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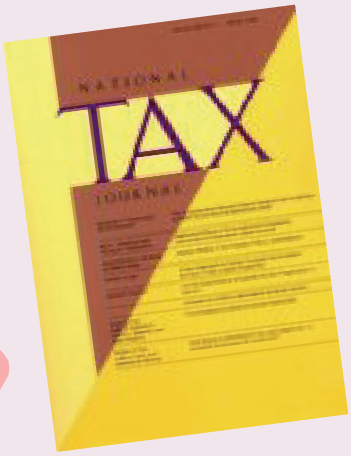

แนะนำบทความทางวิชาการที่น่าสนใจ

ประจำเดือนตุลาคม 2554 - มีนาคม 2555

ศูนย์บริหารงานวิจัยและบรรณสารสนเทศ

ฝ่ายเทคโนโลยีและบรรณสารสนเทศ

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JOURNAL : THE ECONOMIC JOURNAL

Volume 121, No. 555 SEPTEMBER 2011

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CONTENTS 1 : The Optimal Level of International Reserves for Emerging Market Countries: A New Formula and Some Applications

They present a model of the optimal level of international reserves for a small open economy seeking insurance against sudden stops in capital flows. We derive a formula for the optimal level of reserves and show that plausible calibrations can explain reserves of the order of magnitude observed in many emerging market countries. The buildup of reserves in emerging market Asia can be explained only if one assumes a large anticipated output cost of sudden stops and a high level of risk aversion.

By OLIVIER JEANNE and ROMAIN REANCIÈRE

CONTENTS 2 : Service Regulation and Growth : Evidence From OECD Countries

They study the effects of anti-competitive service regulation by examining whether OECD countries with less anti-competitive regulation see better economic performance in manufacturing industries that use less-regulated services more intensively. Their results indicate that lower service regulation increases value added, productivity and export growth in downstream service-intensive industries. The regulation of professional service and energy provision has particularly strong negative growth effects. Their estimates are robust to accounting for alternative forms of regulation (i.e. product and labour market regulation), alternative measures of financial development and a range of other specification checks.

BY GUGLIELMO BERONE and FEDERICO CINGANO

CONTENTS 3 : TRADE AND SECTORAL PRODUCTIVITY

Cross-country differences in sectoral total factor productivity (TFP) are at the heart of Ricardian trade theory and of many models of growth and development. Their knowledge of the magnitude and the characteristics of cross-country differences in sectoral TFP is limited. This study fills the gap by showing how sectoral TFP differences can be backed out from bilateral trade data using a hybrid Ricardo-Heckscher-Ohlin model. This allows us to overcome the data problems that constrained previous studies and to provide a comparable set of sectoral productivities for 24 manufacturing sectors in more than 60 countries at all stages of development. Their results imply that TFP differences in manufacturing sectors between rich and poor countries are substantial and far more pronounced in skilled labour and R&D intensive sectors.

BY HARALD FADINGER AND PABLO FLEISS

CONTENTS 4 : SEQUENTIAL AUCTIONS WITH INFORMATIONAL EXTERNALITIES AND AVERSION TO PRICE RISK : DECREASING AND INCREASING PRICE SEQUENCES

A large body of empirical research has shown that prices of identical goods sold sequentially sometimes increase and often decline across rounds. This article introduces a tractable form of risk aversion, called aversion to price risk, and shows that declining prices arise naturally when bidders are averse to price risk. When there are informational externalities, there is a countervailing effect which pushes prices to raise along the path of a sequential auction, even if bidder' s signals are independent. The article shows how to decompose the effect of aversion to price risk from the effect of informational externalities.

BY CLAUDIO MEZZETTI

CONTENTS 5 : ASSESSING THE EFFECTS OF LOCAL TAXATION USING MICROGEOGRAPHIC DATA

They study the impact of local taxation on the location and growth of firms. Our empirical methodology pairs establishments across jurisdicational boundaries to estimate the impact of taxation. Their approach improves on existing work as it corrects for unobserved establishment heterogeneity, for unobserved time-varying site -specific effects and for the endogeneity of local taxation. Applied to data for English manufacturing establishments, we find that local taxation has a negative impact on employment growth but no effect on entry.

By Gilles Duranton, Laurent Gobillon and Henry G. Overman

CONTENTS 6 : DOES THE FED RESPOND TO OIL PRICE SHOCKS?

A common view in the literature is that systematic monetary policy responses to the inflation caused by oil price shocks have been an important source of aggregate fluctuations in the US economy. Earlier empirical evidence in support of such a link was based on inappropriate econometric models. They show that there is no credible evidence that monetary policy responses to oil price shocks caused large aggregate fluctuations in the 1970s and 1980s or more recently. Their analysis suggests that the traditional monetary policy reaction framework should be replaced by models that take account of the endogeneity of the real price of oil and that allow policy responses to depend on the underlying causes of oil price shocks.

By Lutz Kilian and Logan T. Lewis

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By Lutz Kilian and Logan T. Lewis

CONTENTS 9 : REVEALED PREFERENCE ANALYSIS OF NON-COOPERATIVE HOUSEHOLD

They develop a revealed preference approach to analyse non-unitary household consumption behaviour that is not cooperative (or Pareto efficient). They derive global necessary and sufficient conditions for data consistency with the model. They show that the conditions can be verified by means of relatively straightforward mixed integer programming methods, which is particularly attractive in view of empirical analysis. their framework extends to tests for separate spheres and joint contribution to public goods. An application to data drawn from the Russia Longitudinal Monitoring Survey demonstrates the empirical relevance of the non-cooperative consumption model.

By Laurens Cherchye, Thomas Demuynck and Bram De Rock

CONTENTS 10 : CULTIVATING TRUST: NORMS, INSTITUTIONSAND THE IMPLICZTIONS OF SCALE

They study the co-evolution of honesty norms and institutions. New trading opportunities require institutional changes to be realized, since the initial vulnerability of institutions to opportunistic behaviour leads to the deterioration of norms. They show how an escape from opportunism requires that institutional improvements outpace norm deterioration. A key prediction emerges: larger economies are more likely to evolve to steady states with strong honesty norms but need not have better institutions. This prediction is tested using a cross-section of countries; population has a significant positive relationship with trust, even when controlling for standard trust determinants and institutional quality.

By Chris Bidner and Patrick francois

CONTENTS 11 : Intellectual Property Rights, Foreign Direct Investment and Industrial Development

This article develops a North-South product cycle model in which innovation, imitation and the flow of foreign direct investment (FDI) are all endogenously determined. In the model, a strengthening of intellectual property right (IPR) protection in the South reduces the rate of imitation and it increases the flow of FDI. Indeed, the increase in FDI more than offsets the decline in the extent of production undertaken by Southern imitators so that the South' share of the global basket of goods increases. Furthermore, while multinationals charge higher prices than Southern imitators, real wages of Southern workers increase while those of Northern workers fall.

By Lee Branstetter and Kamal Saggi

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CONTENTS 12 : Exchange-Rate-based Stabilisation, Durables Consumption and the Stylised /facts

In this article they show that a model featuring durable consumer goods, imperfect substitution between domestic and foreign assets, and weak credibility can explain the qualitative and quantitative aspects of the stylized facts associated with exchange-rate-based stabilization, including the tremendous increase in real interest rates. Following a temporary reduction in the crawl, total consumption spending rises 14-26% ,the real exchange rate appreciates 20-37% and the current account deficit swells to 10-15% of gross domestic product. Despite large capital inflows, the real interest rate increases from 10 to 20-100%

By Edward F. Buffie and Manoj Atolia

CONTENTS 13: Can Teams Help to Close the Gender Competition Gap?

They investigate the effect that competing in teams has on gender differences in choosing to enter competitions. In our experiment, subjects chose whether to compete based on the combined performance of themselves and a teammate. They find that competing in two-person teams reduces the gender competition gap by two-thirds. Independent of the sex of one’s partner, female subjects prefer to compete in teams whereas male subjects prefer to compete as individuals. They find that this result is driven primarily by gender differences in competitive preferences, as opposed to other potential explanations such as risk aversion, feedback aversion or confidence.

By Andrew Healy and Jennifer Pate

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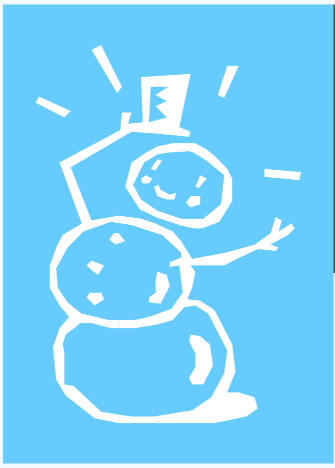

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NATIONAL TAX JOURNAL
VOL 64, NO. 3

ภายในฉบับนี้:

1 : SCHOOL DISTRICT RESPONSES TO MATCHING AID PROGRAMS FOR CAPITAL FACILITIES: A CASE STUDY OF NEW YORK'S BUILDING AID PROGRAM

4: THE EFFECT OF TAX-BASED FEDERAL STUDENT AID ON COLLEGE ENROLLMENT

2 : THE EFFECT OF TAX PREFERENCES ON HEALTH SPENDING

5 : "CLEAN AND SAFE" FOR ALL? THE INTERACTION BETWEEN BUSINESS IMPROVEMENT DISTRICTS AND LOCAL GOVERNMENT IN THE PROVISION OF PUBLIC GOODS

3: THE EFFECTS OF TAXATION ON THE LOCATION DECISION OF MULTINATIONAL FIRMS: M&A VERSUS GREENFIELD INVESTMENTS

6: THE IMPACTS OF THE AFFORDABLE CARE ACT: HOW REASONABLE ARE THE PROJECTIONS?

Title: SCHOOL DISTRICT RESPONSES TO MATCHING AID PROGRAMS FOR CAPITAL FACILITIES: A CASE STUDY OF NEW YORK'S BUILDING AID PROGRAM

Authors: Wen Wang, William D. Duncombe, John M. Yinger

Citation: 64 National Tax Journal 759-94 (September 2011)

Abstract: States are financing a larger share of capital investment by school districts but little is known about how districts respond to facility aid programs. Our paper addresses this gap in the literature by examining how a short-term increase in the matching rate for the Building Aid program in New York affected district capital investment decisions. We estimate a capital investment model and find that most districts are responsive to price incentives but that price responsiveness is related to the fiscal health and urban location of the district. Drawing on these results, we provide recommendations for the design of capital investment aid programs to increase their effectiveness in supporting high-need urban districts.

Title: THE EFFECT OF TAX PREFERENCES ON HEALTH SPENDING

Authors: John F. Cogan, R. Glenn Hubbard, Daniel P. Kessler

Citation: 64 National Tax Journal 795-816 (September 2011)

Abstract: In this paper, we estimate the effect of the tax preference for health insurance on health care spending using data from the Medical Expenditure Panel Surveys from 1996–2005. We use the fact that Social Security taxes are only levied on earnings below a statutory threshold to identify the impact of the tax preference. Because employer-sponsored health insurance premiums are excluded from Social Security payroll taxes, workers who earn just below the Social Security tax threshold receive a larger tax preference for health insurance than workers who earn just above it. We find a significant effect of the tax preference, consistent with previous research.

Title: THE EFFECTS OF TAXATION ON THE LOCATION DECISION OF MULTINATIONAL FIRMS: M&A VERSUS GREENFIELD INVESTMENTS

Authors: Shafik Hebous, Martin Ruf, Alfons J. Weichenrieder

Citation: 64 National Tax Journal 817-38 (September 2011)

Abstract: In this study, we estimate the impact of differences in international tax rates on the probability of choosing a location for an affiliate of a multinational firm. In particular, we distinguish between the tax sensitivity of Greenfield and Mergers and Acquisitions (M&A) investments. Based on a novel firm-level dataset on German outbound foreign direct investment (FDI), we find evidence that location decisions of M&A investments are less sensitive to differences in tax rates than location decisions of Greenfield investments. According to our logit estimates, after controlling for firm and country-specific characteristics, the tax elasticity for Greenfield investments is negative and in absolute value significantly larger than that associated with M&A investments. This finding is consistent with (partial) capitalization of taxes in the acquisition price when the FDI project takes the form of a M&A.

Title: **THE EFFECT OF TAX-BASED FEDERAL STUDENT AID ON COLLEGE ENROLLMENT**

Author: Nicholas Turner

Citation: 64 National Tax Journal 839-61 (September 2011)

Abstract: Tax-based federal student aid — the Hope Tax Credit, Lifetime Learning Tax Credit, and Tuition Deduction — marks a new paradigm for federal aid by offering tax incentives for postsecondary enrollment for the middle class. I exploit policy-induced variation in tax-based aid eligibility to estimate its causal effect on college enrollment. I find that tax-based aid increases full-time enrollment in the first two years of college for 18 to 19 years old by 7 percent. The price sensitivity of enrollment suggests that college enrollment increases 0.3 percentage points per $100 of taxbased aid. The programs do not appear to substantively affect part-time enrollment in the first two years of college.

Title: **"CLEAN AND SAFE" FOR ALL? THE INTERACTION BETWEEEN BUSINESS IMPROVEMENT DISTRICTS AND LOCAL GOVERNMENT IN THE PROVISION OF PUBLIC GOODS**

Author: Rachel Meltzer

Citation: 64 National Tax Journal 863-89 (September 2011)

Abstract: Business Improvement Districts (BIDs) privately supplement local public goods, and theory predicts that the public sector will interact with BIDs in their provision of local services. This paper provides the first empirical study of the sub-municipal effect of BIDs on the allocation of publicly provided services. Using unique, neighborhood-level data from New York City, I find that BIDs are associated with a significant, but substantively small, shift in the allocation of police and sanitation services. However, after instrumenting for BID presence, any significant effect of BIDs on public spending and service provision disappears. Together the results indicate that there is little or no interaction between public and private governments in the provision of local services.

Title: **THE IMPACTS OF THE AFFORDABLE CARE ACT: HOW REASONABLE ARE THE PROJECTIONS?**

Author: Jonathan Gruber

Citation: 64 National Tax Journal 893-908 (September 2011)

Abstract: The Patient Protection and Affordable Care Act (ACA) is the most comprehensive reform of the U.S. medical system in at least 45 years. The ACA transforms the non-group insurance market in the United States, mandates that most residents have health insurance, significantly expands public insurance and subsidizes private insurance coverage, raises revenues from a variety of new taxes, and reduces and reorganizes spending under the nation's largest health insurance plan, Medicare. Projecting the impacts of such fundamental reform to the health care system is fraught with difficulty. But such projections were required for the legislative process, and were delivered by the Congressional Budget Office (CBO). This paper discusses the projected impact of the ACA in more detail, and describes evidence that sheds light upon the accuracy of the projections. It begins by reviewing in broad detail the structure of the ACA, and then reviews evidence from a key case study that informs our understanding of the ACA's impacts: a comparable health reform that was carried out in Massachusetts four years earlier. The paper discusses the key results from that earlier reform and what they might imply for the impacts of the ACA. The paper ends with a discussion of the projected impacts of the ACA and offers some observations on those estimates.

