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Ms. Janna Mesker
Faculty of Economics,
University of Groningen
P.O. Box 800
9700 AV Groningen
Phone: 050-363 6664 / Fax: 050-363 7207.
E-mail: nake@eco.rug.nl

Home Page: http://www.eco.rug.nl/nake

Ivo J.M. Arnold
"The third leg of the stool: Financial stability as a prerequisite for EMU"

Nijenrode University
Business School
Straatweg 25
3621 BG Breukelen,
E-mail: arnold@nijenrode.nl

Abstract:
Fiscal and monetary stability have dominated discussions on EMU. In contrast, issues relating to financial stability have received less attention. This paper argues that monetary and fiscal stability are like two legs of a stool. A third leg, stability of the financial system, is required to keep EMU on its feet. Monetary policy in the EMU will operate best in an environment of financial stability. The chances that this condition will be met are highest in a competitive, private and well-diversified European financial sector. The empirical evidence in this paper shows that in many European countries, governments still have a large influence on the domestic financial sector, both as owner and as principle debtor. I argue that a retreat of governments from the financial sector is desirable, leaving bank ownership to the private sector, holdings of government debt to the public and supervision to a specialized, independent European institution, such as the ECB.

Robert-Paul Berben
"Nonlinear adjustment to Purchasing Power Parity: Evidence on the effects of transaction costs?"

Department of Applied Economics
University of Nijmegen
P.O. Box 9108
6500 HK Nijmegen
E-mail: r.berben@bw.kun.nl

Abstract:
The empirical support for Purchasing Power Parity [PPP] is not particularly overwhelming. If real exchange rates are found to be stationary at all, the convergence to equilibrium typically is very slow. One of the reasons for this finding which has received considerable attention recently is that the presence of transaction costs gives rise to a nonlinear adjustment process of deviations from PPP towards long run equilibrium. The Band-TAR model of Balke and Fomby (1997) appears to be useful to investigate this. The contribution of this paper is twofold. First, we develop the statistical tools to distinguish the Band-TAR model from a linear unit root model. The statistics we introduce are able to test the composite hypothesis of non-stationarity and linearity against the alternative of stationarity and nonlinearity. Second, although we find considerable evidence for nonlinear adjustment of real exchange rates, we reject the transaction costs explanation of these observed nonlinearities for two reasons. First, ion-reversion is highly asymmetric, and second, the estimated bandwidths appear to be uncorrelated with observable measures of transaction costs.

Leon Bettendorf
"Competition on the Dutch coffee market"

CPB - Netherlands Bureau for Economic Policy Analysis
P.O. Box 80510
2508 GM Den Haag
E-mail: ljhb@cpb.nl

Abstract:
World coffee bean prices have shown large fluctuations during the past years, whereas consumer prices for roasted coffee have varied considerably less. This paper seeks to explain the weak relationship between coffee bean and consumer prices. We adopt and estimate an aggregate model of oligopolistic interaction. It is shown that the relatively large share of costs other than bean costs accounts for the most important part of the weak relationship between bean and consumer prices. The remaining part follows from markup absorption, but is less important since oligopolistic interdependence is relatively competitive. The estimates are used to simulate the model under alternative behavioral assumptions: duopoly and monopoly. The computations show that consumer prices would have been much higher and would have fluctuated even less (due to greater markup absorption) under these alternative regimes.

Paul de Bijl
"Competition and regulation in telecommunications"

CPB Netherlands Bureau of Economic Policy Analysis
P.O. Box 80510,
2508 GM The Hague
E-mail: p.w.j.de.bijl@cpb.nl

Abstract:
The telecommunications industry is in great turmoil these days. Privatization and liberalization have caused landslides in the competitive playing field, while technological developments have strong impacts on the market. In the Netherlands, entrants such as Telfort and MCI WorldCom are investing in infrastructure and trying to gain market share, while incumbent KPN Telecom is in conflict with regulator Opta. It almost goes without question that policy makers, regulators and legislators, trying to achieve efficient outcomes, are facing an extremely complex task.

In this presentation, an overview will be given of the most important developments and problems in telecommunications related to competition and regulation, and of recent literature in the field of Industrial Organization applied to telecommunications. Also, current research in the Netherlands will be discussed. At present, it seems that the field is dominated by lawyers. However, a lot of work on the economics of networks and electronic communications remains to be done. That includes both applied work (regulator, ministries, competition authority) as well as research (policy research, theory, empirics).

J.A. Bikker
"Competition and concentration in the EU banking industry"

De Nederlandsche Bank
P.O. Box 98
1000 AB Amsterdam
E-mail: j.a.bikker@dnb.nl

Abstract:
This paper presents empirical evidence on the competitive structure in the banking industry in the EU as a whole as well as in individual EU countries. The study is based on the Panzar-Rosse methodology, which uses a non-structural estimation technique to evaluate the elasticity of total interest revenues with respect to changes in banks" input prices. The significant positive values of the competitiveness measure indicate that banks do not exhibit monopoly behaviour in any of the EU countries. Rather, European banking sectors operate under conditions of monopolistic competition, albeit to varying degrees. The results also provide some support for the conventional view that concentration impairs competitiveness.

Paul de Boer
"Estimating structural TFP growth as a latent variable: An application to manufacturing sectors in the Netherlands"

Econometric Institute
Erasmus University Rotterdam
P.O.Box 1738
3000 DR Rotterdam
E-mail: pmdeboer@few.eur.nl.

Abstract:
In this paper we present a formal operational model, based on the translog cost functional form, that allows for simultaneous determination of factor demands and of technological change in an input-output framework. Contrary to translog specifications most commonly used to analyze total factor productivity growth, our specification allows both for smooth adjustment processes and irreversibilities in input demands that might cause input demand rigidities. Estimating the demand equations allowing for these rigidities enables us to separate measured total factor productivity growth into a cyclical and a structural component. We apply this model to 14 sectors of economic activity belonging to the manufacturing sector of the Dutch economy. Our data span a period of 30 years, from 1954 to 1983.

Jan Boone
"Competitive pressure, selection and investments in development and fundamental research"

Department of Economics & CPB
Tilburg University
P.O. Box 90153
5000 LE Tilburg
E-mail: j.boone@kub.nl

Abstract:
This paper analyses the effects of competitive pressure on a firm's incentives to undertake both fundamental research and development. It presents a new framework incorporating the selection effect of product market competition, the Schumpeterian argument for monopoly power, the Nickell/Porter argument for competitive pressure and the infant industry argument for protection. The key insight is that the effects of competitive pressure on a firm's incentives to innovate depend on the firm's efficiency level relative to that of its opponents. Finally the effects of competitive pressure on industry wide fundamental research and development are analyzed. It turns out that there is a trade off between development and fundamental research: a rise in competitive pressure cannot raise both types of innovative activity at the industry level.

Ronald Bosman
"Emotions in a power to tax game experiment"

CREED - Department of Economics
University of Amsterdam
Roetersstraat 11
1018 WB Amsterdam
E-mail: bosman@fee.uva.nl

Abstract
The power to tax game is a simple two player game that concerns the taxation of carried income. Players are randomly divided into pairs consisting of a tax authority and a tax payer. Both players in each pair have carried all income in all individual real effort decision-making experiment preceding the tax game. The game consists of two stages. In the first stage, the tax authority decides on the income tax rate, indicating how much of the income of the tax payer will be transferred to the tax authority. In the second stage, the tax payer decides on the part of her income to be destroyed. The remaining part forms the tax base, which, together with the tax rate, determines the net earnings for the tax payer and the transfer to the tax authority. There are two experimental conditions. In one condition, the tax payer can either destroy 0% or 100% of her income. In the other condition, the tax payer can destroy any part of her income by choosing an integer in the interval [0, 100]. In this study, we are primarily interested in whether the behaviour of tax payers is governed by emotions. Our results show that (1) tax payers who destroy their income experience significantly more irritation and contempt that those who destroy no income. (2) Tax payers typically choose an extreme option (either destroy everything or nothing), even if they have the possibility to destroy part of their income. (3) The probability that a tax payer

destroys her income depends on the tax rate as well as the tax payer's expectation of this rate.

