funds by means of a panel data analysis for 13 countries in the European Union. We show that, on average, Structural Funds are ineffective. For countries with the right institutions, however, Structural Funds are effective. The latter result is obtained for a wide range of conditioning variables, such as openness, institutional quality, corruption and indicators for good governance.

Rob van der Noll

"Imperfect screening and strategic applications"

Tinbergen Institute

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abstract:

I study a strategic model in which a number of senders compete for a favour from a monopolist, a receiver. Each sender's characteristics are privately known and the receiver has an imperfect screening technology available in order to select the most favorable sender as trading partner. I analyze the implications of the quality of screening on the nature of competition. One of

the results is that it is beneficial for the receiver to ignore some senders' applications. Furthermore, welfare results are obtained with respect to the allocation of the favor, the resulting trade and the costly communication by senders. The model has applications for job markets, credit markets and tenders.

Jos van Ommeren, Arno van der Vlist, and Peter Nijkamp

"Transport related fringe benefits: implications for commuting and relocation"

Spatial Economics

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abstract:

Fringe benefits of various kind have become an essential element of modern labor market mechanisms. The spatial implications of transport-related benefit transfers to employees, such as company cars, and other subsidies such as relocation reimbursements- have hardly received any systematic attention thus far. To study the implications for commuting and relocation, we set up a survey on firms' recruitment behavior. This paper demonstrates that the applicants' journey-to-work time induces firms to offer transport-related fringe benefits to job applicants, which discourages residential moves towards the workplace. In addition, it induces firms to subsidize the applicants' residential relocation costs, which increases the likelihood of a residential move closer to the workplace. We interpret the results as evidence that employers offer transport-related fringe benefits or relocation subsidies either to reduce the employees' commuting costs or to compensate employees for the incurred commuting costs.

Sander Onderstal

"Tight oligopolies: Big fishes in murky waters"

Competition and Regulation

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abstract:

Firms in an oligopoly can often find ways to be involved in anti-competitive behavior. Therefore, they deserve special attention from competition authorities and policy makers. In this presentation, I focus on the following two research questions: (i) Under which circumstance is behavior by oligopolistic firms welfare reducing? I discuss unilateral effects and coordinated effects; and (ii) What can policy makers do against welfare reducing behavior by oligopolistic firms? I focus on several policy instruments. As an illustration, I suggest solutions to potential weaknesses in the merger control policy of the European Commission.

Jan Oosterhaven, Paul Elhorst, and Ward Romp

"Integral assessment of intra-core versus core-periphery Maglev rail systems under market imperfections"

General Economics

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abstract:

New transport infrastructure has a myriad of effects. This paper briefly introduces four main models and their interactions to determine the wider economic effects of new infrastructure. A commuter location model predicts the spatial reactions of the working population. An interregional monopolistic

competition equilibrium model estimates the reactions of firms and the related changes in consumer welfare. A second run of the commuter location model translates the estimated labor demand changes into labor migration, and interregional multiplier matrix translates the total migration effects into consumption expenditure effects. Finally, a regional unemployment-vacancy regime switch model is used to estimate efficiency effects on the imperfect labor market. With these models two magnetic levitation (Maglev) rail projects, with two variants each, are investigated: an intra-core project connecting the largest cities within a densely populated region and a core-periphery project connecting a core region with a peripheral region, both in the Netherlands. The empirical outcomes provide new insights into the spatial pattern of the effects on labor supply and demand. An integral cost-benefit analysis throws more light on which projects are worthwhile or should be rejected. The core-periphery project appears to be worthwhile if its route is carefully chosen. The intra-core project appears to be doubtful, as it is rather risky. In addition, it is argued that a project connecting two large, but distant cities probably would be rejected also. Finally, the Newbery critique on the added value of integral as opposed to partial social cost-benefit analysis is shown to be premature.

Andres Perea

"Core concepts for dynamic cooperative games"

Department of Economics

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abstract:

Most models of cooperation are static in the sense that the agents decide once and for all with whom to cooperate, and the surplus from cooperation is to be distributed only once. However, many social and economic interactions take place in a dynamic context, and therefore dynamic models of cooperation are

asked for. In this talk I will present one such model, in which a fixed group of agents faces an exogenously given sequence of cooperative games during time. The cooperative game at each point in time specifies the surplus that each subgroup of agents can generate at that time.

