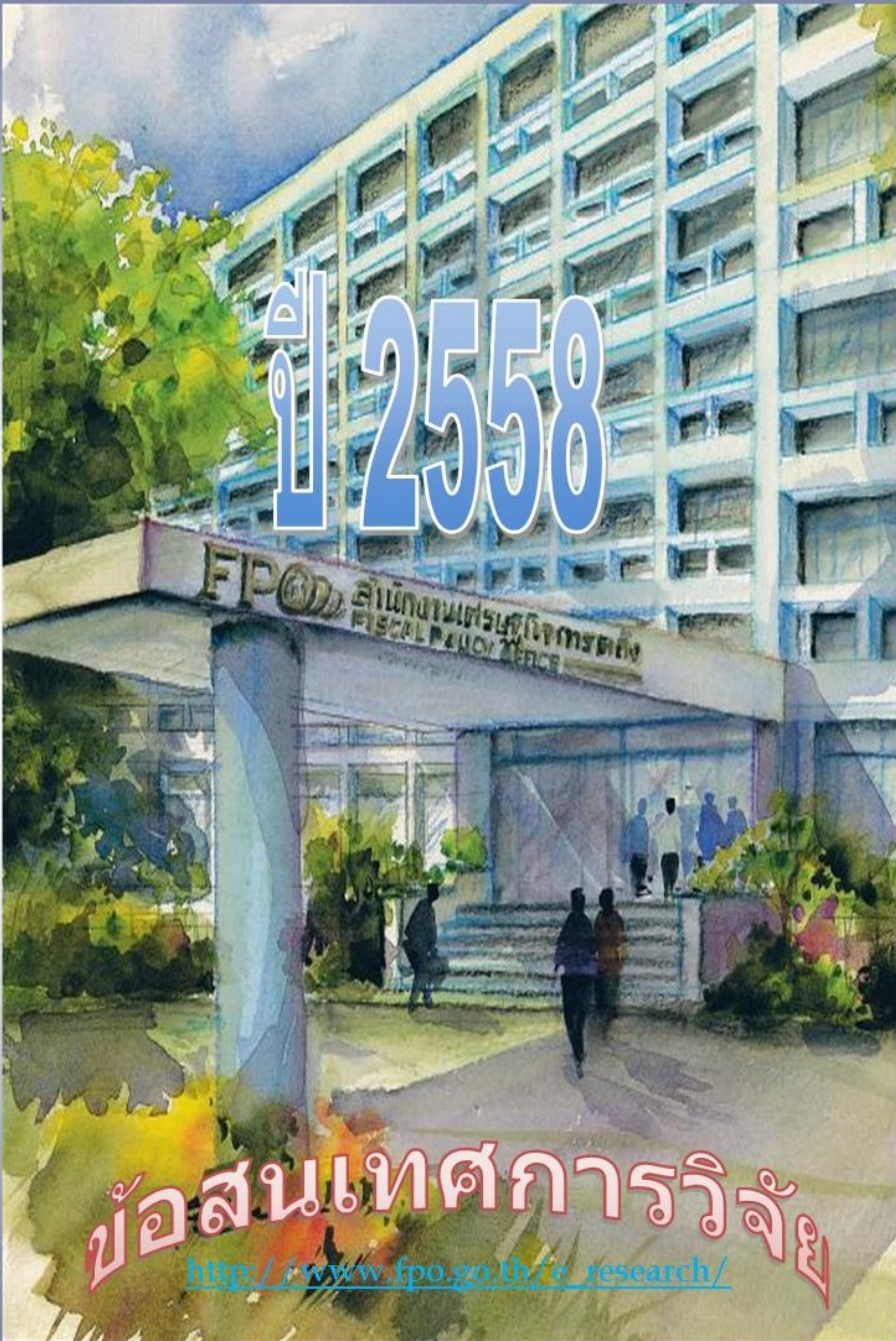

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1

Pivotal Suppliers and Market Power in Experimental Supply Function Competition

The authors use experiments to study market power with supply function competition, akin to the competition in electricity markets. Their treatments vary the distribution of demand levels as well as the amount and symmetry of the allocation of production capacity between different suppliers. The authors relate our results to a descriptive power index and to the predictions of two models: a supply function equilibrium (SFE) model and a multi-unit auction (MUA) model. Observed behaviour is consistent with the equilibria of the unrestricted SFE model and inconsistent with the unique equilibria of two refinements of the SFE model and of the MUA model.

By
Jordi Brandts,
Stanley S. Reynolds
And Arthur Schram

2

Understanding Social Interactions: Evidence from the Classroom

Little is known about the economic mechanisms leading to the high level of clustering in behaviour commonly observed in the data. The authors present a model where agents can interact according to three distinct mechanisms and we derive testable implications which allow them to distinguish between the proposed mechanisms. In our application the authors study students' performance and the authors find that a mutual insurance mechanism is consistent with the data. Such a result bears important policy implications for all those situations in which social interactions are important, from teamwork to class formation in education and co-authorship in academic research.

By

1. Giacomo De Giorgi[1]
   and
2. Michele Pellizzari

3

Testing Unilateral and Bilateral Link Formation

Empirical analysis of social networks is often based on self-reported links from survey data. How the authors interpret such data is crucial for drawing correct inference on network effects. The authors propose a method for testing whether survey responses can safely be interpreted as a link and, if so, whether links are generated by a unilateral or bilateral link formation process. The authors present two empirical illustrations of the test on risk-sharing links in Tanzania and on communication among Indian farmers, respectively, demonstrating the ability of the methodology to discriminate between competing data-generating processes.

By

1. Margherita Comola[1,*] and
2. Marcel Fafchamps[2]

Life-cycle Effects of Age at School Start

4

In Sweden, children typically start school the year they turn seven. The authors combine this school entry cut-off with individuals' birthdates to estimate effects of school starting age (SSA) on educational attainment and long-run labour market outcomes. The authors find that school entry age raises educational attainment and show that postponing tracking until age 16 reduces the effect of SSA on educational attainment. On average, SSA only affects the allocation of labour supply over the life-cycle and leaves prime-age earnings unaffected. But for individuals with low-educated parents, the authors find that prime-age earnings increase in response to age at school start.

By
Peter Fredriksson and Fjorn Ockert

5

Mobile Termination, Network Externalities and Consumer Expectations

The authors re-examine the literature on mobile termination in the presence of network externalities. Externalities arise when firms discriminate between on and off-net calls or when subscription demand is elastic. This literature predicts that profit decreases and consumer surplus increases when termination charges increase. This is puzzling as in reality regulators are pushing termination rates down while being opposed to do so by network operators. This puzzle is resolved when consumers' expectations are assumed passive but required to be fulfilled in equilibrium, as defined by Katz and Shapiro (1985), instead of being responsive to non-equilibrium prices, as assumed until now.

By
Sjaak Hurkens
and Angel L. Lopez

6

Parents, Television and Cultural Change

The authors develop a model of cultural transmission where television plays a role in socialisation. The authors study the coverage of different cultural traits by a profit - maximising TV industry and the resulting cultural dynamics. A monopolist covers both traits, but grants more coverage to the most profitable group. In a competitive TV industry each channel specialises on one trait. This might lead to cultural extinction, but only for sufficiently large majorities. Cultural extinction is more likely in a competitive than in a monopolistic TV industry. Overall their model predicts that cultural extinction can only occur under very special circumstances.

By

Esther Hauk and Giovanni Immordino

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By
Sjaak Hurkens and
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2

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By
Esther Hauk and Giovanni Immordino

3

Does Collective Wage Bargaining Restore Efficiency in a Search Model with Large

Existing search and bargaining models show that firms hire an inefficiently large number of workers. The authors ask whether decentralised collective wage bargaining may result in a second-best allocation. Collective bargaining restores efficiency when the bargained wage is independent of employment; conditions that the authors characterise. Firms then behave as if collective bargaining was over both wages and employment, thus linking the large-firm search and bargaining environment to the efficient bargaining model (McDonald and Solow, 1981). Under more realistic conditions, workers can bargain for a share of output, so that the wage is then a function of employment. In equilibrium, firms are too large and firm entry is inefficient.

By

1. Christian Bauer[1] and
2. Jörg Lingens[2,*]

4

Wages and Commuting: Quasi-natural Experiments' Evidence from Firms that Relocate

The authors examine individual-level compensating differentials for commuting distance in a quasi-natural experiment setting by examining how wages respond to changes in commuting distance induced by firm relocations. This set-up enables us to test for the relevance of job search frictions within labour market models. Due to the quasi-experimental set-up, the authors are able to avoid a range of endogeneity issues. The authors demonstrate that a 1 km increase in commuting distance induces an almost negligible wage increase in the year after the relocation but a more substantial wage increase of about 0.15% three years later.

By

1. Ismir Mulalic[1,*],
2. Jos N. Van Ommeren[2] and
3. Ninette Pilegaard[3]

5

The Labour Market Effects of Immigration and Emigration in OECD Countries

In this study, the authors quantify the labour market effects of migration flows in OECD countries during the 1990s based on a new global database on the bilateral stock of migrants, by education level. The authors simulate various outcomes using an aggregate model of labour markets, parameterised by a range of estimates from the literature. The authors find that immigration had a positive effect on the wages of less educated natives and it increased or left unchanged the average native wages. Emigration, instead, had a negative effect on the wages of less educated native workers and increased inequality within countries.

By

1. Frédéric Docquier[1],
2. Çağlar Ozden[2] and
3. Giovanni Peri[3,*]

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Information & Research

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The Effect of Immigration on Public Finances	2
The Fiscal Effects of Immigration to the UK	3
Immigrants, Labour Market Performance and Social Insurance	4

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1

The Fiscal and Welfare Effects of Immigration: Introduction

THE ECONOMIC JOURNAL

The Economic Journal, **124** (*November*), F565–F568. Doi: 10.1111/ecoj.12179 © 2014 Royal Economic Society. Published by John Wiley & Sons, 9600 Garsington Road, Oxford OX4 2DQ, UK and 350 Main Street, Malden, MA 02148, USA.

