



NETWERK ALGEMENE EN KWANTITATIEVE ECONOMIE

NETHERLANDS NETWORK OF ECONOMICS

NAKE DAY 2001

Book of Abstracts

12 October 2001

Dutch Central Bank Amsterdam



NAKE DAY 2001

Book of Abstracts

Dutch Central Bank

Amsterdam, 12 October 2001

Netwerk Algemene en Kwantitatieve Economie
Netherlands Network of Economics

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Rob Alessi, Stefan Hochguertel and Arthur van Soest

"Ownership of stocks and mutual funds: a panel data analysis"

Economics

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abstract:

In many industrial countries, ownership rates of risky assets have increased during the past decade. The two main types of risky financial assets held by Dutch private households are mutual funds and stocks of individual firms. We analyze the dynamics of ownership of these two types of risky assets. We use dynamic binary choice panel data models with random effects. Extending existing univariate models to the multivariate case, we take account of inter-actions between the two types of assets. The models are estimated on data from the 1993 - 1998 waves of the Dutch CentER household survey. We find that both unobserved heterogeneity and state dependence play a large role in the univariate models for both types of assets. In the bivariate model, most of the positive relation between ownership of mutual funds in one period and ownership of individual stocks in the next period or vice versa, is explained by unobserved heterogeneity: if we account for correlation between the random effects in the two binary choice equations, we find negative effects of lagged ownership of one asset type on the other type of risky assets.

Marja Appelman

"The fixed book price"

Competition and regulation

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abstract:

Many European countries have a form of resale price maintenance (rpm) for books: every bookseller has to sell books for the price determined by the publisher. Economic theory shows that under specific circumstances rpm can be favorable for welfare. The presentation discusses the theory of rpm and its relevance for the Dutch book market. What are the positive and negative effects of the fixed book price? Which alternative instruments can be used to reach the same objectives?

The CPB has been asked to evaluate the fixed book price as an instrument to reach two cultural objectives. First, the instrument would allow for the publication of a broad range of books. The idea behind this is that the absence of price competition would make it possible to cross-subsidize slow-moving cultural books with the revenues of best-sellers. Second, it would be favorable for the number of retail-outlets for books because the absence of price competition protects the inefficient booksellers. Nevertheless, the European competition law forbids rpm-agreements, because the absence of price competition between retailers has a negative effect on prices and decreases the incentive for innovation. Does this mean that the cultural and economic considerations are incompatible?

Heleen Bartelings

"Waste management policies: an applied general equilibrium analysis"

Environmental Economics

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abstract:

This paper presents an empirical modeling analysis of the efficiency of current waste management policies and calculates the social costs of waste generation. The goal of this paper is to show that social costs of waste management are inefficiently high and that these costs can be reduced by changing certain characteristics in the waste market. An applied general equilibrium model is developed to simulate the waste market. New in the analysis is the explicit role of the municipality as the collector of waste. The method of solid waste collection and the subsequent choice of waste

treatment options lies solely with the municipality; municipalities can have a significant effect on social costs for waste treatment. The results show that reducing the price for recycling has no effect on the actual demand for waste recycling services and even stimulates waste generation by households. Policies to promote recycling, therefore, can not be effective unless they are combined with the introduction of variable prices for waste collection. Another interesting result is the existence of rebound effects in the waste market. Lower costs for waste treatment will cause a rise in waste production and will lead to a decline in prevention and recycling.

Roel Beetsma, Leon Bettendorf and Peter Broer

"The budgeting and economic consequences of ageing in the Netherlands

Economics

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abstract:

The costs of population ageing are primarily reflected in larger expenditures on pensions and health care. This paper explores the consequences of ageing for the Netherlands in a baseline scenario simulated with a dynamic general equilibrium model. We discuss the sensitivity of the results under alternative projections for population ageing and for the interest rate. We explore also the effects of three types of social security reform: a reduction in benefits, an increase in the retirement age and smoothing of the public pension premium over time. We find that the welfare effects of ageing and the reforms are substantial.

Klaas Beniers

"Sequential advocacy"

Tinbergen Institute

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abstract:

The collection of information necessary for decision-making is often delegated to agents (e.g. bureaucrats, advisors, lawyers). If both the pros and cons of a decision have to be examined, it is better to use competing agents instead of a single agent. The reason is that two conflicting pieces of information cancel each other out. Using two agents, each searching for one cause yields full information collection at minimum costs. This provides a rationale for advocacy in political and judicial systems. In this paper, we provide a rationale for the sequential nature of information collection in advocacy systems. If two agents search simultaneously, the incentive to continue searching is affected by the information found by the other agent. This forces the principal to leave rents to the agents. If agents search sequentially, the reward can be made conditional on the information found in earlier stages. This reduces the cost of information collection. However, sequential advocacy implies either a more sluggish decision-making process or a less-informed decision.

Leon Bettendorf, S. van der Geest and M. Varkevisser

"Asymmetric adjustment of the Dutch gasoline prices"

OCFEB

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abstract:

Empirical evidence for many countries shows that retail gasoline prices respond more quickly to increases than to decreases in input prices. This paper studies the price adjustments on the Dutch oligopolistic gasoline market by estimating an error correction model on weekly data. These results also suggest an asymmetric pass-through of cost changes to retail prices. The retail price in the first week responds stronger and the total adjustment takes less weeks to a rising than to a falling world price of gasoline. Finally, increases in the specific excises are shown to be overshifted to the consumers.