Dennis P.J. Botman
"Coordination of speculation"

Faculty of Economics and Econometrics
University of Amsterdam & Tinbergen Institute
Roetersstraat 11
1018 WB, Amsterdam
E-mail: botman@fee.uva.nl

Abstract
We argue that the models of Krugman (1979) and Flood and Garber (1984) on balance of payments crises, imply that a fixed exchange rate regime can only survive as long as the fixed rate is equal to the equilibrium exchange rate. In practice, however, speculators often seem to wait with their speculative attack. Extending their model to a multi-country framework provides a rationale for this waiting as coordination, among credit constrained speculators, becomes important in order for a focal point to emerge. The coordination date - and therefore the degree of overvaluation, the size of the devaluation, and the resulting profits for speculators - is shown to depend on initial beliefs, the number of speculators, and the amount of strategies and financial funds they have.

D. Peter Broer
"Complementarity, the skill premium, and returns to scale"

CPB Netherlands Bureau for Economic Policy Analysis & OCFEB
P.O. Box 80510
2508 GM Den Haag
E-mail: dpb@cpb.nl

Abstract:
This paper analyzes the causes of the fall in the skill premium in the Netherlands by estimating a system of factor share equations using a primal distance function. It is argued that this formulation offers advantages over a production function in case of increasing returns. The estimation results confirm the existence of capital-skill complementarity, but indicate that the main causes of the change in the skill premium are the large increase in the educational level of the workforce, and the shift towards more materials-intensive production. In addition, output growth has also contributed to the fall of the skill premium.

Erik Canton
"A model for the Dutch pharmaceutical market"

CPB - Netherlands Bureau for Economic Policy Analysis
P.O. Box 80510
2508 GM, The Hague
E-mail: canton@cpb.nl

Abstract
This paper develops a general-equilibrium model for the Dutch pharmaceutical market. The model derives the behaviour of patients, physicians, pharmacists, drug producers and parallel-importers from microeconomic principles and recognizes the interactions between the various actors. The latter is important since the general equilibrium effects are sometimes at odds with intuition from a partial equilibrium approach. The model is used to assess the effects of various policy experiments on the bill for pharmaceutical care in the Netherlands, like copayments for pharmaceutical care, fee differentiation between branded drugs and parallel-imported drugs and increasing the scope for arbitrage activities by parallel-importers. To isolate direct from indirect effects, we also study the case of price regulation.

Mars Cramer
"Large samples, little information"

Tinbergen Institute
Keizersgracht 482
1017 EG Amsterdam
E-mail: marsa@axxel.nl

Abstract:
Large samples with very few positive responses occur habitually in marketing and finance. It is standard practice to delete a large part of the superfluous null observations and to restrict the analysis to the reduced sample thus obtained. Methods to correct the estimates for this endogenous selection have been known for more that twenty years. I discuss a few practical issues that arise in their application.

Bas Donkers
"Estimating risk attitudes using lotteries: A large sample approach"

CentER and Department of Economics
Tilburg University
Postbus 90153
5000 LE Tilburg
E-mail: A.C.D.Donkers@kub.nl

Abstract:
Attitudes towards risk play a major role in many economic decisions. In empirical studies one

quite often assumes that attitudes towards risk do not vary across individuals. This papers questions this assumption and analyses which factors influence an individual's risk attitude. Based on questions on lotteries in a large household survey we semiparametrically estimate an index for risk attitude. We make only weak assumptions about the decision process, and our estimation method allows for generalisations of expected utility. We find strong links between risk attitude and gender, education level, and income of the individual. We also estimate a structural model based on Cumulative Prospect Theory and find that the value function depends on an index that is very similar to the index of attitude towards risk. Expected utility is strongly rejected and the probability weighting function varies significantly with gender, age, and income of the individual.

Edward Droste
"Regret equilibria in games"

Tilburg University
P.O. Box 90153
5000 LE Tilburg
E-mail: E.J.R.Droste@kub.nl

Abstract:
We study boundedly rational players in an interactive situation. Each player follows a simple choice procedure in which he reacts optimally against a combination of actions of his opponents drawn at random from the distribution generated by a player's beliefs. By imposing a consistency requirement we obtain an equilibrium notion which we call regret equilibrium. An existence proof is provided and it is shown that the concept survives the iterated elimination of never-best responses. Additional properties are studied and the regret equilibrium concept is compared with other game theoretic solution concepts. The regret equilibrium concept is illustrated by means of interesting examples. It is shown that in the centipede game, players will continue to play with large probability.

Robert A.J. Dur
"Wage setting institutions, unemployment, and the demand for redistribution policy"

EUR / Tinbergen Institute
P.O. Box 1738
3000 DR Rotterdam
E-mail: dur@few.eur.nl

Abstract:
This paper examines unemployment, wages, and voters' demand for redistribution policy under three different labour market structures: laissez-faire, wage-setting by company or industrial unions, and wage-setting by a central union. Decisions on the level of taxes and benefits are made by majority rule. Taxes, wages, and unemployment are lowest under competitive wage-setting and highest with decentralised unions. A higher degree of centralisation of union wage-setting implies lower unemployment and taxes because a fiscal externality is internalised. Under

some conditions about the composition of the population, the politico-economic equilibrium can further be improved upon by cooperation between the government and the central union. This seems to have happened in the Netherlands where the unions and the government agreed to cut taxes and restrain wages, which has led to the "Dutch Miracle".

Lars Ehlers
"Probabilistic collective decision schemes"

Department of Quantitative Economics
Maastricht University,
P.O. Box 616,
62OO MD, Maastricht,
E-mail: l.ehlers@ke.unimaas.nl

Abstract:
Collective decision problems are considered with a finite number of agents who have single-peaked preferences on the real line. A probabilistic decision scheme assigns a probability distribution over the real line to every profile of reported preferences. The main result of the paper is a characterization of a class of strategy-proof and unanimous probabilistic schemes with the aid of fixed probability distributions that play a role similar to the phantom voters in Moulin (1980). Thereby, the work of Moulin (1980) and Ching (1997) is extended to the probabilistic framework.

Jan Fidrmuc
"Stochastic economic shocks and incentives for (dis) integration

CentER for Economic Research
Tilburg University
P.O. Box 90153
5000 LE Tilburg
E-mail: J.Fidrmuc@kub.nl

Abstract:
I analyze the political economy of integration and disintegration. The model features a union composed of two regions that initially have a common fiscal policy. I focus on the analysis of the effects of region-specific output shocks. I argue that previously stable unions may disintegrate in response to specific patterns of output shocks. The stability of integration depends on correlation and persistence of shocks. Unions are stable if shocks are positively correlated, regardless whether persistent or transient. If shocks are negatively correlated and transient, integration is beneficial because of the potential for risk sharing and consumption smoothing. However, negatively correlated and persistent shocks render integration fragile.

Dave Furth
"Dynamic duopoly: The case of simultaneous moves"

University of Amsterdam
Dept. of Economics, Faculty of Law
P.O. Box 1030
1000 BA Amsterdam
E-mail: furth@jur.uva.nl

Abstract:
In this paper Markov Perfect Equilibria and the corresponding stationary states of a simple dynamic duopoly model with symmetric product differentiation are studied. Duopolists do not alternate their moves, but decide simultaneously.

Pieter Gautier
"Worker turnover at the firm level and crowding out of lower educated workers"

CPB - Netherlands Bureau of Economic Policy Analysis
P.O. Box 80510,
2508 GM The Hague
E-mail: pgautier@econ.vu.nl

Abstract
In the Netherlands, as in many countries, unemployment rates of lower educated workers are higher and more cyclical than unemployment rates of higher educated workers. In this paper we test whether this is caused by the fact that more highly educated individuals occupy simple jobs in cyclical downturns. We use a unique firm-worker dataset to investigate this hypothesis. In addition, we examine to what extent workers with more years of schooling earn higher wages than their less educated colleagues at the same job level in the same firm. We find that at one of the lower job complexity levels, the difference between schooling of the inflow and the outflow increases in cyclical downturns. At the same time, workers with surplus schooling earned somewhat lower wages at this job level. For the other job complexity levels we find no evidence for crowding out.