THE FISCAL AND WELFARE EFFECTS OF IMMIGRATION: INTRODUCTION*

Christian Dustmann and Tommaso Frattini

The impact of immigration on the tax and welfare system and the net fiscal consequences of immigration is perhaps the single most important economic issue of concern in the public debate assessing the pros and cons of immigration. For instance, Dustmann and Preston (2005), in a data analysis for over 20 European countries, demonstrate that in assessments of immigration's economic effects, concerns about the burden of migration on the public coffers outweigh those about labour market competition and economic efficiency. Similarly, using data for the UK only, Dustmann and Preston (2007) show that concerns about immigrations' fiscal effects have a larger impact on attitudes towards more liberal migration policies than concerns about its wage impacts. Interestingly, in line with these observations, it is concerns over immigration's fiscal effects (and not so much its wage effects) that are currently dominating the debate in the UK and it was restrictions on welfare access that the UK government implemented just before opening up the UK labour market to A8 immigrants in 2004.[1]

Yet despite this apparent importance of fiscal considerations in the formation of attitudes towards immigration and, although the fiscal contribution of immigrants has emerged as a key concern in the public debate on immigration, very little evidence is yet available that allows assessment of how much immigrants take out of and contribute to the public purse. This Feature attempts to fill this void by presenting three papers on the subject: the first, by Preston, provides a conceptual framework, identifying the difficulties researchers face in investigating immigration's fiscal effects because of problems in accurately allocating the related expenditures and revenues to different populations. This article thus sets the stage for the way we should think about empirical analyses that investigate immigrations' fiscal impact and provides a valuable pre-requisite not just for the more empirical papers in this Feature but also for the fiscal impact debate in general. In particular, it carefully separates the different impacts of immigration in both a static and a dynamic setting. Immigration can affect the static public budget constraint in various ways because immigrants pay taxes or consume public services differently from natives, change the taxes paid or services consumed by natives or, by their presence, affect the cost of providing services to natives. In a dynamic context, immigration can affect public finances by changing the generational composition of the population so that age groups with a positive fiscal balance shrink or expand relative to others.

* Corresponding author: Christian Dustmann, Department of Economics, University College London, Drayton House, 30 Gordon Street, London WC1H 0AX, UK. Email: c.dustmann@ucl.ac.uk.

[1] A8 immigrants are those from the eight Central and Eastern European countries that joined the EU in May 2004.

2

The Effect of Immigration on Public Finances

The impact of immigration on the public finances is an important influence on public opinion. This study aims to provide a thorough conceptual survey, pointing out the complexities of a full understanding and the relevance of indirect effects and covering both static perspectives and longer run dynamic issues. It considers simple accounting approaches which are relatively neglectful of behavioural responses but also tries to bring out the complexities in the nature of the relationship between immigration and the public exchequer that come with more sophisticated modelling of its economic effects.

By
Ian Preston

3

The Fiscal Effects of Immigration to the UK

The Authors investigate the fiscal impact of immigration on the UK economy, with a focus on the period since 1995. Their findings indicate that, when considering the resident immigrant population in each year from 1995 to 2011, immigrants from the European Economic Area (EEA) have made a positive fiscal contribution, even during periods when the UK was running budget deficits, while Non-EEA immigrants, not dissimilar to natives, have made a negative contribution. For immigrants that arrived since 2000, contributions have been positive throughout, and particularly so for immigrants from EEA countries. Notable is the strong positive contribution made by immigrants from countries that joined the EU in 2004.

By
Christian Dustmann and
Tommaso Frattini

Immigrants, Labour Market Performance and Social Insurance

4

Using longitudinal data from the date of arrival, they study long-term labour market and social insurance outcomes for all major immigrant cohorts to Norway since 1970. Immigrants from high-income countries performed as natives, while labour migrants from low-income source countries had declining employment rates and increasing disability programme participation over the lifecycle. Refugees and family migrants assimilated during the initial period upon arrival but labour market convergence halted after a decade and was accompanied by rising social insurance rates. For the children of labour migrants of the 1970s, they uncover evidence of intergenerational assimilation in education, earnings and fertility.

By
Bernt Bratsberg,
Oddbjorn Raaum

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Information&Research

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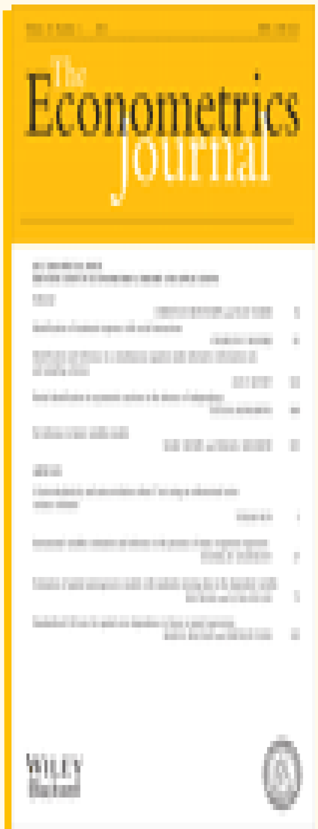
The Econometrics Journal



October 2014
Volume 17, Issue 3

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1

A social interaction model with an extreme order statistic

They introduce a social interaction econometric model with an extreme order statistic to model peer effects. They show that the model is a well-defined system of equations and that it is a static game with complete information. The social interaction model can include exogenous regressors and group effects. Instrumental variables estimators are proposed for the general model that includes exogenous regressors. They also consider distribution-free methods that use recurrence relations to generate moment conditions for estimation. For a model without exogenous regressors, the maximum likelihood approach is computationally feasible.

By **Ji Tao and Lung-fei Lee**

Estimation of discrete games with correlated types

2

Author focus on the identification and estimation of static games of incomplete information with correlated types. Instead of making the independence assumption on players' types in order to simplify the equilibrium set, he propose an approach that allows me to identify subsets of the space of covariates (i.e. publicly observed state variables in payoff functions), for which there exists a unique pure strategy Bayesian Nash equilibrium (BNE) and the equilibrium strategies are monotonic functions. Moreover, he characterize the monotonic pure strategy BNE in a simple manner and propose an estimation procedure that uses observations only from the subset of the covariate space where the game admits a unique monotonic pure strategy BNE. Furthermore, he show that the proposed estimator is -consistent and has a limiting normal distribution.

By Haiqing Xu

3

Maximum score estimation with nonparametrically generated regressors

The estimation problem in this paper is motivated by the maximum score estimation of preference parameters in the binary choice model under uncertainty in which the decision rule is affected by conditional expectations. The preference parameters are estimated in two stages. They estimate conditional expectations nonparametrically in the first stage. Then, in the second stage, we estimate the preference parameters based on the maximum score estimator of Manski, using the choice data and first-stage estimates. This setting can be extended to maximum score estimation with nonparametrically generated regressors. In this paper, they establish consistency and derive the rate of convergence of the two-stage maximum score estimator. Moreover, they also provide sufficient conditions under which the two-stage estimator is asymptotically equivalent in distribution to the corresponding single-stage estimator that assumes the first-stage input is known. They also present some Monte Carlo simulation results for the finite-sample behaviour of the two-stage estimator.

By Le-Yu Chen, Sokbae Lee and Myung Jae

Common breaks in time trends for large panel data with a factor structure

4

In this paper, author analyse issues related to the estimation of a common break in a large panel of time series data. Each series in the panel consists of a linear time trend and a random error. The linear time trend is subject to a break that occurs at the same date for all series. The error term is cross-sectionally correlated through a factor structure. The break date is estimated jointly with the common factors. In particular, two break date estimators are analysed: the first is obtained as an iterative solution while the second is obtained as a global solution. The asymptotic properties of these estimators are analysed under both global and local asymptotic frameworks. These two estimators are shown to be asymptotically equivalent and to achieve a faster rate of convergence than the simple break date estimator that does not take common factors into account. The limiting distributions of the proposed break date estimators are provided so that asymptotically valid confidence intervals can be formed. Monte Carlo simulation results are provided to support the theoretical results.

By Dukpa Kim

5

Point-optimal panel unit root tests with serially correlated errors

Generalizations of the point-optimal panel unit root tests of Moon, Perron and Phillips (MPP) are developed to cover cases of serially correlated errors. The resulting statistics involve two modifications relative to those of MPP: (a) the error variance is replaced by the long-run variance; (b) centring of the statistic is adjusted to correct for second-order bias effects induced by the correlation between the error and lagged dependent variable.

By Hyungsik Roger Moon, Benoit Perron and Peter C. B. Phillips

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Information & Research

The Economic Journal

Volume 124, Issue 581
December 2014

Report
Vol 1 Jan. 2015

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1

Influential Opinion Leaders

They present a two-stage coordination game in which early choices of experts with special interests are observed by followers who move in the second stage. They show that the equilibrium outcome is biased towards the experts' interests even though followers know the distribution of expert interests. Expert influence is fully decentralised in the sense that each individual expert has a negligible impact. The bias in favour of experts results from a social learning effect that is multiplied through a coordination motive. They apply their results to the onset of social movements and to the diffusion of products with network externalities.

By
Antoine Loeper, Jakub Steiner
and Colin Stewart

No News in Business Cycles

2

A structural factor-augmented VAR model is used to evaluate the role of 'news shocks' in generating the business cycle. They find that existing small-scale VAR models are affected by 'non-fundamentalness' and therefore fail to recover the correct shock and impulse response functions; news shocks have a smaller role in explaining the business cycle than previously found in the literature; their effects are essentially in line with what predicted by standard theories and a substantial fraction of business cycle fluctuations are explained by shocks unrelated to technology.

By
Mario Forni, Luca Gambetti
and Luca Sala

3

What Causes Over-investment in R&D in Endogenous Growth Models?

Endogenous growth models may exhibit either under or over-investment in R&D. The possibility of over-investment is generally attributed to a business stealing effect that arises as the latest innovator destroys and/or appropriates previous incumbent's rents. They argue that this conventional wisdom is misleading. In standard models, business stealing by itself cannot result in excessive R&D. They explain the other effects that must be at work here, thus contributing towards a better understanding of when and why the market may be biased towards excessive R&D.

By
Vincenzo Denicolo
and
Piercarlo Zanchettin

4

Is Internet Job Search Still Ineffective?

Using National Longitudinal Survey of Youth (NLSY97) data for 2005–8, they find that unemployed persons who look for work online are re-employed about 25% faster than comparable workers who do not search online. This finding contrasts with previous results for 1998–2001, and is robust to controls for cognitive test scores and detailed indicators of Internet access. Internet job search (IJS) appears to be most effective in reducing unemployment durations when used to contact friends and relatives, to send out resumes or fill out applications and also to look at advertisements. They detect a weak positive relationship between IJS and wage growth between jobs.

By
Peter Kuhn and Hani Mansour

5

Liquidity, Term Spreads and Monetary Policy

They propose a model with segmented markets that delivers endogenous variations in term spreads driven by banks' portfolio decisions while facing maturity risk. Future profitability influences the term premium that banks require to carry this risk. When expected profitability is relatively high (low) spreads are low (high). Spread fluctuations feed back into the macroeconomy through investment decisions. Econometric evidence corroborates this link between expected financial profitability and yield spreads. Finally, they analyse unconventional monetary policy by allowing banks to sell assets to the central bank. These interventions exploit a new channel of policy transmission through banks' portfolio choice affecting the yield curve.

