Roel Beetsma and Erik Bartelsman

"Why pay more? Corporate tax avoidance through transfer pricing in OECD countries"

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abstract:
This paper presents evidence of profit shifting in response to differences in corporate tax rates for a large selection of OECD countries. In our estimates we control for the effects of tax rate changes on real activity. Our baseline estimates suggest that, on average, a unilateral increase in the corporate tax rate does not lead to an increase in corporate tax revenues owing to a more than offsetting decline in *reported* profits.

Marrit van den Berg

"Risk, credit constraints, and agricultural employment in India's SAT"

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abstract:
In order to absorb the increasing population of India's rural SAT, agricultural employment should expand continuously. The development of effective policy measures will benefit from insights in the determinants of labour demand from smallholders, the main agricultural employers. Nevertheless, previous research fails to account for the effects of possibly the most pervasive characteristics of south Asian agriculture: risk and liquidity constraints. This paper presents an analytical model describing the potential relations between production risk, credit constraints and farm labour use. Empirical estimates show the relevance of the various relations for two villages India's SAT. Moreover, the results reveal the existence of a relation between slack-season nonfarm employment and agricultural employment. This relation should be accounted for in evaluations of nonfarm employment policies.

Masha Bogdanova

"Differentiated Goods cum Incomplete Asset Markets: A Solution to the Quantity Puzzle?"

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abstract:
The restricted asset trade helps to solve a quantity anomaly in a two-country RBC model. However, the cross-country correlations of consumption, labor and investment are negative in the economy where asset trade is restricted to riskless bonds only. If the goods produces in two countries are distinguished by the place of production, and they are complements in the consumption of agents, then the comovements of the variables become substantially more positive.

Jan Tjeerd Boom and Gert Tinggaard Svendsen

"The political economy of international emissions trading scheme choice: Empirical evidence"

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abstract:
The Kyoto Protocol allows emissions trading. It does however not specify how this is to take place and the discussion on the design of an emissions trading scheme is ongoing. Many papers and reports have already analyzed the advantages and disadvantages of the three possible forms of international emissions trading; government trading, permit trading and credit trading.
It is likely that the choice of international emissions trading scheme is influenced by the preferences of interest groups. In a previous paper, we made a theoretic analysis of

these preferences of interest groups. The contribution of this paper is that it gives empirical evidence concerning these preferences on the three possible schemes.

The empirical evidence given comprises both the preference for national instrument for the regulation of greenhouse gases and the preference for international trading scheme. We present the preferences of industry and environmental organizations from the US, Europe, Australia, New Zealand and Japan, thereby covering a considerable part of the Annex B countries.

The results of the survey are that industry prefers voluntary agreements at the national level. At the international level, industry prefers trading between private entities. Because of their choice of voluntary agreements at the national level, this must mean that they prefer credit trading. Industry is very clear in its rejection of any restrictions, quantitative or qualitative, on the trade in emission quotas.

Environmental organizations do not give a clear preference for neither national instrument nor international emissions trading scheme. However, they state a preference for restrictions on emissions trading to prevent trading in hot air and to spur innovation in environmentally friendly techniques.

We also collected data on the presence of interest groups at the Conferences of the Parties (COP) in Kyoto, Bonn and Buenos Aires. These data indicate that environmental organizations are strongly organized at the international level, while industry is less well organized.

Jan Boone and Jan C. van Ours

"Modeling financial fncentives to get unemployed back to work"

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abstract:

We model how unemployment benefit sanctions - benefit reductions that are imposed if unemployed do not comply with job search guidelines - affect unemployment. In our analysis we find that not only micro effects concerning the behavior of individual unemployed workers are relevant, but also macro-spillover effects from the additional creation of vacancies, which originates from the increased effectiveness of labor supply.

We advocate that for a given loss in welfare for the unemployed benefit sanctions are more effective in reducing unemployment than an across the board reduction in the replacement rate.

Lex Borghans and Bas ter Weel
"What happens when agent T gets a computer?"

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abstract:
During the last decade many authors have investigated the effect of computer usage on wages and demand for labor at different skill levels. The discussion focuses on the question whether computer skills themselves or so-called complementary skills explain the computer wage premium and whether the computer is the major source of skill-biased technical change. However, the effects of computers on the labor market are very complicated and notoriously difficult to trace. As a consequence researchers interpret similar finding in completely different ways. Therefore, an experiment in which a random group of workers gets a computer would be very useful. Practical objections make such an experiment impossible. As an alternative, this paper offers a simple micro-economic model that investigates what would happen in such an experiment. From this perspective we are able to explain many empirical results from the literature. The model explains the large computer wage premium found in the literature by the fact that computers are first introduced at the top segment of the labor market. It also shows that neither computer skills nor complementary skills are needed to explain the empirical evidence. Finally the model makes it possible to disentangle different effects of computer use on the demand for skills, therefore offering alternative explanations for skill-biased technical change. By shedding light on these issues empirical research about the way in which computers change the labor market might be facilitated.

Jaap Bos
"A revised SCP model applied to the Dutch banking market 1991-1998"

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abstract:
Structure-Conduct-Performance [SCP] models are a widely used method to assess competitive conditions in banking markets. The SCP hypothesis explains the performance of firms by the structure of the market and is based on the premise that a more concentrated market indicates higher market power and consequently better performance. However, a sound theoretical framework for the SCP models tested is generally lacking. Also, empirical tests of this hypothesis tend to be inconclusive and have a poor fit. In this paper, I introduce a simple Cournot model and show how it can be used to reformulate and test the SCP hypothesis. In addition, I provide a solution for the identification problem that exists when the SCP hypothesis is jointly tested with an alternative hypothesis, the Efficiency hypothesis. I use this revised SCP model to examine competitive conditions in the Dutch banking market over the period 1991-1998.

Corjan Brink
"Interrelations between environmental policies: a framework for cost-effectiveness analysis and an application to European agriculture"

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abstract:
Many countries aim at a reduction of emissions of pollutants with various environmental effects. Usually, policies designed to achieve these targets mostly focus on one pollutant or one environmental effect at the same time. However, policies for one environmental effect may have an impact on others. For instance, options to reduce

emissions of one pollutant may simultaneously affect the emissions of other pollutants, either favourably or adversely. Neglecting these interrelations may result in sub-optimal policies. This paper presents a framework for cost-effectiveness analysis of abatement strategies for several pollutants and several environmental affects simultaneously, taking into account interrelations, in particular the effects of abatement of one pollutant on the emissions of others. The framework is applied to the agricultural sector in Europe for the analysis of policies with respect to air pollution and greenhouse gas mitigation in this sector.

Peter Broer

"Ages, wages, and unemployment"

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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 between firms and households. Job sizes are variable and jobs are diversified to insure against unemployment risk. The analysis focuses on the effects of the age-dependency of the value of a job match. The paper classifies the life cycle into 4 consecutive stages, active job search, zero job search with positive job values, a quitting phase, and full retirement. it is shown that variable job sizes generate a positive effect of tax progression on wages, while the presence of a zero job search phase generates real wage resistance. On the normative side, the falling job values of elder workers causes the size of the search externality to differ by age. As a result, the Hosios condition must be supplemented by a system of age-dependent search subsidies for an efficient equilibrium to be attained.