Irina Bezlepkina, Alfons Oude Lansink and Arie Oskam

"Allocation effects of input and output subsidies in Russian dairy farming"

Farm Management

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abstract:

This study develops a short-term profit model of specialised dairy farms in Moscow Region (Russia) using panel data over the period 1995-1998. The model is used to analyse the role of subsidies on input and output allocation by including gross input and output subsidies as explanatory variables in the model. The assumption we make is that gross subsidies may serve as a source of liquidity, thereby affecting input-output decisions in case farms are credit constrained, i.e. farms have insufficient financial means to purchase input quantities to the profit maximising levels. The empirical results based on the estimation of the Symmetric Normalised Quadratic profit function illustrate that theoretical conditions for short-term profit maximization and the fixed-effect specification are not rejected by the data. Price elasticities show that output supply and input demand have small responses to own price changes. An F-test indicates that output and input subsidies have a joint significant effect on input and output decisions suggesting that subsidies are a restricting factor in the profit maximisation process on the farms in the sample. Shadow prices of subsidies show that output subsidies are allocated efficiently and input subsidies are allocated inefficiently after a major drop in farm profitability in 1996.

Hong Bo

"Debt ceiling and firm investment"

Economics

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abstract:

A modest amount of debt in the capital structure is beneficial for firm investment, but the firm will suffer from borrowing too much, which suggests a debt ceiling for the firm. We test the debt ceiling effect on investment by using an unbalanced panel of Dutch firms during 1992-1999. The debt financing decision is incorporated into the investment decision in a neoclassical investment model via the agency costs function. We find that when the debt ratio is below the estimated ceiling, debt encourages investment; while exceeding the ceiling, debt depresses investment. The results are robust to both fixed and inventory investments, to various specifications of the investment model, to alternative measures of the debt ratio, and to industry-adjusted versus non-adjusted data. The debt ceiling effect indicates that all types of agency cost interact with each other, which produces nonlinear effects of debt on investment.

Wilko Bolt and Alexander F. Tieman

"Banking competition, risk, and regulation"

Research Department

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abstract:

In a dynamic framework banks compete for customers by setting lending conditions for the loans they supply, taking into account the capital adequacy requirements posed by the regulator. By easing its lending conditions a bank faces a tradeoff between attracting more demand for loans, thus making higher per-period profits, and a deterioration of the quality of its loan portfolio, thus a higher risk of failure. Our main result states that that more stringent CARs lead commercial banks to set more stringent loan conditions to their customers. As a second result, we show that increased competition in the banking industry leads banks to behave more risky. In this model we also look at risk-adjusted capital requirements and show that risk-based regulation is effective. We extend the basic model to have banks choose both

their lending conditions and the level of bank capital. In this extended model it turns that it may be beneficial for a bank to hold more equity than prescribed by the regulator, even though equity is more expensive than attracting deposits. We show that the same conclusions with respect to the effectiveness of regulation hold as in the standard model.

Maurice Bun and Franc J.G.M. Klaassen

"The importance of dynamics in panel gravity models of trade"

Quantitative Economics

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abstract:

The panel gravity models used so far are often static and thus only allow for contemporaneous effects of regressors on trade. However, there are numerous economic arguments suggesting that trade is a dynamic process. Using a panel of 220 bilateral OECD trade flows over 48 years, we find that static models are indeed misspecified, leading to incorrect inference, and that one should allow for dynamics. Therefore, we extend the standard panel gravity model with lagged trade and lagged income. We demonstrate that the model is easy and accurately to estimate with the least squares dummy variable estimator. The results show that lagged trade and lagged income are both empirically strongly significant and lead to sensible short-term and long-term trade dynamics.

Edward Calthrop and Stef Proost

"Regulating on-street parking space"

Centre for Economic Studies

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abstract:

Governments in most urban areas regulate the on-street parking market. Common regulatory instruments include a meter fee and/or a time restriction. We consider the optimal regulation of on-street parking, when drivers must choose whether to proceed to an off-street parking facility or search for a vacant on-street spot. Simple - yet novel - policy prescriptions emerge. If the off-street market is competitive, the government should adopt a matching policy: the on-street meter fee is set to match the off-street price. Furthermore, it is shown that all non-decreasing non-linear on-street pricing schedules are inefficient, as they induce non-optimal amounts of searching behaviour. The government may deviate from a matching policy if the off-street price is distorted. A Nash equilibrium emerges in which most drivers choose to search for an on-street spot. If, however, the government can act as a Stackelberg leader in the duopoly game, an equilibrium may emerge leaving the on-street spots unused. A numerical model, calibrated to London, is used to demonstrate results.

Erik Canton

"The demand for higher education in the Netherlands, 1950-'99"

Knowledge economics

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abstract:

This paper investigates the role of economic factors in the university enrollment decision for the post-war period in the Netherlands. I include those factors standing at the heart of the idea that education is an investment. Collecting student enrollment data for eight subject categories results in a large data set, as a cross-section dimension is added to the time-series. This structure thereby allows the use of panel data techniques. Results suggest that students are not responsive to tuition fees, but financial support, per capita income and the alternative wage are important in the enrollment decision. However, males and females respond differently to these factors. Finally, it is shown that "artificial" elasticities generated from a calibrated

version of a simple human capital model closely mimic the estimated enrollment effects from changes in tuition fees and student support.

Thomas Cool

"Voting theory for democracy"

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abstract:

Uses programs in *Mathematica* from "The Economics Pack (Cool 1999,2001) to develop the theory of voting from the bottom up. Focuses on a clarification of direct, single seat elections and highlights cheating as the basic problem in voting. Includes a refutation of the common interpretation of Kenneth Arrow's Impossibility Theorem and demonstrates that voting can be a reasonable and desirable process. Discusses voting theory and programs; how to get started with the Economics Pack; items, voters, preferences, and morals; basic voting schemes; combined voting schemes that first select the Pareto optimizing points and then apply the basic scheme; strategic voting; probability; the measurement of utility; the theory for the practical routines; and an evaluation of Arrow's theorem.