By
Yunus Aksaoy and
Henrique S. Basso

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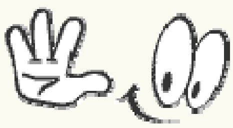

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6

Local Government Spending Multipliers and Financial Distress:

They estimate local government spending multipliers using annual data for 47 Japanese prefectures during the 1990s. Their main findings are as follows: the average local government spending multiplier is positive and significantly different from zero but not larger than one; there are large and significant differences in the output effects of different types of government expenditures: transfers to firms have the highest multiplier, significantly larger than one, while transfers to households have the lowest multiplier, significantly below zero; firms' financial distress has a significant negative effect on the local government spending multiplier, in contrast to economic slack that has a significant positive effect.

By
Markus Bruckner and Anita Tuladhar

Labour Market Institutions and

7

They compare labour market flows in the US and Germany between 1980 and 2004. In Germany, average worker flows in and out of unemployment are substantially lower; outflows are equally volatile in both countries; inflows are about twice as volatile in Germany and contribute more to the unemployment rate volatility. They explore four candidates for these differences: unemployment benefits; union bargaining power; employment protection and the efficiency of matching unemployed workers to open positions. They find that a lower matching efficiency in Germany can explain the bulk of the cross-country differences. It amplifies the business cycle and adds persistence.

By
Philip Jung and Moritz Kuhn

8

China's Dominance Hypothesis and the Emergence of a Tri-polar Global

This study assesses whether the international monetary system is already tri-polar by testing what they call China's 'dominance hypothesis', i.e. whether the renminbi already influences exchange rate and monetary policies strongly in Asia, a direct reference to the old 'German dominance hypothesis' which ascribed to the German mark a dominant role in Europe in the 1980s. Using a global factor model of exchange rates and a complementary event study, they find evidence that the renminbi has become a key driver of currency movements in Asia since the mid-2000s, especially since the global financial crisis, in line with China's dominance hypothesis.

By
Marcel Fratzscher and Arnaud Mehi

9

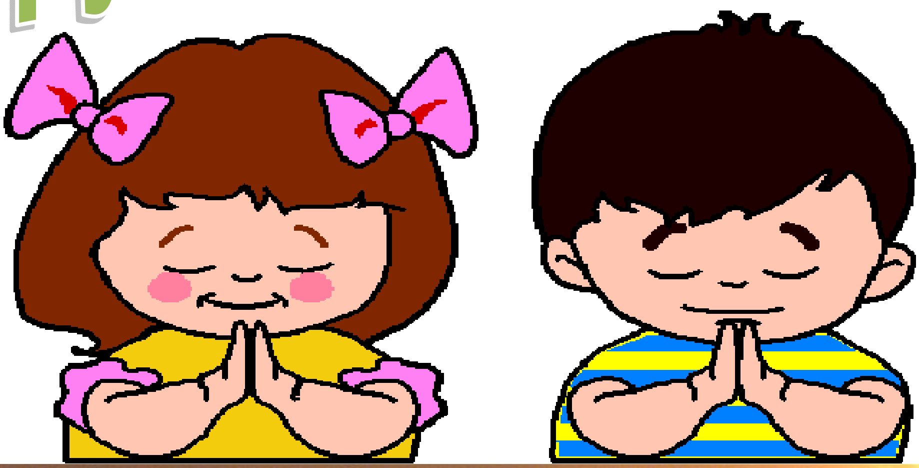
Survival of the Fittest in Cities: Urbanisation and Inequality

They develop a framework that integrates natural advantage, agglomeration economies and firm selection to explain why large cities are both more productive and more unequal than small towns. Their model highlights complementarities among those factors and matches a number of key stylised facts about cities. A larger city size increases productivity via selection and higher urban productivity provides incentives for rural–urban migration. Tougher selection increases the returns to skills and earnings inequality in cities. They illustrate a multi-city version of the model numerically and explore the formation of new cities, the growth of existing cities and changes in income inequality.

By

Kristian Behrens and Frederic Robert Nicoud

Happy New Year 2015



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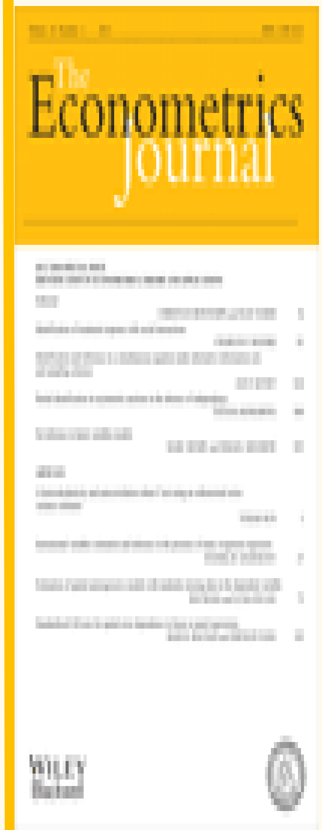

February 2014
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Number 1

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1

Weighted composite quantile regression estimation of DTARCH models

In modelling volatility in financial time series, the double-threshold autoregressive conditional heteroscedastic (DTARCH) model has been demonstrated as a useful variant of the autoregressive conditional heteroscedastic (ARCH) models. In this paper, the authors propose a weighted composite quantile regression method for simultaneously estimating the autoregressive parameters and the ARCH parameters in the DTARCH model. This method involves a sequence of weights and takes a data-driven weighting scheme to maximize the asymptotic efficiency of the estimators. Under regularity conditions, they establish asymptotic distributions of the proposed estimators for a variety of heavy- or light-tailed error distributions. Simulations are conducted to compare the performance of different estimators, and the proposed approach is used to analyse the daily S&P 500 Composite index, both of which endorse our theoretical results.

By JIANCHENG JIANG, XUEJUN JIANG and XINYUAN SONG

Multivariate variance targeting in the BEKK-GARCH model

2

In this paper, the authors consider asymptotic inference in the multivariate BEKK model based on (co)variance targeting (VT). By definition the VT estimator is a two-step estimator and the theory presented is based on expansions of the modified likelihood function, or estimating function, corresponding to these two steps. Strong consistency is established under weak moment conditions, while sixth-order moment restrictions are imposed to establish asymptotic normality. The simulations included indicate that the multivariately induced higher-order moment constraints are necessary.

By

RASMUS S. PEDERSEN and **ANDERS RAHBEK**

3

Estimation of state-space models with endogenous Markov regime-switching parameters

This study proposes and estimates state-space models with endogenous Markov regime-switching parameters. It complements regime-switching dynamic linear models by allowing the discrete regime to be jointly determined with observed or unobserved continuous state variables. The estimation framework involves a Bayesian Markov chain Monte Carlo scheme to simulate the latent state variable that controls the regime shifts. A simulation exercise shows that neglecting endogeneity leads to biased ninference. This method is then applied to the dynamic Nelson–Siegel yield curve model where the unobserved time-varying level, slope and curvature factors are contemporaneously correlated with the Markov-switching nvolatility regimes. The estimation results nnindicate that the high volatility tends to be associated with positive innovations in the nlevel and slope factors. More importantly, they find that the endogenous regime-switching dynamic Nelson–Siegel model outperforms the model with and without exogenous regime-switching in terms of out- of-sample prediction accuracy.

By

KYU H. KANG

Estimation of fixed effects panel data partially linear additive regression models

4

In this paper, the authors investigate the estimation problem of fixed effects panel data partially linear additive regression models. Semi-parametric fixed effects panel data regression models are tools that are well suited to econometric analysis and the analysis of cDNA micro-arrays. By applying a polynomial spline series approximation and a profile least-squares procedure, they propose a semi-parametric least-squares dummy variables estimator (SLSDVE) for the parametric component and a series estimator for the non-parametric component. Under very weak conditions, they show that the SLSDVE is asymptotically normal and that the series estimator achieves the optimal convergence rate of the non-parametric regression. In addition, they propose a two-stage local polynomial estimation for the non-parametric component by applying the additive structure and the series estimator. The resultant estimator is asymptotically normal and the asymptotic distribution of each additive component is the same as it would be if the other components were known with certainty. The authors conduct simulation studies to demonstrate the finite sample performance of the proposed procedures and they also present an illustrative empirical application.

By

CHUNRONG RI, JINHONG YOU AND YONG ZHOU

5

Direct semi-parametric estimation of fixed effects panel data varying coefficient models

In this paper, the authors present a new technique to estimate varying coefficient models of unknown form in a panel data framework where individual effects are arbitrarily correlated with the explanatory variables in an unknown way. The estimator is based on first differences and then a local linear regression is applied to estimate the unknown coefficients. To avoid a non-negligible asymptotic bias, the authors need to introduce a higher-dimensional kernel weight. This enables their to remove the bias at the price of enlarging the variance term and, hence, achieving a slower rate of convergence. To overcome this problem, the authors propose a one-step backfitting algorithm that enables the resulting estimator to achieve optimal rates of convergence for this type of problem. It also exhibits the so-called oracle efficiency property. The authors also obtain the asymptotic distribution. Because the estimation procedure depends on the choice of a bandwidth matrix, the authors also provide a method to compute this matrix empirically. The Monte Carlo results indicate the good performance of the estimator in finite samples.

By

JUAN M. RODRIGUEZ-POO AND ALEXANDRA SOBERON

6

Improved Lagrange multiplier tests in spatial autoregressions

For testing lack of correlation against spatial autoregressive alternatives, Lagrange multiplier tests enjoy their usual computational advantages, but the ($\chi2$) first-order asymptotic approximation to critical values can be poor in small samples. The authors develop refined tests for lack of spatial error correlation in regressions, based on Edgeworth expansion. In Monte Carlo simulations, these tests, and bootstrap tests, generally significantly outperform $\chi2$-based tests.

By

RASMUS S. PEDERSEN and **ANDERS RAHBEK**

7 Identification-robust inference for endogeneity

The authors provide a generalization of the Anderson–Rubin (AR) procedure for inference on parameters that represent the dependence between possibly endogenous explanatory variables and disturbances in a linear structural equation (endogeneity parameters). The authors stress the distinction between regression and covariance endogeneity parameters. Such parameters have intrinsic interest (because they measure the effect of latent variables, which induce simultaneity) and play a central role in selecting an estimation method (such as ordinary least-squares or instrumental variable methods). The authors observe that endogeneity parameters might not be identifiable and authors give the relevant identification conditions. These conditions entail a simple identification correspondence between regression endogeneity parameters and the usual structural parameters, while the identification of covariance endogeneity parameters typically fails as soon as global identification fails. The authors develop identification-robust finite-sample tests for joint hypotheses involving structural and regression endogeneity parameters, as well as marginal hypotheses on regression endogeneity parameters. For Gaussian errors, authors provide tests and confidence sets based on standard Fisher critical values. For a wide class of parametric non-Gaussian errors (possibly heavy-tailed), authors show that exact Monte Carlo procedures can be applied using the statistics considered. As a special case, this result also holds for usual AR-type tests on structural coefficients. For covariance endogeneity parameters, authors supply an asymptotic (identification-robust) distributional theory. Tests for partial exogeneity hypotheses (for Individual potentially endogenous explanatory variables) are covered as special cases. The proposed tests are applied to two empirical examples: the relation between trade and economic growth, and the widely studied problem of returns to education.

