CSEF

Centre for Studies in Economics and Finance

2002 Report

Dipartimento di Scienze Economiche e Statistiche

Università degli Studi di Salerno
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Contents

What is CSEF?

The Centre for Studies in Economics and Finance (CSEF) performs and promotes research on saving, social security and fiscal policy, portfolio choice, financial intermediation, capital markets and their interactions with the real sector. CSEF started operating in 1997 and its premises are in the Department of Economics and Statistics of the University of Salerno.

The primary aim of CSEF is to link up the University of Salerno with international research on these issues via seminars, conferences, exchange of researchers and joint research projects. Since 1998, it hosts researchers and doctoral students from other Italian universities and other countries, and it features a weekly research seminar, open to faculty and doctoral students.

CSEF is involved in the Ph.D. Program of the Department of Economics and Statistics of the University of Salerno and in the Master in Economics and Finance (MEF) at the University of Naples Federico II.

The administration of CSEF is entrusted to Lia Ambrosio.

News

In 2002 *Giovanni Immordino*, formerly Carisal Fellow, was appointed Associate Professor at the University of Salerno and joined the ranks of our permanent researchers. *Mauro Staiano* (Ph.D. from the University of Naples Federico II) and *Raquel Fonseca* (Ph.D. from the Catholic University of Louvain) were awarded two-year postdoctoral research fellowships, and *Salvatore Capasso* (CNR) joined CSEF as a research associate. Starting from April 2003, also *Thomas Steinberger* (Ph.D. from the European University Institute and currently at the research department of the Central Bank of Austria) will join CSEF with a three-year postdoctoral fellowship.

It has also been a successful year for our visiting researchers on the job market. *Klaus Adam* took up a position as Assistant Professor at the University of Frankfurt in January 2002. *Daniela Fabbri* was appointed Assistant Professor at the University of Lausanne in September.

Starting in 2003, CSEF will become an inter-university research centre, joining the University of Salerno with Bocconi University and University of Naples Federico II. Beside strengthening the networking between the respective economics departments, the Centre, which will keep the CSEF label, will be able to apply for research grants, organise workshops and conferences, and run research projects as an independent legal entity.

Currently, CSEF is one of the EU Marie Curie Development Host and participates in three European Research and Training Networks:

- *Understanding Financial Architecture: Legal and Political Frameworks and Economic Efficiency* (UFA, in its third year of operations),
- *The Economics Ageing in Europe* (AGE, in its first year)
- *Financing Retirement in Europe: Public Sector Reform and Financial Market Development* (FINRET, in its first year).

Next year the department plans new junior and senior faculty appointments in economics and econometrics. For the fourth consecutive year, in January 2003 CSEF has advertised fellowships and research contracts at the ASSA meetings in Washington. These appointments will allow a constant flow of young researchers' hires in the coming years, making CSEF a professionally lively environment for both Italian and international researchers.

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Main Research Projects and Funding

Main Research Projects

Economics of Ageing

The objective of this research project is to analyse the economic decisions of the elderly, in particular with respect to saving, portfolio choice, retirement, health expenditures, and intergenerational transfers. Appropriate empirical modelling of individuals' decisions to provide resources for old age and their response to changes in households' circumstances is a key prerequisite for policy analysis.

The project is divided into six themes, each focused on a dimension in which empirical microeconomics can inform policy analysis at the national and European level. These are: ageing and household saving; pensions, social security and labour market behaviour; relations between health and economic resources; saving and portfolio decisions; consumption and living standards of the elderly; intergenerational transfers and the role of family transfers and their interaction with state transfers.

The research program in *Economics of Ageing in Europe* is financed by the EU under its RTN Program. CSEF coordinates a network of European researchers, which includes CentER (Tilburg University), DELTA-INRA (Paris), IFS (London), and the Universities of Venice, Mannheim, Copenaghen and Cyprus. CSEF also coordinates a national network on related issues of saving, pensions and portfolio choice including the Universities of Rome Tor Vergata, Padua, Venice and Bocconi.

Financing Retirement in Europe

The financing of pensions is one of the most significant medium to long-term economic and social issues in Europe. If established demographic and labour market trends continue, major changes to the existing national systems of retirement are inevitable. However, there is considerable debate as to the most appropriate form for new social security institutions, and even a partial move away from PAYG raises hard questions of intergenerational equity and significant risks that can fall disproportionately on certain age and social groups. This project will address a variety of questions concerning this transition, some that traditionally have been the province of public finance specialists, and others that fall within the sphere of finance. The integration of these two approaches into the same project has rarely been tried in the past.

This research program is financed by the EU under the RTN program, through the network on "Financing Retirement in Europe: Public Sector Reform and Financial Market Development". Besides CSEF, this network includes the CEPR (Centre for Economic Policy Research), IDEI (University of Toulouse), the University of Amsterdam, Pompeu Fabra University, CORE (Catholic University of Louvain), and FMG (London School of Economics).

Analysis of Household Portfolio Choice

This project aims to use microeconomic data for in-depth study of portfolio composition of households, portfolio diversification and mobility, characteristics of population groups of special policy interest. In 2002 CSEF was supported by the *Observatoire de l'Erpagne Européenne* (a Paris-based Research Foundation), which sponsored a project on *European Stockholding* in collaboration with researchers in Germany, Netherlands, France, UK, Italy and Cyprus.

Survey on Health, Ageing and Wealth

The *Survey on Health, Ageing and Wealth*, a joint venture of CSEF with the Universities of Padua and Venice, collects detailed data on health status, smoking habits, health expenditures, job invalidity and subjective expectations on a sample of over 1,000 households aged 50 or plus. A selection of papers using the Survey on Health, Ageing and Wealth and analysing the interaction between health status, health expenditures, and household wealth is forthcoming in 2003 in a special issue of the Giornale degli Economisti.