Maarten Cornet and Marieke Rensman

"The location of R&D in the Netherlands"

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abstract:

Many factors determine the location of business R&D projects, the most important being history, the size of the qualified labour force, and the quality of the public knowledge infrastructure including the science-industry knowledge transfer. Evidence shows that firms continuously adjust the size of their R&D activities in the

Netherlands, but that the set of R&D locations does not change very much over time. A benchmark study reveals that for many but not all location factors the Netherlands is an equally attractive or more attractive location for business R&D than other countries. Since local R&D is an important engine for local economic growth and since the market for R&D fails, there is scope for government policy that improves upon the local R&D location climate. Such policy may have important opportunity costs, however.

Jasper Dalhuisen, Raymond Florax, Henri de Groot and Peter Nijkamp

"Price and income elasticities of residential water demand:
why empirical estimates differ"

Spatial Economics

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abstract:

This paper presents a meta-analysis of variations in price and income elasticities of residential water demand. Information on the determinants of consumer demand is of pivotal importance for the efficiency and efficacy of public and private policy-making. It is also crucial for effective water demand management. We focus on the application of statistical methods to synthesize research results on price and income elasticities of residential water demand report in the literature. These techniques are generally referred to as meta-analysis. This type of analysis constitutes an adequate tool for explaining why empirical estimates of the price and income elasticity of residential water demand vary to such considerable extents. The set of explanatory factors used in the meta-analysis includes variables derived from microeconomic choice theory and moderator variables reflecting differences in spatial and temporal dynamics, research design, and statistical quality of the estimates of previously published studies.

Robert Dur and Coen Teulings

"Should education be subsidized for the purpose of redistribution?"

Economics - H7-21

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abstract:

The usual argument against subsidies to education above the primary level is that the rich take up most education, so a subsidy would increase inequality. We show that there is a counteracting effect: an increase in the stock of human capital reduces the return to human capital and, therefore, pre-tax income inequality decreases. We consider a Walrasian world with perfect capital and insurance markets. Hence, in the absence of a strive for redistribution, the market generates the efficient level of investment in human capital. When there is a demand for redistribution, the general equilibrium effects on relative wages might make a subsidy to education an ingredient of a second best optimal redistribution policy. Stimulating human capital formation results in a compression of the wage distribution, and hence reduces the need for distortionary redistributive taxation. We also study the political viability of education subsidies.

Andrea Galeotti and Luca Salford

"Electoral cycles: do they really fit the data?"

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abstract:

This paper provides a theoretical model of pre-electoral budget cycle and tests its empirical implications. When elections approach, incumbent policy-makers have an incentive to signal their competency by acting on economic variables. Rational voters incorporate the knowledge of such mechanisms in their decisions, evaluating governments on the basis of unexpected policy. Available data confirms the

hypothesis that economies are manipulated during election years, but voters do not seem to behave as predicted. Alteration of fiscal variables may be due to an attempt on the incumbent's part at influencing economic growth performance as opposed to an experiment in direct signalling.

Joeri Gorter

"What's harmful about harmful tax practices?"

Department ECA

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abstract:

The European Council attempts to alleviate tax competition between member states by a 'code of conduct' concerning 'harmful tax practices'. According to this code, a member state should not attempt to attract internationally footloose business activity by preferential tax measures that provide for a lower tax burden than what is common in this state. Thus, the code of conduct provides a link between special tax measures and the generic tax system within each member state. This link alleviates tax competition because it puts upward pressure on effective tax rates on footloose business activity. However, it simultaneously aggravates tax competition because it puts downward pressure on the effective tax rate that pertains to the generic tax system. We show that, contrary to the Council's intention, the latter effect may dominate.

Bas van Groezen

"Ageing and social security in a two-sector growth model"

Economics

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abstract:

This paper analyses the effects of reducing unfunded social security and population ageing on economic growth and welfare. The economy consists of a service sector and a commodity sector. Productivity growth only occurs in the latter sector and is assumed to depend positively on its size due to learning-by-doing effects. It is shown that if old agents mainly demand labour intensive services, a decrease of the pay-as-you-go(PAYG)-pension scheme reduces long-run growth and thus welfare in a small open economy, whereas current generations are better off. However, this policy raises productivity growth in a closed economy, both in the short and long run. Furthermore, ageing will lead to a lower long-run rate of economic growth in a small open economy, whereas in the short run, the effects depend on the size of the PAYG-scheme. In a closed economy, the effects of ageing crucially depend on the elasticity of substitution between labour and capital.

Marco Haan and Peter Kooreman

"How majorities can lose the election - another voting paradox"

Economics/Micro

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abstract:

We show that due to free riding of potential voters facing positive voting costs, the proposal with the highest number of supporters can still be the most likely to lose a binary election.

Jacco Hakfoort

"The economic impact of public capital: a meta-analysis"

Regulation and Competition Unit

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abstract:

In the last decade, a large number of empirical studies have been published that examine the relationship between public capital and output. This literature can hardly be called conclusive, however. There is a wide range of estimates of the output elasticity of public capital depending on the type of methodology used, the country under study, the time period and so on. In this paper, meta-analysis is employed to analyse the findings from approximately 100 studies.

Ben Heijdra and J.E. Ligthart

"The hiring subsidy cum firing tax in a search model of unemployment."

Economics

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abstract:

This paper studies the macroeconomic and welfare effects of a tax-subsidy scheme on labour in a simple macroeconomic model with search unemployment. It is shown that if a firm pays a firing tax when it lays off a worker and receives a hiring subsidy when it employs the same or another worker, vacancies increase and the unemployment rate declines.

In a second-best world welfare increases if the initial unemployment rate is inefficiently high or if there are pre-existing fiscal distortions.