By

FIRMIN DOKO TCHATOKA AND JEAN—MARIE DUFOUR

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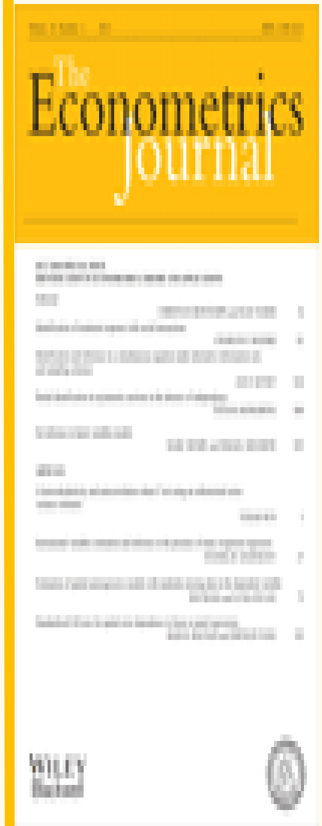
Vol 2 : Feb. 2015

The Econometrics Journal



February 2014
Volume 17,
Number 2

1

An instrumental variable random-coefficients model for binary outcomes

In this paper, the authors study a random-coefficients model for a binary outcome. Authors allow for the possibility that some or even all of the explanatory variables are arbitrarily correlated with the random coefficients, thus permitting endogeneity. Authors assume the existence of observed instrumental variables Z that are jointly independent with the random coefficients, although they place no structure on the joint determination of the endogenous variable X and instruments Z, as would be required for a control function approach. The model fits within the spectrum of generalized instrumental variable models, and they thus apply identification results from their previous studies of such models to the present context, demonstrating their use. Specifically, they characterize the identified set for the distribution of random coefficients in the binary response model with endogeneity via a collection of conditional moment inequalities, and they investigate the structure of these sets by way of numerical illustration.

By

ANDREW CHESHER AND ADAM M. ROSEN

Backfitting and sommth backfitting in varying coefficient quantile regression

2

In this paper, the authors study ordinary backfitting and smooth backfitting as methods of fitting varying coefficient quantile models. The authors do this in a unified framework that accommodates various types of varying coefficient models. Their framework also covers the additive quantile model as a special case. Under a set of weak conditions, the authors derive the asymptotic distributions of the backfitting estimators. The authors also briefly report on the results of a simulation study.

By

YOUNG K. LEE,ENNO MAMMEN AND BYEONG U. PARK

3

Confidence sets based on inverting Anderson-Rubin tests

Economists are often interested in the coefficient of a single endogenous explanatory variable in a linear simultaneous-equations model. One way to obtain a confidence set for this coefficient is to invert the Anderson–Rubin (AR) test. The AR confidence sets that result have correct coverage under classical assumptions. However, AR confidence sets also have many undesirable properties. It is well known that they can be unbounded when the instruments are weak, as is true of any test with correct coverage. However, even when they are bounded, their length may be very misleading, and their coverage conditional on quantities that the investigator can observe (notably, the Sargan statistic for overidentifying restrictions) can be far from correct. A similar property manifests itself, for similar reasons, when a confidence set for a single parameter is based on inverting an F-test for two or more parameters.

By

RUSSELL DAVIDSON AND JAMES G. MACKINNON

Testing for the stochastic dominance efficiency of a given portfolio

4

The authors propose a new statistical test of the stochastic dominance efficiency of a given portfolio over a class of portfolios. The authors establish its null and alternative asymptotic properties, and define a method for consistently estimating critical values. The authors present some numerical evidence that our tests work well in moderate-sized samples.

By

OLIVER LINTON, THIERRY POST AND YOON-JAE WHANG

5

Posterior inference in curved exponential families under increasing dimensions

In this paper, the authors study the large-sample properties of the posterior-based inference in the curved exponential family under increasing dimensions. The curved structure arises from the imposition of various restrictions on the model, such as moment restrictions, and plays a fundamental role in econometrics and others branches of data analysis. The authors establish conditions under which the posterior distribution is approximately normal, which in turn implies various good properties of estimation and inference procedures based on the posterior. In the process, the authors also revisit and improve upon previous results for the exponential family under increasing dimensions by making use of concentration of measure. the authors also discuss a variety of applications to high-dimensional versions of classical econometric models, including the multinomial model with moment restrictions, seemingly unrelated regression equations, and single structural equation models. In their analysis, both the parameter dimensions and the number of moments are increasing with the sample size.

By

ALEXANDRE BELLONI AND VICTOR CHERNOZHUKOV

6

Generalized dynamic semi-parametric factor models for high—dimensional non-stationary time series

High-dimensional non-stationary time series, which reveal both complex trends and stochastic behaviour, occur in many scientific fields, e.g. macroeconomics, finance, neuroeconomics, etc. To model these, we propose a generalized dynamic semi-parametric factor model with a two-step estimation procedure. After choosing smoothed functional principal components as space functions (factor loadings), the authors extract various temporal trends by employing variable selection techniques for the time basis (common factors). Then, the authors establish this estimator's non-asymptotic statistical properties under the dependent scenario (β-mixing and m-dependent) with the weakly cross-correlated error term. At the second step, the authors obtain a detrended low-dimensional stochastic process that exhibits the dynamics of the original high-dimensional (stochastic) objects and the authors further justify statistical inference based on this. The authors present an analysis of temperature dynamics in China, which is crucial for pricing weather derivatives, in order to illustrate the performance of their method. The authors also present a simulation study designed to mimic it.

By

SONG SONG,WOLFGANG K. HARDLE AND YA’ACOV RITOV

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Information &Research

The Economic Journal

Volume 125, Issue 582
February 2015

Report
Vol 1 Mar. 2015

http://www.fpo.go.th/e_research/ebook/ebook.php

1

Impatience, Incentives and Obesity

This article explores the relationship between time preferences, economic incentives and body mass index (BMI). The Author provide evidence of an interaction effect between time preference and food prices, with cheaper food leading to the largest weight gains among those exhibiting the most impatience. The interaction of changing economic incentives with heterogeneous discounting may help explain why increases in BMI have been concentrated amongst the distribution's right tail. The Author also model time - inconsistent preferences by computing individuals' quasi-hyperbolic discounting parameters. Both long -run patience and present-bias predict BMI, suggesting obesity is partly attributable to both rational intertemporal tradeoffs and time inconsistency.

By Charles Courtemanche, Garth Heutel and Patrick McAlvanah

HIV Testing and Risky Sexual Behaviour

2

Using a study that randomly assigns HIV testing in two sites in sub-Saharan Africa, Author examine the effects of testing on sexual behaviour. Using sexually transmitted infections as markers of risky sex, Author find behavioural responses to HIV tests when tests provide unexpected information. Individuals surprised by an HIV-positive (HIV-negative) test increase (decrease) their risky sexual behaviour. Author simulate the effects of testing and find under certain conditions, new HIV infections increase when people are tested. The provision of anti-retrovirals for HIV-positive individuals immediately after testing mitigates these effects and leads to decreases in HIV infections in all cases.

By
Erick Gong

3

Intergenerational Wealth Mobility in England, 1858-2012: Surnames and Social Mobility

This article uses a panel of 18,869 people with rare surnames whose wealth is observed at death in England and Wales 1858–2012 to measure the intergenerational elasticity of wealth over five generations. The Author show, using rare surnames to track families, that wealth is much more persistent than standard one generation estimates would suggest. There is still a significant correlation between the wealth of families five generations apart. The Author show that this finding can be reconciled with standard estimates of wealth mobility by positing an underlying first order Markov process of wealth inheritance with an intergenerational elasticity of 0.70–0.75 throughout the years 1858–2012.

By
Gregory Clark and Neil Cummins

Competition, Disclosure and Signallingt

4

Competition creates strategic incentives for firms to communicate private information about product quality through signalling rather than voluntary disclosure. In a duopoly where firms may disclose quality before setting prices and prices may signal quality, non-disclosure by all firms may often be the unique symmetric outcome even if disclosure cost vanishes. A high-quality firm may not disclose even if it has strong competitive advantage over a low - quality rival. This provides an alternative explanation of infrequent voluntary disclosure. Although product information is always communicated whether or not firms disclose, signalling distortions may provide a rationale for mandatory disclosure regulation.

By
Maarten C.W.Janssen
and Santanu Roy

ข้อสนเทศการวิจัย
Information & Research

The Economic Journal

Volume 125, Issue 582
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Report 2
Vol 2 Mar. 2015

http://www.fpo.go.th/e_research/ebook/ebook.php

1

Are Women More Attracted to Co-operation Than Men?

The Author conduct a real-effort experiment where participants choose between individual compensation and team-based pay. In contrast to tournaments, the Author find that women choose team-based pay at least as frequently as men in all their conditions and significantly more often in a well-defined subset of conditions. Women's greater attraction to co-operative incentives results in part from their more optimistic assessments of their prospective teammate's ability. Women also respond differently to alternative rules for team formation in a manner that is consistent with advantageous inequity aversion. In contrast, men show a greater responsiveness to efficiency gains associated with team production.

By Peter Kuhn and Marie Claire Villeval

Should Central Banks Burst Bubbles? Some Microeconomic Issues

2

Anti-bubble policy is examined in a finite-horizon 'greater fool' bubble model, with rational agents, asymmetric information and short-sales constraints. This permits the use of standard tools of welfare economics to analyse bubble policies. Policy is modelled as deflating overpriced assets by revealing information about this overpricing. If the central bank is following such a policy, then the market interprets inaction as an implicit endorsement of asset prices, which raises these prices. Also, the central bank can deflate overpriced assets even if it has no informational advantage over any investors about this overpricing. However, unless it has such an informational advantage, a bubble-bursting rule may only make things worse.

By John R. Conlon

3

Smoothed Interest Rate Setting by Central Banks and Staggered Loan

Author investigate a new source of economic stickiness: namely, staggered loan interest rate contracts under monopolistic competition. This study introduces this mechanism into a standard new Keynesian model. Simulations show that a response to a financial shock is greatly amplified by the staggered loan contracts, although a response to a productivity, cost-push or monetary policy shock is not much affected. Author derive an approximated loss function and analyse optimal monetary policy. Unlike other models, the function includes a quadratic loss of the first-order difference in loan rates. Thus, central banks have an incentive to smooth the policy rate.

By
Yuki Teranishi

4

A Testable Theory of Imperfect Perception

The Author provide a characterisation of choice behaviour generated by a Bayesian expected utility maximiser. The observable signature of this standard model is the impossibility of raising utility by switching wholesale from one action to another. The Author provide applications to robustness, to the recovery of utility from choice data and to model classification.