European Financial Market Integration

In 2002 CSEF carried out two EU-sponsored studies on financial market integration. The first study (*Analyse, compare, and apply alternative indicators and monitoring methodologies to measure the evolution of capital market integration in the European Union*) reviews and compares existing methodologies to measure capital market integration, tests their suitability to monitor EU capital market integration, and proposes changes to existing indicators or new indicators. More specifically, the study focuses on the following questions: which indicators can be used to measure the degree of capital market integration? What are their relative advantages? Which particular aspect of capital market integration do they capture? What is their comparative performance when computed using EU data?

The second study (*Financial market integration, corporate financing and economic growth*) uses cross-country industry-level and company-level data to estimate the impact of financial market integration on corporate growth in European countries. The study addresses the following questions: what is the impact of financial market efficiency and development on investment and growth? What are the likely consequences of EU financial integration for investment and growth? What are the limits to EU financial integration entailed by the differences in the legal framework of EU member countries?

The Industrial Organisation and Financial Markets in Europe

This research project spans the related fields of banking, corporate finance and market microstructure, using the methods of game theory and information economics. The research is organised around three themes that are central for European financial integration. The first theme is "excessive competition" and systemic risk in banking. The second is the industrial organisation of securities markets and the relationship between share ownership structure and provision of liquidity in securities markets. The third theme is the industrial organisation of credit markets and the effect of bankruptcy schemes on borrowers' incentives to repay.

This research is carried out with ECARES (Brussels), IDEI (Toulouse), CSIC (Barcelona) and FMG (London School of Economics), and is financed by the EU under the TMR network on "The Industrial Organization of Banking and Financial Markets in Europe".

Law, Finance and Politics

The objective of this project is to study the interaction between legal frameworks and financial arrangements, and their effects on economic efficiency and growth. The project aims to characterise legal rules and financial arrangements, in particular in regard to firms' ownership and control, and creditor protection. A second objective of the project is to link research on law and finance with political economy. Politics plays an important role in shaping the legal and financial systems, and these systems give rise to significant stakeholders with influence over the political process. Understanding this interaction is essential to any attempt to reform the European financial architecture. The research focuses on three areas where law and finance intersect: corporate governance, bankruptcy law, and market organisation and efficiency. In these areas international co-operation in research between economists and lawyers is expected to yield valuable insights, which could bear on major policy issues facing Europe.

On these themes, CSEF cooperates with SITE (Stockholm), CFS (Frankfurt), CEMFI (Madrid), CEPR (London), ECARES (Brussels), IDEI (Toulouse), Oxford, Princeton and Yale, within the network on "Understanding Financial Architecture: Legal and Political Frameworks and Economic Efficiency," which is financed by the EU under the RTN program.

Funding

In 2002 research projects at CSEF have been funded by Training and Mobility of Researchers Network Program (TMR), the Research Training Network Program (RTN), the Italian Ministry for Universities and Scientific Research (MURST), and the Italian National Research Council (CNR).

Forthcoming Conferences in 2003

Meeting of the Research Network on the Economics of Ageing

Call for papers. The second meeting of the RTN project on *The Economics of Ageing in Europe* will take place in Napoli on May 8-10, 2003. Theoretical and applied papers in the areas of saving, pensions, health and economic resources, household portfolios, consumption and material living standards of the elderly, intergenerational transfers or related topics will be considered. Submissions by doctoral students are particularly welcome. Authors wishing to present a paper should email the paper or an abstract with sufficient detail for evaluation **by March 31, 2003.** All correspondence and inquiries should be sent to:

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Meeting of the Research Network on Financing Retirement in Europe

Also the second meeting of the RTN project on *Financing Retirement in Europe: Public Sector Reform and Financial Market Development* will take place in Napoli on May 8-10, 2003. The call for papers will be issued and disseminated in January 2003 by the CEPR, which coordinates this network.

Seminars

In 2002 the Department of Economics of the University of Salerno hosted one or two research seminars per week, except for February and March peak due to the job market. Papers were presented both by invited speakers and by resident researchers:

January

Orietta DESSY (University of Salerno)
Nominal Wage Rigidity in the European Countries: Evidence from the Europanel

Carla SCAGLIONE (University of Salerno)
Efficiency of Local Public Services

Olivella RIZZA (University of Salerno)
Rules, Discretion and Independence of the Central Bank

Hans DEGRYSE (Catholic University of Louvain and CentER, Tilburg University) and Steven Ongena (CentER, Tilburg University)
Distance, Lending Relationships and Competition

February

Marcello D'AMATO (University of Salerno) and Vincenzo Galasso (University Bocconi)
Aggregate Shock, Political Constraints and Social Security Design

Rolf Aaberge (Research Department Statistics Norway), Ugo COLOMBINO (CORIPE, University of Torino) and Steinar Strøm (University of Oslo)
Do more Equal Slices Shrink the Cake? An Empirical Evaluation of Tax-transfer Reform Proposal in Italy

Alexei GORIAEV (CentER, Tilburg University)
The Relative Impact of Different Classification Schemes on Mutual Fund Flows

Thomas STEINBERGER (European University Institute)
Imperfect Financial Markets and Investment Dynamics

Raquel FONSECA (European University Institute)
Spanish Unemployment Persistence and the Ladder Effect

Hans Degryse (Catholic University of Louvain and CentER, Tilburg University) and Jan BOUCKAERT (University of Antwerp)
Entry and strategic information display in credit markets

March

Annamaria NESE (University Salerno) and Adriana Barone (University Salerno)
Job Risk and Wage Premium

Helios HERRERA (New York University)
Participation Externalities and Asset Prices

April

Salvatore CAPASSO (CNR and University of Manchester)
Financial Development, Financing Choice and Economic Growth

Giacomo CALZOLARI (University Bologna)
Monopoly with Resale

Daniela FABBRI (University Salerno)
Legal Institutions and Credit Rationing

Howard ROSENTHAL (Princeton University)
Political Polarization and Income Inequality

May

Mick DUNDORF (University of Sussex)
Italian Regional Evolutions

Tuomas TAKALO (University of Helsinki)
Comparing in Financial Intermediation

Gyula NAGY (University of Budapest)
Unemployment Benefits and the Exit from Unemployment: Methodological and Empirical Questions from Hungary

Nicola De Lliso (University of Lecce), Giovanni FILATRELLA (University of Salerno)
Econophysics: The Emergence of a New Field?