Maurice Bun
"Bias correction in the dynamic panel data model with a nonscalar disturbance covariance matrix"

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abstract:
Approximation formulae are developed for the bias of ordinary and generalized Least Squares Dummy Variable (LSDV) estimators in dynamic panel data models. Earlier results on bias correction in first-order dynamic panel data models are extended to higher-order regression models with general covariance structure. The focus is on estimation of both short- and long-run coefficients. The results show that proper modelling of the disturbance covariance structure is indispensable. The bias approximations are used to construct bias corrected estimators which are then applied to quarterly data from 14 European Union countries. Money demand functions for M1,M2 and M3 are estimated for the EU area as a whole for the period 1991:I-1995:IV. Significant spillovers between countries are found reflecting the dependence of domestic money demand on international developments. The empirical results show that in general plausible long-run effects are obtained by the bias corrected estimators. Moreover, bias correction can be substantial underlining the importance of more refined estimation techniques. Also the efficiency gains by exploiting the heteroscedasticity and cross-correlation patterns between countries are sometimes considerable.

Koen Caminada and Kees Goudswaard
"Redistribution of income and social policy: a budget incidence analysis for the Netherlands in an international perspective"

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abstract:
Most empirical analyses on the redistribution of income focus on the welfare states' performance from a national perspective. In this paper, we use the traditional budget incidence approach to study the combined effects of all taxes and transfers on the income redistribution. Empirical results for the Netherlands are analysed in an international perspective.
The distribution of wage and salary income is compared with the distribution of income after tax and after social transfers. Income deciles and summary statistics of income before and after social policy are used to indicate the redistributive effect. The redistributive impact of Dutch social policy and of specific social programs - using data from an unique income panel survey - can be summarised as follows:

- The first five income deciles clearly gain from social security in 1997, while the higher deciles loose. Social security causes a reduction in inequality by 25 to 49 percent, depending on the indicator used.
- The public old age program and the social assistance program explain by far the largest part of redistribution by the social system, while the disability and unemployment programs do not have strong redistributive effects.

Most modern welfare states show a substantial reduction in inequality measured as the reduction of the Gini coefficient between market income and net disposable income. Sweden, Denmark, Germany and Norway have above-average redistributive welfare states with reductions around 40 to 50 percent. Social security in Finland and the Netherlands is less redistributive with reductions of 30 percent. The least redistrubutivce welfare states are Australia, The United Kingdom and the United States, where reductions in income inequality are around 20 to 25 percent.

Rachel Campbell, Kees Koedijk and Paul Kofman
"Increased Correlation in Bear Markets: A Downside Risk Perspective"

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abstract:
A number of studies have provided evidence of increased correlation in recent times in global financial markets. The results have serious implications for portfolio management and risk management techniques. Not only has increased correlation led to an overstatement of the diversification benefits in portfolio management, but also the world's highly correlated financial markets are open to greater contagion from downward bias in the risk management estimates of thousands of interdependent institutions. Recent research may even compound these results with correlation estimates appearing to be greater for large negative movements in financial markets than for more customary movements. Estimates designed to capture this phenomenon typically lack practical intuition since current techniques to condition on 'extreme returns' result in a spurious conditional correlation structure. These biases need to be corrected for in analysing the results. In this paper we present a unique approach to modelling size conditional correlation, which does not introduce any bias into the conditional correlation structure. Using a downside risk framework, we estimate the implied correlation from looking at portfolio Value-at-Risk. These quantile correlation estimates are directly applicable for portfolio optimisation purposes and risk management techniques, providing a simple and practical approach for incorporating the effects of increasing correlation during bear markets into modern portfolio theory and risk management. This provides an alternative pragmatic approach to understanding correlation structure over the return distribution. Using data on international equity markets we find evidence of significant increased correlation in extreme returns in international equity markets and provide a tail adjusted mean-variance covariance matrix.

Marcel Canoy, Jan Boone, Paul de Bijl and Jürgen Weigand
"Competition, entry, and welfare"

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abstract:
What does competition mean, and is it always good for welfare? In markets with imperfect competition, externalities in the form of business stealing and appropriability effects as well as selection effects may lead to either excessive or insufficient entry. Therefore, the welfare effects of public policies intending to affect the number of firms in a given industry are not clear a priori. In this paper, we derive the mentioned externalities in a simple oligopoly model. Moreover, we show how the strategic interaction between firms (conjectural variation) and consumers' taste for product variety determines the link between the number of firms and welfare. We find that the welfare effects of more aggressive interaction (e.g. Bertrand competition) and the number of firms in the market differ. If the business stealing and selection effects dominate, welfare is enhanced if firms interact more aggressively. If the appropriability effect dominates, more aggressive interaction between firms reduces welfare. In the second part of the paper, we discuss the policy implications of these results using two case study examples (the telecoms market and the market for consumer magazines).

Maarten Cornet and Sjoerd Beugelsdijk
"Does proximity matter for knowledge spillovers in the Netherlands?"

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abstract:
The role of knowledge and R&D in the Dutch economy has become an important issue both for policy makers and researchers. An important question concerns the role of geographical proximity in the innovation process. Physical proximity could act as a vehicle for knowledge spillovers and promote the innovativeness of surrounding firms. Consequently, there might be support for cluster policies. This paper investigates the impact of proximity on spillovers using the CIS2 data set on innovation in Dutch firms. Our preliminary results suggest that at the geographical scale of the Netherlands proximity to other innovating firms does not affect the innovative output of a firm. We do find that the presence of a technical university is positively correlated with the innovativeness of neighbouring firms.

Joseph I. Daniel
"Congestion pricing of highway networks"

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abstract:
We model and estimate equilibrium congestion fees, traffic volumes, travel times, and welfare gains from highway congestion pricing in New Castle County, Delaware. Our computer simulation model determines the equilibrium traffic levels with elastic demand depending on travel times and congestion fees. We use Delaware's household-travel-demand data and highway-traffic-count data to implement the model. We consider two pricing scenarios: pricing the entire highway network, and pricing only major highways. We also estimate changes in revenues, consumer surplus, and social welfare for individual highway segments, key regions, and the entire network. We determine that congestion pricing has the highest incidence on suburban residents and lowest incidence on the inner city, but the incidence remains constant or decreases with income.

Herman van Dijk, Charles Bos and Ronald Mahieu
"Daily exchange rate behaviour and hedging of currency risk"

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abstract:
We construct models which enable a decision-maker to analyze the implications of typical time series patterns of daily exchange rates for currency risk management.
Our approach is Bayesian where extensive use is made of Markov chain Monte Carlo methods. The effects of several model characteristics (unit roots, GARCH, stochastic volatility, heavy tailed disturbance densities) are investigated in relation to the hedging strategies. Consequently, we can make a distinction between statistical relevance of

model specifications, and the economic consequences from a risk management point of view. We compute payoffs and utilities from several alternative hedge strategies. The results indicate that modelling time varying features of exchange rate returns may lead to improved hedge behaviour within currency overlay management.

Thomas Dohmen and Gerard Pfann

"Worker separations in a nonstationary corporate environment"

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abstract:
This paper investigates differences in worker turnover characteristics between periods of workforce expansion and contraction in a firm. We derive a Cox proportional hazard model from a simple model of job separation based on the expected surpluses from the firm and its workers. We account for non-stationarity in the baseline hazard reversing the role of calendar time and employment duration (Imbens (1994)), and estimate the model using personnel data from a large Dutch aircraft manufacturer over a period from January 1987 until March 14th, 1996, one day before its bankruptcy.
Performance evaluations, blue versus white collar employment, and career paths within the firm are found to play an important role explaining differences in turnover behavior. A generally important result is that smooth functional forms of the age effect on worker mobility can produce misleading results, blurring a better understanding of the design of early retirement schemes for corporate reorganizations.

