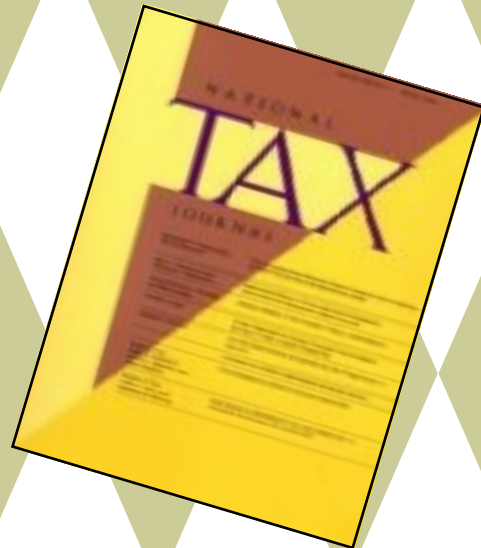
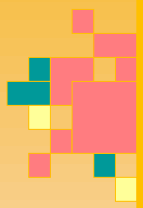


# ข้อเสนอผลการวิจัย Information & Research



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# Information & Research

**National Tax Journal**

**Volume 65, No. 3 September 2012**



*Vol 1: Oct. 2012*

**CROSS-COUNTRY COMPARISONS OF CORPORATE  
INCOME TAXES**

*1*

**FAST MONEY? THE CONTRIBUTION OF STATE TAX  
AMNESTIES TO PUBLIC REVENUE SYSTEMS**

*2*

**THE IMPACT OF TAX CUTS ON ECONOMIC GROWTH:  
EVIDENCE FROM THE CANADIAN PROVINCES**

*3*

**DO TAX SENSITIVE INVESTORS LIQUIDATE APPRECIATED  
SHARES AFTER A CAPITAL GAINS TAX RATE REDUCTION?**

*4*

**ESTIMATING LOCAL REDISTRIBUTION THROUGH  
PROPERTY-TAX-FUNDED PUBLIC SCHOOL SYSTEMS**

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**THE MIRRLEES REVIEW:  
A PROPOSAL FOR SYSTEMATIC TAX REFORM**

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**THE MIRRLEES REVIEW: A U.S. PERSPECTIVE**

*7*

**ISSUES IN THE DESIGN OF TAXES ON CORPORATE PROFIT**

*8*



## 7

## CROSS-COUNTRY COMPARISONS OF CORPORATE INCOME TAXES

**Kevin S. Markle, Douglas A. Shackelford**

They use publicly available financial statement information for 11,602 public corporations from 82 countries from 1988–2009 in an attempt to isolate the impact of domicile on corporate taxes. They find that the country in which the parent of a multinational is located and to a lesser extent its subsidiaries are located substantially affects its worldwide effective tax rate (ETR). Japanese firms always face the highest ETRs. U.S. multinationals are among the highest taxed. Multinationals based in tax havens face the lowest taxes. They find that ETRs have been falling over the last two decades; however, the ordinal rank from high-tax countries to low-tax countries has changed little. They also find little difference between the ETRs of multinationals and domestic-only firms. Besides enhancing their knowledge about international taxes, these findings should provide some empirical underpinning for ongoing policy debates about the taxation of multinationals.

## FAST MONEY? THE CONTRIBUTION OF STATE TAX AMNESTIES TO PUBLIC REVENUE SYSTEMS

John L. Mikesell, Justin M. Ross

State tax amnesties have become a commonplace component of state tax administration over the last 30 years. This paper reviews the structural evolution of all state amnesty programs and makes the case that their fundamental purpose has shifted from improving tax administration to emphasizing revenue maximization. It then provides empirical evidence on which state amnesty program features aid in this effort. The regression results reveal that most of the malleable amnesty program features that tend to increase amnesty recoveries also conflict with or undermine the goal of improving the tax administration system.





## 3

## THE IMPACT OF TAX CUTS ON ECONOMIC GROWTH: EVIDENCE FROM THE CANADIAN PROVINCES

**Ergete Ferede, Bev Dahlby**

They examine the impact of the Canadian provincial governments' tax rates on economic growth using panel data covering the period 1977–2006. They find that a higher provincial statutory corporate income tax rate is associated with lower private investment and slower economic growth. Their empirical estimates suggest that a 1 percentage point cut in the corporate tax rate is related to a 0.1–0.2 percentage point increase in the annual growth rate. Their results also indicate that switching from a retail sales tax to a sales tax that is harmonized with the federal value-added sales tax boosts provincial investment and growth.

## DO TAX SENSITIVE INVESTORS LIQUIDATE APPRECIATED SHARES AFTER A CAPITAL GAINS TAX RATE REDUCTION?

James A. Chyz, Oliver Zhen Li

4

Using data on institutional investors' portfolio composition before and after the capital gains tax rate cut in the Taxpayer Relief Act of 1997, they find evidence that, relative to less tax sensitive institutional investors, tax sensitive institutional investors are more willing to sell appreciated equity in response to the rate cut. Further, the reduction in value invested in appreciated equity appears to be lasting, consistent with the tax rate cut lowering tax sensitive investors' impediments to optimally balancing their portfolios. These results provide direct evidence of a capital gains tax lock-in effect.



## 5

## ESTIMATING LOCAL REDISTRIBUTION THROUGH PROPERTY-TAX-FUNDED PUBLIC SCHOOL SYSTEMS

**Haydar Kurban, Ryan M. Gallagher, Joseph J. Persky**

Local intra-suburban heterogeneity implies the possibility of redistribution through local public taxes and expenditures, yet there are no studies of the extent of such transfers. This paper provides evidence that local redistribution in the property-tax-financed school systems in suburban Chicago is substantial, amounting to \$2.3 billion or two-thirds of property-tax-financed school expenditures. Most of those transfers flow from households with no children enrolled in local public schools to those with children in the local public schools, rather than from households with high-value homes to those with lower-valued homes.

## THE MIRRLEES REVIEW: A PROPOSAL FOR SYSTEMATIC TAX REFORM

**James Mirrlees, Stuart Adam,  
Tim Besley, Richard Blundell, et. al.**

Based on the best available theory and evidence, the Mirrlees Review sets out a comprehensive set of proposals for tax reform. While focused on the UK, its analysis and conclusions bear directly on the policy debate in other developed countries. The Review proposes a move to a more neutral tax system. Key ingredients include adjusting the personal tax and welfare system to achieve redistribution more efficiently, imposing VAT on a broader base of consumption at a single rate, targeting environmental externalities more accurately, and aligning tax rates across all income sources while exempting the normal return to saving from tax, and introducing an allowance for corporate equity into the corporate tax system.



## 7

## THE MIRRLEES REVIEW: A U.S. PERSPECTIVE

**Alan J. Auerbach**

The recently completed Mirrlees Review focuses on reforming the UK tax system. It represents an unusual blend of “best practice” application of economic theory and evidence to realistic policy design; it lays out policy proposals with sufficient justification and specificity that they go well beyond a statement of principles for reform. This paper examines the lessons that can be drawn from the analysis and conclusions of the Mirrlees Review, which have broad value especially for advanced countries like the United States that share many of the characteristics of the UK and face many of the same issues of tax policy design.

# ISSUES IN THE DESIGN OF TAXES ON CORPORATE PROFIT

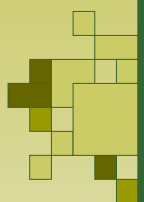
**Michael P. Devereux**

This paper considers the proposals of the Mirrlees Review to introduce an allowance for corporate equity (ACE) in the corporation tax system. It assesses how an ACE would affect various dimensions of corporate decision making. Broadly, the ACE would introduce neutrality in decisions as to the scale of investment and the source of finance. But it would leave distortions in choices regarding many mutually exclusive discrete choices, such as location and profit shifting. The paper presents some evidence on the likely impact of introducing an ACE, which depends on how the government makes up for foregone corporation tax revenue. It also considers briefly more radical options such as a destination-based corporate tax.

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Information & Research

# The Economic Journal

August 2012 Volume 122, Issue 562



Vol 2 : Oct. 2012

**Feature: Flexible Forms of Employment:  
Boon and Bane**

1

**Workers and Firms Sorting into  
Temporary Jobs**

2

**Two-Tier Labour Markets in the Great  
Recession: France *Versus* Spain**

3

**Temporary Employment, Job Flows and  
Productivity: A Tale of Two Reforms**

4

**The Productivity Effect of Temporary  
Agency Work:  
Evidence from German Panel Data**

5

**Non-Discrimination Clauses in  
the Retail Energy Sector**

6



## 7

**Feature: Flexible Forms of Employment:  
Boon and Bane****Elke J. Jahn, Regina T. Riphahn, Claus Schnabel**

In recent decades, economic policy makers across Europe have sought to increase labour market flexibility by promoting the use of temporary employment. The articles in this Feature provide new results on how fixed-term and agency work contracts affect firm productivity and how the segments of two-tier labour markets interact. This article points to a possible trade-off between efficiency and equity when deregulating labour markets. Taken together, the evidence presented in this Feature suggests that flexible forms of employment can be both a boon and a bane for labour markets and for society as a whole.