The main questions are: (i) which coalitions of agents will form at each point in time?; and (ii) how will these coalitions distribute the surplus among the members? We approach these problems by proposing three different core concepts for this class of dynamic cooperative games: the classical core, the strong sequential core and the weak sequential core. All concepts formalize the same principle, namely that a distribution of the surplus among its participating agents should be immune against deviations by subgroups of agents. However, the concepts impose different restrictions on how and when subgroups of agents can deviate from a group of cooperating agents.

Finally, I will illustrate how these core concepts can be applied to dynamic economies.

Erik Plug

"How do parents raise the educational attainment of future generations?"

FEE - Scholar-TI-IZA

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abstract:

The problem with most intergenerational mobility estimates is that unmeasured and inherited abilities prevent us from drawing inferences. In this paper we estimate the intergenerational mobility of schooling and exploit differences between adopted and own birth children to obtain genetically unbiased estimates. Our results provide a much better insight on whether parents (and policy makers) can actually stimulate the educational attainment of future generations. Controlling for inherited abilities and assortative

mating we find that the association between mother's (but not father's) and child schooling disappears.

Michael Polder

"Adjustment spikes and interrelated factor demand"

Quantitative Economics

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abstract:

In this paper we investigate the relationship between investment behavior and labor demand at the plant level. In particular we look how lumpy investment behavior influences employment behavior. We find that investment lumps significantly influence the distribution of employment changes. The probability of a lumpy labor adjustment is significantly influenced by the dynamics of capital and energy expenditures. In addition, we look at the dynamic nature of interrelated factor demand, by investigating the behavior of firms in times of large adjustments. We find that in periods of major adjustments, firms change their demand for the production factors as well. The same holds for periods immediately after or just before such an episode, but this differs per sector. We provide some possible explanations for the observed dynamics and suggestions for further research.

Eduard Ponds and Fons Quix

"A framework for integral risk management by pension funds"

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abstract:

Pension funds worldwide, like for instance in the UK and the Netherlands, are increasingly adopting the fair value approach. The aim of this paper is to derive an integral risk management framework for pension funds, based on fair value principles. Point of reference is a typical Defined Benefit plan with indexed liabilities, where the main sources of risk are the long-term fluctuations in prices driving the value of plan's assets and the fluctuations in the discount and inflation rates that determine the value of the liabilities. We identify mismatch risk as the central risk measure around which integral risk management has to be filled in. Furthermore, we argue in the paper that the pension fund contract has to be transparent about the sharing of risk and return amongst the stakeholders. Also we demonstrate the importance of inflation-linked bonds for pension fund risk management. Hence, governments in Euroland and elsewhere should be encouraged to issue (more) index-linked bonds.

Jan Rouwendal

"Demand equations, discrete choice models and differentiated products"

Economics of Consumer and Household

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abstract:

In applied demand analysis systems of demand equations are estimated on data referring to purchases of groups of commodities. For the analysis of particular markets a researcher often needs to model the demand for varieties of a heterogeneous commodity. For this purpose discrete choice models are often used. The question arises how the discrete choice approach is related to the systems of demand equations approach. In this paper it is shown that, when appropriate assumptions are introduced, conventional demand equations are compatible with discrete choice specification for the varieties of differentiated products. An empirical application referring to the demand for margarine in the Netherlands is provided. The model explains, among other things, the relation between unit prices and household characteristics such as the number of persons and income.

Adriaan Soetevent

"Social motives to giving in a natural context: An economic field experiment in thirty churches"

Economics

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abstract:

Field data and recent laboratory experiments have shown the importance of social motives to giving. A general finding is that a change in institutions that replaces anonymous interactions by public recognition of contributed amounts, increases contributions.

This paper reports on an experiment performed in thirty Dutch churches, aimed at revealing the importance of social aspects in an environment where social ties are likely to be strong. For a period of 29 weeks, the means by which the offertories were collected randomly switched between a 'closed' collection bag and an open collection basket. In the latter instance, attendants'

contributions are identified by their direct neighbors and they can observe the total amount given by the people who preceded them.