By
Andrew Caplin1 and
Daniel Martin

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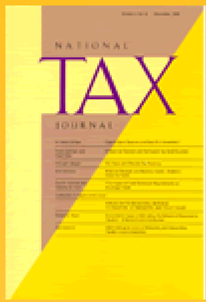
Information&Research

National Tax Journal
Volume 67, No. 4
December, 2014



สศค. สำนักงานเศรษฐกิจการคลัง

Vol 1 : Apr. 2015

Who Pays Taxes? A Dynamic Perspective — 1

Using the Tax System to Address Competition Issues with a Carbon Tax — 2

The Initial Incidence of a Carbon Tax Across U.S. States — 3

Corporate Tax Aggressiveness — Recent History and Policy Options — 4

Risky Business: The Prosopography of Corporate Tax Planning — 5

1 Who Pays Taxes? A Dynamic Perspective

This paper examines income and payroll tax payments using a panel of individual income tax returns from 2001—2011, Over that time, the share of families paying positive income taxes decreased from 62 to 53 percent, and the share of individuals fell from 69 to 62 percent, Including payroll taxes increases the share of individuals paying positive taxes in 2011 to 71 percent, but does not alter the trend. Across years, positive tax liability is more persistent than non-payment or negative liability. Finally, across a five-year window, 13 percent of individuals paid positive taxes in no year, while 20 percent had a zero or negative tax liability on average.

By Bradley T. Heim, Ithai Z. Lurie, and James Pearce

Using the Tax System to Address Competition Issues with a Carbon Tax

2

This paper considers how tax reductions financed by a carbon tax could be designed to mitigate the need for specific relief for firms in select energy-intensive, trade-exposed (EITE) sectors at the six-digit North American Industry Classification System level. Providing an output-based tax credit to EITE sectors or a broad based reduction in corporate income tax rates disproportionately benefits EITE sectors, thereby potentially reducing pressure for other transitional relief. Payroll tax reductions, on the other hand, do not disproportionately benefit EITE sectors given their higher than average capital intensity.

By Gilbert E. Metcalf

3

The Initial Incidence of a Carbon Tax Across U.S. States

Carbon taxes introduce potentially uneven cost burdens across the population. The distribution of these costs is especially important in affecting political outcomes. This paper links dynamic overlapping-generations and microsimulation models of the United States to estimate the initial incidence of a carbon tax across states. Geographic differences in incidence are driven primarily by differences in sources of income. Differing patterns of energy use also matter but are relatively less important, The use of the carbon tax revenue plays an important role, particularly in determining how different income sources are affected, as (1) using carbon tax revenue to cut capital taxes disproportionately benefits states with large shares of capital income; (2) returning the revenue via lump-sum transfers favors relatively low - income states; and (3) returning the revenue via cuts in labor taxes provides a relatively even distribution of cost across states, In general, geographic differences in incidence are substantially smaller than the differences across income groups.

By Roberton C. Williams III, Hal Gordon, Dallas Burtraw, Jared C. Carbone, and Richard D. Morgenstern

4

Corporate Tax Aggressiveness — Recent History and Policy Options

This paper examines corporate tax aggressiveness from the 1990s to 2014. The paper also discusses various public indicia of corporate tax aggressiveness and analyzes selected data from 21 public companies. Finally, the paper discusses several policy options for further reducing corporate tax aggressiveness, including: (1) improvements to the IRS whistleblower program, (2) increased transparency, and (3) changes to the penalty structure surrounding aggressive tax positions.

By J. Richard (Dick) Harvey, Jr,

5

Risky Business: The Prosopography of Corporate Tax Planning

The researcher trace the history of corporate tax planning from a compliance-focused activity to a profit-enhancing endeavor to a risk management center, Tax directors of U.S. multinational corporations face unprecedented global pressures from taxing jurisdictions seeking to increase their share of the enterprise's worldwide taxes. Increasingly: corporations must consider the risks that a tax strategy will impose on them, not only in terms of potential lost revenue, but also in terms of reputation and market share. The researcher discuss the components of tax risk management in today's global environment and speculate how future corporate tax planning will change in light of the Organization for Economic Co-operation and Development Base Erosion and Profit Shifting project

By Michaek P. Donohoe, Gary A. McGill, and Edmund Outslay

This article presents an abstract from the book.

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Next

Vol. 2

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http://www.fpo.go.th/e_research/ebook/ebook.php

1 Defining and Measuring Tax Planning Aggressiveness

In this paper, Jennifer discussed the concepts of tax aggressiveness and tax risk from an academic point of view. Although tax aggressiveness was often defined as being in the "eye of the beholder," this was not terribly satisfactory when attempting to measure empirically tax planning aggressiveness and its associations with from attributes. She explained that tax planning that results in certain tax benefits should not constitute aggressiveness. Although policy makers may argue that these tax planning opportunities are attributable to tax loopholes, this assertion does not imply that the firm has undertaken any significant risk by entering into such tax planning. By documenting that low effective tax rates are not necessarily associated with risky or uncertain tax planning, author hoped to convince future researchers to develop better empirical proxies for capturing aggressive tax planning

By Jennifer Blouin

2

Municipal Debt: What Does it Buy and Who Benefits?

This paper examines the incidence of the federal income tax exemption of interest on state and local bonds, applying a fixed-savings, simplified general equilibrium approach to estimate incidence effects on both the sources and uses of income, In contrast to traditional empirical work that allocates the benefit of tax exemption only to current holders of tax-exempt bonds based on current interest rates, the researcher incorporate the fact that the existence of tax exemption causes the taxable interest rate to rise and the tax-exempt rate to fall. As a consequence, on the sources side, tax exemption can increase after-tax income for holders of both taxable and tax-exempt bonds,. On the uses side, consumers of both private and public goods are affected by the higher cost of funds to private and federal government borrowers, the lower cost of funds to state and local borrowers, and the lower cost of funds to private-sector entities with access to the proceeds of tax-exempt borrowing, Overall, higher income individuals remain the primary beneficiaries of tax exemption on the sources side with this new approach, but less so than under the traditional approach. On the uses side, households who consume a relatively large share of state and local public services, such as those with several school—age children,, receive significant net benefits.

By Harvey Galper, Kim Rueben, Richard Auxier, and Amanda Eng

3

The Challenges of ACA Marketplace Enrollment: Results from Big Data and Campaign - Style Tactics in the Kansas City Area

In the fall of 2013 the Health Care Foundation of Greater Kansas City (HCF) undertook a major effort to increase insurance coverage among the estimated 200,000 uninsured people in their service area, HCF took a multi-tiered approach, providing direct incentive funding for organizations to train Certified Application Counselors (CACS) and conducting outreach activities through multiple modes of contact. Throughout the open enrollment period, HCF efforts involved knocking on nearly 60,000 doors and mailing communication to 68,000 households, HCF was committed to making real-time changes to their outreach strategies in order to increase effectiveness, Short-term evaluation efforts were canceled due to low response rates and it is too soon to assess the longer term impact of HCF outreach efforts. Overall, the experience highlights the role for local entities in providing education on health insurance and federal policy and the limitations of big data campaign-style tactics for identifying the uninsured and evaluating outreach activities, particularly those using phones as the primary contact. Experience also suggests the need for close collaboration between outreach and enrollment activities.

By Tami Gurley-Calvez, Jessica Hembree, Jane Mosley, Mary K. Zimmerman, and Bridget McCandless

4

Reforming Public Pensions Subject to Political and Legal Constraints: The Illinois Experience

On December 5, 2013, the Governor of Illinois signed into a law a bill that substantially reduced pensions for public sector workers in Illinois. Designed to partially address the severe under-funding problem created from many decades of inadequate contributions to the state's large pension funds, the new law was negotiated in a highly constrained environment. Strong constitutional benefit protections and political constraints both imposed severe limits on the set of options available to the legislature. This paper discusses these constraints and how they influenced the shape of the final bill, It also analyzes the financial and legal implications of the reform for the state, public universities, and participants.

By Jeffery R. Brown

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Information &Research

The Economic Journal

Volume 125, Issue 583
March 2015

Report
Vol 1 May. 2015

http://www.fpo.go.th/e_research/ebook/ebook.php

1

Keynesian Controversies on Wages

In The General Theory, Keynes advanced two hypotheses about movements in wages and urged their empirical investigation. John Dunlop, Lorie Tarshis and Henry Richardson responded to this call with articles published in the Economic Journal in the late 1930s. In turn, Keynes replied to their findings. This exchange is described and the subsequent literature on the cyclical movement of real wages and the rigidity of money wages is outlined.

By John Pencavel

Gary Becker's A Theory of the Allocation of Time

2

Becker's (1965) paper, 'A Theory of Allocation of Time' revolutionized the modelling of household behaviour,by unifying Marshallian demand functions for goods with labour supply and related time use decisions within the household. In this article, the authors first summarize Becker's time allocation model and associated key contributions, then the authors show how their original framework extends to modern collective household models.

By Pierre-Andre Chiappori and Arthur Lewbel

3

Localised and Biased Technologies: Atkinson and Stiglitz's New View, Induced Innovations, and Directed Technological Change

This study revisits the important ideas proposed by Atkinson and Stiglitz's seminal 1969 paper on technological change. After linking these ideas to the induced innovation literature of the 1960s and the more recent directed technological chang literature, it explains how these three complementary but different approaches are useful in the study of a range of current research areas – though they may also yield different answers to important questions. It concludes by highlighting several important areas where these ideas can be fruitfully applied in future work.

By Daron Acemoglu

4

Taxation and Saving – A Retrospective

Atkinson and Sandmo (1980) evaluated the taxation of saving by embedding the static optimal-tax framework within the two-period overlapping-generations model. Using this model, they collected a series of important results for optimal taxes on labour and capital income under a variety of assumptions regarding the instruments and objectives of the government, in particular the availability of national debt to spread burdens among different generations of individuals. With clear intuition and presentation, the study remains an important source for understanding the welfare implications of the taxation of saving.

By Alan J. Auerbach

5

Knowledge Spillovers, Innovation and Growth

Cohen and Levinthal (1989) introduced the notion of absorptive capacity and demonstrated that knowledge spillovers can induce complementarities in R&D efforts. The authors show that this idea has rich implications when analyzing important aspects of the growth process such as cross-country convergence and divergence, the international co-ordination of climate change policies, and the role of openness in the production of ideas. The authors also show that the notion of absorptive capacity sets an agenda for new empirical and theoretical analyses of the role of R&D spillovers in innovation and growth.