## Workers and Firms Sorting into Temporary Jobs

**Fabio Berton, Pietro Garibaldi**

2

The liberalisation of temporary contracts has led to a sizeable share of jobs covered by temporary contracts. This article proposes a matching model of unemployment in which temporary (fixed-term) and permanent (open-ended) jobs coexist in a long-run equilibrium. From the labour demand standpoint, the choice of the type of contract leads to a trade-off between an *ex-ante* speed of hiring and an *ex-post* flexible dismissal rate. Empirically, they test with Italian longitudinal data whether non-employment spells that lead to a temporary job are shorter on average. The empirical evidence strongly supports their theoretical prediction.



## 3

**Two-Tier Labour Markets in the Great Recession: France *Versus* Spain****Samuel Bentolila, Pierre Cahuc, Juan J. Dolado,  
Thomas Le Barbanchon**

France and Spain have similar labour market institutions and their unemployment rates were both around 8% just before the Great Recession but subsequently that rate has increased to 10% in France and to 23% in Spain. In this article, they assess the part of this differential that is due to the larger gap between the firing costs of permanent and temporary contracts, and the laxer rules on the use of the latter in Spain. A calibrated search and matching model indicates that Spain could have avoided about 45% of its unemployment surge had it adopted the French employment protection legislation.

## **Temporary Employment, Job Flows and Productivity: A Tale of Two Reforms**

**Lorenzo Cappellari, Carlo Dell’Aringa, Marco Leonardi**

4

They investigate the effects of two reforms of temporary employment using panel data on Italian firms. They exploit variation in their implementation across regions and sectors for identification. Their results show that the reform of apprenticeship contracts increased job turnover and induced the substitution of external staff with firms’ apprentices, with an overall productivity-enhancing effect. The reform of fixed-term contracts instead did not produce the intended results : it induced a substitution of temporary employees in favour of external staff and reduced capital intensity, generating productivity losses. They estimate substitution elasticities across various types of temporary contracts that are consistent with this interpretation.



5

## **The Productivity Effect of Temporary Agency Work: Evidence from German Panel Data**

**Boris Hirsch, Steffen Mueller**

This study investigates the effect of temporary agency work on the user firm's productivity. They hypothesise that using temporary agency work to enhance numerical flexibility and to screen job candidates may increase productivity, whereas temporary workers' lower firm-specific human capital and spillover effects on the user's permanent employees may adversely affect productivity. Other than the sparse existing literature on this issue, they exploit a large panel data set and control for time-invariant and time-varying unobserved heterogeneity by using the system GMM estimator. They find a robust hump-shaped effect of the extent of temporary agency work on the user firm's productivity.

## Non-Discrimination Clauses in the Retail Energy Sector

Morten Hviid, Catherine Waddams Price

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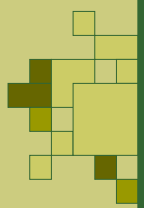
The British energy regulator has recently reviewed a non-discrimination licence condition imposed to ensure that energy retailers charge the same mark-up in different regions. Loyalty by many to incumbent firms necessitated heavy discounting by entrants to attract customers, which had led to regional price discrimination. Matching characteristics of the energy market to models of discrimination, they identify the necessary conditions for the licence condition to have a positive effect for consumers, and particularly 'vulnerable' consumers. The licence condition is likely to have reduced competition in the mainstream energy markets, which seems confirmed by the regulator's subsequent review of the retail market.



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# Information & Research

## The Economic Journal

September 2012 Volume 122, Issue 563



*Vol 1 : November 2012*

Micro-Costs : Inertia in Television Viewing

**1**

Central Place Theory and City Size Distribution

**2**

Saving Rates and Poverty : The Role of Conspicuous Consumption and Human Capital

**3**

Learning from the Crowd : Regression Discontinuity Estimates of the Effects of an Online Review Database

**4**

How Trade Unions Increase Welfare

**5**

Mechanisms for Efficient Voting with Private Information about Preferences

**6**

Which Way to Cooperate

**7**

Do Agglomeration Economies Reduce The Sensitivity of Firm Location to Tax Differentials?

**8**

Debt and Depression : Causal Links and Social Norm Effects

**9**

Trend Inflation and Firms Price-setting : Rotemberg Versus Calvo

**10**



## 7

## Micro-Costs: Inertia in Television Viewing

Constança Esteves-Sorenson and Fabrizio Perretti

They document substantial default effects despite negligible switching costs in a novel setting : television programme choice in Italy. Despite the low costs of clicking the remote and of searching across only six channels and viewers' extensive experience with the decision, show choice depends strongly on whether viewers happened to watch the previous programme on the channel. Specifically, male and female viewership of the news depends on whether the preceding programme appealed to men or women, and a show's audience increases by 2-4% with an increase of 10% in the demand for the preceding programme. These results are robust to endogenous scheduling.

## Central Place Theory and City Size Distribution

2

Wen-Tai Hsu

This article proposes a theory of city size distribution via a hierarchy approach rather than the popular random growth process. It does so by formalising central place theory using an equilibrium entry model and specifying the conditions under which city size distribution follows a power law. The force driving the city size differences in this model is the heterogeneity in economies of scale across goods. The city size distribution under a central place hierarchy exhibits a power law if the distribution of scale economies is regularly varying, which is a general class that encompasses many well-known, commonly used distributions.





## 3

## Saving Rates and Poverty: The Role of Conspicuous Consumption and Human Capital

Omer Moav and Zvika Neeman

Poor families around the world spend a large fraction of their income consuming goods that do not appear to alleviate poverty, while saving at low rates. They suggest that individuals care about economic status and interpret this behaviour as conspicuous consumption intended to provide a signal about unobserved income. They show that if human capital is observable and correlated with income, then a signaling equilibrium in which poor individuals tend to spend a large fraction of their income on conspicuous consumption can emerge. This equilibrium gives rise to an increasing marginal propensity to save that might generate a poverty trap.

## Learning from the Crowd: Regression Discontinuity Estimates of the Effects of an Online Review Database

Michael Anderson and Jeremy Magruder

4

Internet review forums increasingly supplement expert opinion and social networks in informing consumers about product quality. However, limited empirical evidence links digital word-of-mouth to purchasing decisions. They implement a regression discontinuity design to estimate the effect of positive Yelp.com ratings on restaurant reservation availability. An extra half - star rating causes restaurants to sell out 19 percentage points (49%) more frequently, with larger impacts when alternate information is more scarce. These returns suggest that restaurateurs face incentives to leave fake reviews but a rich set of robustness checks confirm that restaurants do not manipulate ratings in a confounding, discontinuous manner.



## 5

## How Trade Unions Increase Welfare

Alejandro Donado and Klaus Wälde

Historically, worker movements have played a crucial role in making workplaces safer. Firms traditionally oppose better health standards. According to their interpretation, workplace safety is costly for firms but increases the average health of workers and thereby the aggregate labour supply. A *laissez faire* approach in which firms set safety standards is suboptimal as workers are not fully informed of health risks associated with jobs. Safety standards set by better informed trade unions are output and welfare increasing.

## Mechanisms for Efficient Voting with Private Information about Preferences

Dirk Engelmann and Veronika Grimm

6

In games of conflict, players typically have an incentive to exaggerate their interests. This concerns issues ranging from negotiations between political parties to conflict resolution within marriages. They experimentally study this problem using a simple voting game where information about preferences is private. With random matching, subjects overwhelmingly follow the dominant strategy to exaggerate their preferences. The exogenous linking mechanism by [Jackson and Sonnenschein \(2007\)](#) captures nearly all achievable efficiency gains. Repeated interaction in various settings, which could allow endogenous linking mechanisms to evolve, leads to significant gains in truthful representation and efficiency only when players can choose their partners.



## 7

## Which Way to Cooperate

Todd R. Kaplan and Bradley J. Ruffle

They introduce a two-player, binary-choice game in which both players have a privately known incentive to enter, yet the combined surplus is highest if only one enters. Repetition of this game admits two distinct ways to cooperate : turn taking and cutoffs, which rely on the player's private value to entry. A series of experiments highlights the role of private information in determining which mode players adopt. If an individual's entry values vary little (e.g. mundane tasks), taking turns is likely ; if these potential values are diverse (e.g. difficult tasks that differentiate individuals by skill or preferences), cutoff cooperation emerges.

