CSEF

Centre for Studies in Economics and Finance

2003 Report

Dipartimento di Scienze Economiche e Statistiche

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Introduction

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

Last October Marco Pagano, who has played a prominent role in setting up and running CSEF in the past, moved from the University of Salerno to the nearby University of Naples Federico II. But Marco's ties with CSEF will be as strong as ever. In 2004 CSEF will become an inter-university research centre, joining the University of Salerno with University of Naples and Bocconi University. 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. The three founding institutions have nominated six researchers as their representatives in the CSEF Scientific Committee: Franco Bruni and Carlo Favero (Bocconi), Marcello D'Amato and Tullio Jappelli (Salerno), Riccardo Martina and Marco Pagano (Naples).

Last year brought good news for two of our permanent researchers: *Sergio Destefanis* was promoted to Full Professor in Economics, and *Mario Padula* to Associate Professor in Econometrics. It has also been a successful year for our recruitment, with 5 new junior researchers joining the ranks of CSEF with postdoctoral fellowships: *Thomas Steinberger*, (Ph.D. from the European University Institute and formerly at the research department of the Central Bank of Austria), *Dimitrios Christelis* (Ph.D. from the University of Pennsylvania), *Rebeca Jiménez* (Ph.D. from the University of Alicante), *Natalia Utrero Gonzales* (Ph.D. from the University Carlos III de Madrid), and *Salvatore Piccolo* (Ph.D. student at Northwestern University).

Currently, CSEF is an 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 final year of operations),
- *The Economics Ageing in Europe* (AGE, in its second year)

- *Financing Retirement in Europe: Public Sector Reform and Financial Market Development* (FINRET, in its second year).

Next year the department plans new junior faculty appointments in economics. For the fifth consecutive year, in January 2004 CSEF has advertised fellowships and research contracts at the ASSA meetings in San Diego. 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 researchers at the Universities of Rome Tor Vergata, Padua, Venice, Sassari 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).

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.

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. The data are available for download from the CSEF website.

European Financial Market Integration

In 2003 CSEF completed 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. 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.

Funding

In 2003 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).

Conferences

Second Workshop of the Research Training Network on "Economics of Ageing"

Organized by Tullio Jappelli (CSEF), Mario Padula (CSEF) and Luigi Pistaferri (Stanfortd University and visiting CSEF) and held in Naples on 8-10 May 2003. Workshop aimed at assessing the economic decisions of the elderly, with particular care to retirement, saving, portfolio choice, health expenditures, and intergenerational transfers. The first day of the Workshop featured two lectures by Martin Browning (CAM, University of Copenhagen), on the *"Living standards before and after retirement"* , and Michael Hurd (RAND) on *"The Life-Cycle model: Singles and couples"*. On the second and third day, twelve papers by young researchers and network participants were presented and discussed.

Third Workshop of the Research Training Network on "Financing Retirement in Europe"

Organized by Marco Pagano (CSEF) and Pierre Pestieau (CORE) and held in Naples on 8-10 May 2003. The first day of the Workshop featured lectures by David Blake (Birkbeck College) on the *"Design of Defined Contribution and Defined Benefit Pension Plans"* and by Giovanni Beliossi (Peder Smedvig Capital Ltd and FGS Capital LLP) on *"Portfolio Management of Pension Funds"*. On the second and third day, the workshop featured eight presentations by network participants and young researchers associated with the network.

International Conference on "Institutions, Enforcement and Corruption"

Held in Anacapri on 13-14 June 2003, at the Centro Internazionale per la Cultura Scientifica and organised by Riccardo Martina (University of Napoli Federico II), Marco Pagano (CSEF) together with Simeon Djankov (World Bank). The workshop featured seven presentations, and involved both Italian researchers and international researchers such as Andrei Shleifer, Marianne Bertrand, Simeon Djankov, Florencio Lopez-De-Silanes, Sendhil Mullainathan, Anoinette Schoar, and Thierry Verdier.

Seminars

In 2003 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

Natalia Utrero González (Universidad Carlos III, Madrid), *Legal environment, capital structure and firm growth: international evidence from industry data*

Loriana Pelizzon (University of Padua and LBS) and Guglielmo Weber (University of Padua, CEPR e IFS), *Are Italian Household Portfolios Efficient? A Mean-Variance Analysis Conditional on Housing*

Olivier Bochet (Brown University), *Switching from Complete to Incomplete Information in Exchange Economies: Static Mechanism*

Alex Frino (University of Sidney), David Johnstone (University of Wollongong) and Hui Zheng (University of Sidney), *The Propensity for Local Traders in Futures Markets to Ride Losses: Evidence of Irrational or Rational Behavior?*