Bas Straathof

"Indices and product variety"

MERIT

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abstract:

It is demonstrated that, under certain conditions, Shannon's entropy can be used outside the domain of (probability) distributions without losing its properties. It is argued that price and quantity indices should be complemented by a variety index that takes the form of Shannon's entropy. Together with the variety index, the proposed price and quantity indices satisfy many index number tests among which the product test.

Jeroen Suijs

"Cooperation under risk"

CentER

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abstract:

Cooperative game theory serves as a mathematical tool to describe and analyze cooperative behavior by economic subjects. The literature, however, mainly focuses on a deterministic setting in which the synergy between potential coalitional partners is known with certainty beforehand. Take, for instance, the automobile industry, where some major car manufacturers have

collectively designed new models so as to save on the design costs. Since they know the cost of designing a new car, they also know how much cooperation will save them on design expenditures.

In every day life, however, not everything is certain and many of the decisions that people make are done so without the precise knowledge of the consequences. Moreover, the risks that people face as a result of their social and economic activities may affect their cooperative behavior. A typical example in this respect is a joint venture. Investing in a new project is risky and therefore a company may prefer to share these risks by establishing a joint venture with other companies. Cooperation in joint ventures is thus driven by uncertainty. The same holds for reinsurance of portfolios by insurance companies. As opposed to joint ventures and reinsurance, risk sharing need not be the primary incentive for cooperation. In many other cases, cooperation arises for other reasons and risk is just involved with the actions and decisions of the coalition partners. Small retailers, for instance, organize themselves in a buyers' cooperative to stipulate better prices when purchasing their inventory. Any economic risks, however, are not reduced by such cooperation.

This presentation deals with the theory of stochastic cooperative games. It shows how the standard cooperative model can be adapted to incorporate uncertainty as mentioned above. It further discusses some of the main results in this area and its relation with standard cooperative game theory.

Linda Toolsema

"Monetary policy and market power in banking"

FEW-Economics

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abstract:

Applying a spatial competition model to banking, we analyze the effects of the choice of a monetary policy rule by the central bank on banks' market power as measured by the Lerner index. We show that a pro-cyclical monetary policy may imply a counter-cyclical movement of the Lerner index. That is, this measure of competitiveness of the banking sector may vary over the business cycle due to the monetary policy rule. Also, the interest rate setting rule used by the central bank itself may affect the observed market power of banks.

Qin Tu

"Modeling mobility and housing tenure choice: A multinomial probit model for panel data"

FEW-Econometrics and OR

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abstract:

We use a binary and a multinomial probit model to describe the Dutch household moving decision and joint decisions of the housing tenure choice and residential mobility, respectively. We can only observe the change of the tenure choice after the household moved. We use the method of simulated maximum likelihood (SML) to estimate the heterogeneity by using the specification of random effects with a flexible structure. The estimation is based on unbalanced panel data from the CentER Panel, 1994-2000.

Nico Valckx

"WTO financial services commitments: Determinants and impact on financial stability"

Research Department

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abstract:

The paper investigates the factors that have influenced WTO members to take on level of liberalization commitments in the framework of liberalization of trade in financial services and the impact of such commitments on financial sector stability. The most important factors are economic growth, current account, trends in banking sector development, policy restrictiveness, and peer group effects. The econometric evidence suggests that more liberal commitments may be associated with greater vulnerability to currency and banking crises-most likely a short-term effect. They should/will be mitigated with time through increased market efficiency and better resource allocation.

Maarten Vendrik and Christiane Schwieren

"Psychological versus economic effects of competition on discrimination: An integrated model"

FdEWB - General Economics

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abstract:

In Becker's model of employer discrimination, an increase in competition in the product market drives discriminating employers out of the market in the long run. In addition, an income effect of falling profits induces discriminating employers to diminish their discriminatory behavior. However, social-

psychological research suggests that strengthening competition may also have an opposite effect on the discriminatory behavior of employers. It may make employers feel more uncertain, and hence induce them to rely more on stereotypes and prejudices in their hiring decisions. This reinforces their discriminatory behavior. This psychological effect of increasing competition on discriminatory behavior is analyzed, and together with the economic income effect integrated into a microeconomic utility model of employer and employee discrimination. This model combines a psychological utility model of stereotyping, prejudice and social identification with a kind of statistical discrimination model of the effects of risk aversion on stereotyping. Moreover, an explanation is given why wrong stereotypic perceptions of differences in productivity between certain groups may tend to persist.