## Do Agglomeration Economies Reduce the Sensitivity of Firm Location to Tax Differentials?

8

Marius Brühlhart, Mario Jamettib and Kurt Schmidheiny

Recent theoretical work in economic geography has shown that agglomeration forces can mitigate ‘race-to-the-bottom’ tax competition, by partly or fully offsetting firms’ sensitivity to tax differentials. They test this proposition using data on firm births across Swiss municipalities. They find that corporate taxes deter firm births less in more spatially concentrated sectors. Firms in sectors with an agglomeration intensity in the top quintile are less than half as responsive to differences in corporate tax burdens as firms in sectors with an agglomeration intensity in the bottom quintile. Hence, agglomeration economies do appear to attenuate the impact of tax differentials on firms’ location choices.



## 9

## Debt and Depression: Causal Links and Social Norm Effects

John Gathergood

Individuals exhibiting problems repaying their debt obligations also exhibit much worse psychological health. Selection into problem debt on the basis of poor psychological health accounts for much of this difference. The causality between problem debt and psychological health may be two way. Using individual level UK panel data, local house price movements exogenous to individual households are used to establish the causality from problem mortgage debt to psychological health. In addition, the social norm effects of problem debt are investigated using local bankruptcy and repossession rates. Results indicate there are sizeable causal links and social norm effects in the debt-psychological health relationship.

## Trend Inflation and Firms Price Setting: Rotemberg Versus Calvo

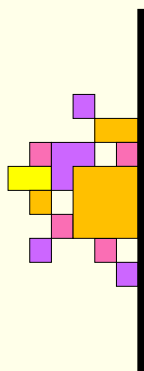
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Guido Ascari and Lorenza Rossi

The author compare the Calvo and Rotemberg price-setting mechanisms in a New Keynesian model with trend inflation. The author show that : the long-run relationship between inflation and output is positive in Rotemberg and negative in Calvo ; the dynamics of the two models differ even to a first-order approximation ; positive trend inflation enlarges the determinacy region in the Rotemberg model, whereas it shrinks it in the Calvo model ; the responses of output and inflation to technology shocks are amplified by trend inflation in Calvo, whereas they are dampened in Rotemberg ; the two models imply differing non - linear adjustments after a disinflation.

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**Information & Research**

*Vol 2 : November 2012*

# **The Econometrics Journal**

Volume 13 Number 1 / 2010



**Heterogeneity in dynamic discrete choice models**

**1**

**Smoothness adaptive average derivative estimation**

**2**

**Unit root inference in panel data models where the time-series dimension is fixed: a comparison of different tests**

**3**

**The weak instrument problem of the system GMM estimator in dynamic panel data models**

**4**

**Estimation of a transformation model with truncation, interval observation and time-varying covariates**

**5**



## 7

## Heterogeneity in dynamic discrete choice models

They consider dynamic discrete choice models with heterogeneity in both the levels parameter and the state dependence parameter. They first present an empirical analysis that motivates the theoretical analysis which follows. The theoretical analysis considers a simple two-state, first-order Markov chain model without covariates in which both transition probabilities are heterogeneous. Using such a model they are able to derive exact small sample results for bias and mean squared error (MSE). They discuss the maximum likelihood approach and derive two novel estimators. The first is a bias corrected version of the Maximum Likelihood Estimator (MLE) although the second, which they term MIMSE, minimizes the integrated mean square error. The MIMSE estimator is always well defined, has a closed-form expression and inherits the desirable large sample properties of the MLE. Their main finding is that in almost all short panel contexts the MIMSE significantly outperforms the other two estimators in terms of MSE. A final section extends the MIMSE estimator to allow for exogenous covariates.

By Martin Browning and Jesus M. Carro

## Smoothness adaptive average derivative estimation

2

Many important models utilize estimation of average derivatives of the conditional mean function. Asymptotic results in the literature on density weighted average derivative estimators (ADE) focus on convergence at parametric rates; this requires making stringent assumptions on smoothness of the underlying density; here they derive asymptotic properties under relaxed smoothness assumptions. They adapt to the unknown smoothness in the model by consistently estimating the optimal bandwidth rate and using linear combinations of ADE estimators for different kernels and bandwidths. Linear combinations of estimators (i) can have smaller asymptotic mean squared error (AMSE) than an estimator with an optimal bandwidth and (ii) when based on estimated optimal rate bandwidth can adapt to unknown smoothness and achieve rate optimality. Their combined estimator minimizes the trace of estimated MSE of linear combinations. Monte Carlo results for ADE confirm good performance of the combined estimator.

By Marcia M. A. Schafgans  
and Victoria Zinde-Walsh



## 3

## Unit root inference in panel data models where the time-series dimension is fixed: a comparison of different tests

The objective of the paper is to investigate and compare the performance of some of the unit root tests in micropanels, which have been suggested in the literature. The framework is a first-order autoregressive panel data model allowing for heterogeneity in the intercept but not in the autoregressive parameter. The tests are all based on usual  $t$ -statistics corresponding to least squares estimators of the autoregressive parameter resulting from different transformations of the observed variables. The performance of the tests is investigated and compared by deriving the local power of the tests when the autoregressive parameter is local-to-unity. The results show that the assumption concerning the initial values is extremely important in this matter. The outcome of a simulation experiment demonstrates that the local power of the tests provides a good approximation to their actual power in finite samples.

By Edith Madsen

## The weak instrument problem of the system GMM estimator in dynamic panel data models

The system GMM estimator for dynamic panel data models combines moment conditions for the model in first differences with moment conditions for the model in levels. It has been shown to improve on the GMM estimator in the first differenced model in terms of bias and root mean squared error. However, they show in this paper that in the covariance stationary panel data AR(1) model the expected values of the concentration parameters in the differenced and levels equations for the cross-section at time  $t$  are the same when the variances of the individual heterogeneity and idiosyncratic errors are the same. This indicates a weak instrument problem also for the equation in levels. They show that the 2SLS biases relative to that of the OLS biases are then similar for the equations in differences and levels, as are the size distortions of the Wald tests. These results are shown to extend to the panel data GMM estimators.

By Maurice J. G. Bun  
and Frank Windmeijer



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## Estimation of a transformation model with truncation, interval observation and time-varying covariates

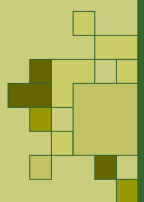
[Abrevaya \(1999b\)](#) considered estimation of a transformation model in the presence of left truncation. This paper observes that a cross-sectional version of the statistical model considered in [Frederiksen et al. \(2007\)](#) is a generalization of the model considered by [Abrevaya \(1999b\)](#) and the generalized model can be estimated by a pairwise comparison version of one of the estimators in [Frederiksen et al. \(2007\)](#). Specifically, their generalization will allow for discretized observations of the dependent variable and for piecewise constant time-varying explanatory variables.

By Bo E. Honoré  
and LuoJia Hu

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# ข้อเสนอเพื่อการวิจัย **Information & Research**

## **The Economic Journal**

November 2012 Volume 122, Issue 564



*Vol 1 : December 2012*

Quantitative Easing and Unconventional Monetary Policy – an Introduction

**1**

The Macroeconomic Effects of Large-scale Asset Purchase Programmes

**2**

Assessing the Economy-wide Effects of Quantitative Easing

**3**

QE and the Gilt Market: a Disaggregated Analysis

**4**

The Response of Interest Rates to US and UK Quantitative Easing

**5**

The Federal Reserve's Large-scale Asset Purchase Programmes: Rationale and Effects

**6**

What does Monetary Policy do to Long-term Interest Rates at the Zero Lower Bound?

**7**

The ECB and the Interbank Market

**8**



## 7

## Quantitative Easing and Unconventional Monetary Policy - an Introduction

Michael Joyce, David Miles,  
Andrew Scott and Dimitri Vayanos

This article assesses the impact of Quantitative Easing and other unconventional monetary policies followed by central banks in the wake of the financial crisis that began in 2007. They consider the implications of theoretical models for the effectiveness of asset purchases and look at the evidence from a range of empirical studies. They also provide an overview of the contributions of the other articles in this Feature.



## The Macroeconomic Effects of Large-scale Asset Purchase Programmes

Han Chen, Vasco Cúrdia and Andrea Ferrero

2

They simulate the Federal Reserve second Large - Scale Asset Purchase programme in a DSGE model with bond market segmentation estimated on US data. GDP growth increases by less than a third of a percentage point and inflation barely changes relative to the absence of intervention . The key reasons behind their findings are small estimates for both the elasticity of the risk premium to the quantity of long- term debt and the degree of financial market segmentation. Without the commitment to keep the nominal interest rate at its lower bound for an extended period, the effects of asset purchase programmes would be even smaller.