February	**Alexei Goriaev** (Tilburg University), *Mutual Fund Tournament: Risk Taking Incentives Induced by Ranking Objectives*
	Fany Declerck (Université de Toulouse), *An Empirical Analysis of Brokers' Dual Trading in an Order-Driven Stock Market: Evidence from Euronext Paris*
	Rebeca Jimenez (University of Alicante), *Oil Price Shock: A Non-Linear Approach*
	Pavel Cizek (Humboldt-Universität zu Berlin), *Adaptive Robust Estimation with Discrete Explanatory Variables*
	Sergio Destefanis (University of Salerno), *Measuring Macroeconomic Performance through a Non-parametric Taylor Curve*
March	**Salvatore Capasso** (CNR, CSEF, University of Salerno, and University of Manchester), *Bankruptcy Costs, Dilution Costs and Stock Market Fluctuations*
	Eliana Laferrara and M. Guidolin (Bocconi University), *Diamonds are forever, wars are not. Conflict diamonds and the valuation of firms*
	Denis Gromb (LBS) and David Scharfstein (MIT), *Entrepreneurship in Equilibrium*
April	**Helmut Bester** (Free University Berlin), *Externalities and the Allocation of Decision Rights in the Theory of the Firm*
	Giovanni Immordino (CSEF, University of Salerno), *Fairness, NGO Activism and the Welfare of Less Developed Countries*
	Marco Cipriani (George Washington University) and **Antonio Guarino** (University College London), *Herd Behavior and Contagion in Financial Markets - Herding and Price Convergence in a Laboratory Financial Market*
	Raquel Fonseca (University of Salerno), *On the interaction between unemployment and inter-regional mobility in Spain*
May	**Olivier Compte** (Ecole Nationale des Ponts et Chaussées), *Bargaining with Reference Dependent Preferences*
	Bruno Jullien (CNRS, Université des Sciences Sociales de Toulouse) e Thomas Mariotti (Université des Sciences Sociales de Toulouse), *Auction and the Informed Seller Problem*
	Luigi Pistaferri (Stanford University and CSEF, University of Salerno), *A truly natural} experiment? Earthquake, schooling and earnings*
June	**Elena Laureana del Mercato** (University of Salerno) and Antonio Villanacci, *Taxes and Money in Incomplete Financial Markets*
September	**Thepthida Soprasheuth** (Université d' Evry, France), *François Langot and Jean-Olivier Hairault, Social Security Reforms: Incentives and Retirement Behavior*
October	**Andrea Ichino** (European University Institute), *Clean Evidence on Peer Effetcts*
	Stijn Claessens (University ofi Amsterdam and CEPR), Daniela Klingebiel, and Sergio L. Schmukler (World Bank), *Accessing International Equity Markets: What Firms from Which Countries Go Abroad*

	Maria Concetta Chiuri (University of Bari) and Francois Bourguignon (World Bank and Delta, Paris), *Labor Market Time and Home Production: a New Test for Collective Models of Intra-household Allocation*
	Thomas Steinberger (CSEF, University of Salerno), *Social Security and Entrepreneurial Activity*
November	**Mike Burkart** (Stockholm School of Economcs), *In–Kind Finance: A Theory of Trade Credit*
	Salvatore Piccolo (CSEF, University of Salerno), *Endogenous Bargaining Power and Trade under Asymmetric Information, the Role of Intermediation*
December	Luca Casolaro, Dario Focarelli and **Alberto Franco Pozzolo** (University of Molise), *The Pricing Effect of Certification on Bank Loans: Evidence from the Syndicated Credit Market*
	Marco Pagnozzi (University of Salerno), *Post-Auctions Takeovers*

ALBERTO BENNARDO received a Ph.D. in Quantitative Economics at Delta (ENS-CNRS-EHESS) in Paris in 1998. Since 2001 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) recently appeared in the *Journal of Political Economy, 2003*. His current work focuses on three main themes: (I) Effects of the contractual externalities generated by adverse selection and moral hazard in large competitive markets; (II) Effects of communication between players in common agency models with moral hazard; (III) General equilibrium analysis of the effects of health risks affecting agents' preferences, in settings where the risk distribution is endogenously determined by agents' production and consumption choices.

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 also 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 - Naples. His fields of interest are economic growth, contract theory, monetary economics and financial intermediation. His latest research focuses on the interrelationship between corruption and growth and on the role of the underground economy in economic development. The following papers are forthcoming “"Financial Development, Financing Choice and Economic Growth", *Review of Development Economics*, (with K. Blackburn and N. Bose) and "Financial Markets Development and Economic Growth: Tales of Informational Asymmetries", *Journal of Economic Surveys*.

GIACINTA CESTONE Giacinta Cestone is an Assistant Professor at the Institut d'Anàlisi Econòmica (CSIC) of Barcelona and a CEPR Research Affiliate. In 2002 she has 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. In 2003, her paper "Anti-Competitive Financing: The Design of Financial Claims" (joint with Lucy White) has been published in the *Journal of Finance* (October 2003), while the paper "The Strategic Impact of Resource Flexibility in Business Groups" (with Chiara Fumagalli) is forthcoming in the *RAND Journal of Economics.* A recent paper with Giovanni Cespa of Universitat Pompeu Fabra studies the interaction between corporate social responsibility and the quality of corporate governance when managers can build relationships with social activists to entrench themselves.