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ภายในฉบับนี้:

Advertising, Search and Intermediaries on the Internet: Introduction by Chris M. Wilson

THE ECONOMIC JOURNAL

The Economic Journal, **121** (*November*), F291–F296. Doi: 10.1111/j.1468-0297.2011.02464.x. © 2011 The Author(s). The Economic Journal © 2011 Royal Economic Society. Published by Blackwell Publishing, 9600 Garsington Road, Oxford OX4 2DQ, UK and 350 Main Street, Malden, MA 02148, USA.

ADVERTISING, SEARCH AND INTERMEDIARIES ON THE INTERNET: INTRODUCTION*

Chris M. Wilson

I wonder how many times you have already used a search engine, a price comparison website or a social networking site today? Such online intermediaries gain much of their revenue by offering advertising positions within their search results or on their websites. This form of advertising has evolved into a huge industry. The enterprise value of Google, for example, is now close to $140 billion.[1] But far more than being just a big business, advertising within online intermediaries is fundamentally changing the way in which firms compete by altering how consumers search for information about products and prices. Such changes prompt many policy questions, but these questions can only be answered once economists have a better theoretical understanding of the complex interrelationship between intermediaries, firms and consumers. This feature aims to develop that understanding further. In particular, the five articles investigate how firms compete to pay an online intermediary for advertising slots, how consumers use the intermediary's information within their search behaviour and how this, in turn, affects firms' pricing decisions.

Compared with its significance, it may surprise some readers that this topic has attracted relatively little previous study; see Ellison and Ellison (2005) and Levin (2011) for reviews of more general research related to the Internet. In part, this may be due to a tradition within industrial economics of focusing on supply-side rather than demand-side issues in understanding competition and market performance. As pointed out by Waterson (2003) and others, far more attention has been paid to analysing the effects of market concentration, mergers, collusion and vertical relations rather than the effects of consumers' information search and choice behaviour. However, the study of consumer search appears to have become more mainstream and recent work has offered many significant insights. For example, insights have been made into the study of product design (Bar-Isaac *et al.*, forthcoming), advertising content (Anderson and Renault, 2006), obfuscation (Ellison and Ellison, 2009), product range choice (Rhodes, 2011), mergers (Janssen and Moraga-González, 2008), asymmetric price adjustment (Tappata, 2009) and multi-product competition and bundling (Shelegia, 2010; Zhou, 2010) among many others. However, there is one specific line of this research concerning search order and prominence that is particularly relevant for the topic considered here (Arbatskaya, 2007; Armstrong *et al.*, 2009; Wilson, 2010; Haan and Moraga-González, 2011; McDevitt, 2011; Zhou, 2011). Rather than making the more standard assumption that consumers search firms for information in random order,

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[1] See http://finance.yahoo.com/q/k?s=GOOG, 9 July 2011.

[F291]

Can Prominence Matter even in an Almost Frictionless Market

Consumer search on the Internet is rarely random. Sponsored links appear higher up a webpage and consumers often click them. Firms also bid aggressively for these ‘prominent’ positions at the top of the page. But why should prominence matter, when visiting an additional website is almost costless? I present a model in which consumers know their valuations for the products offered in the market but do not know which retailer sells which product. I show that a prominent retailer earns significantly more profit than other firms, even when the cost of searching websites and comparing products is essentially zero.

By ANDREW RHODES

Paid Placement: Advertising and Search on the Internet

Paid placement, where advertisers bid payments to a search engine to have their products displayed prominently among the results of a keyword search, has emerged as a predominant form of advertising on the Internet. This article studies a model of product differentiation in which the auction of advertisement positions is embedded in a market game of consumer search. In equilibrium, more relevant sellers for a given keyword bid more and their paid placement by the search engine reveals information about the relevance of their products. This results in efficient sequential search by consumers and increases total output. We also find that the search engine's revenue may have an inverted U-shape with respect to the match probability of the most relevant seller.

By YONGMIN CHEN and CHUAN HE

A Simple Model of Search Engine Pricing

We present a simple model of how a monopolistic search engine optimally determines the average relevance of firms in its search pool. In our model, there is a continuum of consumers, who use the search engine's pool, and there is a continuum of firms, whose entry to the pool is restricted by a price-per-click set by the search engine. We show that a monopolistic search engine may have an incentive to set a relatively low price-per-click that encourages low-relevance advertisers to enter the search pool. In general, the ratio between the marginal and average relevance in the search pool induced by the search engine's policy is equal to the ratio between the search engine's profit per consumer and the equilibrium product price. These conclusions do not change if the search engine charges a fixed access fee rather than a price-per-click.

By KFIR ELIAZ and RAN SPIEGLER

On the Optimality of Clickthrough Fees in Online Markets

We study optimal fee setting decisions by a monopoly online platform connecting advertisers with potential buyers in two environments: a simple model that captures stylised features of advertising on search engines, social networks and advertisement-supported email; and a richer model that is more relevant for 'directed' search at price comparison sites. While the platform can choose to charge for both impressions and clicks, we show that the platform maximises profits by using clickthrough fees exclusively. Our model offers a rationale for the evolving practice of relying purely on clickthrough fees for revenues in many online advertising markets.

By MICHAEL R. BAYE, XIAXUN GAO and JOHN MORGAN

Paying for Prominence

We investigate how firms can become 'prominent' and thereby influence the order in which consumers consider options. First, firms can affect sales efforts by means of commission payments, in which case the salesman steers consumers towards expensive products. Second, sellers can advertise prices on a price comparison website, so that consumers investigate the suitability of products in order of increasing price. Here, prices are lower when search costs are higher. Finally, consumers might first consider their existing supplier for subsequent purchases, which suggests a relatively benign rationale for the prevalence of cross-selling in markets such as retail banking.

By MARK ARMSTRONG and JIDONG ZHOU

Introduction: Tastes, Castes and Culture: the Influence of Society on Preferences

Economists have traditionally treated preferences as exogenously given. Preferences are assumed to be influenced by neither beliefs nor the constraints people face. As a consequence, changes in behaviour are explained exclusively in terms of changes in the set of feasible alternatives. Here, we argue that the opposition to explaining behavioural changes in terms of preference changes is ill-founded, that the psychological properties of preferences render them susceptible to direct social influences and that the impact of 'society' on preferences is likely to have important economic and social consequences.

By ERNST FEHR and JIDONG ZHOU

The Demand for Social Insurance: Does Culture Matter?

Does culture shape the demand for social insurance against risks to health and work? We study this issue across language groups in Switzerland where a language border sharply separates social groups at *identical* actual levels of publicly provided social insurance. We find substantially stronger support for expansions of social insurance among residents of French, Italian or Romansh-speaking language border municipalities compared with their German-speaking neighbours in adjacent municipalities. Informal insurance does not vary enough to explain stark differences in social insurance but differences in ideology and segmented media markets potentially contribute to the discrepancy in demand for social insurance.

By BEATRIX EUGSTER, RAFAEL LALIVE,

Caste and Punishment: the Legacy of Caste Culture in Norm Enforcement

Well-functioning groups enforce social norms that restrain opportunism. We study how the assignment to the top or bottom of the caste system affects the altruistic punishment of norm violations. Individuals at the bottom of the hierarchy exhibit a much lower willingness to punish norm violations that hurt members of their own caste. We can rule out self-selection into castes and control for wealth, education and political experience. We thus plausibly identify the impact of caste status on altruistic punishment. The lower willingness to punish may impair the low castes' ability to enforce contracts, to ensure property rights and sustain cooperation.

By KARLA HOFF, MAYURESH KSHETRAMADE and ERNST FEHR

Active Decisions and Prosocial Behaviour: a Field Experiment on Blood Donation

Assigning a subjective value to a contribution to a public good often requires reflection. For many reasons, this reflection may be put off, reinforcing the underprovision of public goods. We hypothesise that nudging individuals to reflect on whether to contribute to a public good leads to the formation of issue-specific altruistic preferences. The hypothesis is tested in a large-scale field experiment on blood donations. We find that an 'active-decision' intervention substantially increases donations among subjects who had not previously thought about the importance of donating blood. By contrast, contributions of individuals who had previously engaged in such reflection are unchanged.

By ALOIS STUTZER, LORENZ GOETTE and MICHEL ZEHENDER

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ภายในฉบับนี้:

Non-parametric models in binary choice fixed effects panel data

Summary In this paper we extend the fixed effects approach to deal with non-linear panel data with non-parametric components. Specifically, we propose a non-parametric procedure that generalizes the conditional logit approach. We develop an estimator based on non-linear stochastic integral equations and provide the asymptotic property of the estimator and an iterative algorithm to implement the estimator. We analyse the small sample behaviour of the estimator through a Monte Carlo study.

By STEFAN HODERLEIN, ENNO MAMMEN and KYUSANG YU

A simple approach to quantile regression for panel data

Summary This paper provides a set of sufficient conditions that point identify a quantile regression model with fixed effects. It also proposes a simple transformation of the data that gets rid of the fixed effects under the assumption that these effects are location shifters. The new estimator is consistent and asymptotically normal as both n and T grow.

By IVAN A. CANAY

Non-parametric time-varying coefficient panel data models with fixed effects

Summary This paper is concerned with developing a non-parametric time-varying coefficient model with fixed effects to characterize non-stationarity and trending phenomenon in a non-linear panel data model. We develop two methods to estimate the trend function and the coefficient function without taking the first difference to eliminate the fixed effects. The first one eliminates the fixed effects by taking cross-sectional averages, and then uses a non-parametric local linear method to estimate both the trend and coefficient functions. The asymptotic theory for this approach reveals that although the estimates of both the trend function and the coefficient function are consistent, the estimate of the coefficient function has a rate of convergence of $(Th)^{-1/2}$, which is slower than $(NTh)^{-1/2}$ as the rate of convergence for the estimate of the trend function. To estimate the coefficient function more efficiently, we propose a pooled local linear dummy variable approach. This is motivated by a least squares dummy variable method proposed in parametric panel data analysis. This method removes the fixed effects by deducting a smoothed version of cross-time average from each individual. It estimates both the trend and coefficient functions with a rate of convergence of $(NTh)^{-1/2}$. The asymptotic distributions of both of the estimates are established when T tends to infinity and N is fixed or both T and N tend to infinity. Both the simulation results and real data analysis are provided to illustrate the finite sample behaviour of the proposed estimation methods.

By DEGUI LI, JIA CHEN and JITI GAO

Rank estimation of partially linar index models

Summary We consider a generalized regression model with a partially linear index. The index contains an additive non-parametric component in addition to the standard linear component, and the model is characterized by an unknown monotone link function. We propose weighted rank estimation procedures for estimating (a) the coefficients for the linear component, (b) the non-parametric component (and its derivative) and (c) the average derivative for the non-parametric component. The method is applied to study the non-linear relationship between household income and children's cognitive development.

By JASON ABREVAYA and YOUNGKI SHIN

Fixed-*b* analysis of LM-type tests for a shift in mean

Summary We analyse Lagrange Multiplier (*LM*) tests for a shift in mean of a univariate time series at an unknown date. We consider a class of *LM* statistics based on non-parametric kernel estimators of the long-run variance and we develop a fixed-*b* asymptotic theory for the statistics. We provide results for the case of $I(0)$ and $I(1)$ errors. The fixed-*b* theory suggests that, for a given statistic, kernel and significance level, there exists a bandwidth such that the fixed-*b* asymptotic critical value is the same for both $I(0)$ and $I(1)$ errors. We compute these 'robust' bandwidths for a selection of well-known kernels. In the case of the supremum statistic, the robust bandwidth *LM* tests have good power that is monotonic and similar for all kernels. In the case of the mean and exponential mean statistics, power is non-monotonic when the robust bandwidths are used. Under the null hypothesis, the Bartlett supremum statistic has little, if any, over-rejection problems in finite samples even when there is a moving average component with a negative coefficient. In contrast, the other supremum statistics tend to over-reject in this case. In practice, we recommend the Bartlett supremum *LM* statistic implemented with the robust bandwidth.

By JINGJING YANG and TIMOTHY J. VOGELSANG

Non-parametric regression under location shifts

Summary Recent work by Wang and Phillips (2009b, 2011) has shown that ill-posed inverse problems do not arise in non-stationary non-parametric regression and there is no need for non-parametric instrumental variable estimation. Instead, simple Nadaraya–Watson non-parametric estimation of a cointegrating regression equation is consistent irrespective of the endogeneity in the regressor. The present paper shows that some closely related results apply in the case of structural non-parametric regression with independent data when there are continuous location shifts in the regressor. Some interesting cases are discovered where non-parametric regression is consistent, whereas parametric regression is inconsistent even when the true regression functional form is known and used in regression. This appears to be a paradox, as knowing the true functional form should not in general be detrimental in regression. The paradox arises because additional correct information is not necessarily advantageous when information is incomplete. In this case, endogeneity in the regressor introduces bias when the true functional form is known, but interestingly does not do so in local non-parametric regression. We propose two new consistent estimators for the parametric regression, which address the endogeneity in the regressor by means of spatial bounding and bias correction using non-parametric estimation.

By PETER C. B. PHILLIPS and LIANGJUN SU

Dealing with endogeneity in a time-varying parameter model: joint estimation and two-step estimation

Summary In dealing with the problem of endogeneity in a time-varying parameter model, we develop the joint and two-step estimation procedures based on the control function approach. We show that a key to the success of the joint estimation procedure is in an appropriate state-space representation of the model. On the other hand, a correct treatment of the problem of generated regressors plays an important role in our two-step estimation procedure. Monte Carlo experiments confirm that the estimation procedures proposed in this paper work well in finite samples. Concerning our proposed endogeneity tests, the asymptotic distribution of both the likelihood ratio and Wald tests based on the second-step regression are reasonably well approximated by a χ^2 distribution even in finite samples.

By PETER C. B. PHILLIPS and LIANGJUN SU

A Review of *Econometric Analysis of Cross Section and Panel Data* (2nd ed.) by WOOLDRIDGE (JEFFREY M.)

The Econometrics Journal

Econometrics Journal (2011), volume **14**, pp. B5–B9.
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BOOK REVIEW:

A Review of *Econometric Analysis of Cross Section and Panel Data* (2nd ed.)

By WOOLDRIDGE (JEFFREY M.) (Cambridge, MA: MIT Press: 2010. Pp. 1096. $90.00/£49.95, hardcover, ISBN-10: 0-262-23258-8/ISBN-13: 978-0-262-23258-6)

INTRODUCTION

Cross section and panel econometrics or microeconometrics is an important element in the teaching curriculum of most postgraduate and Ph.D. programmes in economics and econometrics. An increasing number of textbooks address this market and the volume under review is a prominent example. Since the first edition of this volume appeared 10 years ago it has been adopted in many leading research and teaching institutions as one of the main module texts. As it took almost a decade for the second edition to appear it can be considered as another indication that Jeffrey Wooldridge was able to place a high quality product on the market. In this review I am looking now at the second edition of this volume which appeared in 2010. It is one of the most comprehensive textbooks for cross-section and panel econometrics. It has more than 1,000 pages. Despite being a textbook, it assumes the reader has previous experience with probability and the main econometric methods. It is not intended as a first course in econometrics, but rather a module text for the reader already familiar with the basic concepts of econometrics. Hence, its intended use lies in advanced level courses in microeconometrics and as a book to read for Ph.D. students and researchers interested in learning more about cross section and panel econometrics. My following review is divided into three parts. The first is a conventional discussion of coverage, strengths and weaknesses of the book. The second is a discussion of the usefulness of this book for teaching and the econometrics readership. As I am using this book as one of the main module textbooks for the M.Sc. Applied Microeconometrics in Nottingham, my review is partly based on my students' and my own experiences. The third is a brief conclusion.