Santiago BUDRIA (University of Alicante), Jaivier-Diaz Gimenez (Universidad Carlos III de Madrid), Vincenzo Quadrini (New York University) and José-Vìctor Rìos Rull (University of Pennsylvania)
New Facts on the Distributions of Earnings, Income and Wealth in the U.S.

Giuseppe LEPORE (Royal Military College of Canada)
Federalism and the health-care system: the Canadian case

Mike Burkart (Stockholm School of Economics), Fausto PANUNZI (University of Bologna) and Andrei Shleifer (Harvard University)
Family Firms

June

Paolo SICONOLFI (Columbia University)
Large Economies with non-convex preferences

Stefan AMBEC (INRA-SERD, Grenoble) and Nicolas Treich (University of Toulouse)
Roscas as Financial Agreements to Cope with Time Inconsistent Preferences

October

Sascha BECKER (CESifo), Samuel Bentolila, Ana Fernandes (CEMFI), Andrea Ichino (European University Institute)
Job Insecurity and Children's Emancipation: The Italian Puzzle

Hamish LOW (University of Cambridge), Costas Meghir (University College London) and Luigi Pistaferri (Stanford University)
Wage Risk, Employment Risk and Precautionary Saving

Issam HALLAK (J.W. Goethe-University Frankfurt)
Price Differential on Syndicated Loans and the Number of Lenders: Empirical Evidence from the Sovereign Debt Syndication

Leo FERRARIS (London School of Economics), Raoul Minetti (Michigan State University)

Liquidation Values and the Nature of Lenders

Tullio JAPPELLI (University of Salerno) and Luigi Guiso (University of Sassari)

Financial Information and Stockholding

November

Giuseppe Freni (University Parthenope Napoli), Fausto Gozzi (University of Roma) and Neri SALVADORI (University of Pisa)

Endogenous Growth in a Multi-sector Economy

Tom LYON (Kelley School of Business, Indiana University) and Eric Rasmusen (Indiana University)

Buyer-Option Contracts, Renegotiation, and the Hold-Up Problem

December

Giovanni IMMORDINO (Fondazione Carisal) and Marco Pagano (University of Salerno)

Design and Enforcement of Legal Standards

Kostas KOUFOPOULOS (LSE)

Asymmetric Information, Heterogeneity in Risk Perceptions and Insurance: An Explanation to a Puzzle

Maia GUELL (Universitat Pompeu Fabra), and J.E. Galdon-Sanchez (Universidad Publica de Navarra)

Let's Go to Court! Firing Costs and Dismissal Conflicts

Alberto Bennardo received his Ph.D. in Quantitative Economics at Delta (ENS-CNRS-EHESS) in Paris during the year 1997-1998. He is Associate Professor at the University of Salerno, and has been Assistant Professor in the Department of Economics of the University of California, Los Angeles since 1999. His research focuses on Competition with Asymmetric Information, General Equilibrium Theory and Contract Theory. His paper "Bertrand and Walras equilibria with moral hazard" (with A. Chiappori) is forthcoming in the *Journal of Political Economy*. His current work focuses on the analyses of optimal and equilibrium contractual arrangements in competitive economies with adverse selection, and on the effects of communication in common agency models with moral hazard

Gennaro Bernile holds a Fellowship from the University of Salerno. He is a Ph.D. candidate in Finance at the W. E. Simon Graduate School of Business Administration, University of Rochester. His research focuses on Applied Microeconomics, Corporate Finance, and Corporate Governance. His papers apply game theory, industrial organization and econometrics to the analysis of corporate decisions and governance structures in the market for corporate control.

Renata Bottazzi has a Master in Economics from University College London and is currently attending the PhD program in Economics at the same University. She is also a doctoral student in Economics at the University of Salerno. Her research interests focus on labor economics, household saving decisions, and applied microeconometrics. She is currently working on labour supply and mortgage-related borrowing constraints and on the relationship between household portfolio and health.

Salvatore Capasso is a research fellow at the Institute for the Studies of Mediterranean Societies (ISSM-Naples) of the National Research Council. He obtained his PhD in 2001 from the University of Manchester (UK) where he had a one-year appointment as a research Fellow. He is also affiliated with the Centre for Growth and Business Cycles of the University of Manchester and collaborates with the Department of Economics of University Parthenope Napoli. His fields of interest includes economic growth, contract theory, monetary economics and financial intermediation. His research focuses on the relationship between financial development and growth, with particular reference to stock market development, via the construction of dynamic general equilibrium models of economies with financial imperfections.

Giacinta Cestone is a Research Fellow at the Institut d'Anàlisi Econòmica (CSIC) of Barcelona and a CEPR Research Affiliate, and has recently been granted a Fellowship from the University of Salerno. She holds a Ph.D. in Economics from the University of Toulouse. Her fields of interest are corporate finance, corporate governance, contract theory and industrial organization. She has analysed the interaction between corporate financing decisions and product market competition, and the optimal allocation of control and cash flow rights in venture capital. A recent paper with Giovanni Cespa studies the interaction between the quality of corporate governance and the explicit protection of non-shareholder constituencies when managers can build relationships with social activists to entrench themselves. Her paper “Anti-Competitive Financing: The Design of Financial Claims” (with Lucy White) is now forthcoming in *The Journal of Finance*.