## 3

## Assessing the Economy - wide Effects of Quatitative Easing

George Kapetanios, Haroon Mumtaz,  
Ibrahim Stevens and Konstantinos Theodoridis

This article examines the macroeconomic impact of the first round of quantitative easing (QE) by the Bank of England. They attempt to quantify the effects of these purchases by focusing on the impact of lower long - term interest rates on the wider economy . They use three different models to estimate the impact of QE on output and inflation : a large Bayesian vector autoregression (VAR), a change - point structural VAR and a time - varying parameter VAR. Their estimates suggest that QE may have had a peak effect on the level of real GDP of around 1½% and a peak effect on annual CPI inflation of about 1¼% points.

## QE and the Gilt Market : A Disaggregated Analysis

Michael A.S. Joyce and Matthew Tong

4

They examine the impact of the first phase of the Bank of England's quantitative easing (QE) programme during March 2009 - January 2010 on the UK government bond (gilt) market, using high - frequency, disaggregated data on individual gilts. They find that : QE announcements took varying amounts of time to get incorporated into market prices and had significant effects on the shape of the term structure ; the Bank's reverse auctions were initially associated with additional yield reductions ; and, allowing for fiscal news and the changing macroeconomic outlook, QE appears to have had persistent effects on gilt yields.



## 5

## The Response of Interest Rates to US and UK Quantitative Easing

Jens H.E. Christensen and Glenn D. Rudebusch

They analyse declines in government bond yields following announcements by the Federal Reserve and the Bank of England of plans to buy longer term debt. Using dynamic term structure models, they decompose US and UK yields into expectations about future short-term interest rates, while declines in UK Yields appeared to reflect reduced term premiums. Thus, the relative importance of the signalling and portfolio balance channels of quantitative easing may depend on market institutional structures and central bank communication policies.

## The Federal Reserve's Large - scale Asset Purchase Programmes : Rationale and Effects

Stefania D'Amico, William English,  
David López - Salido and Edward Nelson

They provide empirical estimates of the effect of large - scale asset purchases (LSAPs) on longer term US Treasury yields within a framework that allows for several transmission channels including the scarcity channel associated with the preferred - habitat literature and the duration channel associated with interest - rate risk. They also clarify LSAPs' role in the broader context of historical monetary policy strategy. Results indicate that LSAP - style operations mainly impact longer term rates via the nominal term premium; within that premium, the response is predominantly embodied in the real term premium. The scarcity and duration channels both seem to be of considerable importance.



## 7

## What does Monetary Policy do to Long - term Interest Rates at the Zero Lower Bound?

Jonathan H. Wright

This article uses a structural VAR with daily data to identify the effects of monetary policy shocks on various longer term interest rates since the federal funds rate has been stuck at the zero lower bound. The VAR is identified using the assumption that monetary policy shocks are heteroskedastic : monetary policy shocks have especially high variance on days of FOMC meetings and certain speeches, while there is otherwise nothing unusual about these days. A complementary high - frequency event - study approach is also used. He find that stimulative monetary policy shocks lower Treasury and corporate bond yields but the effects die off fairly fast.

## The ECB and the Interbank Market

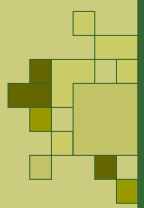
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Domenico Giannone, Michele Lenza,  
Huw Pill and Lucrezia Reichlin

They analyse the impact on the euro area economy of the ECB's non - standard monetary policy measures by studying the effect of the expansion of intermediation of interbank transactions across the central bank balance sheet. They exploit data drawn from the aggregated Monetary and Financial Institutions (MFI) balance sheet, which allow them to construct a measure of the 'policy shock' represented by the ECB's increasing role as a financial intermediary. They find small but significant effects on both loans and real economic activity.

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# ข้อเสนอเทศการวิจัย **Information & Research**

## **The Economic Journal**

December 2012 Volume 122, Issue 565



*Vol 2 : December 2012*

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Evidence from Enrolment fluctuations in  
US Doctoral Programmes

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Macroeconomic Stability

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## Skilled Immigration and Innovation: Evidence from Enrolment Fluctuations in US Doctoral Programmes

They study the contribution of doctoral students to innovation at 2,300 American science and engineering departments from 1973 to 1998. Macroeconomic and policy shocks in source countries that differentially affect enrolments across fields and universities isolate exogenous variation in the supply of students. Both US and international students contribute significantly to the production of knowledge at scientific laboratories, and their contributions are statistically comparable, consistent with an optimising department. A theoretical model of scholarships helps them to infer the productivity effects of student quality. Visa restrictions limiting entry of high-quality students are found to be particularly costly for academic innovation.

By

Eric T. Stuen,  
Ahmed Mushfiq Mobarak  
and Keith E. Maskus

## Immigration and Wages: Evidence from Construction

2

To identify wage impacts of immigration, they use licensing requirements in the Norwegian construction sector that give rise to exogenous variation in immigrant employment across trades. Individual panel data reveal lower wage growth in trades with rising immigrant employment shares, with a 10% increase in immigration predicted to reduce wages by 0.6%. Selective attrition masks the causal wage impact if neglected. For low and semi-skilled workers, wage effects are comparable for natives and older immigrant cohorts, consistent with perfect substitutability between native and immigrant labour within trade. Price data indicate that wage and cost reductions are passed on to consumers.

By

Bernt Bratsberg and Oddbjørn Raaum



## 3

## Productivity, Quality and Export Behaviour

They find a robust negative correlation between Italian firms' productivity and their export share to low-income destinations. To account for this surprising fact, they marry [Verhoogen \(2008\)](#) with [Eaton et al. \(2011\)](#), by introducing firm heterogeneity in product quality and country heterogeneity in quality consumption in a framework featuring firm and market-specific shocks in entry costs and demand, and estimate the model's parameters structurally by the simulated method of moments. The estimated preference for quality turns out to be monotonically increasing in foreign destinations' income. The model also predicts a negative correlation between firms' R&D intensity and their export share to low-income destinations, a finding supported by our data. Overall, our results strongly suggest high-quality firms should concentrate their sales in high-income markets.

By

Rosario Crinò and Paolo Epifani

## The Evolution of Ideology, Fairness and Redistribution

4

Ideas about what is 'fair' influence preferences for redistribution. They study the dynamic evolution of different economies in which redistributive policies, perception of fairness, inequality and growth are jointly determined. They show how including beliefs about fairness can keep two otherwise identical countries on different development paths for a very long time. They show how different initial conditions regarding how 'fair' is the same level of inequality can lead to two permanently different steady states. They also explore how bequest taxation can be an efficient way of redistributing wealth to correct 'unfair' past accumulation of inequality.

By

Alberto Alesina,  
Guido Cozzi and Noemi Mantovan



## 5

## The Role of Debt and Equity Finance Over the Business Cycle

If equity issuance is introduced into the costly state verification framework and the friction firms face in raising equity is acyclical, then the model cannot simultaneously generate procyclical equity issuance and a countercyclical default rate. This requires a countercyclical equity issuance friction. With a countercyclical friction, the model can also overturn an undesirable feature of the standard debt-only model: dampening of shocks. To quantitatively match observed patterns, the friction in the cost of raising equity has to vary a lot more over the business cycle than can be justified by estimates of cyclical changes in direct equity issuance costs.

By

Francisco Covas  
and Wouter J. Den Haan

## Endogenous Persistence in an estimated DSGE Model Under Imperfect Information

6

A framework for estimating Dynamic Stochastic General Equilibrium (DSGE) models by Bayesian methods and validation under very general information assumptions is applied to a New Keynesian model. The standard assumption that private agents have perfect information observing all state variables including shocks, whereas the econometrician uses only observable data, is compared with both agents having the same imperfect information (II) set. They also generalise rational expectations to a behavioural composite model that allows some households and firms to form expectations adaptively. They find significant empirical support for II as an endogenous persistence mechanism, but this is dominated by that from habit and adaptive learning.

By

Paul Levine, Joseph Pearlman,  
George Perendia and Bo Yang



## 7

## A Flat Tax Reform in an Economy with Occupational Choice and Financial Frictions

This article studies a flat tax reform and capital tax reform in an economy with occupational choice and borrowing constraints. Building on previous models with heterogeneous agents and the flat tax reform within the representative firm framework, they introduce entrepreneurs as an occupation. They model endogenous entry and exit of firms whose size, number and production decisions are affected by the tax system. They compare steady state allocations in the benchmark economy with a progressive tax schedule to steady states with a flat tax at different exemption levels with or without a capital tax reform. They find that for low exemption levels the flat tax reform is efficient as well as welfare improving for both occupations.