Cars Hommes

"Stochastic consistent expectations equilibrium"

Quantitative Economics

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abstract:

The notion of consistent expectations equilibrium is introduced in a stochastic framework. Agents use simple, linear forecasting rules in an unknown nonlinear, stochastic environment. Along a stochastic consistent expectations equilibrium (SCEE), expectations are correct in a linear statistical sense. In particular, along a SCEE the unconditional mean and the autocovariance of the unknown nonlinear stochastic generating process coincide with those of the linear stochastic process agents believe in. In general, the linear forecasts do not coincide with the RE conditional expectation, but a SCEE is an 'approximate rational expectations equilibrium' in the sense that forecasting errors are unbiased and uncorrelated. Sample autocorrelation learning of SCEE is studied in an overlapping generations (OLG) framework.

Bas Jacobs and Lans Bovenberg

"Redistribution and education subsidies"

General Economics

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abstract:

We study the optimal level of education subsidies along with the optimal progressive schedule of the labor income tax and optimal capital income taxes in a model of human capital formation with endogenous labor supply and heterogeneous agents. We show that subsidies on education ensure efficiency in human capital accumulation while taxes on skilled labor help to redistribute income towards the less able. We thus provide a rationale for the widely observed presence of education subsidies. The actually observed tax codes and the level of education subsidies in OECD countries suggest that a large part of education subsidies can be justified on these grounds.

Jan Jacobs and Jan-Pieter Smits

"Business cycles in the Netherlands, 1815-1913"

Economics

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abstract:

This article exploits a unique new dataset containing information on the economy of the Netherlands to date business cycle turning points in the 19th century (1815-1913) using a modern econometric technique. The business cycle in the Netherlands is compared to the international (UK and US) business cycle for the second half of the sample. We conclude that business cycles do exist in the Netherlands in the 19th century even before 1870. The Netherlands follows the international business cycle before 1870 and after 1890. In the in-between period the Dutch production could not meet both domestic demand and export demand.

Richard Kleijn and Herman K. van Dijk

"A bayesian analysis of purchasing power parity using an unobserved components model"

Econometric Institute

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abstract:

Recently, several authors have suggested that the failure to describe real exchange rates as temporary deviations from a fixed long-term mean could be related to the observation that the equilibrium rate itself actually may exhibit time variation. We implement this idea using an unobserved components model, separating the real exchange rates in a long-term component, which captures the time-variation of the mean, and medium and short-term deviations. Our simulation-based Bayesian

analysis is used for testing and to derive the full (posterior) distribution of (functions) of the model parameters. A stationarity test in this setup shows that the mean is (slowly) time varying. Subsequently, we use our flexible model to derive the implied distributions of some key features of real exchange rates. Most notably, the persistence of the deviations, as measured by their half-life from the mean, provides a possible explanation for the PPP puzzle.

Siem Jan Koopman and Philip Hans Franses

"Constructing seasonally adjusted data with time-varying confidence intervals"

Econometrics

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abstract:

Seasonal adjustment methods transform observed time series data into estimated data, where these estimated data are constructed such that they show no or almost no seasonal variation. An advantage of model-based methods is that these can provide confidence intervals around the seasonally adjusted data. One particularly useful time series model for seasonal adjustment is the basic structural time series (BSM) model. The usual premise of the BSM is that the variance of each of the components is constant. In this paper we address the possibility that the variance of the trend component in a macroeconomic time series in some way depends on the business cycle. One reason for doing so is that one can expect that there is more uncertainty in recession periods. We extend the BSM by allowing for a business-cycle dependent variance in the level equation. Next we show how this affects the confidence intervals of seasonally adjusted data. We apply our extended BSM to monthly US unemployment and we show that the estimated confidence intervals for seasonally adjusted unemployment change with past changes in the oil price.

Grzegorz Kula

"Optimal retirement decision"

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abstract:

This paper focuses on the relation between worker's productivity and retirement decision. Assuming that the productivity, or rather its value, is stochastic and follows geometric Brownian motion with drift, there should be such a level of productivity for which it will be not profitable to work any longer. The worker buys an insurance, which gives him a constant income in exchange for the total output. To attract as many customers as possible an insurer sets the level of income as to maximize the lifetime utility of the worker. If the productivity falls so low that the expected gains for the insurer are negligible, it allows the worker to retire. The model is defined for three cases: infinite lifetime, stages of life with a probability of death and the finite lifetime. The critical level of productivity rises with time: the closer to the end of worker's life the higher it is.

Mauro Mastrogiacomo, Maarten Lindeboom and Rob Alessi

"Retirement behaviour of Dutch households"

General Economics

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abstract:

This paper explores the dynamics of labour force participation of elderly households and individual retirement choices of singles' households in the Netherlands through a dynamic model. Do individuals retire only when it is financially attractive? Do family related considerations matter to the potential retiree? Is joint retirement a relevant

phenomenon in the Netherlands? While in couples pure joint retirement is not observed we find some typical retirement paths in which the leading decision is the one of the partner. Financial incentives are more relevant to breadwinners' men than women. Unobservables are introduced by simulated maximum likelihood.

Ewa Mendys

"The price of a price: on the crowding out of social norms"

Tinbergen Institute

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abstract:

There is increasing empirical and experimental evidence that providing financial incentives to agents to perform certain socially desirable actions may permanently reduce other types of motivations to undertake these actions. We study the impact of financial incentives on the desire for social approval, using the example of blood donation. We show that in a society with altruists and egoists, who all care about social approval, introducing a payment into a voluntary system may actually decrease the amount of blood donated. Withdrawing the financial incentive does not restore the norm to donate and may reduce the supply of blood even further.

Remco van der Molen, Shubashis Gangopadhyay and Robert Lensink

"Business groups, financing constraints, and investment: the case of India"

Economics

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abstract:

This paper studies the effect of business group affiliation on corporate investment behavior in India. We use a data set containing 684 Indian listed companies for the

1989-1997 period. Using a GMM-estimator to estimate a dynamic investment equation, we find evidence that cash flow has a positive effect on investment spending on stand-alone firms, whereas for group affiliates cash flow is insignificant. This suggests that business group affiliates have better access to external funds than stand-alone firms have.