MARIA CONCETTA CHIURI is Associate Professor of Economics at the University of Bari and is associated with CSEF since 1998. Her research is in the field of consumption theory and labour supply, with special focus on intra-household allocation of time and resources. A joint paper with T. Jappelli on “Financial Market Imperfections and Home Ownership: A Comparative Study” is forthcoming in the *European Economic Review*. An ongoing project with F. Bourguignon aims at estimating home production by means of a French time use survey. She also work on illegal migration. The recent paper “Crisis in the country of origin and illegal immigration into Italy” (with G. De Arcangelis and G. Ferri) focuses on economic, financial and political crises as determinants of migratory flows in European countries.

MARCELLO D’AMATO is Associate Professor of Economics at the University of Salerno. In the last academic year he has been a visiting scholar at the Department of Economics of Boston University. His current research focuses on Central Banking Institutions, the political economy of social security, and applied contract theory. This year he published: Two Dimensional Screening: A Case of Monopoly Regulation (with L. Brighi), *Research in Economics*; Is the Dini Reform Politically Sustainable? (with V. Galasso), CELPE Discussion papers and forthcoming in *Giornale degli Economisti*; Aggregate shocks, Political Constraints and Social Security Design, CEPR Discussion Paper n. 3330 (with V. Galasso). He is currently working on corruption and tax evasion (with A. Acconcia and R. Martina), and on the design of central banking institutions (with F. Salsano).

SERGIO DESTEFANIS is Associate Professor of Economics at the University of Salerno. He received his Ph.D. at the University of Cambridge. His research interests include wage and price determination, growth and development in dualistic economies and the quantitative analysis of productive processes. In 2001, he published a paper on technical and allocative efficiency of manufacturing firms across Italian regions in *Lavoro e Relazioni Industriali*, and a paper on technical efficiency of Italian banks in a volume edited by Baldassarri and Paganetto for Palgrave. In 2002, he published a paper on TFP change across Italian regions in a volume edited by Balducci and Staffolani for ESI, a paper on cross-country measurement of TFP change (with Giuseppe Storti) in *Statistical Methods and Applications*, and a paper on cross-country evidence on increasing returns in a volume edited by McCombie, Pugno and Soro for Palgrave. He was in the organising committee of the 2002 AIEL conference.

DANIELA FABBRI joined CSEF in September 1999. After receiving a Ph.D in Economics at Pompeu Fabra University in 2001, she was appointed post-doctoral fellow for the TMR network on “The Industrial Organization of Banking and Financial Markets in Europe” by the Institut d’Anàlisi Econòmica (CSIC), in Barcelona. She is currently Assistant Professor at HEC-University of Lausanne. Last year she wrote a paper on the interaction between legal institutions and financial arrangements and their effects on corporate choice and aggregate economic activity: *"Legal institutions, corporate governance and aggregate activity: theory and evidence".* She also completed a joint paper with Mario Padula *"Does poor legal enforcement make households credit-constrained?"*, which studies the relation between judicial costs and the credit extended to Italian households. Recently she started a project with Chiara Fumagalli to study the effect of legal enforcement of creditors' rights on merger firm's decisions: *Legal institutions and firms' boundaries.*

RAQUEL FONSECA joined CSEF in September 2002 as Post-doctoral fellow. She received a Ph.D in Economics at the Catholic University of Louvain with a dissertation on *Unemployment Persistence and Mismatch*. Her research interest is dynamic macroeconomics and labour market and, in particular, the matching process between job offers and workers, skill and regional mismatch, gender discrimination and entrepreneurship. Recent papers include: "Entrepreneurship, start-up costs and employment" (with Paloma Lopez-Garcia and Christopher A. Pissarides) published in *European Economic Review* in May 2001, and "Can the matching model account for Spanish unemployment?" (with Rafael Muñoz), forthcoming in *Investigaciones Economicas.*

GIOVANNI IMMORDINO formerly Carisal Fellow, in December 2002 was appointed Associate Professor at the University of Salerno. He received a Ph.D. in Economics at the University of Toulouse. Last year his paper on "Hormone beefs, chloridric chickens and international trade: can scientific uncertainty be an informational barrier to trade?"(with Giacomo Calzolari) has been accepted by the *European Economic Review*. He is currently working on the design and enforcement of the law (with M. Pagano) and on a formal re-examination of the 'No Global' thesis.

TULLIO JAPPELLI is a Professor of Economics at the University of Salerno and a Research Fellow of CEPR. His current research focuses on saving, the relation between health status and economic resources, household portfolio choice, pension reforms and banking. In 2002 he has published "The demand for money, financial innovation and the welfare cost of inflation: An analysis with household data," *Journal of Political Economy*, April 2002 (with Orazio Attanasio and Luigi Guiso); "Information sharing, lending and defaults: cross-country evidence," *Journal of Banking and Finance*, October 2002 (with Marco Pagano); "Private transfers, borrowing constraints and the timing of home ownership," *Journal of Money, Credit and Banking*, May 2002 (with Luigi Guiso); "An empirical analysis of earnings and employment risk," *Journal of Business and Economic Statistics*, April 2002 (with Luigi Guiso and Luigi Pistaferri); "Le profil des détenteurs d'actions en Europe," *Revue d'Economie Financiere* (with Luigi Guiso and Michalis Haliassos); "Information sharing in credit markets: an international comparison," (with Marco Pagano), in *Preventing Default: Incentives and Institutions*, edited by Pagano for John Hopkins University Press. Last year he has also published *Household Portfolios*, a collection of essays edited for MIT Press with Luigi Guiso and Michalis Haliassos. The book provides a comprehensive account of theoretical knowledge, methodological achievements and microeconomic evidence in the analysis of household portfolios.