COVERAGE

The volume consists of four parts. The first contains a less formal introductory chapter and two chapters which cover the basic probability and asymptotic theory required for the following parts. The second part is about linear models, while parts III and IV are devoted to important non-linear models and related topics.

Part I is to motivate the basic approach to econometrics taken throughout the book and to review the formal statistical material which students shall have already seen in more basic courses. The main approach is to determine whether there is a causal relationships between two variables rather than predicting a variable. The chapter introduces the notion of *ceteris paribus*

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ฝ่ายเทคโนโลยีและบรรณสารสนเทศ

Lending to the Borrower from Hell: Debt and Default in the Age of Philip II

What sustained borrowing without third-party enforcement in the early days of sovereign lending? Philip II of Spain accumulated towering debts while stopping all payments to his lenders four times. How could the sovereign borrow much and default often? We argue that bankers' ability to cut off Philip II's access to smoothing services was key. A form of syndicated lending created cohesion among his Genoese bankers. As a result, lending moratoria were sustained through a `cheat-the-cheater' mechanism. Our article thus lends empirical support to a recent literature that emphasises the role of bankers' incentives for continued sovereign borrowing.

By *Drelichman, Mauricio; Voth, Hans-Joachim*

Friendships and Favouritism on the Schoolground - A Framed Field Experiment

We present experimental evidence on favouritism practices. Children compete in teams in a tournament. After the first round of a real effort task, children indicate which group member they would prefer to do the task in the second round, for the benefit of the team. Friends are much more likely to be chosen than others after controlling for performance. We also find that children who are favoured by their friend subsequently increase performance. Consequently, favouritism does not hurt efficiency. These results show the importance of observing performance *ex post* in order to properly evaluate the efficiency implications of favouritism.

By *Belot, Michèle; van de Ven, Jeroen*

Does Direct Democracy Reduce the Size of Government? New Evidence from Historical Data, 1890-2000

Using new historical data from Swiss cantons, we estimate the effect of direct democracy on government spending. We use fixed effects to control for unobserved heterogeneity and new instruments to address potential endogeneity concerns. We find that direct democracy constrains canton spending but its effect is more modest than previously suggested. The instrumental variable estimates show that a mandatory budget referendum reduces canton expenditures by 12%. Lowering signature requirements for the voter initiative by 1% reduces canton spending by 0.6%. We find little evidence that direct democracy at the canton level results in higher local spending or decentralisation.

By *Funk, Patricia; Gathmann, Christina*

The Economic Journal

Vol.121 No.557

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ภายในฉบับนี้:

Did Higher Inequality Impede Growth in Rural China?

We estimate the relationship between village inequality and subsequent income growth for households in rural China. Using a longitudinal household-level survey spanning 1987-2002, we find that households from higher inequality villages experienced lower income growth. However, the effect of local inequality fades by 2002. Our evidence points to unobserved village institutions at the time of economic reforms, associated with household access to higher income activities, as the source of the link between inequality and growth. We address several econometric issues including measurement error and attrition, but underscore others that are probably intractable for all investigations of the inequality-growth relationship.

By *Benjamin, Dwayne; Brandt, Loren; Giles, John*

Institutions, the Rise of Commerce and the Persistence of Laws: Interest Restrictions in Islam and Christianity

Why was economic development retarded in the Middle East relative to Western Europe, despite the Middle East being far ahead for centuries? A theoretical model inspired and substantiated by the history of interest restrictions suggests that this outcome emanates in part from the greater degree to which early Islamic political authorities derived legitimacy from religious authorities. This entailed a feedback mechanism in Europe in which the rise of commerce led to the relaxation of interest restrictions while also diminishing the Church's ability to legitimise political authorities. These interactions did not occur in the Islamic world despite equally amenable economic conditions.

By *Rubin, Jared*

Market Design and Investment Incentives

The purpose of this study was to understand how market design affects market performance through its impact on investment incentives. For this purpose, we model capacity choices by two *ex ante* identical firms which compete in the product market. We analyse a number of different market design elements, including (*i*) two commonly used auction formats, the uniform-price and discriminatory auctions, (*ii*) price caps and (*iii*) bid duration. We find that although the discriminatory auction tends to lower prices, this does not imply that investment incentives at the margin are poorer; indeed, aggregate capacity is the same under both auction formats.

Out-Of-Equilibrium Bids in First-Price Auctions: Wrong Expectations or Wrong Bids

Deviations from risk-neutral equilibrium bids in auctions can be related to inconsistent expectations with correct best replies or correct expectations but deviant best replies (e.g. because of risk aversion, regret, quantal-response mistakes). To distinguish between these two explanations, we use a novel experimental procedure and study expectations together with best replies in symmetric and asymmetric auctions. We extensively test the internal validity of this setup. We find that deviations from equilibrium bids do not seem to be because of to wrong expectations but because of deviations from a risk-neutral best reply.

By *Kirchkamp, Oliver; Reiß, J. Philipp*

The drivers of international migration to the UK: A panel-based Bayesian model averaging approach

A heterogeneous panel-based Bayesian model averaging approach is used to identify the robust economic and policy drivers of international migration to the UK from 14 different source regions over 1980-2007. Around three-quarters of the increase in net immigration over the last decade, which is particularly pronounced for selected source regions, is associated with structural change, which may be attributed to UK and foreign immigration policy. The remainder of the rise is largely explained by `friends and family' effects. There are considerable uncertainties associated both with the effects of particular economic drivers of immigration and with forecasts of immigration.

By *Mitchell, James; Pain, Nigel; Riley, Rebecca*

Roll Out the Red Carpet and They Will Come: Investment Promotion and FDI Inflows

This study uses newly collected data on 124 countries to examine the effects of investment promotion on inflows of US foreign direct investment (FDI). We test whether sectors explicitly targeted by investment promotion agencies in their efforts to attract FDI receive more investment in the post-targeting period, relative to the pre-targeting period and non-targeted sectors. The results of our analysis are consistent with investment promotion leading to higher FDI flows to countries in which red tape and information asymmetries are likely to be severe. The data suggest that investment promotion works in developing countries but not in industrialised economies.

By *Harding, Torfinn; Javorcik, Beata S*

Age-Dependent Employment Protection

This study examines age-dependent employment protection by extending the theory of equilibrium unemployment to account for a finite working life-time. The potential employment gains related to employment protection are high for older workers. But higher firing taxes for older workers increase job destruction rates for younger generations. Furthermore, when firms cannot *ex ante*age-direct their search, the impact of each generation of unemployed workers on the average return on vacancies leads to equilibrium inefficiency, such that the optimal age-profile of firing taxes is hump-shaped. If human capital of older workers is more specific than general these results are enhanced.

By *Chéron, Arnaud; Hairault, Jean-Olivier; Langot, François*

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The Economic Journal

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New Insights into Price-Setting Behaviour in the UK: Introduction and Survey Results

This article introduces the other contributions in this Feature which use individual price data to investigate the extent of pricing rigidities in the UK. It also reports the most relevant results of a new survey of the price-setting behaviour that we have conducted for the UK, including details about why prices are sticky. The articles consider whether the microdata or survey results are consistent with particular theories of price setting. Our results suggest that there is heterogeneity in price-setting behaviour, which is ignored in typical 'representative agent' models.

By Jennifer V. Greenslade, Miles Parker

How do Individual UK Producer Prices Behave?

This article presents a number of stylised facts about the behaviour of individual UK producer prices. First, on average 26% of prices change each month, although there is considerable heterogeneity between sectors. Second, the probability of price changes is not constant over time. Third, the distribution of price changes is wide, although a significant number of changes are relatively small. Fourth, prices that change more frequently do so by less. Conventional pricing theories struggle to match these results, particularly the marked heterogeneity.

By Philip Bunn, Colin Ellis

ARTICLES

Examining The Behaviour Of Individual UK Consumer Prices

This article examines how UK consumer prices behave, using two databases with millions of price observations: the micro-data that underpin official Consumer Prices Index data and a database of supermarket prices. Prices do not change continuously but our key finding is the marked heterogeneity in the data. That is not consistent with standard microeconomic foundations that typically form the basis of macroeconomic policy models. Declining hazard functions and the distribution of price changes also argue against representative agent models. Our results suggest further work is needed to find a model of price-setting that genuinely corresponds to how individual UK consumer prices behave.

By Philip Bunn, Colin Ellis

Gender differences in risk behaviour: does nurture matter?

Using a controlled experiment, we investigate if individuals' risk preferences are affected by (*i*) the gender composition of the group to which they are randomly assigned, and (*ii*) the gender mix of the school they attend. Our subjects, from eight publicly funded single-sex and coeducational schools, were asked to choose between a real-stakes lottery and a sure bet. We found that girls in an all-girls group or attending a single-sex school were more likely than their coed counterparts to choose a real-stakes gamble. This suggests that observed gender differences in behaviour under uncertainty found in previous studies might reflect social learning rather than inherent gender traits.

By Alison L. Booth, Patrick Nolen

Employment Effects of Product and Labour Market Reforms: Are There Synergies?

This article investigates the effect of product market liberalisation on employment allowing for interactions between policies and institutions in product and labour markets. Using panel data for OECD countries over the period 1980–2002, we present evidence that product market deregulation is more effective at the margin when labour market regulation is high. The data also suggest that product market liberalisation may promote employment-enhancing labour market reforms.

By Giuseppe Fiori, Giuseppe Nicoletti, Stefano Scarpetta, Fabio Schiantarelli

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Book Review Feature: Two Book Reviews of The Minimum Wage and Labor Market Outcomes

By French Eric

THE ECONOMIC JOURNAL

The Economic Journal, **122** (*February*), F105–F114. Doi: 10.1111/j.1468-0297.2011.02491.x. © 2012 The Author(s). The Economic Journal © 2012 Royal Economic Society. Published by Blackwell Publishing, 9600 Garsington Road, Oxford OX4 2DQ, UK and 350 Main Street, Malden, MA 02148, USA.

BOOK REVIEW FEATURE: TWO BOOK REVIEWS OF *THE MINIMUM WAGE AND LABOR MARKET OUTCOMES*

By Flinn (Christopher) (Cambridge, MA: MIT Press, 2011, pp. 344, $40.00/£27.95, cloth, ISBN-10: 0-262-01323-1, ISBN-13: 978-0-262-01323-9)

Review 1

Should the minimum wage be raised? In this book, Christopher Flinn attempts to answer this question. He uses a search and matching model to show that the answer involves more than knowledge of whether the minimum wage cuts employment. The answer also depends on

(*i*) how much the minimum wage boosts the pay of those who do not lose their jobs,
(*ii*) how the minimum wage impacts the future employment and earnings prospects of those who are without jobs and
(*iii*) how we weight the winners and losers following a minimum wage hike.

For addressing all the issues listed above in a coherent framework we need models. Flinn takes a standard search and matching model, augmented with an exogenously set minimum wage, to answer the following questions:

(*i*) Is the model consistent with observed labour market outcomes, such as employment, unemployment, and the distribution of earnings?
(*ii*) Can we obtain consistent estimates of the model's parameters?
(*iii*) Are the model's parameter values plausible?
(*iv*) Is the current minimum wage optimal, and if not should it be raised or lowered?
(*v*) How does the answer to (*iv*) depend upon modelling assumptions?

Flinn shows that the search and matching model can do a good job of matching labour force participation rates, unemployment rates and the distribution of earnings both before and after the minimum wage hike. It does so with a limited number of arguably plausible parameters. Flinn finds that whether the minimum wage should be increased or reduced depends critically on how the rate of job offers (the 'contact rate') is affected by the change. If the contact rate is exogenous then we should raise the minimum wage. If it is a function of the equilibrium unemployment rate and firms' optimal number of posted vacancies, we should reduce the minimum wage.

I thank David Benson, Jon Davis, Chris Flinn, and Shani Schechter. The views here do not necessarily represent those of the Federal Reserve.

Book Review Feature: Two Book Reviews of The Minimum Wage and Labor Market Outcomes By Alan Manning

THE ECONOMIC JOURNAL

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Review 2

One might legitimately wonder what there is new to say about the minimum wage – after all, the subject has generated an amount of research that is probably out of all proportion to the institution's economic importance. But there is something new and distinctive about this book – as it says on the inside cover, the book 'argues that in assessing the effects of the minimum wage (in the US and elsewhere) a behavioural framework is invaluable in guiding empirical work and the interpretation of results'. So, in contrast to much research on the minimum wage that is very empirical and with little theory behind it, this book provides a structural model of the labour market (based on assuming there are frictions and that wages are determined by Nash bargaining between employers and workers) and the estimates of that model are taken seriously for answering policy questions such as the optimal level of the minimum wage.

The general approach taken in this book – that the labour market has substantial frictions – is one that I have a great deal of sympathy for. Adopting this perspective has big implications for how one thinks about the impact of the minimum wage. In a frictionless perfectly competitive labour market, the impact of the minimum wage on employment is unambiguous – factor demand curves slope downwards so a binding minimum wage must reduce employment. The perfectly competitive model has such a hold on the minds of some economists that any empirical evidence that does not suggest job losses from the minimum wage is dismissed by some as 'flawed' even if the flaw cannot be identified. After the publication of David Card and Alan Krueger's (1995) *Myth and Measurement* and in the middle of a rather acrimonious debate about raising the federal minimum wage, Finis Welch wrote that 'Alan ought to consider the old saw: If you drop an apple and it rises, question your experiment before concluding that the laws of gravity have been repealed' and the then vice chairman of the House of Representatives Jim Saxton said, 'The minimum wage cannot repeal the law of supply and demand any more effectively than they can repeal the law of gravity.'

But now that 'search' theory has been honoured with a Nobel prize and has, if there was ever any doubt, become part of the mainstream, it is important to realise that the impact of the minimum wage on employment is likely to be more complicated. As discussed very clearly in this book, a binding minimum wage may make some low productivity jobs unprofitable, it may reduce the incentives for employers to seek out

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CORPORATE TAX REFORM: A MACROECONOMIC PERSPECTIVE

By Nicholas Bull, Tim Dowd, Pamela Moomau

There has been considerable recent interest in reducing the corporate tax rate. As a first step toward analyzing the macroeconomic consequences of such a reform, we consider a rate reduction from the current statutory rate of 35 to 30 percent. We present the results under differing assumptions about how the rate cut is paid for, as well as some sensitivity analysis of the impact of differing assumptions about Federal Reserve policy and differing assumptions about corporate finance.