Samuel Mongrut Montalvan

"Project valuation under incomplete capital markets"

Economics

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abstract:

According to the Discounted Cash Flow (DCF) and the Real Option approaches managers can assess the project risk by estimating either an historical market beta of a Similar Single-Project Firm or by assuming an arbitrage argument that allows them to use risk-neutral probabilities. The underlying assumption of both approaches is that capital markets are complete. Under incomplete capital markets not all projects have a tradable benchmark to span their risk. This situation emerges in the case of sponsoring firms and potential firms who hold projects in new lines of business, and also for closely held firms. This paper introduces a methodology that can be applied whenever managers are unable to find market benchmarks to assess the project risk. The methodology stresses the importance of the manager's perspective in assessing the project risk, the use of sensitivity and simulation analyses, the use of cash betas and the use of the Net Present Value (NPV) as a decision rule. Furthermore, it is assumed that investment projects do not offer real options, so it is enough to use the DCF approach. The theoretical explanation is illustrated with an example that uses specialized software to make the application of the methodology easier.

Ruud de Mooij and Sjef Ederveen

"Taxation and foreign direct investment: a synthesis of empirical research"

European Comparative Analysis

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abstract:

This paper reviews the empirical literature on taxes and foreign investment. We make the outcomes of 25 different empirical studies comparable by computing the tax rate elasticity under a uniform definition. We then perform a meta analysis in which we explain the differences in elasticities by the characteristics of the studies. The paper thus contributes to the discussion about the appropriate specification of the estimated equation, the importance of appropriate data and the difference in elasticities over time, across countries and among types of investments. We find that the mean value of the tax rate elasticity exceeds -3. Significant systematic differences are found between investors from worldwide and territorial countries, the type of investment, and a number of the data characteristics.

Robert Mosch and Frank den Butter

"The Dutch miracle: institutions, networks and trust"

Economics

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abstract:

Between 1982 and 2000, the Netherlands experienced a remarkable economic recovery. The Dutch culture of consensus, reflected in the institutional consultation structure, was one of the main driving forces of this recovery. The trust enhancing effects of the institutional framework, in which government, unions, employer organisations, central bank and advisory bodies meet each other frequently in formal

and informal atmospheres, produced an environment of mutual trust and co-operation that was capable of effectively dealing with the problems. It is an example of an institutional framework that transforms trust between persons and organisations at the micro level to positive macroeconomic effects.

Joan Muysken and Jennifer Ruholl

"The impact of education and mismatch on wages: The Netherlands, 1986 – 1998"

Economics

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abstract:

In analysing the impact of education on wage differentials and wage growth, we use next to personal characteristics (e.g. education) also job characteristics (e.g. skills required) to explain wages. We estimate wage equations on individual data for the Netherlands, 1986 – 1998. It turns out those personal characteristics like education and experience explain only about 50 percent of the variation in wages. The other half is explained by variation in job characteristics.

Moreover, the increasing educational attainment, which is widely thought to enhance productivity growth, is countered both by an increasing level of skills required for each job and by overschooling. Thus a plausible explanation for the productivity slow-down since the mid-eighties is provided.

Richard Nahuis and Paul Tang

"Competition in infrastructure: ineffective and unwelcome?"

European Comparative Analysis

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abstract:

The quality of infrastructure is an important factor in location decisions of firms. Countries try to attract firms by investing in infrastructure. Acquiring the position of a hub is likely to make this policy a success. We use a model of international trade with monopolistic competition, increasing returns to scale and transport costs to analyze policy competition with investment in international infrastructure.

For a small or poor country the strategic effect of attracting firms is less important than for large or rich countries. A country small or large that acquires a hub-position sees its welfare improve. The other countries may gain or lose; they benefit from cheaper international trade but suffer from relocation of firms. These countries will therefore try to eradicate a hub position. Policy competition brings too much investment in infrastructure when the level of transport costs is low and the strategic effect becomes more important. So, a globalizing world may call for international coordination.

Rob van der Noll and Maarten Janssen

"Electronic commerce and retail channel substitution for inspection goods"

Economics

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abstract:

We analyse a market where two firms compete in conventional and electronic retail channels. Consumers easily compare prices online, but some need the physical store to learn product attributes. We investigate the market shares of the two retail channels and find that both obtain a positive share of the market and that the market share of the electronic channel is decreasing in the product variety in the market. Furthermore, consumers who frequent the store do not compare prices, thereby giving firms incentives to charge high prices. However, firms also try to attract the consumers who compare prices online, and the interplay between these two forces results in price dispersion.

Rutger van Oest

"Adaptive polar sampling"

Economics

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abstract:

In a Bayesian analysis the parameters of a model are considered to be stochastic, instead of being unknown constants, which is in accordance with the classical approach. In order to make probability statements and to compute expectations concerning the model's parameters, one usually needs to resort to sampling (Monte Carlo) methods. This means that one draws from the involved probability distribution and the obtained sample is used in order to estimate the object of interest.

It turns out that sampling from the parameter distribution in a direct way is often impossible, so that second-best methods have to be used. Two widely applied sampling methods are the Metropolis-Hastings algorithm and importance sampling. Both draw from an 'easy' distribution and make a correction for the approximation. The Metropolis-Hastings algorithm constructs a Markov chain which converges to the distribution of interest using an acceptance-rejection mechanism, whereas importance sampling effectively weighs the sample.

I will discuss two new sampling methods: Adaptive Polar Markov Chain Monte Carlo and Adaptive Polar Importance Sampling, which are based on the Metropolis-Hastings algorithm and importance sampling respectively. Both involve a transformation to polar coordinates. In the polar space the direction is obtained using the two approximating mechanisms described above, but the distance immediately comes from the distribution of interest. This yields an increase in robustness.