The following papers have been accepted for publication: "Tax incentives and the demand for life insurance: evidence from Italy" (with Luigi Pistaferri) is forthcoming in *Journal of Public Economics*; "Financial market imperfections and home ownership: a comparative study" (with Maria Concetta Chiuri) is forthcoming in *European Economic Review*; "Public credit information: a European perspective" (with Marco Pagano), part of a World Bank research project, is forthcoming in *Credit Reporting Systems and the International Economy*, edited by Margaret Miller for MIT Press; "Tax incentives to saving and borrowing" (with Luigi Pistaferri), also part of a World Bank project, is forthcoming in *Taxation of Financial Intermediation*, edited by Patrik Honohan. A new volume on household portfolios, *Stockholding in Europe*, edited with Guiso and Haliassos for Palgrave Macmillan, is scheduled for publication in 2003. The book provides evidence on stockholding based on consistent microeconomic data for France, the UK, Italy, the Netherlands and Germany. With Guiso and Haliassos he also wrote *Household stockholding: where do we stand, and where do we go?* for the 36th Panel Meeting of Economic Policy; the paper is forthcoming in the 2003 April issue of *Economic Policy*.
"The quality of health care: evidence from Italy" (with Mario Padula) will appear in a special issue of the *Giornale degli Economisti* on *Health and Household Decisions*. The special issue, edited by Agar Brugiavini, Tullio Jappelli and Guglielmo Weber, will include contributions based on the recent *Survey of Health, Ageing and Wealth*. In collaboration with other CSEF Fellows, he completed two research reports for the European Union: "Analyze, compare, and apply alternative indicators and monitoring methodologies to measure the evolution of capital market integration in the European Union" (with Adam, Menichini, Padula and Pagano), and "Financial market integration, corporate financing and economic growth" (with Guiso, Giannetti, Padula, and Pagano).

CHRISTIAN JULLIARD joined CSEF in September 1999 after completing a Master in Economics and Finance at the University of Napoli Federico II. He is currently attending the Ph.D. program in Economics at Princeton University. His research focuses on applied macroeconomics and econometrics, household portfolio choice and growth theory.

ANNAMARIA MENICHINI is Assistant Professor in Economics at the University of Salerno. She has a Ph.D. in Economics at the University of York. Her research interests focus on contract theory and corporate finance and, in particular, the role of multiple lenders as means of mitigating agency problems and the related problems of collusion and renegotiation. Her paper "Can liars ever prosper?" (with Peter Simmons), has been presented in seminars at the Free University of Berlin, University of Toulouse, EFA 2002 and ESEM 2002. In 2002 she has been a Visiting Fellow at IDEI (University of Toulouse) for two terms. With Marco Alderighi she is writing a paper on the role of consulting when the quality of consultancy is unverifiable.

MARIO PADULA is Assistant Professor of Economics at the University of Salerno. He has a Master in Economics from University Bocconi and a Ph.D. in Economics from University College London. His current research interests are the dynamic properties of expenditures on durable goods, pension reforms, relation between health and and on the aggregate features of microeconomic models with non-convexities. He is involved in international projects on saving, retirement and health. Last year he has written "Household Saving Behavior and Pension Policies in Italy" (with Agar Brugiavini) forthcoming in a volume on "Life Cycle Saving and Public Policies" edited by Axel Börsch-Supan and "The Quality of Health Care: Evidence from Italy" (with Tullio Jappelli) forthcoming in *Giornale degli Economisti.*

MARCO PAGANO is a Professor of Economic Policy at the University of Salerno and Director of the Research Program in Financial Economics of the Centre for Economic Policy Research. In 2002 his research focused on banking and corporate finance. In the area of banking, he published "Information Sharing, Lending and Defaults: Cross-Country Evidence" with Tullio Jappelli in the *Journal of Banking and Finance.* A related paper on "Information Sharing in Credit Markets: The European Experience," also with Tullio Jappelli, is forthcoming in *Credit Reporting Systems and the International Economy*, MIT Press. In the area of corporate finance, Pagano worked on the political economy of corporate governance with Paolo Volpin (London Business School) and on IPO underpricing and after-market liquidity with Andrew Ellul (University of Indiana). He published the article "The Geography of Equity Listing: Why Do Companies List Abroad?" with Ailsa Röell (Princeton University) and Josef Zechner (University of Vienna) in the *Journal of Finance* and the paper "Law and Equity Markets: A Simple Model" with Davide Lombardo, in *Corporate Governance Regimes: Convergence and Diversity*, Oxford University Press, and edited the book *New Research in Corporate Finance and Banking* (Oxford University Press) with Bruno Biais. Finally, he is working on the design and enforcement of legal standards with Giovanni Immordino.

MARCO PAGNOZZI is Assistant Professor of Economic Policy at the University of Salerno and a member of CSEF since October 2001. He received a Ph.D. in Applied Mathematics from the University of Naples in 2000 and he is currently completing a D.Phil. in Economics at the University of Oxford. Marco's research focuses on auction theory and its application to the sale of public assets. He is working on three research projects: an empirical analysis (with Paul Klemperer) of the effects of the presence of advantaged bidders in the 1995 U.S. auction for mobile-phone licenses; a theory of "sorry winners" which argues that perfectly rational bidders may regret winning an auction; and an analysis of how the possibility of a post-auction takeover affects bidding strategies.

MAURO STAIANO completed a Master in Economics and Finance at the University of Naples "Federico II" in 1999 and a Master in Economics in Economics at the University of Barcelona "Pompeo Fabra" in 2000. He is currently completing a doctorate at the University of Napoli Federico II. His research interests focus on market microstructure and, in particular, on the microeconomics of payment systems. Last year he has also been actively involved in a research project on Finance and Growth carried out at the Department of Economics of the University of Salerno.