By Philippe Aghion and Xavier Jaravel

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March, 2015

สศค. สำนักงานเศรษฐกิจการคลัง

Vol. 2 : May 2015

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1 Carbon Taxes and Fiscal Reform in the United States

In this paper the authors consider the economic and environmental impacts of taxes on emissions of greenhouse gases. Substituting carbon taxes for other sources of revenue or using the proceeds to reduce deficits or finance expenditures are the keys to integration of carbon taxes with fiscal reform. Recycling carbon tax revenues through reductions of capital income tax rates provides the largest margin of economic benefits over the costs of emissions control. Reducing capital tax rates lowers the cost of capital services and increases the rate of capital formation. This mechanism provides a dramatic illustration of the power of intertemporal general equilibrium modeling in the design of new energy and environmental policies for the United States.

By Dale W. Jorgenson, Richard J. Goethe, Mun S. Ho, and Peter J. Wilcoxen

Carbon Taxes and U.S. Fiscal Reform

2

This paper examines fiscal reform options in the United States using an intertemporal computable general equilibrium model of the world economy called G-Cubed. Six policy scenarios explore two overarching issues: (1) the effects of a carbon tax under alternative assumptions about the use of the resulting revenue, and (2) the effects of alternative revenue sources to reduce the budget deficit. The authors examine a simple excise tax on the carbon content of fossil fuels in the U.S. energy sector starting immediately at $15 per ton of carbon dioxide (CO_2) and rising at 4 percent above inflation each year, they investigate policies that allow the revenue from the illustrative carbon tax to reduce the long-run federal budget deficit or the marginal tax rates on labor and capital income. They also compare imposing a carbon tax to increasing rates of other taxes to reduce the deficit by the same amount. They find that within 25 years of adopting the carbon tax, annual CO_2 emissions are 20 percent lower than baseline levels. They find that using the revenue for a capital tax cut is significantly different than other revenue recycling policies. In that case, investment rises, employment and wages rise, and overall GDP is significantly above its baseline level through year 25. Thus, adopting a carbon tax and using the revenue to reduce capital taxes would achieve the dual goals of reducing CO_2 emissions significantly and expanding employment and the economy.

By Warwick J. McKibbin, Adele C. Morris, Peter J. Wilcoxen, and Yiyong Cai

3 Carbon Taxes, Deficits, and Energy Policy Interactions

The United States faces the challenge of bringing its federal budget deficit under control, while also reducing its greenhouse gas emissions. Current energy policy has not been very effective in reducing greenhouse gas emissions, although that has not necessarily been its sole purpose, And rather than raise revenue, much energy policy involves subsidies through the tax system that reduce revenue or regulatory policy that may indirectly reduce revenue through its effects on economic activity. This paper focuses on the role of a carbon tax as one option to raise revenue while also reducing greenhouse gases. The authors also examine the interaction with other regulatory policies, namely renewable portfolio standards, which have been implemented in many states, and the corporate average fuel economy standards.

By Sebastian Rausch and John Reilly

4

Environmental Policy for Fiscal Reform: Can a Carbon Tax Play a Role?

This paper compares the effects of using revenues from a carbon tax to either reduce the national debt or reduce federal personal or corporate income tax rates. It differs from other analyses by looking at a carbon tax as a purely revenue raising measure, not as an optimal Pigouvian tax or as an instrument to achieve a predetermined reduction in emissions, Thus it addresses the question of whether a carbon tax would be part of an optimal tax policy even if there were no damages to the United States from CO2 emissions. The authors use a computable general equilibrium model (NERA's N_{ew}ERA model) that consists of a top-down macro model of the U.S economy and a detailed bottom-up model of the North American electricity sector. The N_{ew}ERA model is an integrated energy and economic model that includes a detailed plant-level representation of the electricity sector with an aggregate level representation of the rest of the economy. The analysis shows that using revenues for either debt or tax rate reduction can reduce the welfare losses from a carbon tax; however, the savings from reducing either federal debt or the marginal rates of other distorting taxes are still less than the economic costs imposed by the narrowly based tax on CO2 emissions. The higher the carbon tax, the greater the disparity becomes.

By Sugandha D. Tuladhar, W. David Montgomery, and Noah Kaufman

5

The Initial Incidence of a Carbon Tax Across Income Groups

Carbon taxes efficiently reduce greenhouse gas emissions, but are criticized as regressive, This paper links dynamic overlapping-generation and micro-simulation models of the United States to estimate the initial incidence of carbon taxes. The authors find that while carbon taxes are regressive, incidence depends much more on how carbon tax revenue is used. Recycling revenues to cut capital taxes is efficient but exacerbates regressively. Lump sum rebates are less efficient, but much more progressive, benefitting the three lower income quintiles even when ignoring environmental benefits. A labor tax swap represents an intermediate option, as it is more progressive than a capital tax swap and more efficient than a rebate.

By Roberton C. Williams III, Hal Gordon, Dallas Burtraw, Jared C. Carbone, and Richard D. Morgenstern

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Information & Research

The Economic Journal

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Report 1
June, 2015

http://www.fpo.go.th/e_research/ebook/ebook.php

1

Untangling Trade and Technology : Evidence from Local Labour Markets

They juxtapose the effects of trade and technology on employment in US local labour markets between 1980 and 2007. Labour markets whose initial industry composition exposes them to rising Chinese import competition experience significant falls in employment, particularly in manufacturing and among non-college workers. Labour markets susceptible to computerisation due to specialisation in routine task - intensive activities instead experience occupational polarisation within manufacturing and non-manufacturing but do not experience a net employment decline. Trade impacts rise in the 2000s as imports accelerate while the effect of technology appears to shift from automation of production activities in manufacturing towards computerisation of information-processing tasks in non-manufacturing.

By David H. Autor, David Dorn and Gordon H. Hanson

2

Does Management Matter in schools?

They collect data on management practices in over 1,800 high schools in eight countries. They show that higher management quality is strongly associated with better educational outcomes. The UK, Sweden, Canada and the US obtain the highest management scores, followed by Germany, with a gap before Italy, Brazil and India. They also show that autonomous government schools (government funded but with substantial independence like UK academics and US charters) have higher management scores than regular government or private schools. Almost half of the difference between the management scores of autonomous and regular government schools is accounted for principal leadership and governance.

By Nicholas Bloom, Renata Lemos, Raffaella Sadun and John Van Reenen

3

Financial Flows and the International Monetary System

They review the findings of the literature on the benefits of international financial flows and find that they are quantitatively elusive. They then present evidence on the existence of a global cycle in gross cross - border flows, asset prices and leverage and discuss its impact on monetary policy autonomy across different exchange rate regimes. They focus in particular on the effect of US monetary policy shocks on the UK's financial conditions.

By Evgenia Passari and Hélène Rey

The Causal Impact of Common Native Language on International Trade : Evidence from a Spatial Regression Discontinuity Design

4

This article studies the effect of sharing a common native language (CNL) on international trade. Switzerland hosts three major native language groups which adjoin countries sharing the same native majority languages. In regions close to the internal language border, the alternate major language is taught early on in school and not only understood but spoken by the residents. This setting allows for an assessment of the impact of common native rather than spoken language on transaction - level imports from neighbouring countries. Their findings point to an effect of CNL on extensive rather than on intensive margins of trade.

By Peter H. Egger and Andrea Lassmann

5

Estimating Fiscal Multipliers : News From A Non - linear World

They estimate non - linear VARs to assess to what extent fiscal spending multipliers are countercyclical in the US. They deal with the issue of non - fundamentalness due to fiscal foresight by appealing to sums of revisions of expectations of fiscal expenditures. This measure of anticipated fiscal shocks is shown to carry valuable information about future dynamics of public spending. Results based on generalised impulse responses suggest that fiscal spending multipliers in recessions are greater than one, but not statistically larger than those in expansions. However, non - linearities arise when focusing on 'extreme' events, that is, deep recessions versus strong expansionary periods.

By Giovanni Caggiano, Efrem Castelnuovo, Valentina Colombo and Gabriela Nodari

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Information & Research

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1

Investment Behaviour, Risk Sharing and Social Distance

Using a lab-in-the-field experiment in Uganda they study how risk sharing influences investment behaviour. Depending on the treatment, an investor may decide to share profits with a paired person, and/or the paired person may compensate the investor for investment losses. Following sharing norms in African societies, predicted investment is higher if loss sharing is possible, and/or profit sharing is not possible. Contrary to these predictions, they find that investment is higher when losses may not be shared or when profits may be shared with friends. A combination of directed altruism and expected reciprocity appears most plausible to explain these results.

By Ben D'Exelle and Arja Verschoor

2

Trade, Wages and Collective Bargaining : Evidence from France

They estimate the impact of international trade on wages using data for French manufacturing firms. They instrument firm-level trade flows with firm - specific instrumental variables based on world demand and supply shocks. Both export and offshoring shocks have a positive effect on wages. Exports increase wages for all occupational categories while offshoring has heterogeneous effects. The impact of trade on wages varies across bargaining regimes. In firms with collective bargaining, the elasticity of wages with respect to exports and offshoring is higher than in firms with no collective bargaining. Wage gains associated with collective bargaining are similar across worker categories.

By Juan Carluccio, Denis Fougère and Erwan Gautier

3

The Rise in Life Expectancy and Economic Growth in the 20th Century

This research exploits conditional exogenous variation in mortality from the diffusion of modern medicine to study the effect of growth in life expectancy on the growth in GDP per capita. The empirical analysis establishes that countries that obtained higher growth rates of life expectancy due to this shock to mortality in the mid - twentieth century experienced lower growth rates of GDP per capita in the second half of the twentieth century. In addition, a negative relationship between initial level of life expectancy and the subsequent growth rate of GDP per capita is found.

By Casper Worm Hansen and Lars Lønstrup

Disagreement and Learning about Reforms

4

When it comes to economic reforms in developing countries, many economists agree on broad objectives. Broad objectives, however, can be pursued in different ways, and policy experimentation is often indispensable for learning which alternative works locally. They propose a theoretical model to study this societal learning process. The model explores the role of disagreeing beliefs about 'what works'. It suggests that such disagreement can stall the societal learning process and cause economic stagnation although everyone knows that growth - promoting reforms do exist. Their analysis is motivated by the observation of a negative relationship between disagreement and economic growth among poorer countries.

By Johannes Binswanger and Manuel Oechslin

5

Non - Reservation Price Equilibrium and Search without Priors

They analyse a model of oligopolistic competition in which consumers search without priors. Consumers do not have prior beliefs about the distribution of prices charged by firms and thus try to use a robust search procedure. They show that the optimal stopping rule is stochastic and that for any distribution of search costs there is a unique market equilibrium which is characterised by price dispersion. Although listed prices approach the monopoly price as the number of firms increases, the effective price paid by consumers does not depend on the number of firms.

By Alexei Parakhonyak and Anton Sobolev

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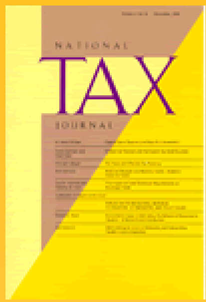

Report 1

July. 2015

1

Are Income Taxes Destined to Rise? Fiscal Imbalance and Future Tax Policy in the United States

They present a model of optimizing government behavior in which a need for increased revenue does not lead to increased income taxes, but instead leads to the introduction of a new revenue source, such as a VAT, accompanied by a reduction in income taxes. They argue that this is a plausible outcome for the United States in view of international experience and recent fiscal reform proposals and that the prospect of such a tax reform may have important implications for individual investment decisions.