THE FEDERAL ESTATE AND GIFT TAX: A CASE STUDY IN UNCERTAINTY

By Beth Shapiro Kaufman

This paper uses the Federal estate and gift tax to illustrate the existence of uncertainty in the tax law. After a brief description of the historical circumstances of these taxes and recent legislation, two examples of the effects of uncertainty are discussed. Finally, the negative consequences of uncertainty in the tax law are explored.

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ARTICLE

HOW WOULD SMALL BUSINESS OWNERS FARE UNDER A BUSINESS ENTITY TAX?

BY Matthew J. Knittel, Susan C. Nelson

Due to data constraints and the lack of explicit definitions, prior analyses of the impact of the tax code on small business owners were flawed. In this paper, we employ a new data source that allows a much more nuanced definition of small business owner. We present tabulations that quantify various tax characteristics of small business owners for tax year 2007. We then use our results to consider how small business owners might fare under a specific business reform proposal that levies a flat rate on all business income regardless of organizational form.

THE DISTRIBUTIONAL AND REVENUE CONSEQUENCES OF REFORMING THE MORTGAGE INTEREST DEDUCTION

BY Adam J. Cole, Geoffrey Gee, Nicholas Turner

The mortgage interest deduction (MID) is costly, and half the benefits accrue to the top 10 percent of taxpayers. This paper analyzes how five modifications to the MID would affect federal individual income tax revenue and the distribution of the tax burden. Under full repeal, federal individual income tax revenue is estimated to increase by up to $1.3 trillion, equal to 0.7 percent of GDP, between 2012 and 2021. Converting the deduction to a 15 percent non-refundable credit could increase federal individual income tax revenue by up to $599 billion, equal to 0.3 percent of GDP, over this period.

RE-THINKING THE DEDUCTION FOR CHARITABLE CONTRIBUTIONS:

EVALUATING THE EFFECTS OF DEFICIT-REDUCTION PROPOSALS

BY Joseph J. Cordes

The need for deficit reduction has prompted several proposals for modifying the income tax deduction for charitable contributions. This paper combines aggregate tax return data with data on finances of individual nonprofit organizations and data on patterns of household giving to simulate the potential effects on nonprofit organizations of scaling back the charitable deduction. The paper also reviews the various rationales for providing a tax subsidy to charitable contributions.

LONG-RUN CHANGES IN TAX EXPENDITURES ON 401(K)-TYPE RETIREMENT PLANS

BY Ithai Z. Lurie, Shanthi P. Ramnath

In this paper, we explore the long-run revenue consequences of the tax deferral of contributions to 401(k)-type retirement plans. We use net present value (NPV) calculations to measure the long-run cost of contributions made in 2008. We show that the long-run NPV cost can be dramatically different if measured using relatively short time horizons, depending on assumptions regarding the rate of return on investments, the government's discount rate on future payments, marginal tax rates, and taxpayers' retirement behavior. Finally, we estimate the effect of limiting the maximum total contributions to 401(k)-type plans to $10,000 and find that even at high rates of return, the NPV cost of the tax expenditure declines at most by $33 billion or 21.1 percent.

REDUCING DEPRECIATION ALLOWANCES TO FINANCE A LOWER CORPORATE TAX RATE

BY Jane G. Gravelle

This paper considers the tradeoffs in using revenues from slowing depreciation deductions to lower the corporate tax rate. It estimates how much the rate could be lowered and the resulting effective tax rates on different types of assets. Two issues arise: the overall effect on marginal tax burdens and the challenges of using a provision that largely reflects timing effects to finance a steady state rate reduction.

TAX POLICY AND THE EFFICIENCY OF U.S. DIRECT INVESTMENT ABROAD

BY Mihir A. Desai, C. Fritz Foley, James R. Hines Jr.

Deferral of U.S. taxes on foreign source income is commonly characterized as a subsidy to foreign investment, as reflected in its inclusion among “tax expenditures” and occasional calls for its repeal. This paper analyzes the extent to which tax deferral and other policies inefficiently subsidize U.S. direct investment abroad. Investments are dynamically inefficient if they consistently generate less in returns to investors than they absorb in new investment funds. From 1982–2010, repatriated earnings from foreign affiliates exceeded net capital investments by $1.1 trillion in 2010 dollars, and from 1950–2010, repatriated earnings and net interest from foreign affiliates exceeded net equity investments and loans by $2.1 trillion in 2010 dollars. By either measure, cash flows received from abroad exceeded 160 percent of net investments, implying that foreign investment over these periods was dynamically efficient.

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THE RICH WORLD'S ECONOMY

NOT QUITE PARTY TIME

SIGNS OF RECOVERY HAVE MULTIPLIED, BUT THE WEST'S ECONOMIES ARE NOT YET OUT OF DANGER

A NEW self - assurance has spread through financial markets. The MSCI index of global stocks is up by more than 7% since the start of the year and by almost 20% since early October. Bond yields in Spain and Italy, the two biggest of Europe's embattled peripheral economies, have fallen to their lowest levels in three months. Greece's fraught negotiations with its creditors have dulled the rally this week - but only a bit. Given that a huge sovereign default could occur in scarcely more than a month, there is strangely little nervousness.

Why the exuberance? In part it reflects genuinely good economic news, especially in America, where January's far stronger -than-expected employment figures, along with upbeat statistics from manufacturing and services, suggest that recovery in the world's biggest economy really is gaining momentum (see article). The cheerier mood is also based on a belief that the European Central Bank (ECB) has vanquished the worst dangers for the single currency with its massive provision of three-year liquidity to the region's banks. Calamities that seemed all too plausible a couple of months ago, such as the collapse of a big European bank or a series of failed bond auctions leading to the imminent fracturing of the single currency itself, now seem highly unlikely.

ต่อหน้า 2

In addition, the market rally is a natural reaction to the fact that central bankers have doubled down on their commitment to cheap money. The Federal Reserve recently made clear that it does not expect to raise interest rates until the end of 2014, much later than expected. The Bank of England, which was due to meet on February 9th after *The Economist* went to press, is likely to launch another round of bond-buying. The ECB, which meets the same day, may cut rates again soon.

Will the good news last? Recent history suggests caution. A year ago America's economy was widely expected to accelerate, boosted by the Fed's second round of bond-buying. Instead growth slumped, pulled down by a combination of outside shocks (higher oil prices as a result of the Arab spring, disrupted supply chains after the Japanese earthquake) and policy errors at home and abroad (wrangling over America's debt ceiling and the ever-deepening euro mess).

Too soon to celebrate

America's economy is in better shape this time, not least because households have reduced their debt further and the housing market is closer to a bottom. But the euro zone's debts are bigger than ever; many of its economies are in recession. And the list of potential spoilers is uncomfortably similar to that of a year ago. Tensions with Iran could spawn a 2012 oil shock. Meanwhile, the risk of policy mistakes remains worryingly high on both sides of the Atlantic: central bankers may have saved the day, but politicians could still mess things up.

In America that could happen because good economic news, oddly enough, reinforces partisan gridlock. With unemployment falling and optimism rising, both Republicans and Democrats in Congress have less incentive to set aside election-year posturing. The most imminent decision is whether to extend the payroll-tax cut and unemployment insurance, both of which are set to expire at the end of February. Failure to extend them might not kill the recovery, but would surely weaken it. Far more dangerous is the budget debacle looming later in the year. Under current law the Bush tax cuts expire on December 31st and a slew of automatic spending cuts kick in. Together they would amount to a fiscal tightening of almost 4% of GDP, more than enough to drag the economy down again. At the same time America needs a credible plan to fix its medium-term finances, a plan that would include tax reform and measures to rein in spending on health care and pensions. The political calendar makes all this hard enough. A stronger economy will tempt politicians to even more partisan rigidity.

The dynamic is not dissimilar in Europe, where the ECB's bold provision of liquidity has calmed nerves and limited the severity of the bond crisis and the recession. The trouble is that the ECB's success has reinforced Germany's conviction that its preferred solution to solving the

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single currency's underlying problems—namely, a hefty dose of austerity for all—is the right one. A lasting solution for the euro will require a more balanced approach, one which includes a greater focus on growth. Unfortunately, today's calm makes it less likely that German politicians will countenance such a shift, with the result that the euro zone's troubles will fester.

It may sound churlish to dwell on the potential for politicians to spoil the party when, at last, the news is better than expected on both sides of the Atlantic. Sadly, based on the recent past, it's plain prudent. This newspaper will be ready to celebrate only when politicians, and not just central bankers, start making the right choices.

JOBS AND THE ECONOMY

A game of two halves

EMPLOYMENT SPRINGS TO LIFE; WILL IT FADE AGAIN?

EVEN people who don't normally care much for football tune in to the Super Bowl to watch the best commercials Madison Avenue can dream up. The most talked about this year was Chrysler's gritty tribute to the economic revival of America and Detroit. More short film than commercial, it ends with the actor Clint Eastwood huskily declaring that "Our second half is about to begin."

The muscular patriotism brought lumps to the throats of sentimental viewers; the more cynically minded called it a re - election ad for Barack Obama, whose administration saved Chrysler from oblivion with a bail - out in 2009. A better explanation may simply be timing: it coincides with the best evidence in months that America's economy, led by manufacturing, really is on the mend.

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Five days before its ad aired, Chrysler, now part of Italy’s Fiat, reported its best January sales since 2008, up 44% from a year earlier. The next day it announced it would hire 1,800 people at a plant in Belvidere, Illinois, to build its new Dodge Dart. The good news is hardly confined to Chrysler. The auto industry as a whole sold 1.2m vehicles in January, many more than expected, and a 4% increase from December.

Then on February 3rd the government reported that non-farm employment jumped 243,000 in January, or 0.2%, from December, the best in nine months, led by manufacturers, who boosted payrolls by 50,000. Government statisticians also revised data for the previous year and found that at year-end there were 266,000 more jobs than had previously been thought.

The unemployment rate, which has repeatedly surprised economists with the speed of its descent, did so again: it fell to 8.3%, a three-year low, from 8.5%. Its decline from a peak of 10% in October 2009 has been helped by unusually stagnant growth in the labour force. When fewer people want to work, fewer are counted as unemployed. That, however, was not the case in January when the labour force grew by 250,000. The unemployment rate dropped anyway because the number of employed people leapt by 631,000.

The report was greeted with relief bordering on joy by the stockmarket and, no doubt, by Mr. Obama’s campaign team. But their happiness should be tempered by the reflection that in both 2010 and 2011, job growth started out briskly only to fizzle out again.

Will it do so again this year, possibly dooming Mr. Obama’s re-election? Two factors explain the economy’s previous false starts. First, banks, households and governments are paring their debts. That “deleveraging” has further to go, but seems to have slowed as rock - bottom interest rates coax consumers to indulge some of

their pent-up demand for homes and cars. State and local government lay-offs have also slowed. Meanwhile firms that were able to meet increased demand by boosting the productivity of their existing workforce no longer can. Productivity growth, which topped 6% in the wake of the recession, slowed to just 0.5% in the fourth quarter (from a year earlier). In December employers reported total job vacancies of 3.4m, close to its highest since 2008.

The second stumbling block has been bad luck. In both 2010 and 2011 Europe’s sovereign debt crisis flared up, damaging confidence in America. Last year the Arab spring sent petrol prices soaring, pinching incomes, while Japan’s earthquake and tsunami disrupted supply chains.

The threat of more such setbacks still hangs over the economy. Europe’s crisis has not been solved. The intensifying confrontation between Iran and the west has driven petrol prices up 25 cents per gallon since mid-December. Federal austerity remains a threat: Congress is once again locked in confrontation over a payroll-tax break that expires at the end of this month, and a raft of other tax increases and spending cuts will kick in next year unless it intervenes. In the economy, as in football, there is no guarantee that the second half will be easier than the first.

SUDAN AND SOUTH SUDAN

The mother of all divorces

AND STILL THEY ROW ABOUT THEIR SPLIT

SIX months after the two Sudans formally split into separate countries they are still haggling over the divorce settlement. The tense negotiations, often accompanied by violent clashes along their border, are being described in both capitals as an "oil war" since the main prize is petroleum revenues. Recent South Sudanese threats to cut the north out of them completely have made a return to sustained conflict a real possibility. Sudan's president, Omar al-Bashir, said war is nearer than peace.

When South Sudan seceded last July following decades of civil war, it took with it three-quarters of the old country's daily production of around 480,000 barrels. But its only way of getting the oil to market is via the north, which has pipelines, refineries and export terminals.

Talks over how much South Sudan should pay in transit fees have yielded no result. In December Sudan decided to confiscate oil as payment in kind. South Sudan calls this theft. In January it announced the shutdown of all production, even though this will deprive it of 98% of its official revenue. It also signed a memorandum of understanding with Kenya to build a new pipeline to Lamu, an Indian Ocean port, though experts warn this would take years and cost billions of dollars.

The decision has proven very popular in South Sudan. "This is the day we truly became an independent nation," says one Juba resident. But that feeling is unlikely to last. "South Sudan has set off its economic doomsday machine," warns Alex de Waal, a Sudan expert who is advising the African Union.

During recent mediation talks the Ethiopian prime minister, Meles Zenawi, came close to convincing both sides to sign a temporary deal. But the South Sudanese president, Salva Kiir, in the end refused. The north reacted with outrage but in truth it had employed similar brinkmanship in the past. Both sides fight like alley cats in negotiations. They will risk annihilation to carry a point.

Two years ago when Pagan Amum, South Sudan's lead negotiator, was pushing for a parliamentary vote in the Sudanese legislature on a referendum law that would eventually pave the way for secession, he and several other politicians goaded the government into arresting them. The resulting flurry of publicity sped up the talks. "It worked perfectly," he said with a wink.