KLAUS ADAM has spent a year at CSEF after the completion of a Ph.D. at the European University Institute. His research interests include the modelling of learning and adaptive expectations, the economics of information and uncertainty, and experimental economics, especially in the context of macroeconomic models. His paper on "Learning while Searching for the Best Alternative" is forthcoming in the *Journal of Economic Theory*. With Ramon Marimon he has developed an innovative experimental software called MacroLab, which is now available on the net at http://www.dise.unisa.it/docenti/adam/macroLab/start.htm.

STEFAN AMBEC has spent a year at CSEF after the completion of a Ph.D. at the University of Montreal. He has been postdoctoral fellow at GREEN, University Laval, Canada. He is currently researcher at French's research institute INRA localized at the University of Grenoble. His research applies contract theory and game theory to different topics such as the organization of R&D activities, informal financial agreement in developing countries, water management, environmental regulation and the allocation of control authority in organizations. Among his papers, "Sharing a river" (joint with Yves Sprumont) has been accepted for publication in the *Journal of Economic Theory*, and "A theoretical Foundation of the Porter Hypothesis" (joint with Philippe Barla) is forthcoming in *Economics Letters*.

GIOVANNI CESPA is Assistant Professor of Finance at Pompeu Fabra University, Barcelona. He received a PhD in Economic Analysis from the Universitat Autonoma de Barcelona in 1999. His research deals with market microstructure, with a special emphasis on dynamic trading strategies and multi asset trading mechanisms, industrial organization and corporate governance. The paper "Short-term investment and equilibrium multiplicity," where he analyses the effect of risk aversion and heterogeneous horizons in a financial market with asymmetric information, has recently been published in the October issue of the *European Economic Review.* In ongoing research with Giacinta Cestone, he studies the effect on shareholder value of the explicit protection of non-shareholder constituencies. The paper shows that the introduction of stakeholder protection "rules" may deprive managers of their grip on social activists, enhancing managerial turnover and thus benefiting shareholders.

HANS DEGRYSE is Associate Professor of Financial Economics at the Universities of Leuven and Tilburg. During his stay at CSEF, he investigated banking competition from different perspectives. In particular, he focussed on two issues. First, he empirically examined the impact of distance between borrowers and banks on loan pricing. Second, he explored the issue of strategic information display about borrowers between banks. More generally, his research interests include banking competition, market microstructure and financial economics.

MICHAEL HALLING is Assistant Professor at the University of Vienna and a research associate at the Johannes Kepler University of Linz. He received an MS and PhD in computer science from the Vienna University of Technology and an MS in social and economic sciences from the University of Vienna. His general research areas include equity and bond markets, the reinsurance industry and auditor reputation. In 2002 he spent two months at CSEF. During his stay he investigated empirically the dynamics of trading volume for a large sample of cross-listed European companies.

NATALIA UTRERO GONZALEZ has spent the last term at CSEF after completing a Ph.D. at the Universidad Carlos III de Madrid (Spain). Her fields of interest are corporate finance, law and finance and banking. Last year she worked on the papers: "Investor Protection, Banking Regulation, Institutional Framework and Capital Structure: International Evidence from Industry Data" and "Legal Environment, Capital Structure and Firm Growth", presented at the 28th European Financial Association Annual Meeting in August 2002. Her current research focuses on bank-firm relationships and the effects that banking structure may have on the lending relationships.

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2002

76 **12/2001 Marco Pagano** (CSEF, University of Salerno and CEPR) and **Paolo Volpin** (London Business School)
The Political Economy of Finance

The regulations that shape the design and the operations of corporations, credit and securities markets differ vastly from country to country. In addition, similar regulations are often unequally enforced in different countries. Economists still have an imperfect understanding of why these international differences exist and of whether they tend to persist over time. However, a recent strand of research has shown that some progress on these issues can be made using the approach of the new political economy, which models regulation and its enforcement as the result of the balance of power between social and economic constituencies. In this paper we offer a first assessment of the results and potential of this approach in three fields: corporate finance, banking and securities markets.
JEL classification: G28, G38, K22, K42.
Keywords: political economy, shareholder protection, corporate governance, bankruptcy law, credit market regulation, financial development, privatization.
http://dise.unisa.it/WP/WP76.pdf

77 **2/2002 Giovanni Immordino** (Fondazione Carisal and CSEF, University of Salerno)
No Logo

Firms have incentives to invest in wage reducing practices when they expect a high advertising equilibrium in the future product market competition. Incentives to invest in wage reducing practices like shifting the production to the third world or lobbying legislators to change labor market regulation by lowering the bargaining power of workers, can be explained by a link between the product market and labor market which operates through the effect of advertising on demand. Increased advertising implies under general conditions more production and therefore greater incentives to reduce production costs per unit.
JEL classification: L13, D60, J30.
Keywords: advertising, wages, global economy.

http://dise.unisa.it/WP/WP77.pdf

78 3/2002 Klaus Adam (University of Frankfurt, and CSEF, University of Salerno) and **Mario Padula** (CSEF, University of Salerno)

Inflation Dynamics and Subjective Expectations in the United States

We estimate a forward looking New Keynesian Phillips Curve (NKPC) for the U.S. using data from the Survey of Professional Forecasters as proxy for expected inflation. We find that the NKPC captures inflation dynamics well, independent from whether output or unit labor costs are used as a measure of marginal costs. We show that identification of expectations exploiting orthogonality to output is severely distorted and explains why the NKPC estimated with survey data performs much better than under rational expectations. We also find that lagged inflation enters the price equation significantly suggesting that there is a role for lagged inflation beyond that of capturing non-rationalities in expectations. Estimating the NKPC of Christiano et al. (2001} where lagged inflation enters due to price indexation by non-reoptimizing firms, we find that it captures the role of lagged inflation reasonably well.