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 recent paper with F. Bourguignon "Labor market time and home production: a new test for collective models of intra-household allocation" presents a new methodology to estimate woman domestic productivity using a French time use survey and provides empirical evidence not rejecting a collective model of household decision making over working time, as the sum of time spent in domestic production and market labour time. She also works on illegal migration. Her paper, joint with G. Ferri, "I flussi migratori in Italia", was included in the volume *Mercato, occupazione e salari: la ricerca sul lavoro in Italia* edited by C. Lucifora and published in April 2003. In 2003, jointly with G. De Arcangelis and G. Ferri, at the University of Bari, she also run a field survey on illegal migration in Italy, whose results will be tested in the near future.

DIMITRIOS CHRISTELIS joined CSEF as a post-doctoral fellow in October 2003. He will receive his Ph.D. in Economics from the University of Pennsylvania in December 2003. He's working on the measurement and determinants of household saving in the United States and Japan and on the construction of micro-simulation models of household behaviour in the United States and Italy. His paper (with A. Ando and T. Miyagawa) "Inefficiency of Corporate Investment and Distortion of Savings Behavior in Japan" is forthcoming in the NBER volume *Structural Impediments to Growth in Japan.*

MARCELLO D'AMATO is Associate Professor of Economics at the University of Salerno. His current research focuses on Central Banking Institutions, the political economy of social security, and applied contract theory. Recent publications include: 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).

SERGIO DESTEFANIS is Associate Professor of Economics at the University of Salerno. He received his Ph.D. at the University of Cambridge, UK. His research interests include the macroeconomic analysis of the labour market, growth and development in dualistic economies and the quantitative analysis of productive processes. In 2002, he published a paper on TFP change across Italian regions in a volume edited by Balducci and Staffolani for ESI, as well as a paper on cross-country measurement of TFP change (with Giuseppe Storti) in *Statistical Methods and Applications*. He was in the organising committee of the 2002 AIEL conference. In 2003 he published a paper on cross-country evidence on increasing returns in a volume edited by McCombie, Pugno and Soro for Palgrave. A paper on exports, supply constraints and growth in the Italian regions (with Salvatore D'Acunto and Marco Musella) is forthcoming on the *International Review of Applied Economics.*

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 papers on "Hormone beefs, chloridric chickens and international trade: can scientific uncertainty be an informational barrier to trade?"(with Giacomo Calzolari) and "Looking for a guide to protect the environment: the development of the Precautionary Principle" have 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. Last year, with Luigi Guiso and Michalis Haliassos, he has edited a book on *Stockholding in Europe*, Palgrave Macmillan, 2003. The book provides comparative evidence on stockholding based on consistent microeconomic data for France, the UK, Italy, the Netherlands and Germany and includes a chapter on Stockholding in Italy (with Luigi Guiso). He has also published "Household stockholding: where do we stand, and where do we go?" (with Luigi Guiso and Michalis Haliassos), *Economic Policy*, April 2003; "Tax incentives and the demand for life insurance: evidence from Italy" (with Luigi Pistaferri), *Journal of Public Economics*, July 2003; "Financial market imperfections and home ownership: a comparative study" (with Maria Concetta Chiuri), *European Economic Review*, October 2003; "Public credit information: a European perspective" (with Marco Pagano), part of a World Bank research project, in *Credit Reporting Systems and the International Economy*, edited by Margaret Miller for MIT Press, 2003; "Tax incentives to saving and borrowing" (with Luigi Pistaferri), also part of a World Bank project, in *Taxation of Financial Intermediation*, edited by Patrik Honohan for Oxford University Press, 2003. The paper "The quality of health care: evidence from Italy" (with Mario Padula), *Giornale degli Economisti*, April 2003, has appeared as part of a special issue on *Health and Household Decisions*. The issue, edited by Agar Brugiavini, Tullio Jappelli and Guglielmo Weber, includes several contributions based on the recent *Survey of Health, Aging and Wealth*.

REBECA JIMENEZ joined CSEF in July 2003 as Marie Curie Fellow. She received a Ph.D in Economics at the University of Alicante (Spain) with a dissertation on

Macroeconometrics. Her main research interests are Econometrics and Applied Macroeconomics.

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. In 2003 she has worked as Chargee de Recherche at the IDEI (University of Toulouse). In a recent work, "Separation of functions, collusion and supervisors financial participation" she proposes separation of functions as a means of mitigating the problems posed by contractual incompleteness. She is currently working on the relation between consulting and monitoring activities (with P. Simmons).