Arnaud Dupuy and Andries de Grip

"Occupational reallocation in response to supply shocks"

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abstract:
The objective of this paper is to analyse the structure of the allocation in the labour market between different fields of study and occupational fields at a particular level of education and job level. The attention is focused on the way in which exogenous shocks in the *composition* of labour supply are absorbed by the ‘horizontal’ occupational flexibility of the working population. As these supply shocks only affect the *composition* of labour supply they are characterised by reciprocal shortages and surpluses of graduates from two different fields of study. This analysis allows us to isolate direct and indirect reallocation routes between workers of different educational backgrounds.
We develop an allocation model based on a two-level production function of the Sato's type (Sato 1967). The extent and direction of the effects of supply shocks are measured by the elasticity of educational substitution on the one hand and the supply structure in terms of the productivity parameters on the other hand.
In an empirical analysis we distinguish three different vocational specialisations as well as three more or less related occupational fields at the intermediate level. The ability of the labour market to absorb shocks by means of horizontal flexibility of workers between different occupational fields is tested on the Dutch labour market in the period 1994-1996. The test requires both an evaluation of the ease to substitute groups of workers with different vocational specialisations (educational elasticity of substitution) and an evaluation of the supply structure (estimation of the productivity parameters). The results show that the productivity of workers majored in a ‘Technical-Agricultural’ field of study is rather small when they are allocated to the occupational field of graduates with a ‘Arts-Social services’ background, *mutatis mutandis*. However, the workers with a ‘General-Commercial’ educational background play an important role for the equilibrium between demand and supply of the workers with other vocational specialisations which leaves their wage relatively insensitive to supply shocks occurring on the other educational segments of the labour market.

Jan Fidrmuc
"Forecasting growth in transition economies: A reassessment"

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abstract:
An alternative method for forecasting growth of transition economies is developed. Previous forecasts were based on growth regressions of Barro (1991) and Levine and Renelt (1992). Instead, this paper estimates a model of growth for the transition countries over 1994-98, and uses this to forecast growth. Compared to the Barro and Levine-Renelt specifications, this model takes account of transition-specific factors, in particular progress in economic liberalization. The resulting figures are overall less optimistic and display greater variability, with several countries predicted to grow at negative rates. Nevertheless, a moderate increase in liberalization can improve the growth prospects of the slow reformers considerably.

Alexei Goriaev, Bas Werker and Theo Nijman
"How do investors react to mutual fund performance?"

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abstract:
Several studies find a clear positive relation between fund relative inflows and risk-adjusted as well as raw past performance. In this paper, we investigate determinants of the fund absolute flows. We take investors' search costs into account by including proxies for the fund advertising expenses and their products with fund performance to the regressions. Our model has a number of advantages in comparison with the previous ones. First, our model is more general and includes the previous models as a special case. Second, our model specification appears more appropriate for identifying the risk-taking incentives of mutual fund managers whose payoff depends on absolute rather than relative inflows. Finally, our model has a direct link to the standard portfolio theory. We find that there is a convex relation between absolute flows and past performance of small young funds, while the performance-flow relation for other funds has an almost linear shape. It implies that only small young funds have incentives to take excessive risk induced by the existing performance-flow relationship. Employing data of higher (monthly) frequency than in the previous studies, we analyze the lag structure of the performance-flow relationship. We find that fund performance during the last year, especially months -4 to -8, has the largest impact on the current fund flows. However, fund performance in at least past 5 years continues to influence flows.
Joeri Gorter and Ashok Parikh

"Is capital mobile within the European Union"

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abstract:
The key result of the tax competition literature is that governments set inefficiently low tax rates on income from internationally mobile production factors. Therefore, there is a case for coordination of EU capital income taxes, provided that capital is mobile within the EU. In this paper we measure capital mobility directly by estimating the relation between FDI positions and effective corporate income tax rates. The typical EU country increases its FDI position in another EU country by approximately four percent if the latter decreases its effective corporate income tax by one percentage point relative to the EU mean.

Thomas de Graaff, Cees Gorter and Peter Nijkamp
"Estimating the effect of labor market absorption of ethnic minorities"

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abstract:
Recent migration studies are increasingly based on a network approach to account for unfavourable labor market and skill acquisition performances of ethnic minorities compared to that of the indigenous population. Socio-economic research emphasises that utilisation of social networks higly favors the probability of success in the labor market and in skill acquisition. Despite the increasing awareness of the importance of networks, empirical literature on the effects of networks is scarce, because of lack of data. Moreover, it is difficult to allow for endogeneity of the chosen network variable in combination with the latent nature of the network variable.

In our empirical application we estimate the network effect using individual data of a large survey among ethnic minorities in the Netherlands in 1994. This data source comprises both information on the labor market performance as well as detailed information on the charateristics of the personal and social networks of individuals. The approach adopted analyses individual labor market performance by using reduced form models in which the emphasis is on network or interaction effects. Results indicate that ethnic minorities with less developed networks that are not intertwined with that of the indigenous population have less access to the labor market. However, the heights of wages in the Netherlands seem not to be dependent at all on any kind of network.

Bas van Groezen and Theo Leers

"The effects of asymmetric demographic shocks with perfect capital mobility"

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abstract:

In this paper we analyse the effects of asymmetric demographic shocks in a two-region framework with perfectly mobile capital. Regions may differ in their individual thriftiness or the generosity of their social security arrangements. We find that population ageing in one region causes international spillover effects. Whether the ageing region is a net lender or not appears to be of significant importance.

Both the short-run dynamics and the long-run effects of an asymmetric demographic shock are discussed. Special attention is paid to the welfare effects for the different generations residing in either region.

Loek Groot
"Tax level and tax internalization effects on unions' wage bargaining strategy"

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abstract:
High taxes and generous social benefits are often blamed for causing unemployment. The conventional wisdom is that if taxes on employment are (too) high, jobs will be lost and that generous social benefits exert an upward pressure on unions' wage claims. In the situation of unions co-ordinating their wage bargaining strategy, this need not be the case. A simple model is used to illustrate the effects of the level of the tax rate and of tax internalization on unions' wage bargaining strategy. A high marginal tax rate as well as endogeneity of the average tax rate shift the union's trade-off between wages and employment in favour of the latter. In the concluding section I speculate whether or not these shifts may have contributed to the success of the so-called 'polder model' or 'tulip-model' of the Netherlands.

Henri de Groot, Marjan Hofkes and Peter Mulder
"A vintage model of energy-efficient technology diffusion: The effects of learning-by-doing and returns to diversity"

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abstract:
This paper studies the adoption and diffusion of energy-efficient technologies in a vintage framework. An important characteristic of the model is that vintages are complementary; there are return to diversity of using different vintages. We argue that this is a potentially relevant part of the explanation of the socalled energy-efficiency paradox. We also analyse how diffusion patterns of technologies and adoption

behaviour of firms are affected by learning-by-doing and tax policies. It is shown that the stronger the complementarity between different vintages and the stronger the learning by doing, the longer it takes before firms scrap (seemingly) inferior technologies.

Eline van der Heijden and Erling Moxnes
"The effect of leadership in a public bad experiment"

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abstract:
With regard to global or regional environmental problems, do countries that take unilateral actions inspire other countries to curtail emissions? In this paper this possibility is investigated by the use of a novel design of a laboratory public bad experiment with a leader. Twelve groups of five subjects played the game twice, with two treatments: ten rounds with a leader and ten rounds without a leader. The order of the treatments was varied over groups. A significant (within-subject) effect of leadership is found. Followers invest on average 15 percent less in the public bad when there is a leader setting the good example as opposed to a situation with no leader. Furthermore, total payoffs turn out to be significantly higher in the leader treatment than in the no-leader treatment.

Jean-Jacques Herings and Felix Kubler
"The CAPM-puzzle"

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abstract:
In this paper we argue that in realistically calibrated general equilibrium models with incomplete markets CAPM-pricing provides a good benchmark for equilibrium prices

even when agents are not mean-variance optimizers and returns are not normally distributed. We numerically approximate equilibria for a variety of different specifications for preferences, endowments and dividends and compare the equilibrium prices and portfolio-holdings to the predictions of CAPM. While we show that CAPM cannot hold exactly for the chosen specification, it turns out that pricing-errors are extremely small. Furthermore, two-fund separation holds approximately.