Xiaodong Gong
"No sexual bias in households' consumption? A semi-parametric analysis of Engel curves in rural China"

Tilburg University
P.O. Box 90153
5000 LE Tilburg
E-mail: x.gong@kub.nl

Abstract:
In this paper, household Engel curves for several categories of goods in rural China are analyzed,

such as, food, meat, and education. By using semi-parametric methods, we not only recover the shape of the Engel curves but also detect the potential sexual bias within the households. The prototype model is of Robinson (1988), where we do not make any assumption on the functional form of the relation between total expenditure and budget share, but we do assume that the demographic variables enter the model in a linear way. We also correct for the endogeneity of the total expenditure. Using the method of bootstrapping, we compute the average elasticity of the expenditure on a certain good to total expenditure. The sample for analysis includes more than 5000 nuclear families covering nineteen out of thirty Chinese provinces (districts). We found weak evidence for sexual bias within the families. The results are largely in line with the literature, for example, Deaton (1989). Our results also show economies of scale in families' consumption expenditures.

Jan J.J. Groen
"The monetary exchange rate model as a long-run phenomenon"

Tinbergen Institute Rotterdam,
P.O. Box 1738,
3000 DR Rotterdam
E-mail: groen@few.eur.nl,

Abstract:
Pure time series-based tests fail to find empirical support for monetary exchange rate models. In this paper we apply pooled time series estimation on a forward looking monetary model, resulting in parameter estimates which are in compliance with the underlying theory. Based on a panel version of the Engle and Granger (1987) two-step procedure we find that the residuals of our pooled estimated model are stationary. This indicates that on a pooled time series level there is cointegration between the exchange rate and the macroeconomic fundamentals of this monetary model.

Louise Grogan
"Occupational choice and the gender wage gap: The case of the United Kingdom"

Tinbergen Institute Amsterdam & University of Amsterdam
Keizersgracht 482
1017 EG Amsterdam
E-mail: grogan@tinbinst.nl

Abstract:
In this paper we develop a model which looks at individual's decision regarding occupational choice according to the value to the occupation of gender-specific attributes. This model builds on that of Roy (1951). In our extension of the Roy model, no distinction between males and females is made, but individuals are assigned aptitudes for different types of skills. Individuals have full knowledge of their various skills, face uncertain output in a prospective occupation, and know the extent of productivity in occupations. They make an occupational choice which will provide them with the highest expected returns. In this paper several different simulation results

are presented, and particular attention is paid to the interaction between variance in output levels and the productivity levels of people engaged in each profession. In our application of the ideas of the Roy model to data from the 1993 British Household Panel Survey, we show that occupational choice is an important factor affecting the gender-based wage differentials observed in cross-sections, and also in explaining gender differentials in wage growth of individuals over careers.

Marco Haan
"Free riding and the provision of candy bars"

University of Groningen
Department of Economics
PO Box 800,
9700 AV Groningen
E-mail: m.a.haan@eco.rug.nl

Abstract:
Experimental evidence suggests that the amount of free riding in public good environments increases with both group size and the number of repetitions. In this paper, we use a data set on payments for candy bars in 166 firms to show that these results can also be found outside the laboratory. We also provide a theoretical model that can explain these phenomena.

Gilbert H.A. van Hagen
"Environmental cost benefit analysis in a second-best world with heterogeneous households"

CentER
Tilburg University
P.O.Box 90153
5000 LE Tilburg
E-mail: hagen@kub.nl

Abstract:
This paper extends the literature on optimal corrective taxation in the presence of second-best constraints. We modify the Pigouvian rule to incorporate effects on the second-best restrictions. These second-best effects measure the marginal welfare effects due to a tightening of second-best constraints in response to a compensated rise in dirty consumption. We derive a cost-benefit rule for the optimal linear dirt tax in a model with three goods (a clean and a dirty commodity, and leisure) and two types of households (low-skilled and high-skilled). We consider both the cases with an optimal linear and with an optimal non-linear income tax.

Eline van der Heijden
"A cross-country study of reciprocity, trust and altruism in a gift exchange experiment"

CentER and Dept. of Economics
Tilburg University,
P.O. Box 90153,
5000 LE Tilburg,
E-mail: Eline.vanderHeijden@kub.nl

Abstract:
This paper presents the results of a bilateral gift exchange experiment in which mutual gift giving is efficient but gifts are individually costly. We compare the results for Norway and the Netherlands and for two information treatments: one with and one without information about previous gifts. We find that average gifts are higher in Norway. Furthermore, gifts are higher when information is provided about the previous gift. A model of individual behaviour suggests that Norwegian and Dutch subjects behave similarly along the egoist-altruist dimension. The observed differences in behaviour can be fully rationalised by a difference in the degree of reciprocity, with Norwegian subjects having more concerns for reciprocity.

Jean-Jacques Herings
"Continua of underemployment equilibria"

Department of Econometrics and CentER
Tilburg University
P.O. Box 90153
5000 LE Tilburg
E-mail: P.J.J.Herings@kub.nl

Abstract
In this paper the existence of unemployment is partly explained as being the result of coordination failures. This is achieved by considering a standard general equilibrium model and splitting the set of commodities in two groups. The first group contains commodities like gold. The prices of these commodities are fully flexible, even in the short run, and their markets always clear. The prices of the commodities in the second group are rigid in the short run (for instance labour services or some consumer goods) and households and firms may expect restricted supply possibilities. We show that such expectations are self-enforcing, even if all prices of commodities in the second group are competitive. In that case it is shown that as a result of coordination failures a continuum of equilibria. results, among which an equilibrium with approximately no trade in the commodities of the second group, and a Walrasian equilibrium. In fact, these coordination failures also arise at other price systems, but then unemployment is the result of both a wrong price system and coordination failures. Moreover, some properties of the set of equilibria are analyzed. Generically, there exists a continuum of non-indifferent equilibrium allocations. Under a condition implied by gross substitutability, there exists a continuum of equilibrium allocations in the neighbourhood of a competitive allocation. Examples show that the latter property may not hold in general.

Hans Hoogeveen
"The puzzle of the absent rural financial markets"

Tinbergen Institute Amsterdam
Keizersgracht 482
1017 EG Amsterdam
E-mail: hhoogeveen@econ.vu.nl

Abstract:
Rural households in developing countries face substantial income variability. To insulate consumption from these fluctuations in income, one expects farmers to have a large demand for financial services that allow them to smooth consumption. In an application of Deaton's model of optimal consumption under liquidity constraints, this paper uses a realistic income distribution to determine the benefit a rural household would experience from the introduction of financial markets. As a benchmark case, the situation is taken where a household smoothes consumption making use of buffer stocks. It is shown that a buffer stock strategy is very successful in reducing consumption variability but at a considerable cost. From this it is concluded that the scope for financial services that allow households to smooth consumption is probably there but that sunk costs and the probability of compliance failure by the financial service prohibit the introduction of such services in most rural areas.

Albert van der Horst
"Taxing energy to improve the environment: Efficiency and distributional effects"

FEE, University of Amsterdam
Roetersstraat 11
1018 WB Amsterdam
E-mail: horst@fee.uva.nl

Abstract:
We study the effects of environmental tax policy in a dynamic overlapping-generations model of a small open economy with environmental quality incorporated as a durable consumption good. Raising the energy tax may deliver an efficiency gain if agents care enough about the environment. The benefits are unevenly distributed across generations since capital ownership, and the capital loss induced by a tax increase, rises with age. A suitable egalitarian bond policy can be employed in order to ensure everybody gains to the same extent. With this additional instrument the optimal energy tax can be computed. We further consider a tax reform that simultaneously lowers labour taxation and raises the energy tax. This policy delivers qualitatively similar consequences as the first scenario, though all changes are less pronounced. A double dividend may appear soon after the reform but vanishes in the course of the transition.

Harold Houba
“Counter-intuitive results in a simple model of wage negotiations ”

Free University
Department of Econometrics
De Boelelaan 1105
1081 HV Amsterdam
E-mail: hhouba@econ.vu.nl

Abstract:
Short term contracts and exogenous productivity growth are introduced in a simple wage bargaining model. The equilibrium utilities corresponding to militant union behaviour are independent of the contract length. The wage dynamics are linear if strike is credible (low wage shares) and nonlinear otherwise (high wage shares). The model can admit two steady state wage shares. The one under strike is not credible exceeds the one under strike is credible. A wage decrease can occur if strike is credible, but never when strike is not credible. In the limit as time between bargaining rounds vanishes only the first paradox survives.

Jan Kakes
“Monetary transmission and bank lending in the Netherlands”

Faculty of Economics
University of Groningen
P.O. Box 800
9700 AV Groningen
E-mail: J.I.Kakes@eco.rug.nl.