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 saving, the aggregate features of microeconomic models with non-convexities and the effect on credit allocation of law enforcement. He is involved in international projects on saving, retirement and health. Last year he has written "Does poor legal enforcement make households credit-constrained?" (with Daniela Fabbri) forthcoming in the *Journal of Banking and Finance* and "Legal institutions, credit market and poverty in Italy" (with Daniela Fabbri) forthcoming in the volume *Credit Market for the Poor* edited by Howard Rosenthal.

MARCO PAGANO is a Professor of Economic Policy at the University of Naples Federico II and Director of the Research Program in Financial Economics of the Centre for Economic Policy Research. In 2003, he published a paper on "Information Sharing in Credit Markets: The European Experience," with Tullio Jappelli, in the book *Credit R*eporting Systems and the International Economy, edited by Margaret Miller for MIT Press, 2003. He also revised the paper "Courts and Banks: Effects of Judicial Enforcement on Credit Markets" with Magda Bianco and Tullio Jappelli, now forthcoming in the *Journal of Money, Credit and Banking*. In the course of the year, Pagano has pursued several research projects in the field of financial economics: he has worked on the political economy of corporate governance with Paolo Volpin (London Business School), on IPO underpricing and after-market liquidity with Andrew Ellul (University of Indiana), on the geography of equity trading with Josef Zechner, Michael Halling and Otto Randl (University of Vienna), on explaining yield differentials between Euro-denominated governnment bonds with Carlo Favero (Bocconi University) and Ernst-Ludwig von Thadden (University of Lausanne), and on the design and enforcement of legal standards with Giovanni Immordino (University of Salerno).

MARCO PAGNOZZI is Assistant Professor of Economic Policy at the University of Salerno. He received a Ph.D. in Applied Mathematics from the University of Naples Federico II in 2000 and he is currently completing a D.Phil. in Economics at the University of Oxford. His research focuses on auction theory and its application to the sale of public assets. In 2003 he completed a paper on "sorry winners", which compares simultaneous and sequential auctions when perfectly rational bidders can regret winning, and a paper on "post-auction takeovers", which analyzes the effects of resale on bidding strategies. He has also worked on a theory of "advantaged bidders" in ascending auctions and, together with Paul Klemperer, on an empirical research project on the 1995 U.S. auction for mobile-phone licenses.

SALVATORE PICCOLO is currently enrolled (third year) in the Ph.D. program in Economics at Northwestern University (Chicago USA). Before starting at NU he received a Master in Economics and Finance (MEF) at the University of Naples Federico II and a Master in Mathematical Economic (ECOMATH) at University of Toulouse I. His research focuses on Competition with Asymmetric Information, Industrial Organization, Regulation and Contract Theory. Recently one of his paper "Vertical Hierarchies as Collusive Devices" (with J. Kastl) has been presented to the 2003 Summer Meeting of the North American Econometric Society. His current research focuses on the analysis of incomplete contracts, endogenous bargaining power, vertical restraints and insurance markets.

MAURO STAIANO obtained a Ph.d. in Economics from the University of Naples "Federico II" with a dissertation on "Real Time Gross Settlement Systems". In 1999 he completed a Master in Economics and Finance at the University of Naples "Federico II" and, one year later, a Master in Economics at the University of Barcelona "Pompeu Fabra". His research interests focus on market microstructure and, in particular, on the microeconomics of payment systems.

THOMAS STEINBERGER after graduating from the European University Institute (Florence, Italy) at the beginning of 2003, was hired as RTN post-doctoral research fellow in April 2003. In his research he studies the macroeconomic consequences of imperfections in financial markets, focusing in particular on investment dynamics, firm formation and the evolution of privately-owned firms. His research has recently been presented at the Latin American Economic Association meeting in Madrid and the European Finance Association meeting in Glasgow. In a joint project with Thomas Hintermaier (Institute of Advanced Studies, Vienna) he analyses household's occupational choice decisions and the returns to entrepreneurship. Within the FINRET network he studies the impact of public pension reform on entrepreneurial activity and productivity growth. His current working papers include "Occupational Choice and the Private Equity Premium Puzzle", "Financial Market Imperfections and Investment Dynamics", "Financial Contracting and Macroeconomic Stability" and "Private Business Returns and the Distribution of Wealth".

NATALIA UTRERO GONZALEZ joined CSEF in May 2003 as RTN Fellow. She received a Ph.D. at the Universidad Carlos III de Madrid (Spain). Her fields of interest are corporate finance, law and finance and banking. She has analysed the effects of banking regulation and investor protection on industry leverage, growth and investment decisions. She has presented her papers at EFA 2001, EFA 2002 and EEA 2003. Her current research focuses on banking structure and bank-firm relationships. She is currently working on the relationship between labour market imperfections and financial decisions corporate governance of financial institutions with with Raquel Fonseca and on financial institutions corporate governance with Francisco Callado.