Eric Verhoef and Jan Rouwendal

"Pricing, capacity choice and financing in transportation networks"

Spatial Economics

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abstract:

This paper explores the interrelations between pricing, capacity choice and financing in transportation networks. It builds on the famous Mohring-Harwitz result on self-financing of optimally designed roads under optimal congestion pricing, and specifically asks the following questions: (i) to what extent does the result apply under conditions of second-best pricing?; (ii) which are the implications of having uncongested (e.g., rural) roads in a network?; and (iii) what is the role of fixed (annual) taxes in this context? The paper develops a small network model, with endogenous car-ownership, in order to study these questions both from an analytical and a numerical viewpoint.

Herman Vollebergh, Elbert Dijkgraaf, and Per Fredriksson

"Corruption and energy efficiency in OECD countries: Theory and evidence"

Economics

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abstract:

The effect of lobby group size on policy outcomes is an unresolved question in the literature. In this paper we shed new light on this issue by showing that an interaction exists between corruption and lobby group size (coordination costs). In particular, the theory predicts that the effect of coordination costs is conditional on the level of corruption. Moreover, we find that corruption reduces environmental policy stringency. These predictions are tested using a unique panel data set on energy efficiency for 11 sectors in 14 OECD countries for years 1982-1997. The evidence supports the hypothesis that the size of a sector is important, even in OECD countries with relatively low levels of corruption. Furthermore, corruption explains differences in energy efficiency across industrialized countries.

Aico van Vuuren, Peter Berkhout, and Bas van der Klaauw

"Structural empirical analysis of the transition from college to work"

Tinbergen Institute

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abstract:

This paper focuses on the relationship between labor market conditions and search behavior of new entrants in the labor market. We develop a job search model that includes endogenous search effort and determines the optimal

moment of starting job search. This moment generally precedes the date of graduation. Since individuals usually do not start a regular job before graduating, the moment of graduation causes the model to be nonstationary. We show that from the optimal moment of starting job search the individual increases his search effort, while at the same time lowering his reservation wage until the graduation date. This model explains the usual finding that a substantial share of the individuals start working immediately after graduating. In addition, we find (rather counterintuitively) that individuals start to search earlier and more intensely when labor market conditions improve. We empirically analyze this model using a unique data set of individuals who completed their undergraduate study between 1996 and 2000. The observation period is characterized by improvements in labor market conditions. We find evidence for the predictions made by the model in the sense that individuals from the later cohorts start to search earlier and more intensely.

Daniel van Vuuren and Piet Rietveld

"The household demand for transport by train"

Spatial Economics

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abstract:

The demand for transport by train is closely connected to typical household characteristics, such as the location of residence, car ownership, and household size. Moreover, the Dutch tariff system for season train tickets is steeply decreasing for additional household members, so that it becomes attractive to purchase more than one season ticket per household, if any. The two-step approach taken in this paper first assesses the impacts of such household variables on household season ticket ownership, and tests for the simultaneity of, *inter alia*, season train ticket ownership and the distance to

the nearest railway station. The second step then gauges the price sensitivity of households with respect to the purchase of season tickets for additional household members, once a first ticket has been bought. Households living close to a railway station turn out to be more sensitive for the significant price reductions of season tickets, while on the other hand no evidence could be found for such households "self-selecting" themselves into residential areas in the neighborhood of a railway station. On the contrary, the mutual causality between car ownership and season train ticket ownership cannot be rejected, confirming the close substitutability of the concerning transport modes.

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"Computers and workplace organization in Dutch firms, 1988-1998"

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abstract:

The introduction, adoption and widespread use of computers has dramatically changed the workplace. These changes are also likely to have an impact on the organization of work and the tasks employees have to carry out, which affects the composition of the firms' workforces and their demand for labor and skills. This paper investigates how the combination of innovations in the field of ICT, organizational structure and work form change the allocation of and demand for labor. Using the unique OSA Organization Panel 1988-1998 containing bi-annual information about Dutch firms, the main contribution is to investigate whether there is a causal link between workplace organization, the use of computers and the demand for labor. The analyses show that some firms are almost continuously going through organizational changes. These adaptive firms tend to adopt computers earlier than other firms. There is no evidence that computer adoption leads to organizational changes in all firms.