Abstract:
This paper investigates the role of bank lending in the monetary transmission process in the Netherlands. We observe significant differences between the responses of corporate and household lending following a monetary shock. We also find that banks hold a buffer stock of securities which they use to offset monetary shocks. The main implication of our study is that a bank lending channel is not likely to be an important transmission mechanism of monetary policy.

Arnald J. Kanning
“Principles of European Contract Law: The road to unity of contract law within the European Union?”

Department of Economics and MERIT
Maastricht University
P.O. Box 616
62OO MD Maastricht
E-mail: a.kanning@algec.unimaas.nl

Abstract
First, the transaction costs approach demonstrates that striving for unity of contract law within the European Union reduces, as the European Parliament and the Commission on European Contract Law also argue, legal restrictions to (cross-border) trade and hence will deepen the internal market. A more efficient allocation of scarce resources is accomplished when reduction in legal restrictions lowers transaction costs to parties. Second, the transaction costs approach investigates what (legal) means are helpful in attaining the objective stated. The approach demonstrates that the non-binding Principles of European Contract Law, formulated by the Commission on European Contract Law, should not be taken for an alternative, but as a precursor of European legislation. One legal system within the European Union, consisting of a code of contract law in combination with an overarching administration of justice, avoids half-way measures and offers the best opportunities to consolidate unity of contract law. Thus, reducing transaction costs to parties most.

Franc Klaassen
"Purchasing power parity: Evidence from a new test"

CentER and Department of Economics
Tilburg University
Postbus 90153
5000 LE Tilburg
E-mail: F.J.G.M.Klaassen@kub.nl

Abstract:
Purchasing power parity (PPP) is one of the oldest and most important theories in international economics. Most economists intuitively believe in it. Nevertheless, quite surprisingly, there is no conclusive evidence for PPP in the empirical literature so far. In this paper, however, we do find such evidence using a new test. The test is based on a regime-switching model and it tests whether the regime-switching probabilities depend on the PPP deviation. We also find that for some exchange rates PPP disequilibria have become shorter-lived and that this may have originated from an increase in the trade openness of the countries involved.

Bas van der Klaauw
"Punishing welfare recipients for noncompliance with job search guidelines"

Tinbergen Institute and Free University
Department of Econometrics
De Boelelaan 1105
1081 HV Amsterdam
E-mail: klaauw@econ.vu.nl

Abstract:
In the Netherlands welfare recipients often stay unemployed for a long period of time. To stimulate the transition from welfare to work, welfare recipients have to comply with the guidelines of the welfare agency. If they do not, a sanction in the form of a temporarily benefit

reduction can be imposed. This paper investigates the effect of such sanctions on the transition from welfare to work using a unique set administrative data on welfare recipients in a major city in The Netherlands. We find that the imposition of sanctions substantially increases the individual transition rate from welfare to work. We also analyze the determinants of the transition from welfare to work.

Thijs Knaap
"Generalizations in a model of economic geography"

University of Groningen,
Department of Economics,
PO Box 800,
9700 AV Groningen,
E-mail: t.knaap@eco.rug.nl

Abstract:
Under the heading 'new economic geography,' a collection of models has been constructed that purport to explain part of an economy's geographic structure using pecuniary externalities. Agglomerations, in these theories, are caused by complementarities in production. The complementarities formalize the concept of forward and backward linkages (Hirschman 1958) between firms and the labor market, or among firms. Many of the results that have been obtained in this literature make use of the monopolistic competition model by Dixit and Stiglitz (1977). A survey of those results may be found in Knaap (1998) or Ottaviano and Puga (1997). One particular way of modelling linkages is used in Krugman and Venables (1995). In this paper, agglomeration occurs because of input-output connections: the production of one firm is used as an input for other firms, who therefore prefer to be close by. The authors assume that every firm uses as an input a composite good, made from the output of all other firms. In fact, the structure of production is completely symmetric, so that each firm uses every possible product to the same degree. This is a natural property of the Dixit-Stiglitz framework, in the way it is usually applied. It is not impossible to step away from the assumed symmetry and allow for some variety in the input structure. Young (1993) introduces a production function with a continuum of intermediate goods suppliers and a continuum of final goods suppliers. The latter use intermediate goods, but only if these goods come from producers that are sufficiently 'close' to their product, where closeness is defined within the continuum of firms.

Rien Komen
"Multiple environmental policy goals: National economic costs and interaction of policies"
Agricultural Economics and Policy Group

Department of Economics and Management
Wageningen Agricultural University
Hollandseweg 1
6706 KN Wageningen
E-mail: Rien.Komen@ALG.AAE.WAU.NL

Abstract:
Like in most industrialised countries, the concern for improving environmental quality has taken a firm place on the policy agenda in the Netherlands. The Dutch government has developed policy targets, while distinguishing environmental themes like greenhouse effect, acidification, eutrophication, and waste accumulation. Each policy target entails a reduction in emissions that cause the environmental problem described by the theme. This paper analyses the economic effects of achieving different quantitative environmental targets, using a system of emission permits in an applied general equilibrium (AGE) model for the Netherlands. Special attention is paid to the difference between environmental themes, the interaction of different environmental policies and the extent of tradeability of emission permits. In doing so, the main causal relationships linking the economy and environment are quantified and shadow prices of restrictions on different emissions can be determined.

Mirjam Koster
"Monopolistic supply and countervailing power in the electricity sector"

Department of Economics and Public Finance
Faculty of Law
University of Groningen
P.O. Box 716
9700 AS Groningen
E-mail: m.koster@rechten.rug.nl

Abstract:
In many European countries electricity production is traditionally organized as a legal public monopoly. The public firm sets its price such that its costs are covered by revenue and profits are zero. In the Dutch 1989 Electricity Act the distribution of electricity was separated from production. The resulting market structure in The Netherlands resembles a bilateral monopoly with a cartel of public producers at the supply side of the market and cooperating distribution companies, acting on behalf of electricity users, at the demand side. The paper shows that confronting a not-for-profit monopoly with a monopsony that maximizes consumer surplus will result in an efficient level of output. Due to the development of combined heat and power generation, the market structure has changed into a market with a fringe of small price taking suppliers next to the dominant public producer. This successful market penetration has affected the (static) efficiency of the public bilateral monopoly. With liberalization under the new 1998 Electricity Act, the public producers will be forced to behave more and more as profit maximizers. The model shows that a continuation of the producers' cooperation would result in a similar indeterminacy of equilibrium as with a usual bilateral monopoly.

Alex Lammertsma
"The inflation-unemployment trade-off: A survey"

CPB - Netherlands Bureau of Economic Policy Analysis
P.O. Box 80510,
2508 GM The Hague
E-mail: A.Lammertsma@cpb.nl

Abstract
Since the last major survey of Santomero and Seater in 1978 at least three developments have taken place. First, inflation-output trade-offs were derived from price stickiness; second, attention faded away for the intertemporal labour supply and the search explanations for the trade-off to the price-misperception and the price-stickiness explanations; third, attention shifted from investigating price-misperception and price stickiness theories on their own towards verifying whether price-misperception or price stickiness is consistent with the actual trade-off. The survey of Santomero and Seater, however, only starts in 1958, the year Phillips published his famous article. Going back shows that various issues like the distinction between the long-run and the short-run trade-off and the exploitability of the trade-off can be found in the literature long before they were generally known.

Theo Leers
"Migration patterns when intergenerational redistribution is determined endogenously"

Tilburg University and CentER
P.O. Box 90153
5000 LE Tilburg
E-mail: T.Leers@kub.nl

Abstract:
The paper investigates the occurrence of migration in the presence of ageing. Migration affects the extent of the existing PAYG schemes in two ways. Firstly, migration sways the dependency ratio. Secondly, both currently living and present young and old agents decide upon the level of the pension tax. According to the interest group theory of Olson, the (relative) number of old and young agents present in the economy result in a certain tax level through an implicit process of lobbying and rent seeking, for example. This process is formalised through the introduction of a tax-influence function. The analysis is performed within the framework of a two-region two-period OLG model with two types of agents. In both countries there are non-mobile landowners and mobile workers present. Production depends on both the number of landowners and workers. Both types of agents are homogeneous within their type and have perfect foresight. A comparative statics analysis is performed for the migration decision. Using comparative dynamics it is shown that under certain assumptions on the form of the tax-influence function the migration pattern in the presence of a temporary and asymmetric shock on the growth rate of the population of landowners can be described by a damped vibration.