Katrin Oltmer and Raymond Florax

"Impacts of agricultural income policy on land prices: a quantitative analysis of the literature"

Spatial Economics

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abstract:

Agricultural policy support to farmers is being reconsidered in most industrialized countries. The adverse incentive structure of price support is generally considered to be inadequate. Income support schemes may therefore be preferable in view of externalities of agricultural production such as the development and maintenance of nature. A plethora of studies comprises estimates of the impact of a sustained future benefit stream (among other things through continued price and income support) on land prices. The empirical results of these studies vary considerably. We apply meta-analytical methods to identify the factors explaining this variation in capitalization of future benefits in agricultural land prices. The resultant information is of crucial importance given the current change from price support to income support in agricultural policymaking. The results of the meta-analysis show that there is considerable variation due to the way in which income is taken into account, and the way in which expectations of future benefits are operationalized. There is also evidence that a change from a mixed price and income support scheme to a system of income support will result in substantially lower capitalization in land values.

Sander Onderstal

"On the effectiveness of caps on political lobbying"

CentER

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abstract:

In this paper, we define a lobby game, in which interest parties submit bids in order to obtain a political prize. The bids are restricted to be below a cap imposed by the government. Several results are derived, both for a complete and an incomplete information setting. We show that in equilibrium, a lower cap may ex post lead to higher bids. However, ex ante, a lower cap always implies lower expected total lobby expenditures. The incompletely informed government maximizes social welfare by implementing a cap equal to zero.

Marius Ooms and Jurgen A. Doornik

"Multimodality and the GARCH likelihood"

Econometrics and OR

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abstract:

We investigate several aspects of GARCH models which are relevant for empirical applications. In particular, we note that the inclusion of a dummy variable as regressor can lead to multimodality in the GARCH likelihood. This makes standard inference on the estimated coefficient impossible. Next, we investigate the implementation of different restrictions on the GARCH parameter space. We present a small refinement to the Nelson and Cao (1992) conditions for a GARCH (2,q) model, and show how these can be implemented by parameter transformations. We argue that these conditions are also too restrictive, and consider restrictions which are formulated in terms of the unconditional variance. These are easier to work with and understand. Finally, we show that multimodality is a real concern for models of the pound/dollar exchange rate, and should be taken account of, especially when $p \geq 2$.

Ioulia Ossokina and Otto Swank

"Learning through experimentation in environmental regulation: political economy issues"

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abstract:

Governmental regulation, which plays a crucial role in tackling environmental problems, is often decided upon under incomplete information about the benefits and costs of the regulatory measures. The theory of environmental policy making suggests that in this case learning through experimentation (trial and error) can contribute to the development of efficient policy instruments. In this paper we address the question how in a two-party system the government's incentives to undertake learning through experimentation may be affected by polarization of preferences of competing parties. We distinguish two cases: (1) the policy decision to be made is not salient and does not affect the outcome of the following elections and (2) the decision is salient and the election outcome depends on it. We show that while the possibility of learning increases experimentation in policy, the existence of a chance to lose the office in the next period to a policy maker with different preferences distorts learning. Furthermore, in contrast to the existing literature, we demonstrate that for non-salient decisions, polarization between the preferences of competing parties does not always decrease experimentation. In the case with salient decisions we find that electoral concerns may induce candidates not to experiment, even when it is in contrast with the wishes of the majority of voters.

Ronald Peeters , Jean-Jacques Herings and Maarten-Pieter Schinkel
"Intertemporal market division: the case of alternating monopoly"

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abstract:

In dynamic entry and exit models, common conception is that potential entrants will enter into the market up to the point where such is no longer profitable. In this paper, in a two-firm model that sustains a dynamic Cournot duopoly, it is shown that an equilibrium exists which induces alternating monopoly. Furthermore, in the long run this typical welfare-decreasing intertemporal market division arises, irrespective of the initial industry structure.

Gerard Pfann

"Downsizing"

FdEWB - BIRC

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abstract:

Optimal layoff rules in closed form are derived for all workers in a firm that downsizes under uncertainty and faces heterogeneous firing costs. The theoretical model predicts that the firm displaces workers with low firing costs, low expected future productivity growth, and low layoff option values. The empirical analysis based on personnel records from a Dutch aircraft building company that went bankrupt in 1996 shows that workers with high uncertainty associated with higher than average expected productivity growth are most likely to be retained.

Erik Plug

"Effects of sexual preferences on earnings in the Netherlands"

Economics

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abstract:

A small literature suggests that bisexual and homosexual workers earn less than their heterosexual fellow workers and that a discriminating labor market is partly to blame. In this paper we examine whether sexual preferences affect earnings in the beginning of working careers in the Netherlands. We find (i) that young and highly educated gay male workers earn about 3 percent less than heterosexual men; (ii) that similarly qualified lesbian workers earn about 4 percent more than their heterosexual female coworkers; (iii) that in terms of earnings, bisexual workers are more comparable to heterosexual workers; and (iv) that among homosexual workers the gender gap is not observed. From this we conclude that the Dutch labor market does not discriminate on the basis of both sexual orientation and gender in entry-level jobs.

Bernard van Praag and Pedro Cardoso

"The sustainability of the pay-as-you-go system with falling birth rates"

Economics

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abstract:

We have developed a model which explains the mix between funded and unfunded pension systems. It turns out that total pension and the relative shares of the two systems may be explained and are determined by the population growth rate, technological growth, the time-preference discount rate, the relative risk aversion,

the production function, and the degree of altruism. We have found that a fall in the population growth rate, even to negative values, will imply a reduction of the interest rate and an increase in the capital-output ratio, while the pension system will shift to more funding. A fall in the population growth rate will result in a reduction of average welfare and an increase in the income inequality between workers and retired people/individuals.