Economic and financial indicators

Economic data

% change on year ago

	Gross domestic product			Industrial production	Consumer prices		Unemployment	Current-account balance		Budget balance	Interest rates, %	Currency units, per $	
	latest	qtr*	2011†	latest	latest	2011†	rate‡, %	latest 12 months, $bn	% of GDP 2011†	% of GDP 2011†	10-year gov't bonds, latest	Feb 8th	year ago
United States	+1.6 Q4	+2.8	+1.7	+2.9 Dec	+3.0 Dec	+3.1	8.3 Jan	-466.8 Q3	-3.1	-8.7	1.97	–	–
China	+8.9 Q4	+8.2	+9.2	+12.8 Dec	+4.5 Jan	+5.6	6.1 2010	+259.3 Q3‡‡‡	+2.9	-1.8	3.60	6.29	6.83
Japan	-0.7 Q3	+5.6	-0.7	-4.1 Dec	-0.2 Dec	-0.4	4.6 Dec	+130.8 Nov	+2.2	-8.6	0.99	76.9	89.4
Britain	+0.8 Q4	-0.8	+0.9	-3.1 Nov	+4.2 Dec§	+4.5	8.4 Nov††	-70.6 Q3	-1.9	-8.6	2.25	0.63	0.64
Canada	+2.4 Q3	+3.5	+2.3	+2.8 Nov	+2.3 Dec	+2.9	7.6 Jan	-49.7 Q3	-2.9	-4.1	2.15	1.00	1.07
Euro area	+1.4 Q3	+0.5	+1.5	-0.3 Nov	+2.7 Jan	+2.7	10.4 Dec	-63.7 Nov	-0.5	-4.3	1.91	0.75	0.73
Austria	+2.9 Q3	+1.4	+3.0	+2.5 Nov	+3.3 Dec	+3.3	4.1 Dec	+10.5 Q3	+2.5	-3.6	2.96	0.75	0.73
Belgium	+1.9 Q3	-0.5	+1.8	+2.9 Oct	+3.6 Jan	+3.4	7.2 Dec††	+0.3 Sep	+1.1	-4.3	3.55	0.75	0.73
France	+1.5 Q3	+1.2	+1.5	+0.9 Nov	+2.5 Dec	+2.2	9.9 Dec	-65.3 Nov	-2.5	-5.6	2.89	0.75	0.73
Germany	+2.5 Q3	+2.0	+3.0	+1.3 Dec	+2.0 Jan	+2.4	6.7 Jan	+189.6 Nov	+5.2	-1.0	1.97	0.75	0.73
Greece	-5.0 Q3	na	-5.2	-7.8 Nov	+2.4 Dec	+2.9	18.2 Oct	-28.7 Nov	-8.6	-10.0	37.06	0.75	0.73
Italy	+0.2 Q3	-0.6	+0.5	-4.1 Nov	+3.2 Jan	+2.8	8.9 Dec	-76.6 Nov	-3.6	-4.0	5.56	0.75	0.73
Netherlands	+1.1 Q3	-1.0	+1.5	+1.3 Dec	+2.5 Jan	+2.4	5.8 Dec††	+66.6 Q3	+7.0	-4.8	2.29	0.75	0.73
Spain	+0.8 Q3	nil	+0.6	-6.9 Dec	+2.0 Jan	+3.1	22.9 Dec	-53.6 Nov	-3.7	-8.2	5.17	0.75	0.73
Czech Republic	+1.2 Q3	-0.3	+1.8	+2.0 Dec	+2.4 Dec	+2.0	9.1 Jan	-5.6 Q3	-3.2	-4.4	3.27	18.7	19.0
Denmark	+0.1 Q3	-2.2	+1.0	-0.1 Nov	+2.5 Dec	+2.7	4.0 Dec	+22.2 Dec	+6.0	-3.7	1.90	5.61	5.42
Hungary	+1.4 Q3	+2.2	+1.5	+3.5 Nov	+4.1 Dec	+3.9	10.7 Dec††	+1.8 Q3	+1.3	+1.3	8.66	218	198
Norway	+3.8 Q3	+5.8	+1.7	-1.2 Nov	+0.2 Dec	+1.3	3.4 Nov§§	+70.2 Q3	+14.6	+14.0	2.29	5.75	5.93
Poland	+4.2 Q3	na	+4.0	+7.7 Dec	+4.6 Dec	+4.3	12.5 Dec‡‡	-21.9 Nov	-5.2	-5.6	5.52	3.15	2.97
Russia	+4.8 Q3	na	+4.3	+2.4 Dec	+4.2 Jan	+8.4	6.1 Dec‡‡	+101.1 Q4	+5.2	nil	4.73	29.7	30.4
Sweden	+4.6 Q3	+6.6	+4.5	+0.2 Nov	+2.3 Dec	+2.8	7.1 Dec‡‡	+39.7 Q3	+7.3	+0.5	1.93	6.64	7.37
Switzerland	+1.3 Q3	+0.9	+1.8	-1.4 Q3	-0.7 Dec	+0.3	3.1 Jan	+95.7 Q3	+13.6	+0.8	0.67	0.91	1.07
Turkey	+8.2 Q3	na	+7.8	+3.7 Dec	+10.4 Dec	+6.5	9.1 Oct††	-77.8 Nov	-10.3	-1.7	9.42	1.75	1.51
Australia	+2.5 Q3	+3.9	+1.8	+0.8 Q3	+3.1 Q4	+3.4	5.2 Dec	-32.6 Q3	-2.2	-2.6	4.10	0.93	1.15
Hong Kong	+4.3 Q3	+0.4	+4.9	+0.3 Q3	+5.7 Dec	+5.3	3.3 Dec††	+13.6 Q3	+5.4	+1.5	1.18	7.75	7.77
India	+6.9 Q3	na	+7.1	+5.9 Nov	+6.5 Dec	+8.9	10.8 2010	-65.1 Q3	-2.7	-5.4	8.41	49.2	46.7
Indonesia	+6.5 Q4	nil	+6.5	+5.0 Nov	+3.7 Jan	+5.3	6.6 Aug	+3.6 Q3	+0.4	-1.0	3.83†††	8,870	9,380
Malaysia	+5.8 Q3	na	+4.8	+3.0 Dec	+3.0 Dec	+3.2	3.1 Nov	+32.7 Q3	+12.5	-5.5	2.86†††	3.00	3.44
Pakistan	+2.4 2011**	na	+2.4	-0.5 Nov	+9.7 Dec	+11.9	5.6 2010	-0.5 Q3	-0.8	-5.9	14.06†††	90.7	84.9
Singapore	+3.6 Q4	-4.9	+5.2	+12.6 Dec	+5.5 Dec	+5.1	2.0 Q4	+49.2 Q3	+18.2	+0.6	1.38	1.25	1.42
South Korea	+3.4 Q4	+1.4	+3.3	+2.8 Dec	+3.4 Jan	+4.0	3.1 Dec	+27.7 Dec	+2.4	+2.1	3.76	1,116	1,164
Taiwan	+1.9 Q4	na	+4.4	-8.1 Dec	+2.4 Jan	+1.4	4.2 Dec	+38.6 Q3	+8.4	-3.9	1.30	29.5	32.1
Thailand	+3.5 Q3	+2.1	+1.2	-25.8 Dec	+3.4 Jan	+3.8	0.6 Oct	+11.9 Dec	+3.1	-2.9	3.28	30.7	33.2
Argentina	+9.3 Q3	+4.5	+8.5	+0.8 Nov	+9.5 Dec***	+9.9	7.2 Q3‡‡	nil Q3	-0.3	-1.4	na	4.34	3.84
Brazil	+2.1 Q3	-0.2	+2.9	-1.2 Dec	+6.5 Dec	+6.6	4.7 Dec††	-49.3 Nov	-2.2	-2.6	11.22	1.72	1.85
Chile	+4.8 Q3	+2.6	+6.1	+0.5 Dec	+4.4 Dec	+3.3	6.6 Dec††‡‡	-1.2 Q3	-0.8	+1.0	2.82†††	477	542
Colombia	+7.7 Q3	+7.1	+5.1	+6.5 Nov	+3.5 Jan	+3.4	9.8 Dec††	-9.6 Q3	-2.6	-2.5	3.62†††	1,779	1,983
Mexico	+4.5 Q3	+5.5	+3.9	+3.2 Nov	+3.8 Dec	+3.3	4.5 Dec‡‡	-10.0 Q3	-1.9	-2.9	6.08	12.7	13.1
Venezuela	+4.2 Q3	na	+3.5	+2.9 Sep	+26.3 Jan	+26.2	7.0 Q4††	+26.0 Q3	+7.7	-5.0	6.55†††	5.30	na
Egypt	+0.3 Q3	na	+1.8	-1.9 Q3	+9.5 Dec	+10.2	11.9 Q3‡‡	-4.1 Q3	-2.1	-10.0	7.43†††	6.03	5.49
Israel	+5.1 Q3	+3.4	+4.6	+2.3 Nov	+2.2 Dec	+3.2	5.6 Q3	+1.8 Q3	+0.2	-3.0	3.45	3.71	3.73
Saudi Arabia	+6.7 2011	na	+7.0	na	+5.3 Dec	+4.7	na	+75.3 2010‡‡‡	+24.4	+14.3	na	3.75	3.75
South Africa	+3.1 Q3	+1.4	+3.1	+2.4 Nov	+6.1 Dec	+5.1	23.9 Q4††	-11.6 Q3	-4.1	-5.5	7.71	7.55	7.71

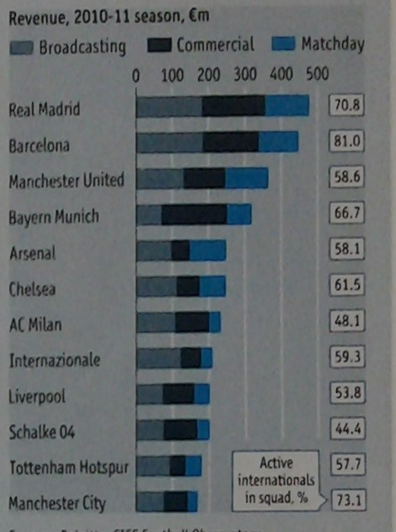
*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions §RPI inflation rate 4.8 in December. **Year ending June. ††Latest 3 months. ‡‡Not seasonally adjusted. §§Centred 3-month average. ***Unofficial estimates are higher. †††Dollar-denominated bonds. ‡‡‡Estimate.

Markets

	Index Feb 8th	% change on: one week	Dec 31st 2010: in local currency	Dec 31st 2010: in $ terms
United States (DJIA)	12,884.0	+1.3	+11.3	+11.3
China (SSEA)	2,459.4	+3.5	-16.4	-12.4
Japan (Nikkei 225)	9,015.6	+2.3	-11.9	-7.0
Britain (FTSE 100)	5,875.9	+1.5	-0.4	+0.6
Canada (S&P TSX)	12,521.0	nil	-6.9	-7.0
Euro area (FTSE Euro 100)	813.9	+1.5	-9.0	-10.1
Euro area (DJ STOXX 50)	2,512.9	+1.7	-10.0	-11.1
Austria (ATX)	2,238.6	+4.7	-22.9	-23.9
Belgium (Bel 20)	2,280.2	+0.7	-11.6	-12.6
France (CAC 40)	3,410.0	+1.3	-10.4	-11.5
Germany (DAX)*	6,748.8	+2.0	-2.4	-3.6
Greece (Athex Comp)	809.1	+1.6	-42.8	-43.5
Italy (FTSE/MIB)	16,669.2	+2.5	-17.4	-18.4
Netherlands (AEX)	325.3	+0.1	-8.2	-9.4
Spain (Madrid SE)	890.9	+1.9	-11.2	-12.3
Czech Republic (PX)	1,024.2	+4.2	-16.4	-16.3
Denmark (OMXCB)	401.7	+5.0	-5.9	-6.8
Hungary (BUX)	19,724.3	+3.0	-7.5	-12.1
Norway (OSEAX)	466.1	+1.5	-4.2	-3.2
Poland (WIG)	42,044.5	+1.5	-11.5	-16.9
Russia (RTS, $ terms)	1,643.5	+2.7	-9.5	-7.2
Sweden (OMXS30)	1,074.6	+0.9	-7.0	-5.9
Switzerland (SMI)	6,155.9	+1.4	-4.4	-2.3
Turkey (ISE)	61,178.3	+3.3	-7.3	-18.4
Australia (All Ord.)	4,363.7	+1.7	-10.0	-5.0
Hong Kong (Hang Seng)	21,018.5	+3.4	-8.8	-8.5
India (BSE)	17,707.3	+2.4	-13.7	-21.5
Indonesia (JSX)	3,988.7	+0.6	+7.7	+9.4
Malaysia (KLSE)	1,553.2	+2.1	+2.3	+5.0
Pakistan (KSE)	12,263.3	+2.8	+2.0	-3.6
Singapore (STI)	2,982.2	+2.7	-6.5	-3.9
South Korea (KOSPI)	2,003.7	+2.3	-2.3	-0.6
Taiwan (TWI)	7,869.9	+4.2	-12.3	-13.4
Thailand (SET)	1,116.1	+2.7	+8.1	+6.0
Argentina (MERV)	2,720.2	-4.1	-22.8	-29.4
Brazil (BVSP)	65,831.1	+2.0	-5.0	-8.1
Chile (IGPA)	20,836.9	+1.0	-9.3	-11.1
Colombia (IGBC)	14,053.0	+1.3	-9.3	-2.1
Mexico (IPC)	38,140.6	+1.1	-1.1	-3.7
Venezuela (IBC)	124,559.5	+0.8	+90.6	na
Egypt (Case 30)	4,709.2	+0.4	-33.5	-36.0
Israel (TA-100)	1,015.9	-0.2	-17.2	-21.0
Saudi Arabia (Tadawul)	6,797.1	+2.0	+2.7	+2.7
South Africa (JSE AS)	34,226.7	+0.3	+6.6	-6.6

Football wealth

Real Madrid may have finished second in the Spanish league last season but they continued to dominate the Football Money League, a ranking of football clubs' revenues compiled by Deloitte, an accounting firm. Madrid topped the revenue table for the seventh consecutive season, earning €479.5m ($635m), a 9% increase from a year earlier. Barcelona, the runners-up, had the highest proportion of their squad playing regular international matches. The next five places remained unchanged from the 2009-10 season. After reaching the semi-finals of the Champions League, Schalke 04 climbed six places with a 45% jump in earnings. Tottenham Hotspur, whose revenue rose by 36%, moved up one spot.



Sources: Deloitte; CIES Football Observatory

Other markets

	Index Feb 8th	% change on: one week	Dec 31st 2010: in local currency	Dec 31st 2010: in $ terms
United States (S&P 500)	1,350.0	+2.0	+7.3	+7.3
United States (NAScomp)	2,915.9	+2.4	+9.9	+9.9
China (SSEB, $ terms)	227.4	+3.4	-28.6	-25.3
Japan (Topix)	782.3	+3.2	-13.0	-8.2
Europe (FTSEurofirst 300)	1,070.8	+1.3	-4.5	-5.7
World, dev'd (MSCI)	1,281.2	+1.9	+0.1	+0.1
Emerging markets (MSCI)	1,060.7	+3.0	-7.9	-7.9
World, all (MSCI)	327.3	+2.0	-1.0	-1.0
World bonds (Citigroup)	941.4	-0.5	+7.8	+7.8
EMBI+ (JPMorgan)	616.1	+0.4	+11.7	+11.7
Hedge funds (HFRX)	1,135.0‡	+0.3	-6.8	-6.8
Volatility, US (VIX)	18.2	+18.6	+17.8	(levels)
CDSs, Eur (iTRAXX)†	137.3	+4.5	+31.3	+29.7
CDSs, N Am (CDX)†	99.0	+4.7	+16.2	+16.2
Carbon trading (EU ETS) €	8.3	-1.4	-41.1	-41.9

*Total return index. †Credit-default-swap spreads, basis points. ‡Feb 6th. Sources: National statistics offices, central banks and stock exchanges; Bloomberg; CBOE; CBOT; CMIE; Cotlook; Darmenn & Curl; EEX; FT; HKMA; ICCO; ICO; ISO; Jackson Rice; JPMorgan Chase; Markit; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ; WM/Reuters

The Economist commodity-price index

2005=100

	Jan 31st	Feb 7th*	% change on: one month	one year
Dollar index				
All items	190.8	191.3	+3.6	-18.5
Food	203.2	205.5	+0.3	-13.8
Industrials				
All	177.9	176.5	+8.0	-23.6
Nfa†	191.5	195.6	+9.1	-34.6
Metals	172.0	168.3	+7.4	-16.6
Sterling index				
All items	219.9	219.1	+1.1	-17.4
Euro index				
All items	181.2	179.6	nil	-15.9
Gold				
$ per oz	1,731.0	1,738.6	+6.1	+27.3
West Texas Intermediate				
$ per barrel	98.5	98.7	-3.5	+13.4

*Provisional †Non-food agriculturals.