Visiting Researchers in 2003

FANY DECLERCK obtained her PhD in 2000 from the University of Lille (France). She is Associate Professor of Economics at the University of Toulouse since 2000. Her research interest is market microstructure, M&As, and corporate governance. Her paper "Why Markets should not Necessarily Reduce the Tick Size" (with D. Bourghelle) is forthcoming in the *Journal of Banking and Finance*. She is working on four research projects: an analysis investigates the principal order characteristics, the piggyback and front-running hypothesis and the profitability of dual traders activity using 3 months of high-frequency data from Euronext Paris; an empirical analysis (with Bruno Biais) of the effects of Euronext financial market integration; as ITL lowers the cost of capital in countries where they are enforced, she (with E. de Bodt and N. Aktas) proposes a theoretical and an empirical test of deterrence effect of (anti) insider trading laws (ITL) on the investors' behaviour, the trading activities of insiders and stock markets around merger and acquisition announcement; and an analysis of how the shareholders monitoring and the ownership structure affect the adverse selection on the financial market.

ALEX FRINO is currently the Professor and Chair of Finance at the University of Sydney, Australia and Director, Securities Industry Research Centre of Asia Pacific. He has a PhD in Finance from the University of Sydney and an MPhil in Finance from Cambridge University. Dr Frino has published one book and over 40 research papers in journals such as *Journal of Finance*, *Journal of Banking and Finance*, *Journal of Futures Markets* and *Journal of Portfolio Management*. He has also held visiting appointments at the Sydney Futures Exchange and Credit Suisse First Boston, and maintains strong links with industry. His research interests include securities market microstructure and portfolio management.

ALEXEI GORIAEV obtained a PhD in finance in 2002 at Tilburg University (the Netherlands). Since then, he is Assistant Professor of Economics at the New Economic School, Moscow. He visited CSEF in winter 2002-2003. His general research interest is in financial econometrics. His recent research has focused on mutual funds (predictability of mutual fund performance, impact of fund relative performance on mutual fund flows, lag structure of the flow-performance relationship, and strategic risk taking by fund managers) and asset pricing as well as portfolio management in emerging financial markets.

LUIGI PISTAFERRI is Assistant Professor of Economics at Stanford University, National Fellow of the Hoover Institution, and a Research Affiliate of the Centre for Economic Policy Research. His research focuses on intertemporal consumption choices and on the measurement of microeconomic labor market risks. In 2003 he has published the following articles: "Income volatility and household consumption: The impact of Food Assistance programs" (joint with Richard Blundell), on the *Journal of Human Resources*; "Anticipated and unanticipated wage changes, wage risk and intertemporal labor supply", on the *Journal of Labor Economics*; "Tax incentives and the demand for life insurance: Evidence from Italy" (joint with Tullio Jappelli), on the *Journal of Public Economics*; and "Tax incentives for household saving and borrowing" (joint with Tullio Jappelli), in the book *Taxation of Financial Intermediation*, edited by Patrick Honohan and published by Oxford University. The article "Income variance dynamics and heterogeneity" (joint with Costas Meghir) is forthcoming in *Econometrica*.

CSEF Working Papers

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2003

91 **Daniele Checchi** and **Tullio Jappelli**, *School Choice and Quality*

The 1993 Survey of Household Income and Wealth, a representative survey of the Italian population covering 24,000 individuals, reports detailed information on children's attendance of public and private schools and parents' assessments of the quality of public schools in the city of residence. The survey also provides detailed information on the household's demographic structure, income and parents' education. The empirical analysis indicates that the quality of schools is one of the driving factors in the choice between private and public schools. The results are robust with respect to the particular quality indicator used and the presence of fixed provincial effects.

http://www.dise.unisa.it/WP/wp91.pdf

92 **Renata Bottazzi, Tullio Jappelli** and **Mario Padula**, *Retirement Expectations and Pension Reforms*

We estimate the effect of pension reforms on households' expectations and wealth accumulation decisions. We rely on self-reported expectations to measure perceived social security benefits and to a series of pension reforms as a source of exogenous variations in pension wealth. Two parameters are crucial to estimate pension wealth: the age at which workers expect to retire and the ratio of pension benefits to pre-retirement income (the replacement rate). The Survey of Household Income and Wealth, a large representative sample of the Italian population, elicits these expectations from 1989 to 2000, a period spanning intense pension reforms. These reforms had different impact on different cohorts and employment groups, providing a quasi-experimental framework to study the effect of pension reforms on expectations and household saving. We find substantial offset between private wealth and perceived pension wealth. However, the Italian pension reforms of the 1990s had only limited impact on household saving rates, because people have not yet fully adjusted their expectations of future benefits.

http://www.dise.unisa.it/WP/wp92.pdf

93 **Giacinta Cestone** and **Chiara Fumagalli**, *Winner-Picking or Cross-Subsidization? The Strategic Impact of Resource Flexibility in Business Groups*