Jeroen Hinloopen

"Dynamic efficiency I: noncooperative R&D"

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abstract:
In a static world it is well-known that Bertrand markets are more efficient than Cournot markets. In a dynamic world it is well-known that Bertrand markets yield less R&D investments than Cournot markets. What is now known is the comparison between Cournot and Bertrand markets as to their *dynamic* efficiency. We consider Cournot, Bertrand and collusive markets in a dynamic environment; before competition in the product market takes place, firms invest in R&D that can lower marginal cost of production. We find that the lower is the intensity of product-market competition the higher are levels of effective R&D investments. The results related to profits and total surplus are mixed; they typically depend on the magnitude of technological spillover. If anything, the results question the general validy of the traditional efficiency ranking of Cournot, Bertrand and collusive markets.

Hans Hoogeveen

"For better and for worse: How unpaid bride wealth provides security"

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abstract:

Most rural households in Africa participate in informal insurance mechanisms. One such mechanism are contingent claims that can be called upon at times of economic stress. This paper shows empirically that the Zimbabwean marriage system, in which bride wealth is demanded, generates such claims. Because of the number of participants, the amounts demanded and the length at which claims remain outstanding, bride wealth claims are an important informal insurance arrangement. Like any informal insurance arrangement, the marriage mechanism is prone to failure as a result of covariant risk and information and enforcement problems. It is shown how the arrangement deals with these problems.

Arnald Kanning

"The Process of Unifying the Law in 19th-Century Germany; Co-ordination of Legal Systems and Power Positions – a Law-and-Economics Approach”

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abstract:

Historical evidence collected from the process of unifying and codifying the law in 19th-century Germany supports the idea that states will co-ordinate their legal systems in accordance with their power positions. The point is that Prussia had a decisive power

position in relation to the unification of the law as this state was able to determine completely or partly the courses of action chosen by other states. Before 1866 Prussia and the Habsburg Empire struggled for supremacy, but in 1866 Prussia decisively defeated its major rival at Königgrätz. As a consequence, before 1866, Prussia, most of the times, either delayed or even postponed unifications of the law in order to gain influence over the production of codes. After 1866, on the other hand, Prussia always seized the initiative to unify the law, for the state was now able to place just about any legal rule, that it wished for, on a federal level.

On the basis of a law-and-economics approach it may perhaps be argued that in order to unify the law on a federal level the German-speaking states did adopt those legal rules from the respective territorial legal systems that most reduced transaction costs. Territorial legal systems competed with each other and, thus, the argument runs, those legal rules were adopted that lowered transaction costs the most. For two reasons it will be argued in this paper that this line of reasoning is inadequate.

The above law-and-economics approach, first of all, is conducted under the conventional assumption that there can only exist one “optimal” legal system which will reduce transaction costs the most. Yet, if this assumption were correct then all legal systems would more or less develop towards this optimum. The historical evidence gathered does not support this observation and, therefore, in this paper it will be assumed that different legal systems can all serve the purpose of reducing transaction costs to zero. Consequently, by rejecting the conventional assumption that there can only exist one optimal legal rule from which all deviation represents simple non-optimality, all legal systems will develop towards different optima.

Furthermore, our analysis will show that in the process of unifying the laws of (nation-) states the power positions of the separate states will determine which legal rules will be adopted. In this paper the process of unifying and codifying the law in 19th-century Germany is used as a case study.

Vladimir Karamychev
"Continuous time trading in markets with adverse selection"

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abstract:
We investigate the nature of the adverse selection problem in a market for a durable good where trading and entry of new buyers and sellers takes place in continuous time. In the continuous time model equilibria with properties that are qualitatively different from the static equilibria, emerge. Typically, in equilibria of the continuous time model sellers with higher quality wait in order to sell and wait more than sellers of lower quality do. Among other things, we show that for any distribution of quality there exists an infinite number of cyclical equilibria where all goods are traded within a finite time after entering the market. This holds true even if the good is not perfectly durable or when buyers are not risk-neutral.

Jeanine Kippers and Philip Hans Franses
"A behavioral theory of currency use"

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abstract:
In this paper we put forward a behavioral theory of currency use at the individual level. In contrast to the prevalent literature, we view the use of banknotes and coins for a specific cash payments as the outcome of an individual decision process. This process involves the availability of notes and coins in a wallet, the consideration of a sample of these for payment given individual-specific preferences, and the actual choice. As this process bears similarities with the brand choice process in marketing, we draw heavily on those concepts when formulating our theory. Finally, we discuss practical matters and we indicate how such empirical results can be implemented in decision rules for monetary institutions.

Frank Kleibergen

"Pivotal statistics for testing structural parameters in instrumental variables regression"

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abstract:

We propose a novel statistic for testing the structural parameters in Instrumental Variables Regression. The statistic is straightforward to compute and has a limiting distribution that is pivotal with a degrees of freedom parameter that is equal to the number of tested parameters. It therefore differs from the Anderson-Rubin statistic, whose limiting distribution is pivotal but has a degrees of freedom parameter that is equal to the number of instruments, and the Likelihood based, Wald, Likelihood Ratio and Lagrange Multiplier, statistics, whose limiting distributions are not pivotal. We analyze the relationship between the statistic and the concentrated likelihood of the structural parameters and show that its' limiting distribution is not affected by weak instruments. We discuss examples of the non-standard shapes of the asymptotically pivotal confidence sets that can be constructed using the statistic and investigate its power properties. To show its importance for practical purposes, we apply the statistic to the Angrist-Krueger (1991) data and find similar results as in Staiger and Stock (1997).

Siem Jan Koopman and Eugenie Hol

"The stochastic volatility model and implied volatility: Forecasting the variability of stock index returns"

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abstract:

In this paper we compare the predictive abilility of Stochastic Volatility (SV) models to that of volatility forecasts implied by option prices. We develop an SV model with implied volatility as exogeneous variable in the variance equation which facilitates the use of statistical tests for nested models; we refer to this model as the SVX model. The SVX model is then extended to a volatility model with persistence adjustment term and this we call the SVX$^+$ model. This class of SV models can be estimated by quasi maximum likelihood methods but we will also present methods for exact maximum likelihood using Monte Carlo importance sampling methods.

The performance of the models is evaluated, both within sample and out-of-sample, for daily returns on the Standard \& Poor's 100 index. Similar studies have been undertaken with GARCH models where findings were initially mixed but recent research has indicated that implied volatility provides superior forecasts. We find that implied volatility outperforms historical returns in-sample but that the latter contains incremental information in the form of stochastic shocks incorporated in the SVX models. The out-of-sample volatility forecasts are evaluated against daily squared returns and intradaily squared returns for forecasting horizons ranging from 1 to 10 days. For the daily squared returns we obtain mixed results, but when we use intradaily squared returns as a measure of realised volatility we find that the SVX$^+$ model produces the most accurate out-of-sample volatility forecasts and that the model that only utilises implied volatility performes the worst as its volatility forecasts are upwardly biased.

Ben Kriechel

"A look into displacement wage losses"

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abstract:
One of the key issues in displacement studies are the income losses. They are used to evaluate losses through the destruction of specific human capital or of a productive match. In this study we go further than the usual estimation of the wage loss, correcting for some demographic variable, by examining the wage losses on a disaggregate level. Based on a survey among 5600 displaced workers we examine the difference in wage losses and gains post displacement. Furthermore, the importance of the post-displacement income definition are shown.