By

Radim Boháček and Jozef Zubrický

## Banking Competition, Housing Prices and Macroeconomic Stability

8

They develop a macroeconomic model with an imperfectly competitive bank-loans market and collateral constraints that tie investors' credit capacity to the value of their real estate holdings. Lending margins are optimally set by banks and have a significant effect on aggregate variables. Over the long run, stronger banking competition increases output by triggering a reallocation of available collateral towards investors. In the short-run, output, credit and housing prices are more responsive on impact to shocks in an environment of highly competitive banks. Also, stronger banking competition implies higher (lower) persistency of credit and output after a monetary (credit crunch) shock.

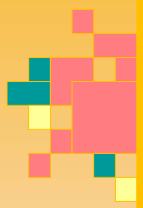
By

Javier Andrés and Oscar Arce

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# Information & Research

National Tax Journal

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*Vol 1 : Jan. 2013*

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What Do Courts Have To do with It ? : The Judiciary's Role in Making Federal Tax Law

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## 1

## Effects of Adjusting Distribution Tables for Family Size

This paper examines how adjusting for family size in distributional analysis affects the distribution of tax burdens. They find that average tax rates for low - income families fall and average tax rates for some high - income families rise when the measured ability to pay is adjusted for family size, and that there is less variation in average rate for middle - income families. They also find that the family size adjustment affects the distribution of certain tax expenditures. In a separate analysis, they measure the equivalence scale for families of four relative to single taxpayers implied by the individual tax code.

**By**  
**Julie - Ann Cronin,**  
**Portia DeFilippes,**  
**and Emily Y. Lin**

## How Marginal Tax Rates Affect Families at Various Levels of Poverty

2

High marginal tax rates can make moving above poverty very difficult for low - income families. These high tax rates result from increasing direct taxes (both state and federal) as well as decreasing transfer payments (including both Supplemental Nutrition Assistance Program benefits and Temporary Assistance for Needy Families). Depending on which state a person lives, a single parent with two children can face an average marginal tax rate of over 100 percent or as low as 26.6 percent as they move from the poverty level of income to 150 percent of the poverty level. If her earnings are limited to only six months of the year, she may retain transfer benefits for the remaining six months, lowering her marginal rate over the same income range to between 66.0 percent and - 17.7 percent for those additional earnings. Their analysis shows how sensitive marginal tax rates are to assumption about earnings patterns and program participation.

By  
Elaine Maag,  
C. Eugene Steuerle,  
Ritadhi Chakravarti,  
and Caleb Quakenbush



## 3

## The Labor Supply and Tax Revenue Consequences of Federal Same - Sex Marriage Legalization

This paper estimates the effects of same - sex marriage legalization on federal income tax revenue using changes in taxation generated from the 2003 Jobs and Growth Tax Relief Reconciliation Act. These estimates rely critically on the responsiveness of labor supply and marital choice to changes in the tax code. In addition, this paper proposes a novel measure of the marriage penalty that incorporates the fact that individuals will respond optimally to changes in marginal tax rates within the household. The estimates suggest that legalization will result in a small gain, around \$ 34 million per year, in federal income tax revenue.

By  
Adam Stevenson

## Marriage and Taxes : What can We Learn from Tax Returns Filed by Cohabiting Couples ?

4

This paper analyzes the relationship between marriage and taxes by examining federal income tax returns filed by cohabiting couples. They use tax return data to estimate the tax consequences of marriage for cohabiting couples by comparing their tax liabilities from their separately filed returns to the tax they would owe if they were married and filed jointly. Under 2007 law, they determine that 48 percent of couples in their sample would have a marriage penalty and 38 percent would have a marriage bonus. They explain these results by examining the couples' family characteristics and various components of the tax system.

By  
Emily Y. Lin  
And Patricia K. Tong



## 5

## Heterogeneity in the Tax Responses of Personal Capital Gains Realizations

This article investigates the heterogeneity in the tax elasticities of personal capital gains realizations. They first examine the skewed nature of both capital gains assets ownership and their realizations. They then briefly review earlier studies, including Dowd, McClelland, and Muthitacharoen (2012). Although not chosen for this purpose, the semi - log specification used in that study allows them to explore variation in elasticity estimates across taxpayers. Finally, they focus on variation in tax responses among different assets. The elasticities of corporate stock and mutual funds are lower than their overall elasticity, while the elasticity of bonds is greater.

**By**  
**Tim Dowd,**  
**Robert McClelland, and**  
**Athiphat Muthitacharoen**

## Effective Tax Rates and Measures of Business Size

6

This paper uses data from the Survey of Consumer Finances (SCF) and the NBERTAXSIM model to estimate marginal and average tax rates for households that own businesses that are pass-thru entities. They examine how marginal and average tax rates vary by the size of business using four different measures of the size: net income, gross receipts, business value, and number of employees. The analysis also uses the long-time series of SCF cross-sections to examine how tax rates for business owners have evolved over the various changes in tax policy of the last two decades.

**By**  
**Kevin B. Moore**



## 7

## Effects of Public Policies on the Disposition of Pre - Retirement Lump - Sum Distributions : Rational and Behavioral Influences

They examine worker' disposition of pre-retirement lump-sum distributions, using policy changes in 1986 and 1992 as natural experiments. They find that higher taxes on cash-outs increase rollovers, consistent with both rational and behavioral motives. Several results, however, only make sense in a behavioral framework. Controlling for effective tax rates, structuring the tax as a "penalty" or adding withholding taxes on cash-outs increases rollovers. Allowing employers to unilaterally cash out balances for departing employees alters the impact of other policies. These results suggest that both rational and behavioral factors influence workers' choices, and that policies can interact in important ways.

By  
Leonard E. Burman,  
Norma B. Coe,  
Michael Dworsky, and  
William G. Gale



## Chief Counsel's Subtle Impact on Revenue : Regulations, Litigation, and Administrative Guidance

8

This essay examines the Chief Counsel's role in the tax system and attempts to assess the ways in which it may affect revenue. The essay specifically discusses the revenue impacts of regulations and litigation led by the Office of Chief Counsel. Ultimately, the essay calls on Congress to systematically require analyses of revenue impacts of tax legislation and the administrative response to such legislation.

By  
Roberta Mann



## 9

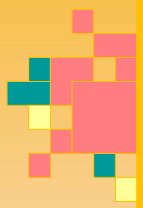
## What Do Courts Have To do with It ? : The Judicial's Role in Making Federal Tax Law

The Internal Revenue Code is an important source of federal tax law, but it is not the only source. The U.S. Department of the Treasury and Internal Revenue Service issue important guidance, and federal courts interpret all of these authorities. This essay provides an overview of federal tax litigation, at both the trial and appellate levels, and discusses the interplay among Congress, the Treasury, and the judiciary in developing federal tax law.

By  
**Leandra Lederman**

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Migration Elasticities, Fiscal Federalism, and the Ability of States to Redistribute Income

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## 10

## The Impact of Agency Procedures and Judicial Review on Tax Reform

This paper discusses hurdles that the IRS and Treasury would face following tax reform in their efforts to respond quickly with guidance that courts will uphold. These hurdles include the impact of the Tax Anti-Injunction Act and the Declaratory Relief Act, heightened interest in the course of tax litigation regarding compliance by the IRS and Treasury with the Administrative Procedure Act, and provisions enacted in 1988 and 1996 limiting temporary and retroactive regulations. The paper then outlines several approaches Congress could consider to mitigate possible untoward consequences.

By  
Ellen P. Aprill

## Reconciling Flobal Financial Reporting with Domestic Taxation

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This paper presents a new reconciliation of financial to taxable income, drawing from public financial statement and Schedule M-3 data for a panel of firms. The reconciliation compares the financial statement income of a firm's consolidated financial statement entities to the financial statement income of a firm's tax return entities on a worldwide, domestic, and foreign income basis. This analysis highlights the relation between these various measures of corporate income to better understand the magnitudes of, and differences between, domestic and global corporate income.

By  
Caitlin Bokulic,  
Erin Henry, and  
George A. Plesko



## 12

## Through a Glass Darkly: What Can We Learn about a U.S. Multinational Corporation's International Operations from Its Financial Statement Disclosures?

They discuss the accounting rules that apply to reporting a U.S. company's international operations. They use examples to illustrate diversity in accounting and offer caveats for policy maker, standard setters, analysis, and researchers regarding their interpretation and use of financial accounting information.