JEL classification: E31

Keywords: Inflation, Phillips curve, Subjective Expectations.

http://dise.unisa.it/WP/WP78.pdf

79 3/2002 Jan Bouckaert (Department of Economics, University of Antwerp) **and Hans Degryse** (Katholieke Universiteit Leuven and CentER for Economic Research, Tilburg University)

Entry and Strategic Information Display in Credit Markets

The Riegle-Neal Act in the US and the Economic and Monetary Union in Europe are recent initiatives to stimulate financial integration. These initiatives allow new entrants to “poach” the incumbents’ clients by offering them attractive loan offers. We show that these deregulations may be insufficient since asymmetric information seriously hampers the integration of credit markets. Moreover, banks may *strategically* display some information hindering the scale of entry when asymmetric information is moderate. We also show that voluntary information sharing emerges only when asymmetric information is low.

JEL classification: D43, L13, G21

Keywords: financial integration; banking competition; asymmetric information; barriers to entry

http://dise.unisa.it/WP/WP79.pdf

80 3/2002 Hans Degryse (Katholieke Universiteit Leuven and CentER for Economic Research, Tilburg University) **and Steven Ongena** (CentER for Economic Research, Tilburg University)

Distance, Lending Relationships, and Competition

A recent string of theoretical papers highlights the importance of geographical distance in explaining pricing and availability of loans to small firms. Lenders located in the vicinity of small firms have significantly lower monitoring and transaction costs, and hence considerable market power if competing financiers are located relatively far. We directly study the effect on loan conditions of the geographical distance between firms, the lending bank, and all other banks in the vicinity. For our study, we employ detailed contract information from more than 15,000 bank loans to small firms and control for relevant relationship, loan contract, bank branch, firm, and regional characteristics. We report the first comprehensive evidence on the occurrence of spatial price discrimination in bank lending. Loan rates decrease in the distance between the firm and the lending bank and increase similarly in the distance between the firm and competing banks. Both effects are statistically significant and economically relevant, are robust to changes in model specifications and variable definitions, and are seemingly not driven by the modest changes over time in lending technology we infer.

JEL Classification: G21, L11, L14.

Keywords: spatial price discrimination, bank credit, lending relationships.

http://dise.unisa.it/WP/WP80.pdf

81 4/2002 Klaus Adam (University of Frankfurt, and CSEF, University of Salerno)

Optimal Stabilization Policy When the Private Sector Has Information Processing Constraints

This paper considers a linear-quadratic control problem and determines how optimal policy is affected when the private sector has finite (Shannon) capacity to process information. Such capacity constraints prevent private agents from perfectly observing the state variables and the policy choices. The first result is that the control problem when including these constraints remains to be of a linear-quadratic form, which makes the problem technically tractable. The main difference to a standard problem are the costs associated with the use of the policy instrument, which are now endogenous. Depending on parameters these costs might be either higher or lower and lead to less or more aggressive optimal policies, respectively. If shocks show persistence and are heteroskedastic then the costs of using the policy instrument are non-constant and generate either sluggish or overshooting optimal policy reactions.

JEL classification: E30, E60
Keywords: optimal policy, Shannon capacity, communication theory, sluggish and overshooting policy, measurement errors.
http://dise.unisa.it/WP/WP81.pdf

82 5/2002 Luigi Guiso (University of Sassari, Ente Luigi Einaudi for Monetary, Banking and Financial Studies, and CEPR) and **Tullio Jappelli** (CSEF, University of Salerno and CEPR)

Stockholding in Italy

The study describes the aggregate trends in Italian households' portfolios in the past decade and documents a massive shift towards riskier portfolios and an increase in stock market and mutual funds participation. The study then uses microeconomic data to analyze the pattern of direct and indirect stockholding and their determinants. It documents how stockholding evolves during the life cycle and the relation between stock market participation and wealth, education, and other demographic characteristics. A major finding is that stockholding – either direct or through mutual funds and other managed investment accounts - is present only among investors with above median wealth. Even among the richest segment of the population, non-participation in stocks is quite common.

http://dise.unisa.it/WP/WP82.pdf

83 7/2002 Tullio Jappelli (CSEF, University of Salerno and CEPR) and **Luigi Pistaferri** (Stanford University, CEPR and SIEPR)

Tax Incentives for Household Saving and Borrowing

The paper reviews the literature on these tax incentives, with special focus on long-term saving, housing, and household liabilities. The paper addresses several areas of policy intervention: (1) the interest rate effect on personal saving; (2) the effect of tax incentives on long-term mandatory saving programs; (3) government programs that target saving for home purchase; (4) government programs that target health and saving for education; (5) the effect of tax incentives to borrow, rather than to save. For each of these five important issues, the paper provides empirical evidence on the main characteristics of government programs, with a special focus on middle-income countries. It also addresses a number of issues that should be of interest to policy-makers. First of all, on which grounds government policy should target some assets rather than others. Second, if tax-sheltered assets and liabilities lead to substitution away from more heavily taxed savings instruments or if they affect the overall level of saving. And finally, if there is any lesson that can be drawn from the experience of developed countries for the design of saving and borrowing incentives in middle-income countries.
http://dise.unisa.it/WP/WP83.pdf

84 7/2002 Tullio Jappelli (CSEF, University of Salerno and CEPR) and **Mario Padula** (CSEF, University of Salerno)