Saskia Lavrijssen
"Globalisation and the effective enforcement of national competition law"

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abstract:
Business has become global, as firms have sought to take advantage of new markets and new production opportunities. Firms are increasingly spreading elements of their production processes over several parts of the world in order to fully exploit the comparative advantages of different regions. As business activities, and at the same time, relevant markets are becoming more and more international, so are competition problems. However, national competition authorities and national competition laws tend to analyse cross-border competition problems from a national perspective. Globalisation of the market therefore bears the risk of over regulating business activities. As relevant markets are becoming larger, restrictive business practices are subject to the review of several national authorities and consequently companies' administrative costs will be pushed up. Moreover multi jurisdictional review can lead to diverging results and conflicting remedies. A prominent example of how different merger regimes can conflict, is the Boeing/McDonnell Douglas case, which was reviewed by both the American and European anti-trust authorities.Although international cooperation between national competition authorities has proved to be effective in most cases, the Boeing/McDonnell case shows that the possibility of divergent outcomes remains so long as international business activities can be reviewed

under substantially different competition regimes. This raises the question whether national competition laws should be adapted to take account of increasing international business activities? The US government and the European Commission differ on the question of how these problems can be resolved. The European Commission certainly recognises the benefits of bilateral cooperation agreements, but is also aware of the limits of such agreements in cases where substantial differences between the reviewing regimes exist. The Commission therefore advocates the adoption of an international agreement with substantial and procedural competition principles. This agreement could be concluded within the framework of the World Trade Organization (WTO). On the other hand, the US government thinks it is premature to adopt such an international agreement. According to the US government international competition problems can be resolved by strengthening bilateral cooperation and giving technical assistance to jurisdictions with less developed competition regimes. In this way the process of convergence of national laws can be stimulated and promoted, which will reduce the possibility of diverging results. In this paper the pros and cons of the differing views will be further developed. However, the author does not attempt to provide any definitive solutions to the problems at stake here.

Elisabeth Ledrut and Lúcio Vinhas de Souza

"An optimal currency area estimation for the Accession Countries"

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abstract:
The main proposal behind this short paper is to try to verify if the Accession Countries (Acs) conform an Optimal Currency Area (OCA) - in the Mundell tradition - with the European Union (EU), through the use of correlation analysis of monthly time series that proxy the business cycle. The provisional conclusion of the paper is that ACs monetary integration can be more costly than expected.

Theo Leers, Lex Meijdam and Harrie Verbon
"Higher wages, lower welfare: lobbying for social security"
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abstract:
One of the puzzles in developed countries is the dramatic increase in government spending on the old in the post-war period, while at the same time the labour force participation of the elderly has deteriorated maybe even more. The first part of this puzzle has already been solved in the public-choice literature. To solve the second part, we adopt the idea of lobbying as an investment in time. We find that, if one believes that increased lobbying activity of the old is a major determinant for their expanding political power and the decreasing labour force participation of elderly workers, this is caused by the increased wage differential and not so much by population ageing. Eventually, this shift in the allocation of time can decrease overall welfare, despite the increased wages.

Erik Leertouwer and Philipp Maier
"Who creates political business cycles? (Should central banks be blamed?)

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abstract:
Little attention has been paid in most economic studies on political business cycles to separate the effects of fiscal and monetary policy. We attempt to assess the effect of monetary policy in a panel model for 14 OECD countries. To answer the question of whether central banks actively create political business cycles we focus on the short-term interest rate as a proxy for the use of monetary instruments. Our results indicate that central banks should not be blamed for creating political business cycles as we do not find any evidence for cyclical behavior in the short-term interest rate. This conclusion holds no matter whether central banks are independent or not or are constrained by the exchange rate system in force.

Gijsbert van Lomwel
"Part-time work in general equilibrium"

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abstract:
During the past decades, The Netherlands amongst other OECD countries experienced an increase in the level of part-time employment relative to total employment. An important question is whether this increase was induced by changes in labour demand or by changes in labour supply. To address this question, we construct a matching model with endogenous labour force participation. Our results show that an increase in the share of part-time employment is much more likely caused by changes in labour demand, than by changes in labour supply. In The Netherlands, this change in labour demand may be driven by the reduction in working time, increasing the difference between working hours and operating hours. We provide some empirical evidence for this conjecture.

Andre Lucas, S.T.M. Straetmans, P. Klaassen and P. Spreij
"Tail behavior of credit loss distributions"

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abstract:
We derive the exact loss distribution for portfolios of bonds or corporate loans when the number of risks grows indefinitely. We show that in many cases this distribution lies in the maximal domain of attraction of the Weibull (Type III) limit law. Knowledge of the distribution and its tail behavior is important for risk management in order not to over- or underestimate the likelihood of extreme credit losses for the portfolio as a whole. Conform to the credit risk literature, we assume that bond (or loan) defaults are

triggered by a latent variable model involving two stochastic variables: systematic and idiosyncratic risk of the bond. It is shown that the tail behavior of these two variables translates into the tail behavior of the whole credit loss distribution. Surprisingly, even if both variables are thin-tailed, the credit loss distribution can have a finite tail index.
Moreover, if idiosyncratic risk exhibits heavier tails than the systematic risk factor the tail index of the credit loss distribution can become extremely high, giving rise to a non-conventional shape of the credit loss distribution.

Philip Marey
"Exchange rate expectations: Evidence from an artificial economy"

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abstract:
Survey studies on exchange rate expectations tend to reject the rational expectations hypothesis for longer horizons. Extrapolative, adaptive and regressive expectations have been tested as alternatives, usually rejecting static expectations. The purpose of this paper is to investigate the plausibility of these alternative exchange rate expectations mechanisms in an artificial economy with traders which are heterogeneous in initial endowments, risk aversion and use of information. Artificial markets which consist of either extrapolative or adaptive expectations traders fail to reproduce statistical properties that are characteristic for empirical quarterly exchange rate series, while artificial markets with regressive expectations traders often succeed. Adaptive expectations markets are rarely weak-form efficient. Extrapolative expectations markets may be weak-form efficient, but generate too many extreme returns to be empirically plausible. Regressive expectations markets often produce exchange rate series that are similar to empirical data. The (perceived) existence of an ‘anchor’ seems to play an important role in the functioning of foreign exchange markets, determining the frequency of extreme exchange rate returns.

Ewa Mendys
"Adoption of superior technology in markets with heterogeneous network externalities and price competition"

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abstract:
In this paper we investigate whether markets with heterogeneous network externalities can be locked-in by old technologies even if superior technologies are available. Heterogeneous network externalities are present when some consumers care more about the size of the market share of a good than others. Interestingly, the answer depends on the quality difference between the old and the new technology and on whether firms compete in prices. Without price competition, a partial lock-in occurs if (and only if) the quality difference is small. In the presence of price competition, lock-in in the traditional sense completely disappears, although the old technology may keep some market share in some periods as the new technology is priced higher in equilibrium.

Joan Muysken
"Wage divergence and unemployment: The impact of insider power and training costs"

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abstract:
The US labour market is characterized by a high skill wage mark-up and low unemployment, while the German labour market has a low skill wage mark-up and a high, mainly unskilled unemployment rate. This paper adds an innovative labour supply explanation to the discussion how these distinct labour market equilibria could arise. Skill-biased technological change induces training needs for the employees willing to

work in the skilled labour market and increases relative skill demand. In a simple general equilibrium model, this paper shows that skilled insiders in the USA enjoy higher rents and increase the skilled wage mark-up stronger than in Germany in the wake of skill-biased technological change. The reason is that the unskilled outsiders in the USA do not possess a powerful credible threat to improve their position. This is a consequence from higher training and education costs in the USA for unskilled employees and unemployed. In Germany, the lower skill wage mark-up leads to an increased relative skill demand which is not matched by the skill supply and therefore mis-match unemployment arises.