Vincent Linderhof
"Weight-based pricing in the collection of household waste: The Oostzaan case"

Faculty of Economics
University of Groningen
P.O. Box 800
9700 AV Groningen
E-mail: V.G.M.Linderhof@eco.rug.nl.

Abstract:
The most common pricing program for the collection of household waste has been fixed charges. Since the increasing concern about the environment in the 1980's, one of the government's objectives became to reduce household waste. To employ more economic pressure, collectors have introduce more flexible pricing programs, such as volume-based pricing (price per bag or container) and weight-based pricing (price per kilogram waste). From a social perspective weight-based pricing is more favourable than volume-based pricing. However, due to increasing costs weight-based pricing is rarely introduced. This paper analyzes the effects of implementing a weight-based pricing program for the collection of household waste. We are primarily interested in the price effects on the demand for the collection of household waste. We do not only focus on the short-run effects, but we also analyze the long-run price effects on the demand. With the Oostzaan survey from July 1993 to December 1996, we estimate reduced-form demand equations for the collection of compostable and non-recyclable household waste. In the case of compostable waste, the results show a higher price elasticity for weight-based pricing than for volume-based pricing reported in previous studies. The results also indicate a significant trend downwards over the years. In the case of non-recyclable waste, however, the price effect is not significant.

W. Lise
"Estimating a game theoretic model of people's participation in forest management"

Waalstraat 104-4
1079 EB Amsterdam
E-mail: WLise@lisv.nl

Abstract:
Applied game theory generally goes as far to show possible game situations and discussing their implications. This paper goes further by deriving an estimation procedure for non-cooperative games, which is designed to use primary data from the field. The method is applied to a situation where a forest user in rural India chooses a level of participation. The method is completely worked out for two-person symmetric games. The estimation procedure is applied to three regions in rural India.

Jan Magnus
"Estimation of the mean of a univariate normal distribution with known variance"

CentER for Economic Research
Tilburg University
Postbus 90153
5000 LE Tilburg
E-mail: magnus@kub.nl

Abstract:
The problem considered is the estimation of k coefficients of interest in a linear regression model whe the (k+1)st coefficient is of no interest. It is shown that this problem is equivalent to the problem of estimating the unknown mean of a univariate normal distribution with variance one given a single observation. Questions of admissibility, risk and regret are studied for this problem. The traditional pretest estimator of the mean is shown to have undesirable properties. A shrinkage estimator with better performance than the pretest estimator is considered. Further imporvements in performance are achieved by estimators derived from the Burr family of distributions. However, these estimators are found to be still open to several objections. Generalizations of the Burr estimators are developed which are free from some or all of these objections. The final estimator considered is a Bayes estimator cchosen from this class with a Laplace distribution as its prior. Of all the estimators studied in the paper, this has the best all round performance.

Philipp Maier
"Pressure on the Bundesbank?"

University of Groningen,
Department of Economics,
PO Box 800,
9700 AV Groningen,
E-mail: P.Maier@eco.rug.nl

Abstract
We investigate whether the German central bank responds to political pressure. We focus on two main points: The rhetorics of the Bundesbank, characterized by the 'Bundesbank monetary policy index,' and the actual or effective Bundesbank policy, which is measured by the day-to-day interest rate. Besides testing for 'traditional' models of political influence, we also estimate various conflict models. We find that the announced Bundesbank policy responds to political pressure before elections, since the rhetorics show a clear electoral pattern. However, this change does not translate into the effective Bundesbank policy, since the day-to-day rate shows no sign of political influence at all. This results suggest that the Bundesbank pretends relatively expansive monetary policy before elections in the rhetorics to calm down politicians, but in the mean time shields the effective monetary policy from political pressure.

Philip Marey
"Adjustment processes on the labour market: A random coefficient approach"

Research Centre for Education and the Labour Market
Maastricht University
P.O. Box 616
6200 MD Maastricht
E-mail: p.marey@roa.unimaas.nl

Abstract:
In this paper we take a look at non-wage adjustments to labour market disequilibrium, such as changes in part-time work, temporary work, jobs below the educational level or outside the field of study and continued full-time education. A disturbance related set of random coefficient regression equations with one common regressor is used to translate discrepancies between labour demand and supply into wage adjustments, non-wage adjustments and unemployment. We apply a quasi-unbiased estimator for the covariance matrix of parameters. The estimation results show that different sets of adjustment mechanisms prevail in different educational sub-markets of the labour market.

Lex Meijdam
"Growth and welfare in an endogenous growth model with overlapping generations"

Tilburg University & CentER
P.O. Box 90153
5000 LE Tilburg
E-mail: A.C.Meijdam@kub.nl

Abstract:
This paper analyzes the effects of fiscal policy in a model which can be viewed as a synthesis of the Blanchard-Yaari infinite-horizon overlapping-generations (OLG) model (Blanchard, 1985) and the Lucas / Uzawa model of endogenous growth (Lucas, 1988). Labor supply is endogenous and it is assumed that the productivity of leisure rises when human capital is accumulated. First it is shown that a tax on capital income as well as a tax on labor income increases long-run growth. Next a condition is derived that determines the effect on the growth rate of a balanced-budget shift in the tax burden from capital income to labor income. Finally, it is shown that in order to maximize a social welfare function as introduced by Calvo and Obstfeld (1988), human capital should be subsidized.

Luc Moers
"Growth empirics with institutional measures and the transition countries"

Tinbergen Institute and University of Amsterdam.
University of Amsterdam
Faculty of Economics and Econometrics
Roetersstraat 11

1018 WB Amsterdam
E-mail: moers@tinbinst.nl

Abstract:
This paper starts off with a short overview of the empirical literature on the relationship between institutions, and investment and growth, and the so far only two applications to transition countries, which are going through a period of pervasive institutional transformation. This serves to lead to an own application of growth empirics with 5 institutional measures, capturing such aspects as ‘rule of law’ and ‘civil society,’ to 25 transition countries for the period 1990-95. Estimation results suggest that (particularly state) institutions are important for growth and, especially, foreign direct investment (FDI), the latter being important for the former in turn. Utilizing ethnolinguistic fractionalisation as an instrumental variable, it is also found that the correlation between institutions and FDI is much more likely to be a (direct) causation. Out of 15 control variables only inflation and war seem to have been relatively more significant for growth performance in transition countries than institutions per se. This suggests that macroeconomic stabilization and peace should be the main policy priorities, closely followed by institution building.

Multicollinearity between institutional and liberalization variables, both significant on their own, makes it impossible to judge their relative importance, at the same time suggesting that they generally go together in practice.

Maria Pilar Montero Garcia
“A bargaining game with coalition formation”

CentER for Economic Research
P.O.Box 90153
5000 LE Tilburg
E-mail: P.MonteroCarcia@kub.nl

Abstract:
This paper considers a game in which coalitions form in order to have a stronger position in a bargaining process. Both coalition formation and bargaining are non-cooperative. The players are a seller and two potential buyers with different reservation prices who bargain over the allocation of a good and the payments to be made. Players may form coalitions before this bargaining process. In equilibrium, each two-player coalition is formed with probability one third regardless of the relative strength of the players, and expected payoffs coincide with the Shapley value of a related cooperative game.

Ruud de Mooij
The double dividend and trade liberalisation

CPB Netherlands Bureau of Economic Policy Analysis
P.O. Box 80510,
2508 GM The Hague
E-mail: R.A.de.Mooij@cpb.nl

Abstract:
Does an environmental tax reform improve the quality of the environment and raise employment if the labor-market is imperfect? This so-called employment double dividend is analyzed in this paper. From a trade-union model, I derive an explicit wage equation. By varying the elasticities in this equation, I explore under what conditions an environmental tax reform raises employment. Accordingly, the paper tries to reconcile the conflicting results from theoretical studies and from large-scale empirical models on the employment double dividend. Furthermore, by considering the competitive labor-market as a benchmark case, this paper investigates how the imperfections themselves affect the opportunities for an employment double dividend.

Joan Muysken
"Overeducation and crowding out of low-skilled workers"

Department of Economics and MERIT
Maastricht University
P.O. Box 616
62OO MD Maastricht
E-mail: j.muysken@algec.unimaas.nl

Abstract:
This paper develops a model to explain the following stylised facts: (1) returns to schooling have declined strongly over time and are only recovering gradually, whereas schooling attainment did recover much more strongly; (2) there is a rather general level of overeducation; (3) unemployment for low educated persons is much higher than for high educated persons; (4) the rate of return on overeducation is positive. In the model the search-theoretical analysis of Pissarides is applied to skilled demand for labour and extended to allow for job competition. It is combined with human capital theory to explain the level of education.