We show that in business groups with efficient internal capital markets both winner-picking and cross-subsidization may occur. Depending on the amount of internal resources, a group may either exit a market in response to increased competition, or rather channel funds to the subsidiary operating in that market. This has important implications for the strategic impact of group membership. Affiliation to a monopolistic subsidiary can make a cash-rich stand-alone firm more vulnerable to entry deterrence. Conversely, a cash-poor firm becomes less sensitive to its financial constraints upon affiliation to a group, and thus less vulnerable to entry deterrence. Finally, resource flexibility within a group makes subsidiaries' reaction functions flatter, thus discouraging rivals' strategic commitments when entry is accommodated.

http://www.dise.unisa.it/WP/wp93.pdf

94 **Giovanni Cespa**, *A Comparison of Stock Market Mechanisms*

I analyze a static, noisy rational expectations equilibrium model where traders exchange vectors of assets accessing multi-dimensional information under two alternative market structures. In the first (the unrestricted system), informed speculators condition their demands for each asset on all equilibrium prices and market makers set prices observing all order flows; in the second (the restricted system), speculators are restricted to condition their demand on the price of the asset they want to trade and market makers only observe the order flow of the asset they price. I show that informed traders' incentives to collect and exploit multi-dimensional private information depend on the number of prices they can condition upon when submitting their demand schedules, and on the specific price formation process one considers. Building on this insight, I then give conditions under which the restricted system is more efficient than the unrestricted system.

http://www.dise.unisa.it/WP/wp94.pdf

95 **Sergio Destefanis**, *Measuring macroeconomic performance through a non-parametric Taylor curve*

Recently, frontier techniques have been utilised in the measurement of countries' macroeconomic performance by constructing a "production set" where the outputs are some macroeconomic indicators, while the inputs collapse to a unit scalar. In the present study, a different approach is proposed. The trade-off between the variability of inflation and of the level of activity (often defined as the Taylor Curve) is posited as the relevant policy frontier. This frontier is estimated through non-parametric techniques on a sample of 19 OECD countries during the 1960-99 period. There seems to be a definite role for cost-shocks, as well as for some supply-side characteristics, in shifting the variability trade-off. Also, the relative shadow price of the variability of inflation increases over time. Countries appear on the whole to have become slightly more efficient, but their performance has worsened, because the frontier has shifted upwards.

http://www.dise.unisa.it/WP/wp95.pdf

96 **Keith Blackburn, Niloy Bose** and **Salvatore Capasso**, *Financial Development, Financing Choice and Economic Growth*

In an overlapping generations economy households (lenders) fund risky investment projects of firms (borrowers) by drawing up loan contracts on the basis of asymmetric information. An optimal contract entails either the issue of only debt or the issue of both debt and equity according to whether a household faces a single or a double enforcement problem as a result of its own decision about whether or not to undertake costly information acquisition. The equilibrium choice of contract depends on the state of the economy which, in turn, depends on the contracting regime. Based on this analysis, the paper provides a theory of the joint determination of real and financial development with the ability to explain both the endogenous emergence of stock markets and the complementarity between debt finance and equity finance.

http://www.dise.unisa.it/WP/wp96.pdf

97 **Giovanni Cespa**, *Giffen Goods and Market Making*

This paper shows that information effects per se are not responsible for the Gi®en goods anomaly affecting competitive traders' demands in multi-asset, noisy rational expectations equilibrium models. The role that information plays in traders' strategies also matters. In a market with risk averse, uninformed traders, informed agents have a dual motive for trading: speculation and market making. While speculation entails using prices to assess the effect of private signal error terms, market making requires employing them to disentangle noise traders' effects in traders' aggregate orders. In a correlated environment, this complicates a trader's signal-extraction problem and may generate upward-sloping demand curves. Assuming either

(i) that competitive, risk neutral market makers price the assets, or that (ii) the risk tolerance coefficient of uninformed traders grows without bound, removes the market making component from informed traders' demands, rendering them well behaved in prices.

http://www.dise.unisa.it/WP/wp97.pdf

98 **Giovanni Immordino** and **Marco Pagano**, *Design and Enforcement of Legal Standards*

Laws are costly to enforce. We explore the implications of this principle in a model where the design of the laws and their enforcement are determined jointly. A benevolent government trades off the benefit of a stricter legal standard with the cost of its enforcement. Therefore, legal standards and enforcement are complements, and increase in aggregate wealth. If bureaucrats are corruptible, the optimal legal standard is lower. With a self-interested government legal standards may be increasing in corruption, according to the "toll-booth view" International evidence on environmental regulation shows that standards are correlated positively with enforcement and negatively with corruption.

http://www.dise.unisa.it/WP/wp98.pdf

99 **Andrew Ellul** and **Marco Pagano**, *IPO Underpricing and After-market Liquidity*