Mark Sanders

"Skill-biased technical change and the product life cycle"

Economics

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abstract:

The labour market position of low skilled workers has deteriorated dramatically over the 80s and early 90s. A well-known manifestation of this deterioration is the drop in relative wages observed in the United States. It is a well-documented fact that demand shifts underlie this deterioration and several studies indicate that technical change is a likely candidate to explain such relative demand shifts. It is, however, still not very well understood why technological change would be biased persistently against low skilled workers when their relative labour costs are dropping. Modern economics considers technological change to be endogenous and the result of rational decisions taken by economically constrained agents. This paper presents a model that provides a possible answer to this puzzle. It assumes that the production of new products is inherently skill biased because uncertainty is high and flexibility required in initial stages of the product life cycle. Only as the product matures and process innovations are made, low skilled workers can be involved in the production of such products. As such it introduces some old ideas into a new debate. In this model the steep decline and gradual recovery of relative low skilled labour demand in recent decades are explained by the introduction of a wave of product innovations,

for example related to the IT-revolution, and a subsequent process of maturation. Simulation of the model allows me to replicate the stylised facts and evaluate some policy experiments.

Dirk Scheele

"Labour market participation and wage distribution"

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abstract:

Increasing the labour market participation is one of the main goals of labour market policy in the Netherlands. In this respect much progress has been made in the past. For the future continued growth of labour market participation will increasingly have to come from groups with a weak position on the labour market. This paper focusses on the position of low-skilled workers relative to middle-skilled and high-skilled workers. In a long term perspective the skill drift both on the supply and the demand side of the labour market is marked as a decisive background to the position of the low-skilled. The question is whether a continued growth of labour market participation can be realised without increasing wage inequality. To answer this question a small labour market model is developed. The model indicates that wage inequality compared to its development in the past could remain modest. But under the tight labour market conditions of the future an increasing participation also could evoke a general rise in wages with negative effects on economic growth and hence participation growth.

Maarten-Pieter Schinkel, Jan Tuinstra and Dries Vermeulen

"Almost sure convergence of individually rationally set prices"

Economics

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abstract:

A central unanswered question in economic theory is that of price formation in disequilibrium. This paper lays down the methodological groundwork for a model that has been suggested as an answer to this question (Arrow, 1959; Fisher, 1983; Hahn, 1989). We consider sellers that monopolistically compete in prices but have incomplete information about the structure of the market they face. They each entertain a simple demand conjecture in which sales are perceived to depend on the own price only, and set prices to maximize 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. Its properties are analysed. Moreover, a sufficient conditions is provided, relating objectively possible events and subjective beliefs, under which the price process is globally stable on a conjectural equilibrium, for almost all objectively possible developments of history.

Dirk Schoenmaker, Paolo Dasgupta and Charles Goodhart

"The skill profile of central bankers and supervisors"

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abstract:

Using a new database covering some 91 supervisory agencies, this paper examines how important various skilled experts are in the regulatory process and the relative usage of different kinds of such experts. We seek to explore what kind of perspective supervisors in different institutional settings may adopt: a macro-oriented perspective or a more micro-approach? The answer to this question is relevant, as there is evidence that many financial crises have been macro-induced.

It is found that central banks employ more economists and fewer lawyers in their supervisory/financial stability wing than non-central bank supervisory agencies. This result would indicate that an institutional setting with direct or indirect central bank

involvement is more likely to produce a macro-approach. Next, there are significant economies of scale in financial supervision, though this can be measured by several alternative variables (e.g. the relative scale of bank intermediation). Finally, there do not appear to be major economies of scope. A more complex financial system with a well-developed stock market would need both more supervisors as well as more skilled ones.

Radislav Semenov and Eelke de Jong

"Cross-country differences in stock market capitalisation: a cultural view"

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abstract:

Although during the last decades the importance of stock markets has increased in all OECD countries, the cross-country differences appear to be remarkably stable. In this paper we relate the factors determining stock market activity to deeply rooted norms and values in the society, which are represented by cultural dimensions. Stock markets are relatively important in countries, where inhabitants accept uncertainty as inherent in life and regard unrestricted competition as an ideal. These attitudes are represented by the national scores on the dimensions of Uncertainty Avoidance and Masculinity. Recent research shows that the differences between countries on these dimensions are very enduring, which suggests that provided no large shocks occur, the differences in importance of the stock market will persist.

Arjen Siegmann

"Explaining hedge funds returns by loss aversion"

Finance

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abstract:

Contemporary institutional investors like pension funds, mutual funds, and hedge funds reveal a range of different and possibly non-linear pay-off patterns. In this paper we show that a financial planning model based on expected returns and shortfall can accommodate several of these pay-off structures. Using a static asset allocation problem with options, we show that four different pay-off functions may be optimal, depending on the moneyness of the option and on the ratio of current to benchmark wealth. We extend our findings numerically to the setting with loss-averse utility functions like that of Kahneman and Tversky and show our results are robust. An illustration based on empirical data further illustrates how the model produces similar investment strategies for hedge funds and pension funds as found in the empirical literature.

Adriaan Soetevent and Peter Kooreman

"Discrete choice models with social interactions: an analysis of smoking and other behaviors of high school teens"

Economics

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abstract:

We develop an empirical discrete choice model which explicitly allows for social interactions. The model is based on the assumption that observed choices represent a Nash equilibrium of a static discrete game played by all interacting agents. We analyze the issues of multiple equilibria, identification, statistical coherency, and estimation of the model by means of simulation methods.

In an empirical application, we use a data set containing information on some 10,000 high school teens from about 500 different school classes from almost 100 different schools in The Netherlands. We estimate the model to analyze social interactions in smoking behavior, and various other aspects of teen behavior,

including drinking, gambling, truanting, and mobile phone ownership. The model distinguishes between interactions among boys, among girls and between boys and girls.