**By**  
**Michael P. Donohoe,**  
**Gary A. McGill, and**  
**Edmund Outslay**

## State Tax Ranking: What Do They and Don't They Tell Us?

13

This study examines some of the prominent state tax rankings that have been developed in recent years, with a focus on the indices that are specifically attempting to measure state and local taxes in some way. Each index is reviewed to determine what aspect of state tax systems are being measured and how. The article begins with a theoretical framework that informs the question of what tax rates should be measured, depending on the purpose of the intended index. It is important to distinguish, for example, whether tax rates are measured as average tax rates, marginal tax rates, statutory tax rates, or effective marginal tax rates. After analysis of the way several prototypical indices are constructed, this study also considers whether the indices actually have economic explanatory power. The Tax Foundation's State Business Tax Climate Index is used as an explanatory variable in several estimated state GDP growth models. While the index has a statistically significant effect on state GDP growth in simple models, once more state-specific factors are included in the growth models the significance of the index disappears. Research suggestions are made for techniques that can be used to more effectively assess the explanatory power of state tax rankings. The conclusion of the analysis is that caution on the use and interpretation of such indices is warranted.

By John E. Anderson



## Property Tax Incentive Pitfalls

This paper relies on a review of the literature on property tax incentives for business, a new database on property tax economic development incentives, and several state case studies to identify pitfalls in using this economic development tool. Several potential reforms are identified.

By  
Daphne A. Kenyon,  
Adam H. Langley, and  
Bethany P. Paquin



## The Effect of Sales Taxes on Employment New Evidence from Cross-Border Panel Data Analysis

15

This paper estimates the effect of sales taxes on employment using county-level quarterly data and a “border approach,” comparing employment changes for counties in states that raised sales tax rates with their cross-border neighbors. They augment standard distance-related border measures with an economically-oriented border measure based on the share of county residents who work in a neighboring state. They find that the employment effects are larger in the retail trade industry and for female workers, and that they are concentrated in counties with relatively large shares of residents working in another state.

By  
**Jeffrey P. Thompson**  
and **Shawn M. Rohlin**



## 16

## The Genesis of Senior Income Tax Breaks

This article conducts two investigations — searching historical documents and testing the conclusions drawn with an econometric model of policy adoption—into why federal and state governments began offering senior income tax breaks. Such tax breaks began by accident but their existence justified additional breaks. The two main breaks— the aged and the “pension” income exemptions —evolved under different, unrelated processes. The federal government initiated the aged exemption in part to address the high post-war cost of living , and the states followed. Conversely, pension exemptions were initiated by the states, did not become common until the 1970s , and have evolved into weapons of state policy competition.

**By**  
**Karen Smith Conway**  
**and Jonathan C. Rork**

## Migration Elasticities, Fiscal Federalism, and the Ability of States to Redistribute Income

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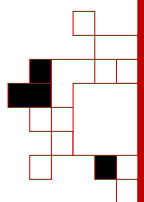
This paper develops a simulation model in order to examine the effectiveness of state attempts at redistribution under a variety of migration elasticity assumptions. Key outputs from the simulation include the impact of tax-induced migration on state revenues, excess burden, and fiscal externalities. With modest migration elasticities, the costs of state-level redistribution are substantial, but state action may still be preferred to a federal policy that is at odds with preferences of a state's citizens. At higher migration elasticities, the costs of state action can be tremendous. Overall excess burden is greater, but this is dominated by horizontal fiscal externalities. Horizontal fiscal externalities represent a cost to the state pursuing additional redistribution, but not a cost at the national level.

By  
**Seth H. Giertz and  
Mehmet S. Tosun**

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# Information & Research

## Asian-Pacific Economic Literature Volume 26, Issue 2 November 2012

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Is the relationship between foreign direct investment and  
trade different across developed and developing countries?  
Evidence from Korea

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Is monetary policy non-linear in Indonesia, Korea, Malaysia,  
and Thailand? A quantile regression analysis

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## 7

## Japan's economic slowdown and its global implications: a review of the economic modelling

Despite its role as a driver of global economic growth through the 1970s, in recent decades the rise of China has seen the international importance of Japan's economic performance recede from the public discourse. This is notwithstanding its continuing key role as economic partner to both industrial and developing countries and changes in its economic performance that would otherwise be a matter for global concern. In particular, the tendency for the Japanese economy and its external trade to stagnate not only has immediate consequences for global performance but also foreshadows a path to industrial transition for other key Asian economies. This paper reviews quantitative studies of Japan's performance. It identifies a paucity of results addressing global implications and suggests new research in this direction.

**By** Rod Tyers and Jenny Corbett

## The politics of rapid growth

2

Institutions are thought to be the critical antecedents of rapid economic growth. However, the effectiveness of similar institutions varies dramatically from country to country or even from region to region or from time to time. The differences in the effectiveness of institutions are attributed to the political process (the exercise of leadership in constructing coalitions that give policy legitimacy). Political processes resulting in elite coalitions with narrow interests are not likely to result in rapid growth, whereas elite coalitions where interests are encompassing in nature are likely to create states that are developmental and innovative. Whether elite coalition interests are encompassing or not depends on the extent to which political processes result in the incorporation of the developmental needs of the agricultural sector into the interests of the ruling coalition. This is most likely to occur when an agricultural technology backlog has accumulated over time. These ideas are illustrated with an analysis of the Vietnamese experience.

**By** Richard Grabowski



## 3

## Economic crisis and policy response in Malaysia: the role of the new economic policy

Since achieving independence in 1957, Malaysia has experienced three recessions, each of which emanated from different sources of vulnerability. This paper analyses the policy response to economic crisis, in particular, the role of the New Economic Policy (NEP) which was introduced in 1970 and which remains in force today. It concludes that in spite of the diversity in the proximate causes of the crises, the policy response was consistent and sought to ensure that NEP objectives were paramount and the vested interests that had emerged as a result of the NEP and which were linked to the ruling party were preserved.

By Anita Doraisami

## Non-farm employment and incomes in rural Cambodia

4

Rural households in Cambodia derive income from various sources. On average, non-farm income accounts for more than 60 per cent of total household income. However, the average masks the substantial heterogeneity of non-farm employment. They account for this heterogeneity and find significant differences in non-farm participation and incomes across segments of the income distribution. The poor and the less well-educated participate less in the non-farm sector, and when they do work in the non-farm sector, they work in low-paid jobs and earn lower incomes. Accounting for endogeneity and sample selection issues, they conduct an empirical enquiry of the determinants of participation in non-farm activities and of non - farm incomes. As expected, they find that education plays a major role in accessing more remunerative non - farm employment. Interestingly, they do not find evidence that women, ethnic minorities, or the land-poor are disadvantaged in access to the non-farm sector. Geographical location plays a role in access to and income from non - farm employment, indicating the importance of local context.

By Dil Bahadur Rahut and Maja Micevska Scharf





## 5

## The geographic extent of global supply chains: evidence from Southeast Asia

They study the extent to which inter-firm relationships are locally concentrated and what determines firm differences in geographic proximity to domestic or foreign suppliers and customers. From micro-data on self-reported customer and supplier data of firms in Indonesia, the Philippines, Thailand, and Vietnam, they measure the distances between firm pairs, that is, the distance to the main supplier and the distance to the main customer for the surveyed firms. The distances to suppliers and customers are shorter for indigenous firms in these Southeast Asian countries; but the arm's length differs across countries. The distance between firm pairs differs widely across firms within narrowly defined industries and countries. They find that both firm-level transaction costs and capabilities affect the distances between customers and suppliers. The distance to suppliers is longer for firms that have accepted guest engineers from the main supplier to maintain production processes. Further, they find that the distances to suppliers and customers are longer for firms that have undertaken organizational change or improved marketing practices.

By Tomohiro Machikita and Yasushi Ueki

## The ASEAN investment area, other FDI initiatives, and intra - ASEAN foreign direct investment

6

The idea of establishing ASEAN as a single market and production base that will make ASEAN a dynamic and competitive location requires, among others, the free flow of investment. As part of the effort to promote regional investment, particularly intra-ASEAN investment, several schemes have been implemented such as the 1998 Framework Agreement on the ASEAN Investment Area (AIA). This study investigated the impact of the AIA and other foreign direct investment (FDI) initiatives on intra-ASEAN FDI.

The findings on the impact of the AIA, measured via several proxies, do not provide strong evidence of benefits from the AIA, or from other investment-promoting initiatives. With equal treatment given to non-ASEAN investors, ASEAN members may have to provide separate incentives to enhance local entrepreneurs' competitiveness, which should in the long run be translated into higher FDI from ASEAN — either to other ASEAN members or to non-ASEAN countries. Overall, the results do not argue wholly against the idea of the AIA, given that some of the AIA proxies have a significant impact. Moreover, it is early days yet, and a larger impact may come with time.