In addition, skill upgrading is associated with computer adoption rather than organizational change.

Riccardo Welters and Joan Muysken

"Long-term unemployment as a screening device: Its consequences for active labor market policies"

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abstract:

We show that employers use employment status as a screening device to minimize hiring costs. The implied exclusion of long-term unemployed in hiring decisions might lead to market failures. These market failures can be corrected by employment subsidies for long-term unemployed. Firms can use the subsidies as compensation for extended search among long-term unemployed or to school these unemployed. We show that in both cases the design of the employment subsidy should be different. Using the Dutch experience, we discuss three ways in which employment subsidies can be implemented. Initially the subsidies were to target specific groups of unemployed to public sector programs (Melkert1). This did create work for long-term unemployed, but targeting should be executed carefully to avoid deadweight loss. Increased labor market tightness induced the use of temporary subsidies to employers in the private sector (Melkert2). This was quite successful, but at the expense of deadweight loss since the government did not adapt the subsidy conditions to changes in the labor market situation. The third change in employment subsidy policy was profiling job seekers. The effects of profiling are comparable to the effects of increased tightening: although the policies are successful, they lead to increased deadweight loss.

Peter Wierds and Dirk Schoenmaker

"Financial supervision: Which model for Europe?"

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abstract:

Increasing integration within the European Union (EU) gives rise to cross-border spill-over effects or externalities. The present national based system of financial supervision does not incorporate these externalities. Assessing the degree of integration, we find that the EU has not yet a fully integrated financial market. But if and when the process of integration is nearing completion, policy-makers will need to consider moving to European solutions. How to choose an appropriate supervisory model for Europe? Responding to the trend of cross-sector integration, two main models have emerged: a functional model (separate supervisors for prudential supervision and conduct of business) and an integrated model (a single supervisor). The jury is still out on which model performs better (e.g. in weathering a financial crisis). We propose to apply some degree of model competition to facilitate the discovery of the best model. Finally, we explore the question of the appropriate policy stance for financial supervision in Europe. Key elements of such a policy stance are supervisory skills, market discipline and private-sector control. Policy standards could be further developed via benchmarking of best practices within the new Lamfalussy framework.

Hakan Yetkiner, Albert de Vaal and Adriaan van Zon
"The cyclical advancement of drastic technologies"

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abstract:

Drastic technological changes are cyclical because basic R&D is carried on only at times when entrepreneurial profits for incremental technologies of the prevailing technological paradigm falls close to zero. The model is essentially an endogenous technological change framework. Varieties, input to the final good production, are composite goods. Each composite good is produced by a set of intermediaries, outgrowths of basic R&D and applied R&D. The basic intermediate, product of basic R&D, is modeled as in Romer (1990). Complementary intermediates, the outgrowths of applied R&D, do show the property of falling profits. The falling character of profits implies that basic R&D becomes more yielding than applied R&D at certain points in time. Research people switches back and forth between the applied and basic research sectors, creating cycles in the advancement of drastic technologies and economic activity.

Xueqin Zhu, Ekko van Ierland, and Justus Wesseler
"Introducing novel protein foods in the EU: Economic and environmental impacts"

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abstract:

Production of traditional animal protein products has high environmental impacts. Introducing Novel Protein Foods (NPFs) to the European Union (EU) is supposed to be one of the choices of reducing environmental pressures of food production and consumption. The paper develops an applied general equilibrium (AGE) model to investigate the impacts of increased consumption of NPFs on the economy and the environment in the EU. The AGE model is specified such that utility of consumers depends not only on consumption of rival goods but also on environmental quality that is affected by emissions from production and consumption. Thus emissions have a feedback on utility and hence on consumption as well as on production.

The preliminary results indicate that the introduction of NPFs will decrease the production and consumption of pork in EU and increase local environmental quality. The results are, however, very sensitive to the value of the willingness to pay for the environment. If the environment is highly valued *only* in the EU, there is no obvious positive impact on environmental quality in the rest of world. NPFs are meaningful for global environmental improvement only when *both* regions show strong preference for the environment.

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