Jan-Egbert Sturm and Jakob de Haan

"Central bank independence and inflation in developing countries: the role of influential observations"

Economics

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abstract:

The results of previous studies on the relationship between inflation and central bank independence (CBI) in developing countries are shown to depend crucially on a limited number of influential observations. Removing them changes the relationship between CBI and inflation. Using a new data set for the turnover rate of central bank governors as indicator for CBI in a multi-variate model, the well-known significant relationship between CBI and inflation generally disappears in our sample of developing countries. The influential observations appear to be mostly high inflation countries.

Dolf Talman, Jean-Jacques Herings and Gerard van der Laan

"Quantity constrained equilibria"

Econometrics and OR

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abstract:

In a standard general equilibrium model it is assumed that there are no price restrictions and that prices adjust infinitely fast to their equilibrium values. Price rigidities may cause that a competitive equilibrium cannot be attained, and rationing on net demands or supplies is needed to clear the markets. Benassy, Dreze and Younes proved in the mid 1970s that there exist equilibria with rationing. Moreover, rationing is such that not both demand and supply of a good are rationed simultaneously, at least one commodity is not rationed at all, and there is rationing on the net supply or net demand of a good only if the price of that good is on its lower or upper bound, respectively. In the 1980s disequilibrium models with only rationing on net supplies were introduced. In all these models prices are restricted to positive lower and upper bounds.

In this paper the set of admissible prices is allowed to be an arbitrary convex set. For such an arbitrary set it cannot be guaranteed that there exists a constrained equilibrium satisfying that a price will be on its upper or lower bound in case of rationing. We introduce a more general equilibrium concept, called Quantity Constrained Equilibrium (QCE). At such an equilibrium the levels of supply and demand rationing are completely determined by the components of a direction in which the price system can not be moved further without leaving the set of admissible prices. When the set is compact, we show the existence of a connected set of QCEs, containing two trivial no-trade equilibria. Moreover, the set contains for every commodity a generalized Dreze equilibrium, being a QCE at which this commodity is not being rationed, and also a generalized supply-constrained equilibrium without demand rationing. We apply this main result to several special cases, including the case of an unbounded set of admissible prices.

Thomas Trimbur, Andrew C. Harvey and Herman K. van Dijk

"Cyclical components in economic time series: a Bayesian approach"

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abstract:

Cyclical components in economic time series are analysed in a Bayesian framework. The method is based on a general class of unobserved component models. Posterior densities of parameters and smoothed cycles are obtained using Markov Chain Monte Carlo methods. We present an application to estimating business cycles in macroeconomic series, where one has clear prior notions about periodicity.

Jeroen van de Ven

"Endogenous preferences and optimal subsidies"

Economics

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abstract:

This paper challenges the axiom of exogenous preferences. It uses the psychological concept of cognitive dissonance to explain the experimentally observed change in preferences. The aim of the paper is to determine the optimal subsidy level. The main result is that subsidies must not be too high in order to be effective in the long run.

Maarten Vendrik

"Wage elasticities and bandwagon effects in female labour supply"

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abstract:

This paper develops a dynamic model of bandwagon effects in female labour force participation. The model is formulated in terms of social-group variables, but it is derived in a systematic (be it approximative) way from an individual labour supply

model. The non-linear bandwagon dynamics is shown to imply long-run elasticities of the participation rate with respect to the wage rate and other exogenous variables, which vary, with the level of the participation rate according to a hump-shaped profile. Such a profile can explain patterns of variation in wage elasticities of married women's labour force participation rates in the U.S.A. over the 20th century. Moreover, it accounts for the pronounced increase in married women's labour supply in the U.S.A., the Netherlands and other OECD countries.

Willem Verhagen and Sylvester Eijffinger

"Flexible inflation targeting under a non-linear Phillipscurve"

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abstract:

This paper analyses the optimal degree of flexibility under a Lucas type convex Phillipscurve. As a benchmark, we first analyse optimal monetary policy with a linear Phillipscurve and persistent cost-push shocks. As in Svensson (1997a), a central banker who possesses private information and who inherits society's preferences will engage in too much output stabilisation because of which welfare will be improved by appointing an individual who is less flexible. Moreover, we are able to investigate the determinants of the optimal degree of flexibility. If the central banker has no private information under a linear Lucas type Phillipscurve, it will be optimal to abstain from output stabilisation entirely. Next, we extend the symmetric information case by assuming the Phillipscurve is convex. In this respect, it is shown that even under strict inflation targeting, the optimal conditional inflation forecast will be state-dependent. Furthermore, if the degree of flexibility is zero, monetary policy will be subject to a deflationary bias which will exceed the one obtained in a model where the expected slope of the Phillipscurve is constant. We also show that the long run average rate of inflation will be strictly increasing in the degree of flexibility. Therefore some degree of flexibility will be socially optimal in this model because it will render the deflationary bias obtained under strict inflation targeting less severe.

Frans de Vries

"An evolutionary perspective on technology diffusion and competitiveness under taxation and subsidies"

Economics and Public Finance

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abstract:

This paper discusses how emission taxes and subsidies influence a firm's technology choice in an imperfect competitive output market. For this an evolutionary methodology is used. The distribution of behavior, i.e., choice of technology type in a single population of firms is examined. Firms can adopt a dirty production technology or a clean technology with lower emissions per unit of output. Technologies differ in cost structure and hence there are cost asymmetries.

Daniel van Vuuren

"Macro-elasticities for fuel demand in The Netherlands"

Spatial Economics

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abstract:

This paper assesses the sensitivity of fuel consumption to price changes in The Netherlands, by making use of a time series data set for the period 1980-1999. Rather than using a (weighted) aggregate of stated preference data based on individual (or household) interviews, annual fuel sales have been derived from 'hard' excise revenues that are reported by the Ministry of Finance. Significant price effects are found, with elasticities in the range 0.5 - 0.8.

Paper Abstracts

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