Indicators for more countries and additional series, go to: **Economist.com/indicators**

สำนักเศรษฐกิจการคลัง

ศูนย์บริหารงานวิจัยและบรรณสารสนเทศ

ฝ่ายเทคโนโลยีและบรรณสารสนเทศ

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และบรรณสารสนเทศ

“ข้อสนเทศวิจัย”

ฉบับที่ 2 ประจำเดือนกุมภาพันธ์ 2555

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ภายในฉบับนี้:

High-frequency trading

The fast and the furious

High-frequency trading seems scary, but what does the evidence show?

ON FEBRUARY 3RD 2010, at 1.26.28 p.m., an automated trading system operated by a high - frequency trader (HFT) called Infinium Capital Management malfunctioned. Over the next three seconds it entered 6,767 individual orders to buy light sweet crude oil futures on the New York Mercantile Exchange (NYMEX), which is run by the Chicago Mercantile Exchange (CME). Enough of those orders were filled to send the market jolting upwards.

A NYMEX business - conduct panel investigated what happened that day. In November 2011 it published a list of Infinium's alleged risk - management failures and find the firm $350,000. Infinium itself neither admits nor denies any violation of the exchange's rules. It takes the same line on a $500,000 fine it was given at the same time for alleged transgressions on the CME itself in 2009.

Those alleged failures pull back the curtain on some of the safeguards that are meant to protect traders, exchanges and markets from erratic ultra - fast algorithms. The NYMEX panel found that Infinium had finished writing the algorithm only the day before it introduced it to the market, and had tested it for only a couple of hours in a simulated trading environment to see how it would perform. The firm's normal testing processes take six to eight weeks. When the algorithm stated its frenetic buying spree, the measures designed to shut it down automatically did not work. One was supposed to turn the system off a maximum order size was breached, but because the machine was placing lots of small orders rather than a single big one the shutdown was not triggered. The other measure was meant to prevent Infinium from selling or buying more than a certain number of contracts, but becaruse of an error in the way the rogue algorithm had been written, this , too, failed to spot a problem. To complete the catalogue of errors,

the firm then allegedly breached another CME rule when an employee used a colleague's trading ID to put on positions that would offset its unwanted exposures.

This incident was unusual for ending in a fine, but in other respects it was not that uncommon. The "flash crash" of May 6th 2010, when American equity markets nosedived by almost 10% in the course of a few nerve - shredding minutes, grabbed popular attention. Although it was not directly triggered by high - frequency traders, the official reports suggested they helped fuel the uncontrolled selling. But there are miniature versions of such flash crashes happening all the time, says John Bates, the chief technology officer of Progress Software, a software firm.

Often they result from algorithms interacting with each other and forming an infinite loop. For a simplified example, take two algorithms that are both programmed always to outbid the best offer in the market, so they will go on outbidding each other. Usually such loops are spotted and stopped, sometimes manually and sometimes automatically, without many people noticing. But the fact that they happen at all feeds the perception that today's equity markets have turned into something more akin to science fiction than a device for the efficient allocation of capital. How, the critics ask, can anyone assess the fundamentals of a company in a fraction of a second? How can lumbering institutional investors, let alone the little guy, hope to compete with the HFTS? And what is to stop a new set of algorithms from unleashing havoc.

Science v friction

Such questions have gradually drawn the high - frequency traders out into the open. Until recently they saw little need to engage with the wider world. HFTS do not have clients but operate with their own capital. Proprietary algorithms provide a competitive edge, so secrecy is engrained in the culture. But as regulators, politicians and the media focus ever more closely on their activities, the traders have formed groups on both sides of the Atlantic to represent their interests.

Many are frustrated by what they perceive as unfair onslaught. "The gap between reality and rhetoric is bigger for this industry than for any other I have seen," says Remco Lenterman, the chairman of the European Principal Traders Association and the managing director of IMC, an electronic marketmaking firm. Plenty of academics support the HFTS' arguments. On the other side are some big institutional investors who accuse HFTS of front - running their orders, and high - profile critics like BartChilton, a member of America's Commodities Futures Trading Commission, who has punningly dubbed HFTS "cheetah traders".

To sift through the arguments on both sides is to confront a basic problem with any financial innovation: the difficulty of measuring its benefits. For one thing, there are questions of definition. HFTS are not the only people using algorithms to trade: institutional investors use them to break large order into small parcels so that markets do not move against them as they execute the order. And although high - frequency trading always involves very brief holding periods and very active trading, it breaks down into lots of different strategies. Some HFTS are momentum traders, riding the wave of a particular trend. Others arbitrage price differences. Others still are marketmakers providing liquidity to buyers and sellers.

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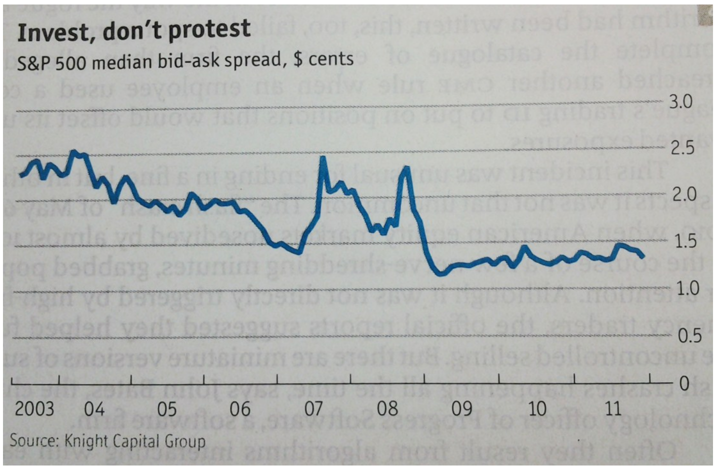


Another problem is that there are not enough good data. The fiercest debates centre on the role of HFTS as marketmakers. The evidence tends to favour the HFTS, which can point to a solid body of academic research that shows they increase liquidity, as measured by tighter bid - ask spreads HFTS also point to testimony delivered to the Securities and Exchange Commission in 2010 by George Sauter of Vanguard, a big fund manager, who concluded that "high - frequency traders provide liquidity and 'knit' together our increasingly fragmented marketplace , resulting in tighter spreads that benefit all investors."

But others say that the increase in trading activity brought about by HFTS, in Europe at least, means that fund managers have to pay additional costs for storage and electronic reporting in order to comply with best - execution requirements. It is hard to disentangle the effects of HFTS on transaction costs from other changes, such as competition among exchanges. A bigger problem, says Paul Squires, the head of trading for AXA Investment Managers, is that increased liquidity can be illusory. "You can press the button to buy Vodafone, say, and have it executed in a second but in that period 75% of the liqudiru has disappeared and the price has moved."

It is certainly true that HFTS are constantly sending and cancelling orders. Some of that activity may be tied to a manipulative technique called "quote - stuffing", in which a flood of orders and cancellations causes congestion on net works and thereby a fleeting trading advantage. But the legitimate explanation for it is that marketmakers cannot afford to be static in case the market moves against them, and that in an ever - faster market HFTS have to be quicker to adjust prices.

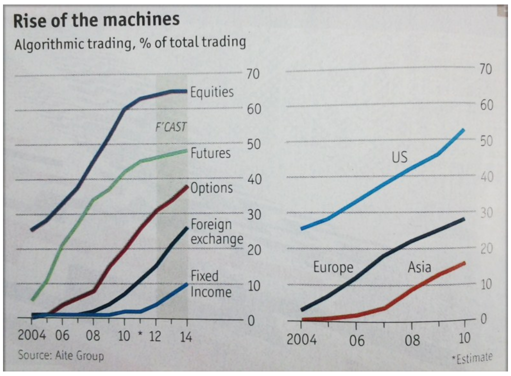
"We have got to get away from the idea that speed equals danger," says Richard Gorelick, the "G" in a Texan HFT called RGM. "Professional traders trade continuously and are exposed to market movements all the time, so being able to adjust that exposure quickly gives them confidence to quote better prices." That is why the idea of imposing minimum resting times for quotes before they can be cancelled would almost certainly lead HFTS to widen bid - ask spreads, increasing costs to investors.

In their 2011 NBER paper Mssrs Lerner and Tufano argued that it is virtually impossible to quantify the social impact of a financial innovation because finance involves so many externalities, often unintended ones. For example, it would be almost impossible to measure the aggregate costs and benefits of a fundamental innovation like a bank. Instead, they reckoned, a thought experiment - imagining what the world would look like without a particular innovation - might help.

A world without HFTS is both easy and very difficult to imagine. Easy, because the old world of specialist marketmakers and floor trading exted only a few years ago, so people remember it well. There is little obvious enthusiasm for returning to that model. Not only were transaction costs higher but the same arguments about unfair advantages were being put forward in different forms. Now the complaints are about the milliseconds HFTS gain over ordinary investors by putting their servers right next to the exchanges' data centres ; then they were about the monopolistic privileges of the specialists and the advantages of being on the floor. Institutional investors may complain about being forced into "dark pools" (off - exchange venues where they can deal anonymously) to avoid HFTS, but these pools existed before HFTS and were set up in part to avoid being scalped by brokers or floor traders.

But imagining a world without high - frequency trading id also hard. That is because the HFTS are what Larry Tabb of TABB Group, a research firm, describes as an "outcrop" of the market structure. They are a natural outcome in a world in which trading is automated, and in which there is competition between lots of different exchanges and a need for someone speedily to knit together the prices they offer. "The real question is whether humans make worse mistakes when they write algorithms or when they trade," says Terrence Hendershott of the Haas School of Business at the University of California, Berkeley.

In practical terms, trading history is highly unlikely to be reversed. Regulators in developed countries have no evidence that radical change is needed, nor any appetite for it. Developing countries, which have become the standard - bearers of sensible financial regulation, are racing towards high - frequency trading as they seek to improve liquidity.



Meanwhile the industry itself pushes inexorably forward. That certainly entails greater speed: the industry used to think in term of milliseconds (it takes you 300-400 of these to blink) but is now fast moving to microseconds, or millionths of a second. It also means smarter algorithms. People have gone from trading in open - outcry pits to trading via screens to programming algorithms. The next stage, says Mr Bates of Progress Software, will be self - learning systems, in which sentient algorithms mine the capital markets, spotting correlations that are too complex for humans to see and suggesting trading ideas as a result. Humans will still be needed to validate these ideas, he says reassuringly.

But the prospect of even faster markets raises the problem posed by the Infinium case and by flash crashes large and small: the threat from HFTS to the stability of markets. Software has a nasty habit of developing bugs. Algorithms behave unpredictably once they are out of a testing environment and into the market proper. Even leaving aside the potential for deliberate market abuse, traders will sometimes get things wrong.

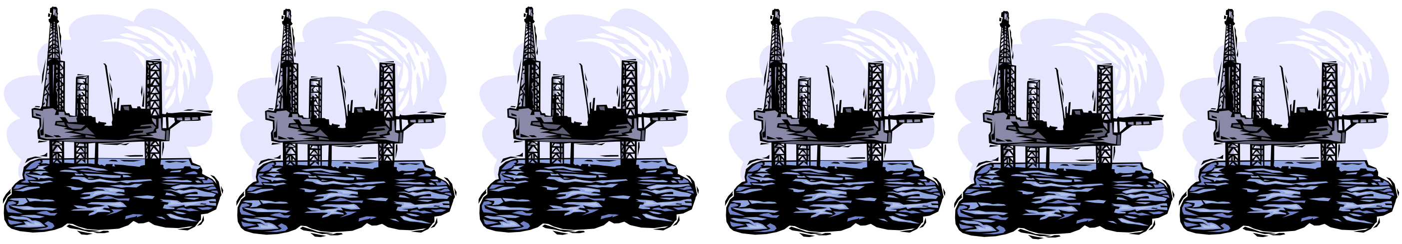
Plugging the holes

So real - time risk - management safeguards have to be put in place that work at different levels - of the HFTS, the prime brokers, the exchanges and the regulatory agencies. Some of these safeguards already exist. The exchanges have limits on orders above a certain size, for instance, and on the number of orders that can come in. But there are always holes to be filled.

The May 2010 flash crash revealed a glaring problem with the structure of American equity markets, for instance: that circuit - breakers which automatically pause trading if there are violent price swings kicked in only once the entire market reached a certain threshold. The regulators have since introduced “single-stock circuit-breakers” for any stock that moves up or down by 10% or more in a five-minute period. Most observers are confident that this would stop another flash crash in its tracks.

However, a focus on equity markets may distract attention from other asset classes where HFTS are present and growing. The Bank for International Settlements, a club of central bankers, last September issued a useful fact-finding report on the role of high-frequency trading in the vast foreign-exchange markets. It worried about the capacity of the prime brokers, through which HFTS gain access to credit, to keep pace with their clients. If they do not, the prime brokers themselves are exposed to the possibility of HFTS rapidly accumulating risky positions.

Again, the industry is aware of this risk. Traiana, a post-trade processing firm, launched a software program last year that aggregates clients’ positions across lots of different venues in real time and activates a “kill switch” that stops clients trading once pre-defined limits are breached. But this is a voluntary initiative, not one that is required by regulators. Other markets remain unprotected. Regulators should not be afraid to act firmly to define and enforce standards for market surveillance and trading controls across venues and asset classes. And getting the infrastructure right is important in other areas too.