Richard Nahuis and Arjan Lejour

"Trade and R&D spillovers: Uncovering the fuzzy link between openness and growth"

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abstract:
The relationship between openness and growth is highly disputed. We explore this relationship by taking a closer look at trade-related knowledge spillovers. First, we estimate the relation between sectoral R&D expenditures, trade-related spillovers and growth. Next, these R&D linkages are incorporated in WorldScan: a dynamic applied general equilibrium model for the world economy. We simulate trade liberalisation and analyse the effects on GDP in different regions. We find that the GDP effects of trade liberalisation are magnified considerably for some regions – notably Japan and South-East Asia – where for others – for example China and Sub-Saharan Africa – the GDP effects are not blown up at all. These findings can be traced back to changing specialization and import patterns. A region either specialises in R&D-intensive sectors or imports R&D-intensive goods. Some regions import the knowledge-intensive goods from knowledge-poor regions. Such a 'double unfortunate' trade and production pattern explains the results for Sub-Saharan Africa and China. These findings explain that the relationship between openness and growth is hard to pin down unambiguously.

Joyce Nijkamp and Martin Carree

"Deregulation in retailing: "The Dutch experience"

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abstract:

Institutional barriers to entry were removed to a considerable extent in 1996 in the Dutch retail sector to enhance market dynamics. Three years before that the regulator decided to not take legal actions anymore against entrants violating institutional requirements. In the current analysis we investigate the effects of the deregulation during that 1993-1995 period using a recently developed model by Carree and Thurik (1999). The results show that the equilibrium number of firms and the adjustment speed from the disequilibrium number of firms to the equilibrium number have both increased. The results also show that the increase in the speed of adjustment is the consequence of lowering barriers to entry.

Sander Onderstal

"The chopstick auction"

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abstract:

Various authors have shown that multiple object auctions can lead to inefficient outcomes, due to what is called the exposure problem. The aim of the present study was to study auctions in which bidders face the risk of buying a worthless object. This game is reffered to as the Chopstick Auction game. It is shown that, in case of more than two bidders, the game has no efficient equilibrium. Furthermore, if there are only two risk neutral bidders, an efficient equilibrium exists. If the bidders are loss averse, the Chopstick Auction is from the viewpoint of the seller strictly dominated by second-price sealed-bid auction. The results are applied to the recent Dutch DCS-1800 auction.

Joulia Ossokina, R. Aalbers, H. de Groot and H. Vollebergh
"Analysing efficiency of energy subsidy regulations: the free-rider effect"

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abstract:
This paper evaluates the efficiency of subsidy regulations by estimating the number of informed free riders involved in a subsidy program on the adoption of energy-efficient technologies by firms. By examining investment behaviour of agents who actually participated in the program, we classify a particular agent as a free rider if the financial return to this investment without the subsidy exceeded his own critical value for investment decisions, and if he had been aware of the existence of the technology before he got information on the subsidy program. Estimates are based on a microdata set for a Dutch tax rebate scheme in the profit sector and a subsidy in the non-profit sector. The data contain detailed economic characteristics for specific energy-efficient technologies allowing us to analyse the role of heterogeneity of the subsidised technologies explicitly. We compare our results with a survey of own judgements of subsidy program participants concerning their free rider behaviour. We find, somewhat surprisingly, that over half of the agents do not report any critical investment criterion. Furthermore, considerable divergence exists in analysed and reported free rider behaviour across the two subsidy schemes as well as across the different technologies subsidised. Finally, only a few agents can be classified as being informed about the existence of the technology by the subsidy itself relatively to those for whom the subsidy did not have such an information effect.

Richard Paap and Herman K. van Dijk
"Bayes estimates of Markov trends in possibly cointegrated series: An application to US consumption and income"

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abstract:
Stylized facts show that the average growth rates of US per capita consumption and income differ in recession and expansion periods. Since a linear combination of such series does not have to be a constant mean process, standard cointegration analysis between the variables to examine the permanent income hypothesis may not be valid. To model the changing growth rates in both series, we introduce a multivariate Markov trend model, which accounts for different growth rates in consumption and income during expansions and recessions. The deviations from the multivariate Markov trend are modelled by a vector autoregressive model. Bayes estimates of this model are obtained using Markov chain Monte Carlo methods. The empirical results suggest the existence of a cointegration relation between US per capita disposable income and consumption, after correction for a multivariate Markov trend.

Kim Hang Pham Do, Henk Folmer and Henk Norden
"Transboundary fishery resources management: A game theoretic approach"

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abstract:
Game theory is understood today as a useful method for analysing international environmental problems, and particularly, for the transboundary fisheries. In this regard, the paper examines how an agreement can be achieved as well as why it may be occurred differently, depending on the coalition formation and the concept of fairness chosen by countries (insiders or outsiders of a Regional Organization). We start by discussing a main problem of international fisheries that should guide the setting up of a fishery game model, then explain how countries can improve their benefits by reducing fishing efforts and joining to work together. The paper also explores aspects of the inter-connections between noncooperative and cooperative approaches, based on Aumann's (1967) conversions, that can be calculated the exact contribution for each country, and it therefore responses to resolutions that have been raised regarding the UNs Convention Agreement. Implications and remarks illuminate the relationship between the options approach to achieve an agreement.

Nico Polman and Louis H.G. Slangen
"Self-organising and self-governing environmental co-operatives for preserving wildlife and landscape"

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abstract:
The increasing demand for wildlife and landscape implies that the rules of the game of farming are changing. One response has been the development of environmental co-operatives of farmers as a supporting structure to implement, operationalise and channel changes on the demand side. In this paper, New Institutional Economics (NIE) is used to contribute to the development of an empirically supported theory of self-organising and self-governing forms of co-operation for the preservation of wildlife and landscape. There are several reasons for developing new institutional arrangements such as environmental co-operatives, including market failure. Environmental co-operatives are not only a supporting structure for facilitating transactions, but also organisations, which consist of contractual relationships. Design principles are investigated for limiting the problems resulting from asymmetric information, like hidden information and hidden action, and from the lack of credible commitment and trust. Evidence is found for the application of design principles in environmental co-operatives in the Netherlands.

Jan Rouwendal, Erik Verhoef and Piet Rietveld
"Speed choice, traffic safety and congestion"

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abstract:
In conventional economic models of congestion travel time is treated as a variable that is determined by the capacity of the road and the number of cars using it. The relation that determines travel time, and its inverse, speed, is typically treated as a technical relationship. In this paper we take a different look at the issue by arguing that speed is, at least to some extent, chosen by the drivers themselves. This approach enables is to derive the speed flow relationship from more fundamental considerations concerning driving behavior. We assume that drivers choose their own speed by trading off various cost aspects of making a trip viz. fuel cost, time cost and risk of an accident. Utility maximizing behavior determines speed choice and since the optimal speed depends on the presence of other drivers on the road, we can derive the speed flow relationship on the basis of such behavior.
A special characteristic of this approach is that it relates the reduction in travel speed that occurs when more drivers use the same road to considerations of safety. Congestion is therefore, in our model, a response to increased accident risk and the relationship between both should be taken into account in computing the external costs of traffic.
We start the paper with a discussion of the conventional Pigou-Knight approach and compare it with a simple, illustrative, version of our model with endogenous speed choice. Then we move on to a discussion of the general model. The paper concludes with a specific version of that model that is used for simulation exercises.

Mark Sanders and Bas ter Weel
"Skill-biased technical change: Theoretical framework and a survey of the evidence"

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abstract:
The structure of wages and employment has shifted against the unskilled in many OECD countries over the last decades. Many authors have attributed this shift to the impact of technical change. In this paper we investigate and structure the growing body of literature on skill-biased technical change by formalising its essence and by decomposing it into factor-biased and sector-biased technical change. We impose

additional structure by addressing the sources of skill-biased technical change and by discussing both theoretical and empirical implications. In this survey we concentrate on conceptual and empirical problems we encounter when studying skill-biased technical change empirically. The main finding is that although skill-biased technical change might dictate contemporary labour relations, the attempts to measure it are until now underdeveloped. Surveying the literature, our findings are that many problems exist in measuring skill-biased technical change. Troubles with measuring capital- and R&D-intensities can bias estimates severely, whereas the computer-related evidence is at least doubtful.