By Jason L. Saving and Alan D. Viard

2

Whither the Marriage Tax?

They use household data from the Current Population Survey to calculate how the real value of the so — called "marriage tax" or "marriage subsidy" in the federal individual income tax has changed over the period 1969 to 2009. They examine three issues : the magnitude of the marriage tax / subsidy and its evolution over time, its effects on the distribution of income (including the effects of different demographic characteristics on the magnitudes and trends), and the causal factors in its evolution (e.g., tax changes, demographic changes). They find that the tax treatment of the family has changed significantly over time, from a large average marriage bonus in 1969, to a large marriage tax in much of the 1990s and early 2000s, to a large marriage subsidy since 2003. They also find that the marriage tax varies significantly and systematically by income level, as well as by the number of children in the family, the earnings ratios of the spouses, the race of the family, and the age of the household head. Finally, they find that changes in income and family composition have influenced the magnitudes and trends of marriage taxes and subsidies, but that adjustments in the federal income tax code account for most of the observed changes.

By James Alm and J. Sebastian Leguizamon

3 Accounting for Income Changes over the Great Recession Relative to Previous Recessions : The Impact of Taxes and Transfers

Using decomposition analysis together with March CPS data, they consider the relative importance of factors accounting for changes in post — tax, post — transfer income during each of the last four recessions, Unlike the double dip recession of the 1980s, employment drops rather than falling wage earnings drove income declines during the Great Recession. Furthermore, taxes and transfers played a much greater role in offsetting market income losses — a result largely missed in analyses not accounting for taxes and transfers. This is particularly so among the bottom quintile where lower taxes and increased transfers offset more than one — half of market income declines.

By Jeff Larrimore, Richard V. Burkhauser, and Philip Armour

4

Difference — in — Differences Methods in Public Finance

Recognizing that cross — sectional data are often insufficient to address the identification problems associated with estimating the effect of government taxation or spending, economists engaged in public finance research often utilize longitudinal data that span the period over which a policy change occurred. As economic data have proliferated over the last decade, uses of the difference — in — differences design and its variations have become more numerous. Nevertheless, published research that invokes difference — in – differences commonly fails to present evidence and reasoning that enable the reader to properly evaluate the causal claims under investigation. In this paper, they examine the threats to internal validity that exist when using difference - in – differences for causal inference and review variations of the design that can be used to address these threats. Next, they survey the public finance literature in order to examine the ways that these threats are addressed in practice. They conclude by proposing a number of recommendations for researchers to consider as they implement difference - in - differences as an empirical strategy.

By Travis St. Clair and Thomas D. Cook

5

Local Government Responses to Exogenous Shocks in Revenue Sources : Evidence from Florida

Little is known about how cities and counties respond to negative shocks in their fiscal resources, such as those that occurred after the Great Recession. They provide evidence from the state of Florida on the millage rate and expenditure adjustments that cities and counties make in response to a loss in their two most important fiscal resources — the property tax base and intergovernmental transfers. These adjustments are hypothesized to vary with the monopoly power possessed by the local government. Their findings support this hypothesis and indicate that fiscal stress results in higher millage rates and cuts in expenditures. The cuts are targeted toward capital expenditures and less essential public services.

By Erich Cromwell and Keith Ihlanfeldt

This article presents an abstract from the book.

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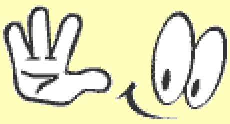

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Report 2
July 2015

Saver Heterogeneity and the Challenge of Assessing Retirement Saving Adequacy 1

Mr. Piketty and the "Neoclassics" : A Suggested Interpretation 2

Taking Capital's Gains : Capital's Ideas and Tax Policy in the Twenty – First Century 3

The Origins of Inequality, and Policies to Contain It 4

Capital and Wealth Taxation in the 21 st Century 5

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1 Saver Heterogeneity and the Challenge of Assessing Retirement Saving Adequacy

Determining whether a particular household is saving enough for retirement, and estimating the fraction of a population cohort that is on track in retirement planning, are complicated by substantial heterogeneity in household spending needs during retirement years. Longevity, health status, capital market returns, and whether family networks will prove a source of support or a drain, all very significantly across households. It is possible to calibrate each of these sources of uncertainty, but different modeling approaches can yield different answers. Differences in approach explain part of the disagreement about the fraction of U.S. households that are saving adequately for retirement.

By James M. Poterba

2

Mr. Piketty and the "Neoclassics" : A Suggested Interpretation

This essay is an attempt to build a bridge between Thomas Piketty's arguments in Capital in the Twenty — First Century and modern neoclassical economics. This is done by deconstructing the variables and mathematical expressions used by Piketty to define specific economic phenomenon, examining the historical periods that Piketty has focused on in Capital, and using the results from the previous analyses to critique Piketty's arguments in Capital in the Twenty - First Century within a modern neoclassical economics framework.

By J. Bradford DeLong

3

Taking Capital's Gains : Capital's Ideas and Tax Policy in the Twenty – First Century

This essay examines Thomas Piketty's proposal in Capital in the Twenty – First Century for wealth taxation as a policy tool for addressing rising wealth inequality. In so doing, he also addresses portions of his other two contributions — a history of inequality and wealth and a forecast for how wealth shares will evolve. While Piketty's scope impresses, his tax policy conclusions miss the mark. Not only does his core analytical apparatus fail to bolster the case for greater taxation of capital, but familiar contemporary policy discussions of social insurance and consumption taxation better address the concerns he raises.

By Glenn Hubbard

4 The Origins of Inequality, and Policies to Contain It

This paper critiques the notion that unfettered inequality is an inevitable consequence of contemporary capitalism, and provides an alternative, new framework for analyzing changes in income and wealth distribution. By thinking of these distributions as the result of changing centrifugal and centripetal economic and political forces, he can identify changes in his economic and social structure that may have played a central role in the creation of today's high level of inequality, and he can analyze the potential impacts of alternative policies. Specifically, he suggests that much of the increase in inequality is associated with the growth in rents — including land and exploitation rents (e.g., arising from monopoly power and political influence).

By Joseph E. Stiglitz

5 Capital and Wealth Taxation in the 21 st Century

In this article, he presents some of the findings of his book Capital in the 21st Century. In particular, he clarifies the role played by r>g in his analysis of wealth inequality. He also discusses some of the implications for optimal taxation, and the relation between capital — income ratios and capital shares.

By Thomas Piketty

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1

Non - parametric inference on the number of equilibria

This paper proposes an estimator and develops an inference procedure for the number of roots of functions that are non - parametrically identified by conditional moment restrictions. It is shown that a smoothed plug - in estimator of the number of roots is superconsistent under i.i.d. asymptotics, but asymptotically normal under non - standard asymptotics. The smoothed estimator is furthermore asymptotically efficient relative to a simple plug - in estimator. The procedure proposed is used to construct confidence sets for the number of equilibria of static games of incomplete information and of stochastic difference equations. In an application to panel data on neighbourhood composition in the United States, no evidence of multiple equilibria is found.

By Maximilian Kasy

More reliable inference for the dissimilarity index of segregation

2

The most widely used measure of segregation is the so - called dissimilarity index. It is now well understood that this measure also reflects randomness in the allocation of individuals to units (i.e. it measures deviations from evenness, not deviations from randomness). This leads to potentially large values of the segregation index when unit sizes and/or minority proportions are small, even if there is no underlying systematic segregation. Their response to this is to produce adjustments to the index, based on an underlying statistical model. They specify the assignment problem in a very general way, with differences in conditional assignment probabilities underlying the resulting segregation. From this, they derive a likelihood ratio test for the presence of any systematic segregation, and bias adjustments to the dissimilarity index. They further develop the asymptotic distribution theory for testing hypotheses concerning the magnitude of the segregation index and show that the use of bootstrap methods can improve the size and power properties of test procedures considerably. They illustrate these methods by comparing dissimilarity indices across school districts in England to measure social segregation.

By Rebecca Allen, Simon Burgess, Russell Davidson and Frank Windmeijer

3

Specification tests for nonlinear dynamic models

He proposes a new adequacy test and a graphical evaluation tool for nonlinear dynamic models. The proposed techniques can be applied in any set - up where parametric conditional distribution of the data is specified and, in particular, to models involving conditional volatility, conditional higher moments, conditional quantiles, asymmetry, Value at Risk models, duration models, diffusion models, etc. Compared to other tests, the new test properly controls the nonlinear dynamic behaviour in conditional distribution and does not rely on smoothing techniques that require a choice of several tuning parameters. The test is based on a new kind of multivariate empirical process of contemporaneous and lagged probability integral transforms. He establishes weak convergence of the process under parameter uncertainty and local alternatives. He justifies a parametric bootstrap approximation that accounts for parameter estimation effects often ignored in practice. Monte Carlo experiments show that the test has good finite - sample size and power properties. Using the new test and graphical tools, he checks the adequacy of various popular heteroscedastic models for stock exchange index data.

By Igor L. Kheifets

Robust hypothesis tests for M - estimators with possibly non - differentiable estimating functions

4

They propose a new robust hypothesis test for (possibly non - linear) constraints on M - estimators with possibly non - differentiable estimating functions. The proposed test employs a random normalizing matrix computed from recursive M - estimators to eliminate the nuisance parameters arising from the asymptotic covariance matrix. It does not require consistent estimation of any nuisance parameters, in contrast with the conventional heteroscedasticity - autocorrelation consistent (HAC) - type test and the Kiefer – Vogelsang – Bunzel (KVB) - type test. Their test reduces to the KVB - type test in simple location models with ordinary least - squares estimation, so the error in the rejection probability of their test in a Gaussian location model is $O_p(T^{-1} \log T)$. They discuss robust testing in quantile regression, and censored regression models in detail. In simulation studies, they find that their test has better size control and better finite sample power than the HAC - type and KVB - type tests.

By Wei - Ming Lee, Yu - Chin Hsu and Chung - Ming Kuan

5

Specification testing in nonstationary time series models

In this paper, they consider a specification testing problem in nonlinear time series models with nonstationary regressors, and they propose using a nonparametric kernel - based test statistic. The null asymptotics for the proposed nonparametric test statistic have been well developed in the existing literature. In this paper, they study the local asymptotics of the test statistic (i.e. the asymptotic properties of the test statistic under a sequence of general nonparametric local alternatives) and show that the asymptotic distribution depends on the asymptotic behaviour of the distance function, which is the local deviation from the parametrically specified model in the null hypothesis. In order to implement the proposed test in practice, they introduce a bootstrap procedure to approximate the critical values of the test statistic and establish a new Edgeworth expansion, which is used to justify the use of such an approximation. Based on the approximate critical values, they develop a bandwidth selection method, which chooses the optimal bandwidth that maximizes the local power of the test while its size is controlled at a given significance level. The local power is defined as the power of the proposed test for a given sequence of local alternatives. Such a bandwidth selection is made feasible by an approximate expression for the local power of the test as a function of the bandwidth. A Monte Carlo simulation study is provided to illustrate the finite sample performance of the proposed test.