98 **Economic and financial indicators** The Economist February 25th 2012

Economic data
% change on year ago

	Gross domestic product latest	qtr*	2011†	Industrial production latest	Consumer prices latest	2011†	Unemployment rate‡, %	Current-account balance latest 12 months, $bn	% of GDP 2011†	Budget balance % of GDP 2011†	Interest rates, % 10-year gov't bonds, latest	Currency units, per $ Feb 22nd	year ago
United States	+1.6 Q4	+2.8	+1.7	+3.4 Jan	+2.9 Jan	+3.1	8.3 Jan	-466.8 Q3	-3.1	-8.7	1.97	–	–
China	+8.9 Q4	+8.2	+9.2	+12.8 Dec	+4.5 Jan	+5.5	6.1 2010	+201.1 Q4‡‡‡	+3.1	-1.6	3.66	6.30	6.57
Japan	-1.0 Q4	-2.3	-0.7	-4.3 Dec	-0.2 Dec	-0.4	4.6 Dec	+120.3 Dec	+2.2	-8.6	0.98	80.3	82.6
Britain	+0.8 Q4	-0.8	+0.9	-3.3 Dec	+3.6 Jan§	+4.5	8.4 Dec††	-70.6 Q3	-1.9	-8.4	2.21	0.64	0.62
Canada	+2.4 Q3	+3.5	+2.3	+2.8 Nov	+2.5 Jan	+2.9	7.6 Jan	-49.7 Q3	-2.9	-4.1	2.15	1.00	0.99
Euro area	+0.7 Q4	-1.3	+1.5	-2.0 Dec	+2.7 Jan	+2.7	10.4 Dec	-44.9 Dec	-0.5	-4.3	1.92	0.76	0.73
Austria	+1.5 Q4	-0.3	+3.0	+2.5 Nov	+3.3 Dec	+3.3	4.1 Dec	+10.5 Q3	+2.5	-2.6	2.97	0.76	0.73
Belgium	+0.9 Q4	-0.9	+1.8	+3.8 Nov	+3.6 Jan	+3.4	7.2 Dec‡‡	+0.3 Sep	+1.1	-4.3	3.62	0.76	0.73
France	+1.4 Q4	+0.9	+1.5	-1.3 Dec	+2.3 Jan	+2.2	9.9 Dec	-65.2 Dec	-2.5	-5.4	2.97	0.76	0.73
Germany	+1.5 Q4	-0.7	+3.0	+1.3 Dec	+2.1 Jan	+2.4	6.7 Jan	+188.1 Dec	+5.2	-1.0	1.92	0.76	0.73
Greece	-7.0 Q4	na	-5.2	-11.4 Dec	+2.3 Jan	+2.9	20.9 Nov	-29.2 Dec	-8.6	-10.0	37.15	0.76	0.73
Italy	-0.5 Q4	-2.9	+0.5	-1.7 Dec	+3.2 Jan	+2.8	8.9 Dec	-70.9 Dec	-3.6	-3.9	5.49	0.76	0.73
Netherlands	-0.7 Q4	-2.8	+1.5	+1.3 Dec	+2.5 Jan	+2.4	6.0 Jan††	+66.6 Q3	+7.0	-4.8	2.25	0.76	0.73
Spain	+0.3 Q4	-1.2	+0.6	-6.9 Dec	+2.0 Jan	+3.1	22.9 Dec	-53.6 Nov	-3.7	-8.2	5.05	0.76	0.73
Czech Republic	+1.2 Q3	-0.3	+1.8	+2.0 Dec	+3.5 Jan	+2.0	9.1 Jan	-5.6 Q3	-3.2	-3.8	3.33	19.0	17.8
Denmark	+0.1 Q3	-2.2	+1.0	+3.7 Dec	+2.8 Jan	+2.7	4.0 Dec	+22.2 Dec	+6.0	-3.7	1.89	5.62	5.42
Hungary	+1.5 Q4	+0.3	+1.5	+6.7 Dec	+5.5 Jan	+3.9	10.7 Dec††	+1.8 Q3	+1.5	+1.2	8.87	218	199
Norway	+1.5 Q4	+1.8	+1.7	-4.9 Dec	+0.5 Jan	+1.3	3.4 Nov§§	+70.2 Q3	+14.6	+14.0	2.40	5.66	5.63
Poland	+4.2 Q3	na	+4.0	+9.1 Jan	+4.1 Jan	+4.3	12.5 Dec‡‡	-21.2 Dec	-4.7	-5.6	5.54	3.17	2.89
Russia	+4.8 Q3	na	+4.3	+3.8 Jan	+4.2 Jan	+8.4	6.6 Jan‡‡	+101.1 Q4	+5.5	+0.8	4.73	29.7	29.2
Sweden	+4.6 Q3	+6.6	+4.5	+2.0 Dec	+1.9 Jan	+2.8	8.0 Jan‡‡	+39.7 Q3	+7.3	+0.2	1.91	6.67	6.39
Switzerland	+1.3 Q3	+0.9	+1.8	-1.4 Q3	-0.8 Jan	+0.3	3.1 Jan	+95.7 Q3	+13.6	+0.8	0.71	0.91	0.93
Turkey	+8.2 Q3	na	+7.8	+3.7 Dec	+10.6 Jan	+6.5	9.1 Nov‡‡	-77.1 Dec	-10.3	-1.4	9.39	1.76	1.60
Australia	+2.5 Q3	+3.9	+1.8	+0.8 Q3	+3.1 Q4	+3.4	5.1 Jan	-32.6 Q3	-2.2	-2.6	4.19	0.94	1.00
Hong Kong	+3.0 Q4	+1.2	+4.9	+0.3 Q3	+6.1 Jan	+5.3	3.2 Jan††	+13.6 Q3	+5.4	+1.5	1.23	7.76	7.79
India	+6.9 Q3	na	+7.1	+1.8 Dec	+7.7 Jan¶	+8.9	10.8 2010	-65.1 Q3	-2.3	-5.3	8.35	49.2	45.1
Indonesia	+6.5 Q4	na	+6.5	+6.0 Dec	+3.7 Jan	+5.4	6.6 Aug	+2.1 Q4	+0.2	-1.2	3.69†††	9,050	8,855
Malaysia	+5.2 Q4	na	+4.8	+3.0 Dec	+2.7 Jan	+3.2	3.1 Dec	+32.7 Q3	+12.1	-5.5	2.80†††	3.03	3.05
Pakistan	+2.4 2011**	na	+2.4	+0.7 Dec	+10.1 Jan	+11.9	5.6 2010	-1.9 Q4	-0.7	-5.9	14.73†††	90.8	85.4
Singapore	+3.6 Q4	-2.5	+4.8	+12.6 Dec	+5.5 Dec	+5.2	2.0 Q4	+57.1 Q4	+18.4	+0.6	1.40	1.26	1.28
South Korea	+3.4 Q4	+1.4	+3.6	+2.8 Dec	+3.4 Jan	+4.0	3.2 Jan	+27.7 Dec	+2.6	+2.1	3.80	1,126	1,124
Taiwan	+1.9 Q4	-0.6	+4.4	-8.1 Dec	+2.4 Jan	+1.4	4.2 Dec	+41.3 Q4	+8.2	-3.9	1.29	29.6	29.6
Thailand	-9.0 Q4	-36.4	+1.2	-25.8 Dec	+3.4 Jan	+3.8	0.6 Oct	+11.9 Dec	+2.7	-2.9	3.38	30.6	30.6
Argentina	+9.3 Q3	+4.5	+8.9	+0.8 Nov	– ***	–	7.2 Q3‡‡	nil Q3	+0.1	-1.7	na	4.35	4.03
Brazil	+2.1 Q3	-0.2	+2.9	-1.2 Dec	+6.2 Jan	+6.6	4.7 Dec‡‡	-52.6 Dec	-2.0	-2.6	11.04	1.71	1.67
Chile	+4.8 Q3	+2.6	+6.1	+0.5 Dec	+4.2 Jan	+3.3	6.6 Dec‡‡‡	-1.2 Q3	-1.0	+0.9	2.80†††	484	475
Colombia	+7.7 Q3	+7.1	+5.1	+6.5 Nov	+3.5 Jan	+3.4	9.8 Dec‡‡	-9.6 Q3	-2.6	-2.5	3.61†††	1,784	1,897
Mexico	+3.7 Q4	+1.7	+3.9	+2.8 Dec	+4.0 Jan	+3.4	4.5 Dec‡‡	-10.0 Q3	-1.1	-2.9	6.15	12.8	12.2
Venezuela	+4.9 Q4	na	+4.0	+2.9 Sep	+26.3 Jan	+26.1	7.0 Q4‡‡	+27.2 Q4	+7.8	-5.0	6.55†††	5.30	na
Egypt	+0.3 Q3	na	+1.8	-1.9 Q3	+8.6 Jan	+10.2	11.9 Q3‡‡	-4.1 Q3	-2.1	-10.0	7.52†††	6.04	5.89
Israel	+3.2 Q4	+3.2	+4.3	+5.4 Dec	+2.0 Jan	+3.5	5.6 Q3	+1.8 Q3	+0.3	-3.6	3.51	3.76	3.64
Saudi Arabia	+6.7 2011	na	+7.0	na	+5.3 Jan	+4.7	na	+75.3 2010‡‡‡	+24.4	+14.3	na	3.75	3.75
South Africa	+3.1 Q3	+1.4	+3.1	+2.1 Dec	+6.3 Jan	+5.1	23.9 Q4‡‡	-11.6 Q3	-4.1	-5.5	7.77	7.71	7.11

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions ¶New series §RPI inflation rate 3.9 in January. **Year ending June. ††Latest 3 months. ‡‡Not seasonally adjusted. §§Centred 3-month average. ***Official number not reliable; State Street's PriceStats Index, Jan 24.5%; year ago 26.3%. †††Dollar-denominated bonds. ‡‡‡Estimate.

สำนักงานเศรษฐกิจการคลัง

ศูนย์บริหารงานวิจัยและบรรณสารสนเทศ

ฝ่ายเทคโนโลยีและบรรณสารสนเทศ

ชั้น 5 ตึกกระทรวงการคลัง

ถ.พระราม 6 อารีย์สัมพันธ์

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Markets

	Index Feb 22nd	one week	% change on Dec 31st 2010 in local currency	% change on Dec 31st 2010 in $ terms
United States (DJIA)	12,938.7	+1.2	+11.8	+11.8
China (SSEA)	2,517.9	+1.6	-14.4	-10.4
Japan (Nikkei 225)	9,554.0	+3.2	-6.6	-5.7
Britain (FTSE 100)	5,916.6	+0.4	+0.3	+0.3
Canada (S&P TSX)	12,701.3	+2.7	-5.5	-6.1
Euro area (FTSE Euro 100)	818.0	+1.0	-8.6	-9.8
Euro area (DJ STOXX 50)	2,519.0	+1.0	-9.8	-11.0
Austria (ATX)	2,183.0	-0.1	-24.8	-25.8
Belgium (Bel 20)	2,259.0	+1.2	-12.4	-13.5
France (CAC 40)	3,447.4	+1.7	-9.4	-10.6
Germany (DAX)*	6,843.9	+1.3	-1.0	-2.3
Greece (Athex Comp)	752.0	-3.1	-46.8	-47.5
Italy (FTSE/MIB)	16,557.6	+0.3	-17.9	-19.0
Netherlands (AEX)	326.8	+1.2	-7.8	-9.0
Spain (Madrid SE)	870.8	-1.0	-13.2	-14.4
Czech Republic (PX)	1,014.1	+0.8	-17.2	-18.6
Denmark (OMXCB)	413.8	-0.4	-3.1	-4.1
Hungary (BUX)	19,055.7	-0.4	-10.7	-15.0
Norway (OSEAX)	482.0	+1.2	-0.9	+1.8
Poland (WIG)	41,669.4	+0.1	-12.3	-18.1
Russia (RTS, $ terms)	1,642.0	-1.2	-9.8	-7.2
Sweden (OMXS30)	1,096.1	+1.2	-5.1	-4.4
Switzerland (SMI)	6,192.4	-0.1	-3.8	-1.6
Turkey (ISE)	60,856.4	+1.7	-7.8	-19.3
Australia (All Ord.)	4,372.1	+1.0	-9.8	-6.2
Hong Kong (Hang Seng)	21,549.3	+0.9	-6.5	-6.2
India (BSE)	18,145.3	-0.3	-11.5	-19.6
Indonesia (JSX)	3,995.0	+1.1	+7.9	+7.4
Malaysia (KLSE)	1,560.5	nil	+2.7	+4.7
Pakistan (KSE)	12,603.7	+2.4	+4.8	-1.1
Singapore (STI)	2,995.6	-0.5	-6.1	-4.5
South Korea (KOSPI)	2,028.7	+0.2	-1.1	-0.3
Taiwan (TWI)	8,001.7	nil	-10.8	-12.0
Thailand (SET)	1,137.8	+1.0	+10.2	+8.5
Argentina (MERV)	2,838.6	+4.2	-19.4	-26.5
Brazil (BVSP)	66,092.8	+1.1	-4.6	-7.3
Chile (IGPA)	21,423.0	+0.6	-6.8	-9.9
Colombia (IGBC)	14,566.1	+2.0	-6.0	+1.2
Mexico (IPC)	37,912.6	+0.1	-1.7	-5.4
Venezuela (IBC)	136,093.1	+0.1	+108	na
Egypt (Case 30)	5,018.2	+0.3	-29.1	-31.9
Israel (TA-100)	1,017.2	-0.1	-17.1	-22.0
Saudi Arabia (Tadawul)	7,031.3	+3.2	+6.2	+6.2
South Africa (JSE AS)	34,006.5	-0.2	+5.9	-9.2

US cars and light trucks

Americans are holding on to their motors for longer, according to Polk, a market-research firm. The average length of ownership last year was 57 months, the longest on record. The average light vehicle on America's roads was 10.8 years old, another record. Before the downturn the increasing reliability and durability of cars was already encouraging motorists to keep them longer; in the past three years a weak job market, low consumer confidence and the availability of long-term finance have given the trend an extra push. Sales of new cars rose in January to an annual rate of 14.2m. At that pace it would take 17 years to replace America's entire fleet. Mechanics and parts shops can expect to stay busy.

Source: R.L. Polk

Other markets

	Index Feb 22nd	one week	% change on Dec 31st 2010 in local currency	% change on Dec 31st 2010 in $ terms
United States (S&P 500)	1,357.7	+1.1	+8.0	+8.0
United States (NAScomp)	2,933.2	+0.6	+10.6	+10.6
China (SSEB, $ terms)	238.0	+2.5	-25.3	-21.8
Japan (Topix)	825.4	+2.8	-8.2	-7.3
Europe (FTSEurofirst 300)	1,077.1	+0.1	-4.0	-5.2
World, dev'd (MSCI)	1,289.0	+1.1	+0.7	+0.7
Emerging markets (MSCI)	1,064.6	+0.6	-7.5	-7.5
World, all (MSCI)	329.2	+1.1	-0.4	-0.4
World bonds (Citigroup)	928.0	-0.5	+6.2	+6.2
EMBI+ (JPMorgan)	623.7	+0.8	+13.1	+13.1
Hedge funds (HFRX)	1,140.6§	+0.1	-6.3	-6.3
Volatility, US (VIX)	18.2	+21.1	+17.8	(levels)
CDSs, Eur (iTRAXX)†	144.9	-8.3	+27.1	+36.7
CDSs, N Am (CDX)†	100.8	-2.3	+15.7	+18.4
Carbon trading (EU ETS) €	9.2	+9.6	-35.3	-36.1

*Total return index. †Credit-default-swap spreads, basis points. §Feb 21st. Sources: National statistics offices, central banks and stock exchanges; Bloomberg; CBOE; CBOT; CMIE; Cotlook; Darmenn & Curl; EEX; FT; HKMA; ICCO; ICO; ISO; Jackson Rice; JPMorgan Chase; Markit; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ; WM/Reuters

The Economist commodity-price index

2005=100

	Feb 14th	Feb 21st*	% change on one month	% change on one year
Dollar index				
All items	189.7	190.6	+0.9	-17.5
Food	204.2	206.6	+1.2	-9.9
Industrials				
All	174.6	174.1	+0.6	-25.3
Nfa†	190.7	191.5	+1.5	-38.5
Metals	167.8	166.6	+0.1	-16.5
Sterling index				
All items	220.2	219.2	-0.6	-15.7
Euro index				
All items	179.6	178.7	-1.2	-14.9
Gold				
$ per oz	1,721.4	1,755.8	+5.2	+24.8
West Texas Intermediate				
$ per barrel	100.9	105.7	+6.6	+13.2

*Provisional †Non-food agriculturals.