Mark Schonewille
"Does training make a difference? Institutional environment and returns to human capital"

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abstract:
Until now, empirical research was unable to show that training has a large and significant effect on labour productivity. Often, output elasticities of training are small and it is difficult to obtain significant results. In an attempt to get hold of this problem, this paper compares the institutional structures of the German and British education markets. Subsequently, the production functions of the two countries are estimated and the output elasticities of the human capital components, including training, are compared.

Bert Schoonbeek and M.A. Haan
"Auctions with rent seeking"

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abstract:
We present a model which combines elements of an auction and a rent-seeking contest. Players compete for a prize. Apart from exerting lobbying efforts, they also have to submit a bid which is payable only if they win the prize. First, we analyze the model if the returns-to-scale parameters of both bids and efforts are unity. We present a necessary and sufficient condition for the existence of a unique Nash equilibrium. In the equilibrium each player submits the same bid, while the sum of all efforts equals that bid. Second, we analyze the case in which the returns-to-scale parameters may differ from unity, and derive the implications of that specification.

Adriaan Soetevent and Peter Kooreman
"Estimation of a quadratic demand system with social interactions"

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abstract:
The recent literature on demand analyses shows a growing interest in the issue of social interactions. A large part of this literature uses simple (often linear) demand equations and focuses on the appropriate specifications of social groups effects and their identification. In another part of the literature demand equations are explicitly derived within a utility maximization framework, but usually with a more cursory treatment of reference group effects and identification issues. Moreover, the specifications of utility consistent demand systems that have incorporated social interactions were quite restrictive.
This paper aims to bring about a synthesis between these two brands of literature by incorporating interdependent preferences into the Quadratic Almost Ideal Demand (QUAID) system. We provide an empirical application using household-level data from 5 years of repeated cross-sections.

Federica Teppa
"Hypothetical intertemporal consumption choices"

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abstract:
The paper extends and replicates part of the analysis by Barsky, Juster, Kimball, and Shapiro (1997), which exploits hypothetical choices among different consumption streams to infer intertemporal substitution elasticities and rates of time preference. We use a new and much larger dataset than Kimball et al. Furthermore, we estimate structural models of intertemporal choice, while parameterizing the parameters of interest as a function of relevant individual characteristics. We also consider "behavioral" extensions, like habit formation and preferences for upward sloping consumption profiles.

Jacco Thijssen
"Strategic investment under uncertainty and information spillovers"

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abstract:
In this paper a new market model is considered where two firms compete in investing in a risky project. The model incorporates a Stackelberg advantage for the first mover and information spillovers that constitute a second mover advantage. At certain points in time, the firms obtain information about the profitability of the project. The threshold beliefs in a profitable project for which investment is optimal are calculated. Furthermore, it is shown that competition accelerates investment. Conditions are given for when a preemption game arises and when a war of attrition occurs. It is shown that both types of games can arise in specific parametrizations of the model.

Xander Tieman and Oddvar M. Kaarboe

"Equilibrium selection in games with macroeconomic complementarities"

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abstract:
We apply the stochastic evolutionary approach of equilibrium selection to macroeconomic models in which a macroeconomic complementarity is present. These models often exhibit multiple Pareto-ranked Nash equilibria, and the best response-correspondence of an individual increases with a measure of the aggregate state of the economy. Our main theoretical result shows how the equilibrium that is singled out by the evolutionary dynamics is directly related to the underlying externality that creates the multiplicity problem in the underlying macroeconomic stage game. We also provide clarifying examples from the macroeconomic literature.

Mila Todorova

"Taxation, cross-border capital movements and development of the labour income share in industrial countries"

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abstract:
The paper explores the dynamic effects of changes in the speed of capital adjustment and in capital and labour income taxes on the development of factor income shares in a small open economy. We consider imperfect capital mobility. We contrast the case of a competitive labour market to the case of a labour market with a forward-looking monopoly trade union. The theoretical framework tries to explain the observed development of the labour share in 16 OECD countries from 1970 to 1995. The model with a forward looking monopoly trade union is developed to analyse developments in

the strongly unionised Europen economies. The competitive labour market model is seen as relevant for the Anglo-Saxon economies. The modeling of labour market institutions generates predictions consistent with the observed reactions of the labour share to changes in labour and capital income taxes in the two groups of countries. In addition, the models provide an explanation for the relatively high stability of the labour income share in the Anglo-Saxon countries.

Linda Toolsema-Veldman
"Competition in the Dutch consumer credit market"

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abstract:
In this paper, we consider the degree of competitiveness of the Dutch consumer credit market. We use a well-known empirical method that estimates a structural model consisting of a demand relation and a supply relation, based on aggregate data. The level of competition is derived from the estimated conjectural variation elasticity. We concentrate on revolving consumer credit and distinguish between banks and finance companies. Our empirical results show that there is no evidence of market power.

Jeroen van de Ven
"The economics of gifts"

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abstract:
In the past, gift giving has interested mainly anthropologists because it was taken to be a primitive mode of exchange. Recent contributions of economists acknowledge however that gift giving is still present in modern exchange economies. In this paper gifts are

characterized by motiviations. Two main features of gift giving are to be explained: (in-)adequacy and (non-)reciprocity. It is argued that social approval is potentially a powerful explanation of gift giving. We relate the results to the market economy and try to explain the anomaly that gift giving is sometimes reduced after compensation is offered.

Frank Verboven
"Market power from mergers in product differentiated industries"

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abstract:

This paper discusses how oligopoly models with product differentiation can be used to simulate the effects of mergers. We start from a nested logit model of product differentiation and show how the structural parameters of this model can be estimated and then used to simulate the effects of mergers. We first provide a potential market power test, which assesses to which extent price increases are profitable. next, we provide an actual market power test, which assesses the likely actual price effects from the merger, absent collusive behavior. The approach is illustrated based on European mergers.

Erik Verhoef and Kenneth A. Small
"Speed choice, traffic safety and congestion"

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abstract:

We explore the properties of various types of public and private pricing on a congested road network, with heterogeneous users and allowing for elastic demand. Heterogeneity is represented by a continuum of values of time. The network allows us to model certain

features of real-world significance: pricing restrictions on either complementary or substitute links, as well as interactions between different user groups on shared links (e.g. in city centres). We find that private (revenue-maximizing) pricing is much less efficient than public (welfare-maximizing) pricing, whether on the partial or the full network; but this difference is sometimes mitigated by the product differentiation made possible with heterogeneous users. Product differentiation also produces some unexpected distributional effects: first-best pricing can result in one of the parallel routes being more congested than without pricing, and those hurt most by pricing may be people with moderate rather than low values of time. Ignoring heterogeneity causes the welfare benefits of one policy currently being used, namely second-best pricing of one of two parallel links, to be dramatically underestimated. Furthermore, unlike first-best policies, second-best policies are in danger of losing much of their potential effectiveness if heterogeneity is ignored when setting toll levels.

Peter Vlaar and Rob van den Goorbergh
"Value-at-risk analysis of stock returns --- Historical simulation, variance techniques or tail index estimation?"

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abstract:
In this paper various Value-at-Risk techniques are applied to the Dutch stock market index AEX and to the Dow Jones Industrial Average. The main conclusion are: (1) Changing volatility over time is the most important characteristic of stock returns when modelling value-at-risk; (2) For low confidence levels, the fat tails of the distribution can best be modeled by means of the t-distribution, tail index estimators perform much worse; (3) The penalty scheme used to determine the capital requirement is not discriminating enough to give banks proper incentives.