The Quality of Health Care: Evidence from Italy

We provide evidence that the quality of health care affects health outcomes, exploiting the substantial variability in the quality of the Italian public health service. The data are drawn from the 2001 Survey of Health, Ageing and Wealth (SHAW), a joint venture of the Universities of Padua, Salerno, Venice and Tilburg, providing detailed information on health status, medical expenditure and use of hospitals and other health facilities, as well as detailed demographic and economic variables, for a sample of about 2000 individuals older than 50. The correlation between quality of health care and health outcomes is also

confirmed in the panel section of the 1993-95 Bank of Italy Survey of Household Income and Wealth, which allows us to measure the impact of quality by controlling explicitly for regional effects.
http://dise.unisa.it/WP/WP84.pdf

85 9/2002 Jan Bouckaert (Department of Economics, University of Antwerp) **and Hans Degryse** (Katholieke Universiteit Leuven and CentER for Economic Research, Tilburg University)

Softening Competition by Enhancing Entry: An Example from the Banking Industry

We show that competing firms relax overall competition by *lowering* future barriers to entry. We illustrate our findings in a two-period model with adverse selection where banks strategically commit to disclose borrower information. By doing this, they invite rivals to enter their market. Disclosure of borrower information increases an entrant's second-period profits. This dampens competition for serving the first-period market.

JEL classification: D43, L13, G21
Keywords: barriers to entry; asymmetric information; switching costs; banking competition.
http://dise.unisa.it/WP/WP85.pdf

86 9/2002 Agar Brugiavini (University of Venezia)**, Tullio Jappelli** (CSEF, University of Salerno and CEPR) and **Guglielmo Weber** (University of Padova)

The Survey on Health, Ageing and Wealth

http://dise.unisa.it/WP/WP86.pdf .The data used are downloadable at the address:

http://dise.unisa.it/WP/shaw_public_file.dta

87 10/2002 Alberto Bennardo (CSEF, University of Salerno and University of California at Los Angeles) and **P.A. Chiappori** (University of Chicago)

Bertrand and Walras equilibria under moral hazard

We consider a simple model of competition under moral hazard with constant return technologies. We consider preferences that are not separable in effort: marginal utility of income is assumed to increase with leisure, especially for high income levels. We show that, in this context, Bertrand competition may result in positive equilibrium profit. This result holds for purely idiosyncratic shocks when only deterministic contracts are considered, and extends to unrestricted contract spaces in the presence of aggregate uncertainty. Finally, these findings have important consequences upon the definition of an equilibrium. We show that, in this context, a Walrasian general equilibrium a la Prescott-Townsend may fail to exist: any 'equilibrium' must involve rationing
http://dise.unisa.it/WP/WP87.pdf

88 11/2002 Luigi Guiso (University of Sassari, Ente "Luigi Einaudi" and CEPR),**Michael Haliassos** (University of Cyprus and HERMES) and **Tullio Jappelli** (CSEF, University of Salerno, and CEPR)

Household Stockholding in Europe: Where Do We Stand and Where Do We Go?

We discuss the current state of stockownership among households in major European countries (France, Germany, Italy, the Netherlands, Sweden, and the UK), drawing parallels and contrasts with the US experience. We use detailed microeconomic datasets and explore the extent to which observed international differences in stockholding can be attributed to differences in household characteristics. Statistical analysis finds (1) an increase in stock market participation in all countries; (2) persistent differences across countries, with the US, the UK and Sweden having considerable more participation than France, Germany, Italy; (3) a robust correlation between the participation decision on the one hand, and wealth and education on the other; (4) a relatively small effect of education and wealth on the asset share invested in stocks, conditional on participation. Interestingly, international differences in stock market participation remain large even when we control for household characteristics. As our empirical results point to the relevance of participation costs, we probe into a number of indicators of such costs, and we find that these are consistent with the observed pattern of participation across countries. Since the lowering of such costs brings into the market households with different characteristics than incumbents, we discuss their likely impact, policy concerns, and types of policies that could mitigate their adverse impact on the future workings of the market.

http://dise.unisa.it/WP/WP88.pdf

89 11/2002 Paolo Coccorese (University of Salerno)

Competition Among Dominant Firms in Concentrated Markets: Evidence from the Italian Banking Industry

Conventional models of the industrial organisation theory usually state that in concentrated industries firms have significant market power, and that competition can be easily reduced if the leading firms collude. However, recent theoretical analyses show that strong concentration does not necessarily prevent competition among firms. In this paper we consider the Italian banking industry, where the eight largest firms operate at a national level, manage about a half of total loans, and have a notably larger dimension than the other competitors. We estimate a structural model – formed by a demand equation, a cost equation and a price-cost margin equation, the latter containing a behavioural parameter – to assess the market conduct of the largest banks for the period 1988-2000. Our finding is that, in spite of their noteworthy size and significant market share, in these years the largest banks have been characterised by a more competitive conduct than the Cournot outcome: this is in line with the results of the latest literature of the field, for which in the banking industry there is often no conflict between competition and concentration.

JEL classification: G21, L10

Keywords: Banking; Competition; Market structure.

http://dise.unisa.it/WP/WP89.pdf

90 12/2002 Tullio Jappelli (CSEF, University of Salerno, and CEPR) and **Luigi Pistaferri** (Stanford University and CEPR)

Incentives to Borrow and the Demand for Mortgage Debt: An Analysis of Tax Reforms

Before 1992 mortgage interest in Italy was fully tax deductible up to 3,500 Euro (7,000 for two cosigners). In 1992-94 the government implemented a series of tax reforms whose ultimate effect was to cancel the relation between the after-tax mortgage rate and the marginal tax rate. Using data from the 1987-2000 Survey of Household Income and Wealth we test if the cancellation of incentives has reduced the propensity to borrow of high-income taxpayers relative to the other population groups. Difference-in-differences estimates and regression analysis indicate that tax considerations have not affected the demand for mortgage debt, either at the extensive or intensive margin.

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