Richard Nahuis
"The dynamics of a general purpose technology in a research and assimilation model"

Tilburg University and CentER
P.O. Box 90153
5000 LE Tilburg
E-mail: r.nahuis@kub.nl

Abstract:
Where is the productivity growth from the IT revolution? Why did the skill premium rise sharply in the early eighties? Were these phenomena related? This paper examines these questions in a general equilibrium model of growth. Technological progress in firms is driven by research aimed at improving the production technology and by assimilation of ideas or principles present outside the firm. A new general purpose technology like the IT revolution generates an initial slowdown in economic growth and an increase in inequality

Pieter van Oijen
"Ownership structure, shareholder control rights and board turnover in the Netherlands"

Department of Financial Management
University of Amsterdam
Roetersstraat 11
1018 WB Amsterdam
E-mail: vanoijen@tinbinst.nl

This paper empirically explores whether board turnover in Dutch companies is linked to corporate performance and institutional features such as ownership concentration, block holder identity and shareholder control rights. The analysis is particularly interesting. in light of the institutional characteristics of the Dutch financial system. The management board and supervisory board are strictly separated and control rights for shareholders are potentially diluted: in many firms, the supervisory board has the exclusive right to appoint management and voting, rights are often separated from cash flow rights. It is therefore interesting, to see whether the dynamics in board turnover are similar to those found in studies for other countries.

The direct relation between performance and board turnover is largely similar to that of other countries. We find little support for a lack of response to poor short term stock price performance or poor earnings performance. We also do not find consistent evidence that the dilution of shareholder control rights reduces the overall level of board turnover (for both boards) or the board turnover-performance relation. Finally, we do find that the level of board turnover is affected by ownership structure and that the management turnover-performance relation depends on the ownership structure as well.

Ralph Olthoff
"On wage gaps, labour contracts and surplus sharing"

Maastricht University
Faculty of Economics and Business Administration
Department of Economics,
P.O. Box 616
6200 MD Maastricht
E-mail: r.olthoff@algec.unimaas.nl

Abstract
Models of the wage gap, the difference between the contracted wage rate and the wage effectively paid, commonly neglect the role contracts play in employment relations. In this paper it is argued that if specific investments of both employee and employer do matter, both parties have an interest to write a contract that carefully weighs the virtues of fixed and flexible wages. While a fixed wage protects the parties from being expropriated from the returns on their investment, wage flexibility helps avoiding quits and layoffs that would occur if a party's outside option becomes binding under the going wage. As a remedy a contract is proposed that determines a wage as well as the parties' disagreement payoffs when they attempt to renegotiate the wage. After deriving the outcome of the renegotiation game under complete and asymmetric information given the contract wage, the paper investigates in the consequences for the determination of the contract wage under the different information regimes and the implications

for the occurrence of a wage gap.

Richard Paap
"Censored latent effects autoregression, with an application to US unemployment"

RIBES
Erasmus University Rotterdam
P.O. Box 1738
3000 DR Rotterdam
E-mail: paap@few.eur.nl

Abstract:
A new time series model is proposed to describe observed symmetries in postwar unemployment data. We assume that recession periods, when unemployment increases rapidly, are caused by unobserved positive shocks. The generating mechanism of these latent shocks is a censored regression model, where linear combinations of lagged explanatory variables lead to positive shocks, while otherwise shocks are equal to zero. We apply our censored latent effects autoregression [CLEAR] to monthly US unemployment, where the positive shocks are found to depend on lagged oil prices, industrial production, the term structure of interest rates and a stock market index. The model fits the data well, and its out-of-sample forecasts appear to outperform those from alternative models.

Alex Possajennikov
"Mergers and coordination in Cournot oligopoly"

CentER for Economic Research
P.O.Box 90153
5000 LE Tilburg
E-mail: A.Possajennikov@kub.nl

Abstract:
This paper considers a Cournot oligopoly with three firms that differ in efficiency. Two of the firms can merge but the monopoly is forbidden. For a wide range of the cost parameters all three firms benefit from a merger but each firm prefers most that the other two merge. The merger game has multiple equilibria, one of which is selected by evolutionary approach. Implications for the total profit and welfare in the selected equilibrium are analyzed. It is shown that coordination problem among firms allows to improve welfare in some cases.

Marieke Rensman
"Do technology spillovers matter for growth?"

Department of Economics
University of Groningen
P.O. Box 800

9700 AV Groningen
E-mail: m.rensman@eco.rug.nl

Abstract:
This paper attempts to explain the growth of labour productivity through (inter)national spillovers from R&D and patenting. From the model hypotheses are derived which are tested for Germany, France, the United Kingdom and the United States of America using a new set of panel data for the period 1955 until 1991

Jan Rouwendal
"Spatial job search and commuting distances"

Wageningen Agricultural University,
Department of Household and Consumer Studies
P.O. Box 8060
6700 DA Wageningen
E-mail: jan.rouwendal@econ.hhs.wau.nl

Abstract:
In the paper an empirical model for spatial job search is developed and estimated. The model allows for heterogeneous jobs. It can be extended to incorporate the effects of housing market search induced by acceptance of a job. In order to deal with unobserved heterogeneity among workers, the reservation utility level is treated as a random variable in the empirical work. The estimation procedure uses simulation in order to evaluate an otherwise cumbersome integral in the likelihood function. The model is estimated on a sample of married or cohabiting female workers in the Netherlands and takes into account wage rates, commuting distances and working hours as relevant job characteristics. Estimation results suggest, among other things, that workers are on average willing to accept an hourly wage rate that is 0.12 Dutch guilder lower in order to avoid one additional kilometre of commuting, that there are important spatial elements in the way vacant jobs are offered to workers and that workers in their early thirties have the highest arrival rates of job offers.

Pieter H.M. Ruys
"Positional abilities and rents on equilibrium wages"

Tilburg University,
P.O. Box 90153,
5000 LE Tilburg,
E-mail: p.h.m.ruys@kub.nl

Abstract:
An institutional market economy is defined in which individual firms are endowed with an internal cooperative organization that adapts endogenously to its external environment as determined by a competitive market economy. Such an incorporated firm is described by (i) a governance structure consisting of a set of positions and a set of agency relations, (ii) a

production technology, and (iii) a game value distributing the value added of the firm internally over the distinct positions in the firm. The extreme position is taken that labor is homogeneous. So productivity differentiation is determined only by the position a labourer assumes in the organization. That implies that the reward for each labor position consists of a competitive market wage plus a positional rent. The unique top-position represents the profit-maximizing owner who chooses the optimal number of levels in the firm's organization. The owner's decision is restricted to paying the market wage to any position, which implicitly determines the amount of the homogeneous labor demanded and the amount of the homogeneous commodity produced by the firm. This firm is representative for a given set of firms. The external environment of she firm consists of competitive markets on which the prices for the three commodities are generated. An institutional market equilibrium is defined, in which the size of the firm's organization, based on internal cooperation, is determined by the competitive markets. Its existence is shown.

Maarten-Pieter Schinkel
"Price stability in a model with incomplete information and rational learning: A general result and a simple example"

University of Maastricht
Department of Economics
P.O. Box 616
6200 MD Maastricht
E-mail: m.schinkel@algec.unimaas.nl

Abstract:
This paper is concerned with the question of price formation in disequilibrium. We consider a model in which sellers that monopolistically compete in prices have incomplete information about the structure of the market they face. Instead, each entertains a simple demand conjecture in which sales are perceived to depend on the own price only, and sets prices to maximise expected profits. Prior beliefs on the parameters of conjectured demand are updated into posterior beliefs upon each observation of sales at proposed prices, using Bayes' rule. The rational learning process thus constructed drives the price dynamics of the model. A sufficient condition is provided, relating objectively possible events and subjective beliefs, under which this price dynamics is globally stable for almost all objectively possible developments of history.

An example of a linear stochastic duopoly model with normally distributed error terms, and normal priors is shown to satisfy this condition. It converges with probability one to an expectational conjectural equilibrium. The example is a generalization of a model studied by Kirman (1975, 1995) for which no global convergence result has been available yet.