Indicators for more countries and additional series, go to: **Economist.com/indicators**

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“แนะนำบทความวิชาการ”

ศูนย์บริหารงานวิจัยและบรรณสารสนเทศ สำนักงานเศรษฐกิจการคลัง กระทรวงการคลัง

Incorporating covariates in the measurement of welfare and inequality: methods and applications

Summary Methods for comparing social welfare and inequality across populations typically involve the entire distribution of economic wellbeing. Conditional analysis requires an estimate of the entire distribution conditional on a large set of covariates. In this paper, we present methods for estimating conditional distributions including flexible parametric, semiparametric and non-parametric approaches. We demonstrate how to use the statistical properties of the estimators to conduct inference for welfare and inequality comparisons conditional on covariates. Further, we consider how to use the results to perform counterfactual analysis.

By Stephen G. Donald, Yu-Chin Hsu, Garry F. Barrett

The Econometrics Journal

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COMING SOON

Statistical inference in the presence of heavy tails

Summary Income distributions are usually characterized by a heavy right-hand tail. Apart from any ethical considerations raised by the presence among us of the very rich, statistical inference is complicated by the need to consider distributions of which the moments may not exist. In extreme cases, no valid inference about expectations is possible until restrictions are imposed on the class of distributions admitted by econometric models. It is therefore important to determine the limits of conventional inference in the presence of heavy tails, and, in particular, of bootstrap inference. In this paper, recent progress in the field is reviewed, and examples given of how inference may fail, and of the sorts of conditions that can be imposed to ensure valid inference.

By Russell Davidson

ภายในฉบับนี้:

Discussion of S.G. Donald et al. and R. Davidson

Summary This paper discusses aspects of the papers by S.G. Donald et al. and R. Davidson, which were presented at *The Econometrics Journal* sponsored special session on the econometrics of inequality measurement, held at the Royal Economics Society Meeting in Surrey in 2010.

By Christian Schluter

Generalized empirical likelihood testing in semiparametric conditional moment restrictions models

Summary This paper shows how generalized empirical likelihood can be used to obtain specification tests in semiparametric conditional moment restrictions models. The resulting test statistics are similar in spirit to classical Kolmogorov–Smirnov and Cramer von Mises goodness-of-fit statistics and are based on an integrated version of the original moment restrictions. The results are applied to test the correct specification of an instrumental variable smooth varying coefficient model and of a censored non-linear quantile regression model. Monte Carlo results suggest that the proposed tests have competitive finite sample properties.

By Francesco Bravo

Breakdown point theory for implied probability bootstrap

Summary This paper studies robustness of bootstrap inference methods under moment conditions. In particular, we compare the uniform weight and implied probability bootstraps by analysing behaviours of the bootstrap quantiles when outliers take arbitrarily large values, and derive the breakdown points for those bootstrap quantiles. The breakdown point properties characterize the situation where the implied probability bootstrap is more robust against outliers than the uniform weight bootstrap. Simulation studies illustrate our theoretical findings.

By Lorenzo Camponovo, Taisuke Otsu

Testing for common trends in semi-parametric panel data models with fixed effects

Summary This paper proposes a non-parametric test for common trends in semi - parametric panel data models with fixed effects based on a measure of non - parametric goodness-of-fit (R^2). We first estimate the model under the null hypothesis of common trends by the method of profile least squares, and obtain the augmented residual which consistently estimates the sum of the fixed effect and the disturbance under the null. Then we run a local linear regression of the augmented residuals on a time trend and calculate the non-parametric R^2 for each cross - section unit. The proposed test statistic is obtained by averaging all cross - sectional non - parametric R^2s, which is close to 0 under the null and deviates from 0 under the alternative. We show that after appropriate standardization the test statistic is asymptotically normally distributed under both the null hypothesis and a sequence of Pitman local alternatives. We prove test consistency and propose a bootstrap procedure to obtain P-values. Monte Carlo simulations indicate that the test performs well in finite samples. Empirical applications are conducted exploring the commonality of spatial trends in UK climate change data and idiosyncratic trends in OECD real GDP growth data. Both applications reveal the fragility of the widely adopted common trends assumption.

By Yonghui Zhang, Liangjun Su, Peter C. B. Phillips

Unit root tests for panel data with AR(1) errors and small T

Summary We propose unit root tests for panel data with a small number of time periods, T, and increments that follow an AR(1) process under the null. The model is a fixed - effect panel version of the augmented Dickey - Fuller regression of order 1. Individual - specific linear trends may also be included. The test statistics are t-type statistics based on least-squares estimates from which the Nickell bias is removed. Their limiting distributions (for an increasing number of independent cross-section units, N, and fixed T) are standard normal. Our test generalizes the panel unit root test of Harris and Tzavalis, which is based on an unaugmented Dickey - Fuller regression. As an illustration, we examine whether the Law of One Price holds in the European car market since the start of stage three of the EMU in 1999. We find strong evidence of price convergence in the EMU countries.

By Rembert De Blander, Geert Dhaene

On the problem of inference for inequality measures for heavy-tailed distributions

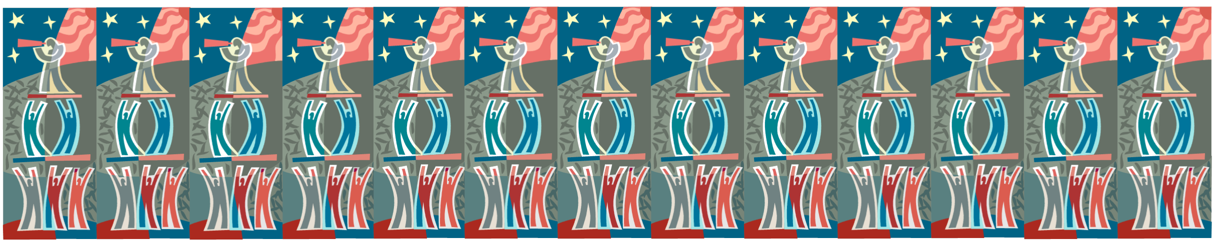
Summary We consider the class of heavy-tailed income distributions and show that the shape of the income distribution has a strong effect on inference for inequality measures. In particular, we demonstrate how the severity of the inference problem responds to the exact nature of the right tail of the income distribution. It is shown that the density of the studentized inequality measure is heavily skewed to the left, and that the excessive coverage failures of the usual confidence intervals are associated with excessively low estimates of both the point measure and the variance. For further diagnostics, the coefficients of bias, skewness and kurtosis are derived and examined for both studentized and standardized inequality measures. These coefficients are also used to correct the size of confidence intervals. Exploiting the uncovered systematic relationship between the inequality estimate and its estimated variance, variance stabilizing transforms are proposed and shown to improve inference significantly.

By Christian Schluter

Break point estimators for a slope shift: levels versus first differences

Summary This paper analyses two break point estimators: one for a univariate slope - shift model under unit root errors, the other for its first difference (a mean shift model). The asymptotic theory is developed for the estimators under a specific Pitman drift, assuming the break magnitude is within a $T^{-1/2}$ neighbourhood of zero. Compared to the existing asymptotics assuming a fixed break magnitude or a shrinking one converging at a slower rate than $T^{1/2}$, the limiting distributions here closely resemble the finite sample distributions of the break point estimators, especially the tail behaviours. Though with a lower convergence rate, the break point estimator from level model concentrates more around the true break point when the break magnitude is small relative to the noise magnitude. With the new limiting distributions, thresholds are provided for empirical researchers to choose the break point estimator based on a mean squared error criterion.

By Jingjing Yang



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The Economist

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NATIONAL TAX JOURNAL

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ภายในฉบับนี้:

A "SECOND OPINION" ON THE ECONOMIC HEALTH OF THE AMERICAN MIDDLE CLASS

Researchers considering levels and trends in the resources available to the middle class traditionally measure the pre-tax cash income of tax units or the pre-tax, post-transfer, size-adjusted income of households. Choices regarding the income measure and sharing unit to be analyzed, as well as other methodological choices, carry significant implications for assessing income trends. In particular, we show that focusing on tax units rather than households and not adjusting for sharing unit size greatly reduces measured growth in middle class income, as does excluding the effect of taxes and the value of in-kind benefits. As an example, we demonstrate how much these distinctions change the observed distribution of benefits from the tax exclusion of employer provided health insurance.

By Richard V. Burkhauser, Jeff Larrimore, Kosali I. Simon

BEHAVIORAL RESPONSES TO TAXPAYER AUDITS: EVIDENCE FROM RANDOM TAXPAYER INQUIRIES

This paper argues that random audit programs provide income taxpayers with information that alters their perceptions of, and hence their behavioral responses to, audits. Comparing samples of randomly selected audited and non-audited UK taxpayers, the evidence confirms predictions that audited taxpayers found to be "compliant" reduce their subsequent compliance. The opposite response is observed for taxpayers found to be "noncompliant." The results highlight the importance of testing separately the responses of taxpayers facing different opportunities and incentives to evade tax in order to avoid conflating their different effects, and to reveal both positive and negative indirect revenue effects from random auditing.

By Norman Gemmell, Marisa Ratto

TAX PREFERENCES FOR HIGHER EDUCATION AND ADULT COLLEGE ENROLLMENT

The federal government delivers substantial college aid through the tax code. The designs of the Lifetime Learning tax credit and the tuition deduction may make them particularly useful to older students. This paper investigates how these provisions affect college attendance of individuals in their 30s and 40s. Using panel data and fixed effects instrumental variable estimation, I find no effect on adult college attendance or degree completion. There is a positive effect on college attendance among a subsample, those whose 1998 educational attainment fell short of earlier expectations. Overall, these results suggest that tax-based aid subsidizes inframarginal college attendance among adults.

By Sara LaLumia

SUBSIDIZING CHARITABLE CONTRIBUTIONS WITH A MATCH INSTEAD OF A DEDUCTION: WHAT HAPPENS TO DONATIONS

The current U.S. income tax system subsidizes contributions to charities by allowing individual taxpayers to itemize and deduct contributions from taxable income. In effect, taxpayers can receive a rebate from the government based on the contributions they make to charitable organizations. Under one alternative system, the government matches the contributions of individual taxpayers at some rate between 0 percent and 100 percent. This paper explores the tax policy and administrative implications of matching rather than rebating contributions in a tax system with voluntary reporting. We conduct a novel experiment to examine both charitable giving and compliance behavior under the two regimes.

By Marsha Blumenthal, Laura Kalambokidis, Alex Turk

PROFIT TAXATION AND THE ELASTICITY OF THE CORPORATE INCOME TAX BASE: EVIDENCE FROM GERMAN CORPORATE TAX RETURN DATA

This paper estimates the elasticity of corporate taxable income with respect to the average corporate tax rate. To control for the endogeneity of the tax rate, we use an instrumental variable approach, calculating the counterfactual average tax rate that a corporation would have faced in a particular period had there been no endogenous change in corporate profits. This counterfactual rate is derived from a microsimulation model based on tax return data. A statistically significant and relatively large point estimate of the tax base elasticity implies that a reduction in the statutory corporate tax rate would reduce corporate tax receipts less than proportionally.

By Nadja Dwenger, Viktor Steiner

FOR-PROFIT HIGHER EDUCATION: AN ASSESSMENT OF COSTS AND BENEFITS

This paper provides a summary and analysis of the economics of the two-year, for-profit higher education sector. I highlight studies that have contributed to our understanding of this sector and assess its social costs and benefits. I generate a rough estimate of the annual per student cost to taxpayers of federal and state grant aid, appropriations, and contracts flowing to these institutions, as well as the cost of defaults on federally-subsidized student loans. I also estimate the out-of-pocket educational expenses and foregone earnings of for-profit students. I find that for-profit, two-year colleges cost taxpayers roughly $7,600 per year for a full-time equivalent student. Students bear most of the cost of their education, in the form of foregone earnings, tuition, and loan interest amounting to $51,600 per year. I contrast these costs with similar estimates for public community colleges, including the direct subsidization of the sector by state and local taxpayers. I find that community colleges cost taxpayers more than for-profits — about $11,400 per year — but students incur costs of only about $32,200 per year of attendance. Considering both public and private costs, community colleges are thus roughly $15,600 less expensive. For-profit college attendance would result in net benefits for students if earnings gains exceed 8.5 percent per year of education, while students in community colleges require minimum earnings gains of 5.3 percent per year of education to reap positive net benefits.

By Stephanie Riegg Cellini

WHAT EXPLAINS TRENDS IN LABOR SUPPLY AMONG U.S. UNDERGRADUATES?

Recent cohorts of college enrollees are more likely to work, and work substantially more, than those in the past. October Current Population Survey data reveal that average labor supply among 18- to 22-year-old, full-time undergraduates nearly doubled between 1970 and 2000, rising from six hours to 11 hours per week. In 2000 over half of these "traditional" college students were working for pay in the reference week, and those who worked at all worked an average of 22 hours per week. After 2000, labor supply leveled off and then fell abruptly in the wake of the Great Recession to an average of eight hours per week in 2009. This paper considers several explanations for the long-term trend of rising employment — including changes in demographic composition and rising tuition costs — and considers whether the upward trend is likely to resume when economic conditions improve.

By Judith Scott-Clayton

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STUDENT AID SIMPLIFICATION: LOOKING BACK AND LOOKING AHEAD

Each year, 14 million households seeking federal aid for college complete a detailed questionnaire about their finances, the Free Application for Federal Student Aid (FAFSA). With 116 questions, the FAFSA is almost as long as IRS Form 1040 and substantially longer than Forms 1040EZ and 1040A. Aid for college is intended to increase college attendance by reducing its price and loosening liquidity constraints. Economic theory, empirical evidence, and common sense suggest that complexity in applying for aid could undermine its ability to affect schooling decisions. In 2006, Dynarski and Scott-Clayton published in this journal an analysis of complexity in the aid system that generated considerable discussion in academic and policy circles. Over the next few years, complexity in the aid system drew the attention of the media, advocacy groups, presidential candidates, the National Economic Council, and the Council of Economic Advisers. A flurry of legislative and agency activity followed. In this article, we provide a five-year retrospective of what has changed in the aid application process, what has not, and the possibilities for future reform.

By Susan Dynarski, Mark Wiederspan

Book Review: MODELLING CORPORATION TAX REVENUE

Book Review: MODELLING CORPORATION TAX REVENUE ~ by John Creedy and Norman Gemmell (Edward Elgar Publishing, 2010, Northampton, MA, 288 pages). In Modelling Corporation Tax Revenue, John Creedy and Norman Gemmell provide an introduction into the use of microsimulation models in forecasting corporate tax revenues. Although the use of microsimulation models for the analysis of corporate taxation has a long history both inside and outside the government, there has been surprisingly little written on the problems that need to be addressed when constructing such a model. Most of the skills needed to do microsimulation seem to be passed on by word of mouth or trial and error. This book begins to correct that gap in the literature by providing a step-by-step discussion of the microsimulation model building process.

By Robert Gillette

จัดทำโดย

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