By Jia Chen, Jiti Gao, Degui Li and Zhengyan Lin

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1

Maximization by parts in extremum estimation

In this paper, they present various iterative algorithms for extremum estimation in cases where direct computation of the extremum estimator or via the Newton – Raphson algorithm is difficult, if not impossible. While the Newton – Raphson algorithm makes use of the full Hessian matrix, which may be difficult to evaluate, their algorithms use parts of the Hessian matrix only, the parts that are easier to compute. They establish consistency and asymptotic efficiency of their iterative estimators under regularity and information dominance conditions. They argue that the economic interpretation of a structural econometric model will often allow them to give credibility to a well — suited information dominance condition. They apply their algorithms to the estimation of the Merton structural credit risk model and to the Heston stochastic volatility option pricing model.

By Yanqin Fan, Sergio Pastorello

and Eric Renault

2

Non - standard rates of convergence of criterion - function - based set estimators for binary response models

This paper establishes consistency and non - standard rates of convergence for set estimators based on contour sets of criterion functions for a semi - parametric binary response model under a conditional median restriction. The model can be partially identified due to potentially limited - support regressors and an unknown distribution of errors. A set estimator analogous to the maximum score estimator is essentially cube - root consistent for the identified set when a continuous but possibly bounded regressor is present. Arbitrarily fast convergence occurs when all regressors are discrete. He also establishes the validity of a subsampling procedure for constructing confidence sets for the identified set. As a technical contribution, he provides more convenient sufficient conditions on the underlying empirical processes for cube - root convergence and a sufficient condition for arbitrarily fast convergence, both of which can be applied to other models. Finally, he carries out a series of Monte Carlo experiments, which verify his theoretical findings and shed light on the finite - sample performance of the proposed procedures.

By Jason R. Blevins

3

A class of indirect inference estimators : higher - order asymptotics and approximate bias correction

In this paper, they define a set of indirect inference estimators based on moment approximations of the auxiliary estimators. Their introduction is motivated by reasons of analytical and computational facilitation. Their definition provides an indirect inference framework for some classical bias correction procedures. They derive higher - order asymptotic properties of these estimators. They demonstrate that under their assumption framework, and in the special case of deterministic weighting and affinity of the binding function, these are second - order unbiased. Moreover, their second - order approximate mean square errors do not depend on the cardinality of the Monte Carlo or bootstrap samples that their definition might involve. Consequently, the second - order mean square error of the auxiliary estimator is not altered. They extend this to a class of multistep indirect inference estimators that have zero higher - order bias without increasing the approximate mean square error, up to the same order. Their theoretical results are also validated by three Monte Carlo experiments.

By Stelios Arvanitis and Antonis Demos

4

Identification and estimation of partially linear censored regression models with unknown heteroscedasticity

In this paper, they introduce a new identification and estimation strategy for partially linear regression models with a general form of unknown heteroscedasticity, that is, Y = X′ βo +m (Z) + U and U = Q (X,Z) € where ε is independent of (X, Z) and the functional forms of both m(.) and Q(.) are left unspecified. They show that in such a model, β0 and m(.) can be exactly identified while Q(.) can be identified up to scale as long as Q(X,Z) permits sufficient nonlinearity in X. A two - stage estimation procedure motivated by the identification strategy is described and its large sample properties are formally established. Moreover, their strategy is flexible enough to allow for both fixed and random censoring in the dependent variable. Simulation results show that the proposed estimator performs reasonably well in finite samples.

By Zhengyu Zhang and Bing Liu

5

Testing for structural change under non - stationary variances

Non - stationarity of the volatility process reflects low - frequency volatility changes of an economic time series, and its theoretical and empirical relevance has been widely recognized. He investigates how it affects cumulative sum (CUSUM) related tests for structural change in regression coefficients. Non - stationary variances generally invalidate standard structural change tests by introducing an infinite - dimensional nuisance parameter in the limit distribution, and he proposes robust alternatives. He also shows that the practical relevance of the non — monotonic power issue, which is peculiarly associated with the test for changing mean, is mitigated (although the power against a small change is reduced) if there is comparable change in volatility levels. The results are useful to validate/modify a test to ensure monotonic power. Simulations and an empirical example provide finite - sample evidence of the theoretical findings.

By Ke - Li Xu

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http://www.fpo.go.th/e_research/ebook/ebook.php

1

Convergence and Modernisation

In a country panel since 1960, the estimated annual convergence rate for GDP is 1.7%, conditional on time - varying explanatory variables. With country fixed effects, the estimated convergence rate is misleadingly high. With data starting in 1870, country fixed effects are reasonable and the estimated convergence rate is 2.6%. Combining the two estimates suggests conditional convergence close to the 'iron - law' rate of 2%. With post-1960 data, estimation without country fixed effects reveals positive effects of GDP and schooling on law and order and democracy – consistent with the modernisation hypothesis. With post - 1870 data, estimation without or with country fixed effects indicates modernisation.

By Robert J. Barro

2

Processing Trade, Tariff Reductions and Firm Productivity : Evidence from Chinese Firms

This article explores how reductions in tariffs on imported inputs and final goods affect the productivity of large Chinese trading firms, with the special tariff treatment that processing firms receive on imported inputs. Firm - level input and output tariffs are constructed. Both types of tariff reductions have positive impacts on productivity that are weaker as firms' share of processing imports grows. The impact of input tariff reductions on productivity improvement, overall, is weaker than that of output tariff reductions, although the opposite is true for non - processing firms only. Both tariff reductions are found to contribute at least 14.5% to economy - wide productivity growth.

By Miaojie Yu

3

Competition and Increasing Returns to Scale : A Model of Bank Size

This study examines the causal effects of bank size on banks' survival, asset quality and leverage. Two forces drive these effects : increasing returns to scale derived from banks' expertise and competition. The first enables bigger banks to survive competition better, have higher asset quality and be more leveraged. It drives banks into a race for expansion. This race toughens competition between banks, which edges out small banks and may worsen all banks' asset quality. Consequently, the banking industry will be dominated by a small number of highly leveraged banks. In this study, financial intermediation arises endogenously and co - exists with direct finance.

By Tianxi Wang

Positively Gamma Discounting : Combining the Opinions of Experts on the Social Discount Rate

4

The aggregated term structure of social discount rates that results from Weitzman's (2001) survey of expert opinion is shown to be highly sensitive to the nature of the responses. If variation reflects irreducible differences in ethical judgments, the term structure can decline rapidly. If variation occurred because respondents were forecasting future rates under uncertainty, the term structure is much flatter because additional experts provide new information. The former approach triples the social cost of carbon when compared to the latter. The distinction between heterogeneity and uncertainty illustrates the need for a nuanced treatment of survey data in intergenerational policy making.

By Mark C. Freeman, and Ben Groom

5

Please Don't Vote for Me : Voting in a Natural Experiment with Perverse Incentives

Whether individuals vote strategically is one of the most important questions at the intersection of economics and political science. Exploiting a flaw in the German electoral system by which a party may gain seats by receiving fewer votes, this article documents patterns of preference misrepresentation in a large, real - world election. During the 2005 elections to the Bundestag, the sudden death of a right - wing candidate necessitated a by - election in one electoral district. Knowing the results in all other districts and given the paradoxical incentives in place, a substantial fraction of the electorate voted for a party other than their most preferred one, or abstained.

By Jörg L. Spenkuch

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1

Peer Effects in Charitable Giving : Evidence from the (Running) Field

There is a widespread belief that peer effects are important in charitable giving but little evidence on how donors respond to their peers. Analysing a unique data set of donations to online fund - raising pages, they find positive and sizeable peer effects: a £10 increase in the mean of past donations increases giving by £2.50, on average. Donations respond to both very large and very small amounts and to changes in the mode. They find little evidence that donations signal charity quality - their preferred explanation is that donors use information on earlier donations to decide what is appropriate for them to give.

By Sarah Smith, Frank Windmeijer

and Edmund Wright

2

Curbing the Credit Cycle

Credit cycles have been a characteristic of advanced economies for over 100 years. On average, a sustained pick - up in the ratio of credit to GDP has been highly correlated with banking crises. The boom phases of the cycle are characterised by large deviations in credit from trend. A range of mechanisms can generate these effects, each of which has strategic complementarity between banks at its core. Macro - prudential policy could curb these credit cycles, both through raising the cost of maintaining risky portfolios and through an expectations channel that operates via banks' perceptions of other banks' actions.

By David Aikman, Andrew G. Haldane
and Benjamin D. Nelson

3

Inequality Constraints and Euler Equation - based Solution Methods

Solving dynamic models with inequality constraints poses a challenging problem for two major reasons : dynamic programming techniques are reliable but often slow, whereas Euler equation - based methods are faster but have problematic or unknown convergence properties. This study attempts to bridge this gap. I show that a common iterative procedure on the first - order conditions - usually referred to as time iteration – delivers a sequence of approximate policy functions that converges to the true solution under a wide range of circumstances. These circumstances extend to a large set of endogenous and exogenous state variables as well as a very broad spectrum of occasionally binding constraints.

By Pontus Rendahl

4

Rationalising Choice with Multi - self Models

This article shows that when multiple selves' preferences are aggregated into a decision, even if the researcher has a fully specified theory of how preferences getaggregated, there are typically no testable implications without restricting the number of selves. This points to the importance of collecting reliable information on the number of selves in interpersonal and intrapersonal decision - making contexts. They establish the result through a linear relationship between the number of selves and the set of choice functions an aggregator is guaranteed to rationalise. The latter relates to a choice function's number of independence of irrelevant alternatives violations, a new measure of irrationality.

By Attila Ambrus, and Kareen Rozen

5

Income Shocks and HIV in Africa

They examine how variation in local economic conditions has shaped the AIDS epidemic in Africa. Using data from over 200,000 individuals across 19 countries, they match biomarker data on individuals' serostatus to information on local rainfall shocks, a large source of income variation for rural households. They estimate infection rates in HIV - endemic rural areas increase by 11% for every recent drought, an effect that is statistically and economically significant. Income shocks explain up to 20% of variation in HIV prevalence across African countries, suggesting existing approaches to HIV prevention could be bolstered by helping households manage income risk better.

By Marshall Burke, Erick Gong and Kelly Jones

ศูนย์บริหารงานวิจัยและบรรณสารสนเทศ