**By** Tajul Ariffin Masron and Zulkornain Yusop



## 7

## Output and productivity comparisons of the Singapore and Hong Kong wholesale and retail trade sectors, 2001–2008

This paper employs the industry of origin approach to compare value-added and labour productivity of Singapore and Hong Kong's wholesale and retail sectors for the period 2001–08. The direct comparison between these two economies was motivated by the statement of the Singapore Government that its services sector, especially the retail sector, lagged behind Hong Kong's productivity levels. The results show that since 2005, Singapore's wholesale and retail sector performance in terms of labour productivity has been below Hong Kong's level, largely due to the poor performance of its retail sector arising from an influx of foreign workers. Results from total factor productivity analysis of these two economies also suggest that Hong Kong's better performance (since 2005) was largely due to its ability to employ more educated and trained workers with limited use of capital. The results suggest that policies that have worked in Hong Kong may not work in Singapore because its population is more diverse, which poses a challenge to policymakers in raising its productivity level.

By Boon L. Lee

## The distance from external balance: Pacific Island states

8

This paper seeks to illustrate the potential relevance of the ‘distance from external balance’ concept as a calibration tool for use in the analysis of the external imbalances experienced by small island states. The paper draws on data from several Pacific Island countries to illustrate the measurement and policy issues involved. The paper defines the distance from external balance, provides estimates of its magnitude for the selected Pacific Island countries, and illustrates how the distance from external balance has changed over time. It is found that the small microstates are furthest from external balance. Finally, policy options to address cases of chronic external imbalance are identified.

**By** Curtis Stewart and Richard Wood



## 9

## Unemployment hysteresis in the East Asia-Pacific region: new evidence from MADF and SURADF tests

This study re-examined the unemployment hysteresis hypothesis in the context of twelve countries in the East Asia-Pacific region, namely Australia, China, Guam, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, and Thailand. It employed the multivariate augmented Dickey–Fuller test and the seemingly unrelated regression augmented Dickey–Fuller test for this purpose. The empirical results confirmed the presence of unemployment hysteresis in these countries, except in South Korea and New Zealand. The findings indicated that the equilibrium rate of unemployment in the East Asia-Pacific region tended to be path dependent and that cyclical fluctuations in these countries' economies could have permanent effects on the level of unemployment. These results provide additional empirical proof of the validity of the hysteresis hypothesis.

By Fumitaka Furuoka

## Is the relationship between foreign direct investment and trade different across developed and developing countries? Evidence from Korea

10

Empirical studies that pool data from developed and developing countries may conflate the separate roles played. The pooled coefficient estimates may significantly misrepresent the true relationships. This paper analyses the impact of outward and inward foreign direct investment (FDI) flows between Korea and developed and developing countries on Korean exports in 12 manufacturing sectors over the 1988–2006 period. The evidence suggests that the outward FDI to developing countries is likely to increase Korean exports to those countries than FDI to developed countries likely to increase exports to developed countries. Thus, pooling investment flows can lead to incorrect inferences.

By Kichun Kang



11

## Is monetary policy non-linear in Indonesia, Korea, Malaysia, and Thailand? A quantile regression analysis

There is a growing literature on the linearity or otherwise of monetary policy in industrialised countries. The investigations have revealed that the reactions of central banks to economic variables depend on the level of the variables, confirming the non-linearity of monetary policy in these countries. However, research into whether monetary policy is non-linear in emerging markets has been hampered by the lack of data, as a stable, 'modern' monetary regime has existed in emerging markets for only a relatively short time.

Employing quantile regression, which is not as constrained as other regression methods by the shortness of time series, we investigate the non-linearity of monetary policy in four emerging Asian nations: Indonesia, Korea, Malaysia, and Thailand. Their results indicate that monetary policy in all four is non-linear. All display a 'hump-shaped' response to inflation across the quantiles — policy becomes tighter, going from lower to higher quantiles, reaches a peak, and then becomes looser. These results are similar to those found previously in Japan, and likely arise from a desire to limit exchange rate appreciation, as all four countries depend heavily on exports.

This article presents an abstract from the book.

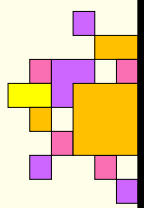
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Information & Research

Vol 2 : February 2013

# The Econometrics Journal

Volume 15 Number 3 / 2012



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**Non-parametric detection and estimation of structural change**

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**Estimation of dynamic latent variable models using simulated non-parametric moments**

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**Testing for uncorrelated errors in ARMA models: non-standard Andrews-Ploberger tests**

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## 1

## **Weak instrument inference in the presence of parameter instability**

This paper addresses the question of how to conduct inference on weakly identified coefficients in unstable econometric models. The weak correlations between the instruments and the relevant first-order condition are modelled as local to zero, and we focus on moderate parameter instabilities. They show that, in the presence of weak identification, asymptotic distributions on the estimators and tests remain robust to moderate instability. Therefore, inference on the subset of stable parameters remains robust to moderate instability of nuisance parameters. In addition, in an unstable model where some parameters are weakly identified, weak-instrument asymptotics in the literature can be used to make valid inference for the weakly identified coefficients after the strongly identified coefficients are concentrated out.

**By Hong Li and Zhijie Xiao**

## Non-parametric detection and estimation of structural change

2

They propose a semi-non-parametric approach to the estimation and testing of structural change in time series regression models. Under the null of a given set of the coefficients being constant, they develop estimators of both the time-varying (non-parametric) and constant (parametric) components. Given the estimators under null and alternative, generalized  $F$  and Wald tests are developed. The asymptotic distributions of the estimators and test statistics are derived. A simulation study examines the finite-sample performance of the estimators and tests. The techniques are employed in the analysis of structural change in the US productivity and the Eurodollar term structure.

By Dennis Kristensen



## 3

## Testing a parametric function against a non-parametric alternative in IV and GMM settings

This paper develops a specification test for functional form for models identified by a conditional moment restriction, including IV and GMM settings. The framework is one where the moment restriction is specified as a function of data, a finite-dimensional parameter vector and a non-parametric function (an infinite-dimensional parameter vector). The null hypothesis is that the moment restriction does not depend on the non-parametric function. The test is relatively easy to implement and its asymptotic distribution is known. The test performs well in simulation experiments.

By Tue Gørgens and Allan Würtz

## Estimation of dynamic latent variable models using simulated non-parametric moments

4

They propose a novel estimation method for dynamic latent variable (DLV) models that combines simulations and non-parametric kernel smoothing techniques to obtain a generalised method of moments (GMM) estimator based on a set of conditional moments. As such it extends the simulated method of moments (SMM) of [Duffie and Singleton \(1993\)](#) to allow for the use of conditional moments, instead of unconditional ones. It can also be seen as a generalisation of the SMM for static models as proposed in [McFadden \(1989\)](#). It is shown that, as the number of simulations diverges and the bandwidth used in the kernel smoothing shrinks, the estimator is consistent and a higher order expansion reveals the stochastic difference between the infeasible GMM estimator based on exact computation of the conditional moment conditions and the simulated version. In particular, the expansion demonstrates how simulations impact the bias and variance of the proposed estimator. Extensive Monte Carlo results show how the estimator may be applied to a range of DLV models, and that it performs well in comparison to several other estimators that have been proposed in the literature.

By Michael Creel and Dennis Kristensen



5

## **Testing for uncorrelated errors in ARMA models: non-standard Andrews-Ploberger tests**

A problem of interest in economic and finance applications is testing whether ARMA (Autoregressive moving average) errors are uncorrelated under weak assumptions, namely assumptions where the errors are neither iid nor a martingale difference. In this paper, non-standard versions of the tests of serial correlation introduced by Andrews and Ploberger (1996, hereafter AP) are proposed for diagnostic checking of ARMA errors. The original AP tests are designed for the case where the observed time series is generated by ARMA(1,1) models under the alternative and use asymptotic critical values computed by AP. The non-standard testing procedure uses AP statistics calculated from residuals and critical values based on asymptotic distribution theory derived under weak assumptions. The motivation for modifying the original AP tests is that they have attractive properties for the case for which they were originally designed: They are consistent against all non-white noise alternatives and have good all-round

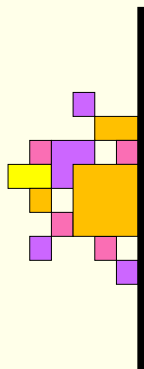
power against non-seasonal alternatives compared to several widely used tests in the literature, including those of Box and Pierce (1970, hereafter BP) and Ljung and Box (1978, hereafter LB) tests. A further advantage of the AP tests is that there is no need to specify a cutoff lag-length as is necessary for the BP and LB tests. They compare the non-standard AP tests with the non-standard BP and LB tests proposed by Francq et al. (2005), the tests of Hong and Lee (2007), and the tests using standardized residuals proposed by Chen (2008). In Monte Carlo experiments using ARMA models with GARCH (Generalised autoregressive conditional heteroskedasticity), EGARCH (Exponential GARCH) and non-MDS (Martingale difference sequence) innovations, the non-standard AP tests generally have better power than the other tests they consider. This suggests that the power advantage of the original AP tests extends to the more general framework considered in this paper.