Youdi Schipper
"Deregulation and welfare in airline markets: An analysis of frequency equilibria"

Free University Amsterdam & Tinbergen Institute
Keizersgracht 482
1017 EG Amsterdam
E-mail: yschipper@econ.vu.nl

Abstract:
This paper proposes a contribution to the literature on departure frequency in oligopoly transport markets. We model competition in air transport markets as a two stage game in frequency and prices, while allowing for asymmetric equilibria. The time structure implied in a two stage process is relevant in such markets: while prices may vary daily in the airline industry, departure frequencies are much less flexible. The model is an application of spatial multiproduct oligopoly to a circular air transport market; the dynamic structure allows airlines to choose asymmetric frequency equilibria such that price competition is reduced. This feature is most pronounced in the case of inelastic demand, for which a maximal differentiation result is derived. The model is applied in a simulation study of airline deregulation for the Amsterdam - Maastricht market. Welfare effects are calculated for various types of post-deregulation entry. The size and distribution of the welfare effects prove to depend on the type of entry. Low cost entry results in the highest welfare gains, both as a result of price decreases and of frequency increases.

Erik C. Schmieman
"Joint abatement strategies: A dynamic analysis of acidification and tropospheric ozone"

Wageningen Agricultural University
Department of Economics and Management
Environmental Economics Group
Hollandseweg 1
6706 KN Wageningen
E-mail: erik.schmieman@alg.shhk.wau.nl

Abstract:
This study uses optimal control theory and dynamic soil acidification models to analyze policy options when accumulation of acidification and future responses of ecosystems are taken into account. A combined dynamic optimisation of acidification and tropospheric ozone is performed. Cost effective abatement strategies of a combined reduction of sulphur dioxide, nitrogen oxides, Volatile Organic Compounds (VOC) and, as a secondary pollutant, tropospheric ozone are determined. The study provides a method to analyze optimal time paths of emission reduction and it is shown how dynamics aspects of acidification could be incorporated in economic modelling.

Using the critical loads approach in which only the final state of a soil can be known can lead to serious temporal degradation of a soil in the period that depositions are above critical loads and policy targets are not yet met. In contrast, the dynamic approach applied here gives information about the temporal development of the quality of a soil. By knowing the state of a soil at any instant a temporal decrease of the quality of a soil below critical values can be avoided by pursuing extra reduction polices.

It is also shown that intertemporal cost-effective reduction strategies may lead to cost savings compared to spatial (international cooperative) cost-effective solutions. The influence of acid related policies on ozone precursors and ozone formation is also assessed and calculations show that both positive and negative cross effects exists. If the problem of tropospheric ozone is added, the results show that additional to acid related policies extra measures might be needed with respect to VOCs reduction.

Lambert Schoonbeek
"The welfare loss from interdependent preferences"

Department of Economics
University of Groningen
P.O. Box 800
9700 AV Groningen
E-mail: L.Schoonbeek@eco.rug.nl

Abstract:
This paper investigates the implications of interdependent preferences for social welfare. Given that there is virtually no coordination between consumers regarding their consumption decisions, interdependent preferences generally imply Pareto inefficiency. For a general demand system, we characterize Pareto improvements, as well as the (budget neutral) taxes and subsidies that reduce the welfare loss from interdependent preferences. The results are in contrast with the usual claim that taxes on consumption are distortionary and generate a welfare loss. Calculations based on an estimated empirical model suggest that the welfare loss from interdependent preferences is small.

Victoria Shestalova
"A general equilibrium analysis of international TFP growth rates"

CentER for Economic Research
P.O.Box 90153
5000 LE Tilburg
E-mail: V.Shestalova@kub.nl

Abstract:
The paper presents a study of the TFP performance among developed countries between 1985 and 1990. The analysis includes three big economies: the US, Japan and Europe. A general equilibrium model of the three big economies is used to estimate the TFP growth at the sectoral and at the aggregate levels. The model is based on the fundamentals of the economies and employs only data on input-output statistics, factor inputs across sectors, consumption and trade patterns and endowments. Prices are endogenous in the model. They are obtained as shadow prices from the corresponding linear programming and then used for measuring TFP growth and its decomposition to the technical change effect, demand effect and terms-of-trade effect.

Gaston C.M. Siegelaer
"How to structure and allocate active risk?"

Research & Advisory Department
Insurance Supervisory Board of the Netherlands (Verzekeringskamer)
P.O. Box 929
7301 BD, Apeldoorn

Abstract:
Active management presupposes one is able to outperform a benchmark portfolio. The optimal tracking error is determined by the ex ante information ratio and the risk aversion of the decision maker. As different decision levels in the asset management process can be distinguished, one has to allocate a proportion of the total active risk to each level, e.g. tactical asset allocation, tactical country allocation, and security selection. Under some plausible assumptions the active risk allocation does not depend upon the risk aversion of the decision maker. The usually existent interdependence of investment decisions at different levels causes an impediment for efficient risk management. Hence, I propose a structure for active management that consists of independent decision levels in the asset management process. Some numerical examples are examined to investigate as to what active risk positions seem to be reasonable. Also, an application to active risk allocation is given using downside limits instead of tracking errors.

Sjak Smulders
"The double dividend hypothesis and trade liberalization"

Tilburg University
P.O. Box 90153
5000 LE Tilburg
E-mail: J.A.Smulders@kub.nl

Abstract:
This paper studies how simultaneously liberalizing trade and tightening environmental policy affect welfare in a second-best world. We consider a small open economy producing exportables and non-tradables. We allow for market power on the export market. The government faces a balanced budget constraint: a given income transfer has to be financed out of tariff and pollution tax revenue. First it is examined under what conditions an increase in pollution taxes creates room for a reduction in import tariffs. Next, we show that the switch from trade tariffs to environmental taxes can yield an increase in real income thus providing a second dividend in addition to the environmental improvement. Under a high degree of market power in export markets (low price elasticity of exports), increasing pollution taxes may increase income by a terms of trade effect.

Coen N. Teulings
"The structure of substitution and complementarity in a model of comparative advantage"

Tinbergen Institute and Erasmus University
P.O. Box 1738
3000 DR Rotterdam
E-mail: Teulings@few.eur.nl

Abstract
The paper derives elasticities of job substitution and complementarity in an assignment model with a continuum of workers and job types. Better skilled workers have a comparative advantage in more complex jobs. The substitution matrix, which is derived from a cost function, is shown

to be zero almost everywhere. The complementarity matrix is derived by an analytical characterization of the inverse substitution matrix. The resulting expression is simple and exhibits convenient features like a zero cross derivative. The results are readily applicable for the evaluation of general equilibrium effects of policy interventions. The parameters of the complementarity matrix have been estimated. Three policy experiments are evaluated: a general increase in human capital, the general equilibrium effects of training programs for specific worker types, and of minimum wages. A 1 percent increase in the value of human capital of all workers decreases the 10-90 log wage differential by 1.5 to 3 percentage points, depending on the initial wage dispersion.

Alexander F. Tieman
"A Note on Varying Mutation Rates in 2 x 2 Coordination Games"

Tinbergen Institute and Free University
Department of Econometrics
De Boelelaan 1105
1081 HV Amsterdam
E-mail: xtieman@econ.vu.nl

Abstract
The model of 2 x 2 coordination games in Kandori, Mailath, and Rob (1993) is extended to allow for a mutation rate that is stochastic over time. The expected time the system spends in the risk dominated equilibrium is systematically underestimated by the standard model in Kandori, Mailath, and Rob (1993) when the latter model's (fixed) mutation rate is equal to the expected mutation rate. A small population result corrects a minor omission in Kandori, Mailath, and Rob (1993).

Alexander F. Tieman
"Cooperation in a multi-dimensional local interaction model"

Tinbergen Institute and Free University
Department of Econometrics
De Boelelaan 1105
1081 HV Amsterdam
E-mail: xtieman@econ.vu.nl

Abstract:
We consider a local interaction model with a population on an h dimensional torus, in which in each round of play a random player gets a learning draw. This player plays a k+1 action stage game with players in his neighbourhood, compares his own average payoff with the average payoff of the neighbours he played against and updates his action based on this comparison. Individuals use the update rule 'Win Cooperate, Lose Defect,' a multi-player variant of Tit-for-Tat. We prove that there are exactly k+1 stable states and that all of these can be reached with positive probability, for any dimension h of the torus. Furthermore, we prove that when k+1=2, both stable states will be reached with probability ½. For k+1>2 we provide some insight in the

probability of reaching each of the stable states by presenting simulation results.