The underpricing of the shares sold through Initial Public Offerings (IPOs) is generally explained with asymmetric information and risk. We complement these traditional explanations with a new theory. Investors who buy IPO shares are also concerned by expected liquidity and by the uncertainty about its level when shares start trading on the after-market. The less liquid shares are expected to be, and the less predictable their liquidity is, the larger will be the amount of "money left on the table" by the issuer. We present a model that integrates such liquidity concerns within a traditional framework with adverse selection and risk. The model's predictions are supported by evidence from a sample of 337 British IPOs effected between 1998 and 2000. Using various measures of liquidity, we find that expected after-market liquidity and liquidity risk are important determinants of IPO underpricing, after controlling for variables traditionally used to explain underpricing.

http://www.dise.unisa.it/WP/wp99.pdf

100 **Charles Grant, Christos Koulovatianos, Alexander Michaelides** and **Mario Padula**, *Redistributive Policies through Taxation: Theory and Evidence*

Increasing marginal tax rates and making payments to the poor reduce inequality and introduce savings dis-incentives. Using a heterogeneous agent model with incomplete markets, we show that higher taxes (and transfers) decrease consumption inequality but also mean savings and mean consumption. This demonstrates the trade-off between equity and efficiency. These theoretical predictions are tested by exploiting differences in tax rates across US states. Using two surveys, the Consumer Expenditure Survey and the Current Population Survey, we show that the empirical evidence supports the theory, and that there is a comparatively small fall in efficiency for a given gain in equity associated with higher taxation.

http://www.dise.unisa.it/WP/wp100.pdf

101 **Giovanni Immordino**, *Fairness, NGO Activism and the Welfare of Less Developed Countries*

In a world where some consumers are not self-interested and the action of non-governmental organizations (NGOs) reveals information, the price of a good produced by a multinational enterprise and the latter's relocation and production decisions depend on labor standards. We study the effect of an increase in NGO activism on labor standards and welfare in less developed countries (LDC). An increase in NGO activism improves labor practices unless consumers like inequity. A priori, activism could either increase or decrease LDC welfare. We give parameter restrictions that determine which way it moves.

http://www.dise.unisa.it/WP/wp101.pdf

102 Stefan Ambec, *A Theory of Authority in Bilateral Contracting*

Two players are involved in a joint project during which a decision must be reached. Each player has private information about future profits. Authority gives one player the right to decide first in a pre-defined set of alternatives. In this framework, I show that (partial) authority should be assigned to the player who gets the highest share of the total surplus. This organizational architecture replicates the performance of an optimal revelation mechanism without the cost of hiring a third party acting as a principal.

http://www.dise.unisa.it/WP/wp102.pdf

103 Stefan Ambec and **Nicolas Treich**, *Roscas as Financial Agreements to Cope with Social Pressure*

In developing countries, traditional social obligations often press rich individuals to share their income. In this paper, we posit a "model of social pressure" in which people can sign binding financial agreements amongst themselves, thereby forming coalitions. These financial agreements may help them to alleviate their social obligations with respect to income sharing. In the above context, we show that there exists a stable structure of coalitions in which people form rotating savings and credit associations (roscas). We therefore provide a rationale for one of the most prevalent and puzzling financial institutions.

http://www.dise.unisa.it/WP/wp103.pdf

104 Thomas Steinberger, *Financial Contracting and Macroeconomic Stability*

This paper studies the implications of imperfections in financial contracting for macroeconomic stability in the context of a stochastic dynamic general equilibrium model. We find that the equilibrium growth path might be indeterminate in an economy with financing frictions even if the aggregate production function exhibits constant returns to scale. Self-fulfilling expectations about the future price of capital lead to macroeconomic fluctuations in this economy. Impulse response analysis shows that while consumption and employment are highly procyclical, investment and the market price of capital are predicted to be negatively correlated with output.

http://www.dise.unisa.it/WP/wp104.pdf

105 Raquel Fonseca, *On the Interaction between Unemployment and Inter-regional Mobility*

This paper aims at examining the interaction between unemployment and inter-regional mobility in the presence of asymmetric productivity shocks. We present an intertemporal two-regions equilibrium model where unemployed workers can migrate from one region to another. The hiring process is represented by a matching function à la Pissarides. We also analyse the wage setting procedure by introducing Nash bargaining between firms and employees. We compare two extremely different scenarios. The case where there is no mobility with unemployment persistence versus the same economy where perfect mobility is assumed. This paper also studied different types of asymmetries such as changes in "unemployment benefits" and/or the cost of posting vacancies. We show the importance of these changes to explain regional unemployment disparities.Finally, we calibrate the model for Spain and we analyse the relevance of the model in explaining regional disparities and inter-regional labour force mobility.