Jaap de Vries, Peter Nijkamp and Piet Rietveld

"Estimation of Alonso's general theory of movement by means of instrumental variables"

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abstract:
The General Theory of Movement, introduced by Alonso, is a widely applicable Spatial Interaction Model. It maps out flows between origin and destination regions, as well as the outflows from the origins and the inflows to the destinations. It is more general than Wilson's Family of Spatial Interaction Models, which it contains as special cases. The General Theory of Movement constitutes a framework in which applied models can be constructed by properly specifying exogenous variables. The model has been applied to migration, international trade and public facilities use, and may be applied to related areas, such as commuting. Despite the appeal of Alonso's model, the slightly complex formulation makes a suitable econometric estimation somewhat problematic. Alonso's General Theory of Movement can formally be described by five equations. Three of them are behavioral equations, related to outflows at origins, inflows at destinations and bilateral flows. Two equilibrium conditions ensure the consistency of the outflows and inflows with the bilateral flows. Endogenous variables in the model are the flows, the inflows, the outflows, and two unobserved balancing factors. The model is essentially non-linear, which is another reason why conventional econometrics is not so easy to apply. The modeling of interactions between regions is indeed far from easy. Thus, estimation of the General Theory of Movement turns out to be complicated. In our paper we want to estimate the parameters using data on a single period for a set of regions. As inflows and outflows are determined interdependently, simultaneous equation methods are required to estimate the parameters. The endogenous variables for a region depend on all other regions, through the model, so we have no independent observations. Moreover, no reduced form is available. The estimation problem primarily concerns the parameters of the balancing factors. Conditional on them the remaining parameters can be estimated by OLS. In this paper we describe a new estimation method using instrumental variables, which are derived using the model. The estimation proceeds in a few steps. First, the parameters in the equation for the flows

(typically the coefficient of distance) are estimated. Using these estimates the latent balancing factors can then be estimated. Next, the parameters in the equation for outflows and inflows are estimated in an iterative regression procedure, using instruments for the balancing factors. These instruments are derived as the predicted values of the balancing factors, based on the last obtained parameter estimates. As these instruments are close approximations of the balancing factors, but independent of the disturbance terms in the equation in which they occur, the method will likely yield satisfactory results. The usefulness of this new approach will be eludicated by means of some empirical illustrations.

Aico van Vuuren and Gerard J. van den Berg

"The effects of labor market frictions on wages"

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abstract:
The most fundamental prediction of theories of labor market frictions concerns the negative effect of the degree of frictions on wages. Despite the popularity of these theories, this has never been tested. In this paper we perform tests with matched worker-firm data. We effectively compare different markets with different degrees of frictions and different market outcomes. The worker data are informative on individual wages and labor market transitions, and this allows for estimation of the degree of search frictions. The firm establishment data are informative on labor productivity. The matched data allow for an assessment of the skill composition in different markets. Together this allows us to investigate how the mean difference between labor productivity and wages in a market depends on the degree of frictions. We also investigate how this mean difference depends on the amount of productivity dispersion across firms within the market. We use (rather unique) matched worker-firm data sets from a number of different countries. The results are similar across countries.

Daniël van Vuuren

"The off-peak demand for train kilometres and train tickets: A microeconometric analysis"

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abstract:

Consumer demand for rail transportation has traditionally been analyzed by means of aggregate demand systems and disaggregate discrete choice models. It is remarkable however that no serious efforts have been made to develop a disaggregate structural demand model, which takes account of the fact that consumers face a nonlinear budget constraint. It is argued that the use of such a model is necessary, because individuals typically have the opportunity to choose between many different types of tickets. It is therefore clear that consumer demand for transportation not only depends on price, but also that the 'consumption' of a certain amount of transportation will have causal influence on price. An important distinction between the present case and earlier studies of 'discrete/continuous goods', such as labor supply and electricity demand, concerns the nature of the discrete choice: While in earlier applications one single simultaneous choice is made for both the discrete and the continuous choice, the demand for transportation requires two explicit choices - a discrete choice for mode and/or ticket type and a continuous choice for the amount of transportation. Evidence from our data suggests that the explicit nature of the discrete choice is likely to lead to an extra source of optimization error as compared to Hausman's \cite{haus85} overview, which means that many observed combinations of discrete and continuous choice are demonstrably suboptimal - regardless of individual preferences. Estimation of the model for travelers by train in the Netherlands shows that the off-peak demand for train kilometers is price elastic at about 1.4, and that the income elasticity is fairly small (about 0.1).

Wolf Wagner
"Decentralized international risk sharing and governmental moral hazard"

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abstract:
This paper analyzes the consequences of governmental moral hazard for international risk sharing which is achieved by trade in macro markets. The paper therefore studies the general equilibrium of a two-country model where production is subject to country specific shocks. There further exists a market in which a swap in the two countries output can be traded (the macro market). Exemplary for a policy instrument which affects output, the government can interfere in the economy by levying a capital tax. In equilibrium, individuals hold half of the world output and capital tax is 100\%. In contrast to the existing literature on risk sharing, the model shows that welfare can actually be reduced due to the introduction of a new market. The paper concludes that due to the moral hazard caused by the government, unregulated macro markets pose a threat to world welfare. It further discusses some measures to overcome the moral hazard problem and gives suggestions for further research.

Ib Waterreus and Simone Dobbelsteen
"Wages and teachers' hours of labor supply"

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abstract

This paper seeks to estimate the effect of teachers' net marginal wages on their number of hours worked, on the basis of a survey among Dutch teachers. The resulting uncompensated wage elasticity is significantly positive and has an average value of 0.2 for males and 0.4 for females. However, a general wage increase provides a rather costly solution to teacher shortages. Alternatively, working full-time can be made attractive for part-time teachers by providing a premium for full-time teachers. Simulation results show that such a premium produces an effect that is almost seven times as large as a general wage increase.

Bas ter Weel and Lex Borghans

"Do we need computer skills to use a computer? Evidence from the U.K.

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abstract:

With the growing importance of computers the valuation of computer skills receives a great deal of attention. However, indirect measures and inconsistencies in the analyzes raise serious doubts about the importance of computer skills. In this paper we are the first to use direct measures of different levels of computer skills (and computer usage) to unravel inconsistencies in the debate on the computer wage premium. Using a unique U.K. database, our analysis reveals that computer usage has its usual positive effect on wages. However, decomposing computer usage into four levels of sophistication of usage shows that within each level of sophistication of computer usage higher computer skills do not lead to higher wages. Our main contribution is therefore that it is highly important to distinguish explicitly measures of computer usage from measures of computer skills and that the results of previous studies using simple measures of computer usage should be considered carefully. Our results also exhibit that, although increased computers usage leads to a wage premium, it is no unambiguous evidence for skill-biased technical change. Computers are only a skill-biased technology if computer skills should make the difference; this is rejected by our results.

Jan Kees Winters
"Some economic issues in competition law"

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abstract:
Not available.

Geert Woltjer
"Wage, interest rate and employment in the Netherlands, 1950 - 1997"

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abstract:
A model with two vintages of capital (new and old) and a CES-production function with quadratic production costs for new investment is developed to derive investment demand and structural labor demand equations. Vacancies are included in the model to explain productivity decreases in periods of a tight labor market, as in the 1960s and the 1990s. The model is estimated using data from 1950-1997. Real wages are relatively low around 1960 and in recent years, while they are high in the 1970s and the beginning of the 1980s. Employment growth is very low in the first half of the 1980s because of a combination of high real wages and high interest rates. The real interest rate remains high since the 1980s, but real wages more than compensate this effect. This explains the tight labor market at this moment.