**By John C. Nankervis and Nathan E. Savin**

**This article presents an abstract from the book.**

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**Information & Research**

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# **The Econometrics Journal**

Volume 16 Issue 1 February 2013

(EC)<sup>2</sup> 2010 SPECIAL ISSUE:  
IDENTIFICATION IN ECONOMETRICS,  
THEORY AND APPLICATIONS



**Identification of treatment response  
with social interactions**

**1**

**Identification and inference in  
a simultaneous equation under  
alternative information sets and  
sampling schemes**

**2**

**Partial identification in asymmetric  
auctions in the absence of independence**

**3**

**Set inference in latent variables models**

**4**



## 1

## Identification of treatment response with social interactions

This paper studies identification of potential outcome distributions when treatment response may have social interactions. Defining a person's treatment response to be a function of the entire vector of treatments received by the population, He study identification when non-parametric shape restrictions and distributional assumptions are placed on response functions. An early key result is that the traditional assumption of individualistic treatment response is a polar case within the broad class of *constant treatment response* (CTR) assumptions, the other pole being unrestricted interactions. Important non-polar cases are interactions within reference groups and anonymous interactions. He first study identification under Assumption CTR alone. He then strengthen this Assumption to semi-monotone response. He next discuss derivation of these assumptions from models of endogenous interactions. Finally, He combine Assumption CTR with statistical independence of potential outcomes from realized *effective treatments*. The findings both extend and delimit the classical analysis of randomized experiments.

**By Charles F. Manski**



## Identification and inference in a simultaneous equation under alternative information sets and sampling schemes

2

In simple static linear simultaneous equation models, the empirical distributions of IV and OLS are examined under alternative sampling schemes and compared with their first-order asymptotic approximations. We demonstrate that the limiting distribution of consistent IV is not affected by conditioning on exogenous regressors, whereas that of inconsistent OLS is. The OLS asymptotic and simulated actual variances are shown to diminish by extending the set of exogenous variables kept fixed in sampling, whereas such an extension disrupts the distribution of IV and deteriorates the accuracy of its standard asymptotic approximation, not only when instruments are weak. Against this background, the consequences for the identification of parameters of interest are examined for a setting in which (in practice often incredible) assumptions regarding the zero correlation between instruments and disturbances are replaced by (generally more credible) interval assumptions on the correlation between endogenous regressor and disturbance. This yields OLS-based modified confidence intervals, which are usually conservative, as is established by simulation. Often they compare favourably with IV-based intervals and accentuate their frailty. The latter is demonstrated in an empirical illustration.

**By Jan F. Kiviet**



## 3

## Partial identification in asymmetric auctions in the absence of independence

This paper examines identification in second-price and ascending auctions within the private-values framework. The first part of the paper considers an arbitrary type of dependence of bidders' values and analyses identification under several observational scenarios, in which the highest bid is never observed. In a basic scenario, only the winner's identity and the winning price are observed. The most informative is the scenario in which all the identities and all the bids except for the highest bid are known. Using results from [Athey and Haile \(2002\)](#), the joint distribution of bidders' values in these scenarios is not identified. The paper uses the information available in auctions' outcomes to construct bounds on the joint distribution of values for any subset of bidders. The second part of the paper takes a different tack by showing how bounds can be improved under different types of positive dependence of bidders' values.

**By Tatiana Komarova**

## Set inference in latent variables models

4

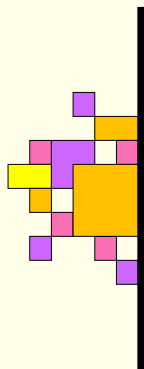
They propose a methodology for constructing valid confidence regions in incomplete models with latent variables satisfying moment equality restrictions. These include moment equality and inequality models with latent variables. The confidence regions are obtained by inverting tests based on the characterization of the identified set derived in [Ekeland et al. \(2010\)](#). A valid bootstrap approximation of the distribution of the test statistic is derived under mild conditions and the confidence regions are shown to have correct asymptotic size.

**By Marc Henry and Ismael Mourifié**

**This article presents an abstract from the book.**

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# The Econometrics Journal

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**A heteroskedasticity and autocorrelation robust  $F$  test using an orthonormal series variance estimator**

1

**Instrumental variables estimation and inference in the presence of many exogenous regressors**

2

**Estimation of spatial autoregressive models with randomly missing data in the dependent variable**

3

**Standardized LM tests for spatial error dependence in linear or panel regressions**

4



## **A heteroskedasticity and autocorrelation robust $F$ test using an orthonormal series variance estimator**

The paper develops a new heteroskedasticity and autocorrelation robust test in a time series setting. The test is based on a series long-run variance matrix estimator that involves projecting the time series of interest onto a set of orthonormal bases and using the sample variance of the projection coefficients as the long-run variance estimator. When the number of orthonormal bases  $K$  is fixed, a finite-sample-corrected Wald statistic converges to a standard  $F$  distribution. When  $K$  grows with the sample size, the usual uncorrected Wald statistic converges to a chi-square distribution. They show that critical values from the  $F$  distribution are second-order correct under the conventional increasing smoothing asymptotics. Simulations show that the  $F$  approximation is more accurate than the chi-square approximation in finite samples.

**By Yixiao Sun**

## Instrumental variables estimation and inference in the presence of many exogenous regressors

2

They consider a standard instrumental variables model contaminated by the presence of a large number of exogenous regressors. In an asymptotic framework where this number is proportional to the sample size, they study the impact of their ratio on the validity of existing estimators and tests. When the instruments are few, the inference using the conventional 2SLS estimator and associated  $t$  and  $J$  statistics, as well as the Anderson–Rubin and Kleibergen tests, is still valid. When the instruments are many, the LIML estimator remains consistent, but the presence of many exogenous regressors changes its asymptotic variance. Moreover, the conventional bias correction of the 2SLS estimator is no longer appropriate. They provide asymptotically correct versions of bias correction for the 2SLS estimator, derive its asymptotically correct variance estimator, extend the Hansen–Hausman–Newey LIML variance estimator to the case of many exogenous regressors, and propose asymptotically valid modifications of the  $J$  overidentification tests based on the LIML and bias-corrected 2SLS estimators.



## 3

### **Estimation of spatial autoregressive models with randomly missing data in the dependent variable**

They suggest and compare different methods for estimating spatial autoregressive models with randomly missing data in the dependent variable. Aside from the traditional expectation-maximization (EM) algorithm, a nonlinear least squares method is suggested and a generalized method of moments estimation is developed for the model. A two-stage least squares estimation with imputation is proposed as well. They analytically compare these estimation methods and find that generalized nonlinear least squares, best generalized two-stage least squares with imputation and best method of moments estimators have identical asymptotic variances. These methods are less efficient than maximum likelihood estimation implemented with the EM algorithm. When unknown heteroscedasticity exists, however, EM estimation produces inconsistent estimates. Under this situation, these methods outperform EM. They provide finite sample evidence through Monte Carlo experiments.

**By Wei Wang and Lung-Fei Lee**

## Standardized LM tests for spatial error dependence in linear or panel regressions

4

The robustness of the Lagrange Multiplier (LM) tests for spatial error dependence of [Burridge \(1980\)](#) and [Born and Breitung \(2011\)](#) for the linear regression model, and [Anselin \(1988\)](#) and [Debary and Etur \(2010\)](#) for the panel regression model with random or fixed effects are examined. While all tests are asymptotically robust against distributional mis-specification, their finite sample behaviour may be sensitive to the spatial layout. To overcome this shortcoming, standardized LM tests are suggested. Monte Carlo results show that the new tests possess good finite sample properties. An important observation made throughout this study is that the LM tests for spatial dependence need to be both mean- and variance-adjusted for good finite sample performance to be achieved. The former is, however, often neglected in the literature.

**By Badi H. Baltagi and Zhenlin Yang**

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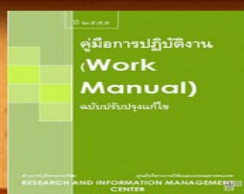
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