Jan Tuinstra
"Evolutionary selection of behavioral rules in a Cournot duopoly model"

Institute of Actuarial Science and Econometrics
Faculty of Economics and Econometrics
University of Amsterdam
Roetersstraat 11
1018 WB Amsterdam
E-mail: Tuinstra@fee.uva.nl

Abstract:
An evolutionary game theoretic model of Cournot competition with heterogeneous behavioral rules is analyzed. Individuals can choose from a finite set of different behavioral rules. In general, a rule specifies the quantity to be produced in the current period as a function of last periods average industry output. More sophisticated rules can only be obtained by making extra information costs. The fraction of the population choosing a certain behavioral rule is updated every period on the basis of past performance of that rule. Two specific updating schedules analyzed in depth axe the discrete choice model and the replicator dynamics. The dynamical system consisting of the population dynamics coupled with the quantity dynamics of the Cournot duopoly game exhibits complicated dynamical phenomena. In particular, a high evolutionary pressure leads to highly irregular quantity dynamics converging to a strange attractor.

Nico Valckx
"The information content of interest rate and stock market volatility for predicting business cycles in probit models"

Research Associate,
Fund for Scientific Research (FSR)
Flanders, Belgium
E-mail: nico.valckx@ufsia.ac.be

Abstract:
We extend the finding of Estrella and Mishkin (1997, 1998) that financial variables, esp. share returns and the yield curve, are useful to predict recessions toward including interest rate and stock volatility. This hypothesis was examined empirically for the US, Germany and Japan, both in-sample and out-of-sample. Instead of using nominal stock returns as in Estrella and Mishkin, we used real returns, because economic activity is better measured by real magnitudes. In-sample, the inclusion of interest rate volatility proved useful for all three countries, esp. for nearby prediction horizons. Stock volatility was informative in the short run for the US only. We interpreted this differing importance of stock and interest rate volatility as reflecting the firms' differential financial structure in these countries. The out-of-sample evidence for the US and Germany showed that financial volatility information added to better predicting the future state

of the economy. The emergence of option markets, and hence of implied volatility, may give still better signals to predicting recessions in the future. For now, lack of data prohibit to evaluate quantitatively financial option volatilities as recession indicators

Lúcio Vinhas de Souza
"The periphery of the EMU: The current and prospective EU countries outside the euro zone: A preliminary survey"

Tinbergen Institute Rotterdam
Burg. Oudlaan 50
3062 PA Rotterdam
E-mail: desouza@few.eur.nl

Abstract:
The object of this exploratory paper is to propose that the actual scope of the economic region called Euroland (i.e., the 11 nation group that will initially belong to the new European single currency, the Euro, due to start in January 1st, 1999) will also include a surrounding "cloud" of future prospective members -*pre-ins*, in the terminology of the European Commission- that will try, partially or completely, to "peg" the Euro as a currency, follow the economic criteria that were used to pre-select the initial 11 members, and also "shadow" ECB (European Central Bank) / GSP-Euro X policy decisions. Euroland will, therefore, be a far wider area than the 11 currency members.

Bjørn Volkerink
"Political and institutional determinants of the tax mix: An empirical investigation for OECD countries

Faculty of Economics
University of Groningen
P.O. Box 800
9700 AV Groningen
E-mail: B.S.I.Volkerink@eco.rug.nl.

Abstract:
Modern tax systems show a mix of direct and indirect taxes. The theoretical literature on taxation generally focuses on optimality conditions. However, it is difficult - if not impossible to explain actual tax systems on the basis of this approach (alone). More recently, some studies have suggested the importance of political and institutional factors in explaining the presence of very complex tax structures. So far, however, these studies have not yielded a fully developed framework that allows for empirical tests. We therefore propose various hypotheses that relate the tax structure to some political-institutional explanatory variables. The hypotheses are tested by applying panel data analysis on a large sample of OECD countries for the period 1965 to 1995. We conclude that political and institutional variables do not substantially influence the actual shape of the tax structure. We also conclude that the impact of political orientation of government on the tax mix is not stable over time.

Aart F. de Vos
"Fair and predictive Bayes factors for comparison of regression models"

Department of Econometrics
Free University
De Boelelaan 1105
1081 HV Amsterdam
E-mail: avos@econ.vu.nl

Abstract:
Comparison of models with different numbers of parameters by Bayes Factors is a problem. In case of noninformative priors, one even may argue that the Bayes Factor is not defined. Several solutions based on predictive livelihoods using training samples to get rid of indeterminacies, have been proposed. This paper shows for the regression model that predictive livelihoods and residual sums of squares contain equivalent information. The powerful Binet-Cauchy theorem enables to combine predictive livelihoods to Bayes Factors proportional to the ratio of the "unbiased" estimates of the variances raised to the power (n-k)/2. (n the number of data, k the number of parameters in the larger model). The proportionality constant, functioning as a penalty function for model size, depends strongly upon the question: which comparison is "fair"? Several arguments lead to the conjecture that the relevant factor is the "Fair Bayes Factor" which has no penalty function at all. It is simply

$$\left(s_1^2/s_2^2\right)^{-(n-k)/2}$$

This does not correspond to any real (intrinsic) Bayes Factor and it does not discriminate among nested models. Preference for small models has to be a priori matter. The relatively close correspondence with classical F-tests is discussed shortly.

Aico van Vuuren
"Job search and non-monetary costs of moving to a new residence"

Tinbergen Institute Amsterdam
Keizersgracht 482
1017 EG Amsterdam
E-mail: vuuren@tinbinst.nl

Abstract:
In this paper, we analyze a job search model for unemployed individuals that allows jobs to have different wages as well as locations. The structural parameter of interest is the cost of changing residence upon acceptance of a job offer. We use a unique data set containing subjective responses by unemployed individuals on their optimal strategy in order to estimate this structural parameter without the need to rely on strong functional form assumptions. In particular, respondents provide an answer to the question on their reservation wage if they have to change their residence when accepting a job. We pay close attention to specification errors in the model and to measurement errors in the data. The results show that the willingness to move is generally quite low. Indeed, this can be regarded as a major cause of high average unemployment durations

in The Netherlands. Policy measures subsidizing these costs can therefore be expected to decrease long term unemployment. We also identify certain types of individuals who have a very low willingness to move. It is reasonable to expect these individuals to have weaker opportunities on the labor market. Specifically, it is found that non-single female have a low willingness to move. Furthermore, it is found that individuals living in the densely populated area of the Netherlands (the 'Randstad') and lower educated workers have higher moving costs.

Lia van Wesenbeeck
"How to deal with imperfect competition?"

SOW, Free University
De Boelelaan 1105
1081 HV Amsterdam
E-mail: lia@sow.econ.vu.nl

Abstract:
Context, background and first explorations.
The title of the thesis: "how to deal with imperfect competition" suggests, first, that there is a real-world problem called "imperfect competition", and secondly, that this problem is not solved yet. Although it might seem a rather unusual way to introduce the main research questions of a thesis, this introduction will have the structure of a detective story. It will be a what is it, a variation on the whodunit genre of detective stories. The central question is: what is the true imperfect competition problem? As in any detective story, there will be a number of suspects, who might all be accessory to the crime. Contrary to a "whodunit," the answer is given beforehand, and the story itself motivates the answer. It is emphasised that the detective story is an economic one, which especially means that, although it is acknowledged that sociopolitical arguments can be used in identifying the problem of imperfect competition, our prime suspect needs to be purely economic. This makes the story normative in character, with occasional side-steps to the possible hindrances players might face in actually following the economic policy advice following from the analysis of the problem. Thus, the thesis identifies two true economic problems of imperfect competition: (1) if agents are large, their behaviour has discrete effects on the economy. This causes difficulties in planning for government (social planning) as well as firms (corporate planning). (2) division of a cooperative surplus over large agents participating in a coalition is problematic. And, in paying attention to possible hindrances in following first-best policies, the third problem identified here is: (3) the problem of dealing with large agents in the second-best situation where one takes imperfect competition as given. In motivating why these three issues in this thesis are taken to be the true problems of imperfect competition, the "detective story" follows the line of starting with some more obvious answers and motivates why these are not considered to be true problems.

Paper abstracts