http://www.dise.unisa.it/WP/wp105.pdf

106 Raquel Fonseca, *Spanish Unemployment Persistence and the Ladder Effect*

This paper aims to examine to what extent a "ladder" e.ect may contribute to explain changes in unemployment in Spain. The "ladder" e.ect arises when highly-skilled workers who do not find a job that matches their skills, accept jobs that were previously occupied by less qualified staff. We develop a dynamic general equilibrium model. The model is then calibrated for the Spanish economy. Our results replicate the observed decline in the ratio of high to low-skilled vacancies, and explain how firms substitute high for low-skilled employment. These results also suggest that in the Spanish case, ladder e.ect can be better explained by increases in training costs interpreted as a biased-shock against low-skilled workers.

http://www.dise.unisa.it/WP/wp106.pdf

107 Salvatore Piccolo, *Resale Price Maintenance under Asymmetric Information*

We study Resale Price Maintenance (RPM) in a context of double monopoly with asymmetric information. The analysis shows when RPM can be interpreted as a device the upstream producer uses in order to better control the downstream dealer, it avoids the double marginalization and increases the consumers surplus even if it entails productive inefficiency. Furthermore, we show that, in a context with ex ante contracting between the parties, an incomplete contract, namely a mechanism less complex than RPM, may arise as a solution to a cooperative choice between producer and dealer.

http://www.dise.unisa.it/WP/wp107.pdf

108 Marco Pagnozzi, *Sorry Winner*

Bidders who receive both “common-value” and “private-value” signals about the value of an auction prize cannot fully infer their opponents’ information from the bidding, so may overestimate the value of the prize and, subsequently, regret winning. With multiple objects, prices in later auctions provide information relevant to earlier ones, and sequential auctions appear more vulnerable to overpayment and ine.ciency than simultaneous auctions. However, aggregating across all auctions in a simple model, winners still earn positive profit ex-post. With information inequality among bidders, the seller’s revenue is influenced by two competing e.ects. On the one hand, simultaneous auctions reduce the winner’s curse of less informed bidders and allow them to bid more aggressively. On the other hand, sequential auctions induce less informed bidders to bid more aggressively in early auctions to acquire information.

http://www.dise.unisa.it/WP/wp108.pdf

109 Anna Maria Menichini, *Separation of Functions, Collusion and Supervisors Financial Participation*

We derive the optimal principal-supervisor-agent relationship in an incomplete contract setting. We show that while having a three-layer structure with full separation of tasks has no efficiency consequence under a complete contract, it becomes crucial under an incomplete contract and can even lead to a result of irrelevance of the contractual incompleteness. When it is not possible to achieve this outcome, managers non-compliance arises as equilibrium behaviour despite the presence of complying supervisors. However, although always more efficient relative to a bilateral structure, the three-layer structure is prone to collusion and renegotiation. We show that the response to such drawbacks is to involve financially the supervisor into the venture, with the extent of the participation depending on how costly it is to collude and renegotiate the contract terms. Last, we derive the welfare properties of the contract showing that they depend on the relative scarcity of each form of financing (monitoring/non monitoring), on transaction costs of collusion and on the spread between project size and low state cash flows: the higher the spread, the higher the need for monitoring capital, the lower the rent from the project. This allows us to derive the conditions for the emergence of a bilateral structure in which the financing and supervisory task are centralised on to the same subject.

http://www.dise.unisa.it/WP/wp109.pdf

110 **Luigi Guiso** and **Tullio Jappelli**, *Awareness and Stock Market Participation*

The extent to which consumers are aware of available financial assets depends on the incentives of asset suppliers to spread information about the instruments they issue. We propose a theoretical framework in which the amount of information disseminated and the probability of individuals becoming aware of financial assets are correlated with the probability that, once informed, they will invest in the asset and negatively affected by the cost of spreading information. Social learning is a further channel through which potential investors may come to be informed about existing assets. While social learning may limit the production of financial information by assets suppliers, it increases the probability that individuals become financially aware. These predictions are supported by data on awareness of financial assets available in the 1995 and 1998 waves of the Italian Survey of Household Income and Wealth. Lack of financial awareness has important implications for understanding the stockholding puzzle and for estimating stock market participation costs.

http://www.dise.unisa.it/WP/wp110.pdf

111 **Natalia Utrero Gonzalez**, *Banking Regulation, Institutional Framework and Capital Structure: International Evidence from Industry Data*

This paper uses an industry data set from the European Union, United States and Japan to investigate the degree to which banking regulation and institutional environment affects corporate finance choices. La Porta et al. (1997, 1998) have shown the influence of investor protection on financing decisions. We extend these measures of investor protection and develop a measure for banking regulation. We both confirm prior findings and provide additional evidence of "institutional effects". We find that prudential banking regulation is positively associated with industry indebtedness, indicating that prudential rules make it easier for firms to access to credit market. Furthermore, we also find that disclosure rules affect leverage decisions.

http://www.dise.unisa.it/WP/wp111.pdf

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CSEF is offering one research Marie Curie Fellowships starting in the academic year 2004-2005. We are particularly interested in young researchers who do empirical work in the following areas:

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Application must be sent to the following address:

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