

2004 Report

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What is CSEF?

The Centre for Studies in Economics and Finance (CSEF) has been established by Bocconi University, the University of Salerno, and the University of Napoli Federico II to perform and promote research on saving, social security and fiscal policy, portfolio choice, financial intermediation, capital markets and their interactions with the real sector. The primary aim of CSEF is to link up researchers in Salerno, Naples and Bocconi with international research on these issues via seminars, conferences, exchange of researchers and joint research projects.

Since 1998, CSEF premises are in the Department of Economics and Statistics of the University of Salerno, where 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 also collaborates with the Ph.D. Program in Economics at the University of Salerno and with the Master in Economics and Finance (MEF) at the University of Naples Federico II.

Beside strengthening the networking between the Universities Bocconi, Salerno and Napoli, the Centre can apply for research grants, organise workshops and conferences, and run research projects as an independent legal entity. The three founding institutions have appointed six researchers as their representatives in the CSEF Scientific Committee: [Franco Bruni](#) (Bocconi), [Marcello D'Amato](#) (Salerno), [Carlo Favero](#) (Bocconi), [Tullio Jappelli](#) (Salerno), [Riccardo Martina](#) (Naples), [Marco Pagano](#) (Naples). The Centre is directed by Tullio Jappelli, and the administration is entrusted to [Lia Ambrosio](#).

News

Last year brought good news to *Marcello D'Amato*, one of our researchers, who was promoted to Full Professor in Economic Policy. We are very happy to report that *Giovanni Pica* and *Salvatore Piccolo* were appointed Assistant Professors of Economics at the University of Salerno.

CSEF currently hosts several 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), *Anna Sanz de Galdeano* (Ph.D. from the European University Institute and formerly at the European Central Bank), *Raquel Fonseca* (Ph.D. from the Catholic University of Louvain), *Mauro Staiano* (Ph.D. at the University of Naples) and *Maria Grazia Romano* (Ph.D. student at the University of Naples). These appointments allow a constant flow of young researchers' hires, making CSEF a professionally lively environment for both Italian and international researchers.

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

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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, Copenhagen 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 of Health, Ageing and Retirement in Europe (SHARE)

The Survey of Health, Ageing and Retirement in Europe (SHARE) (<http://www.share-project.org/>) is an ambitious project which collects data about Europeans aged 50 and older. The main objective of SHARE is to provide a fundamental knowledge base for science and public policy in order to understand and to master the challenges posed by population ageing. Specifically, SHARE aims to create, evaluate and analyse a large-scale pan-European and interdisciplinary household survey of respondents aged 50 and over. The collected data include information on physical and mental health, social support networks as well as income and wealth.

Project participants are currently eleven countries ranging from Scandinavia (Sweden, Denmark), Western and Central Europe (France, Belgium, The Netherlands, Germany, Switzerland, Austria) to the Mediterranean (Spain, Italy, Greece). SHARE is based on best practice technologies in the participating countries. The survey follows a common set-up across all countries with the goal of collecting data that are strictly comparable to allow cross-country research. Hence, one of the most difficult tasks consists in taking into account differences in language, culture and institutions. Within this large project, CSEF researchers Christelis, Jappelli and Padula are responsible for analyzing SHARE financial and real wealth data.

Funding

In 2004 research projects at CSEF have been funded by Research Training Network Programs (RTN) and the Marie Curie Fellowship program of the EU, the Italian Ministry of Education and University (MIUR), and the Campania regional administration.

Conferences

1st Workshop for Italian PhD Students in Economics The workshop on *Contribution to Economics by Young Italian Students* was held at the University of Salerno on May 27-28, 2004. Italian scholars in economics who had completed or near to complete their PhD dissertation were invited to submit one of their papers at the workshop. The aim of the workshop was to favour the interaction between young and senior researchers. The workshop provided young scholars with a useful opportunity to obtain feedback from leaders in their field. Four young researchers were selected for presentations among the 50 submissions: Rossella Argenziano (Yale University), Gennaro Bernile (University of Rochester), Antonio Falato (Columbia University) and Alessandro Riboni (University of Rochester)

Each paper was discussed by a senior researcher, who also presented one of his/her own recent contributions. The senior economists who participated with discussions and presentations were: Christophe Chamley (Boston University), Leonardo Felli (London School of Economics), Luigi Guiso (University of Sassari) and Hyun Song Shin (London School of Economics).

Workshop on Labour Market and Social Security Reforms The Workshop on Labour Market and Social Security Reforms was held in Naples on December 3, 2004. The aim of the workshop was to provide microeconomic and macroeconomic perspectives of the effect of pension reforms on labor supply, retirement behavior and budget finance. Paper presenters included Franco Peracchi (University of Rome Tor Vergata), Sergi Jiménez-Martin (Universitat Pompeu Fabra), Pablo Antolín, Alain de Serres and Christine de la Maisonneuve (OECD), Theptida Sopraseuth (University of Evry, and CEPREMAP), François Langot (University of Maine and GAINS), Tito Boeri (Bocconi University). The workshop was organized by CSEF researcher Raquel Fonseca and financed by the European Commission, Contract no. MERG-CT-2004-510542.

Seminars

In 2004 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

Federico Boffa (Northwestern University)
Redistributing through Unions

Raquel Fonseca and Natalia Utrero (CSEF, University of Salerno)
Do Market Regulation and Financial Imperfection Affect Firm Size? New Empirical Evidence

Anna Sanz De Galdeano (European Central Bank)
Health Insurance and Job Mobility: Evidence from Clinton's Second Mandate

February

Grzegorz Trojanowski (CentER, Tilburg University) and Luc Renneboog (Tilburg University and ECGI)
The Managerial Labour Market and the Governance Role of Shareholder Control Structures

Anton Souvorov (GREMAQ, University of Toulouse), Jeroen van de Ven (CPB Netherlands Bureau for Economic Policy Analysis)
Rewards, Self-confidence, and Motivation: The Hidden Rewards of Rewards

Nuria Rodriguez-Planas (Boston University)
Signalling the Labour Market: New Evidence of Layoffs and Plant Closings

Maria Grazia Romano (CSEF, University of Salerno)
Learning, Cascades and Transaction Costs

March Alberto Bennardo (CSEF, University of Salerno) and Salvatore Piccolo (CSEF, University of Salerno)

Competition with Endogenous Health Risks

Vittoria Cerasi (Bicocca University of Milan)
Multiple-bank Lending Diversification and Free-riding in Monitoring

Gianni De Fraia (University of York)
Reverse Discrimination and Efficiency in Education

Rebeca Jimenez (CSEF, University of Salerno)
Oil Price Shocks and Real GDP Growth: Empirical Evidence for some OECD Countries

April David Thesmar (ENSAE, CREST) and Mathias Thoenig
Financial Liberalization, Firm Organization and the Labor Market

Vincenzo De Nicolò (University of Bologna) and Piercarlo Zanchettin (University of Nottingham)

Competition and Growth in a Neo-Schumpeterian Model

Arnold Chassagnon (GREMAQ, DELTA)
Quality of Work and Training: How Training Can Reduce Second Best Inefficiencies

May Yiannis Biliass (University of Cyprus) and Michalis Haliassos (University of Cyprus)
The Distribution of Gain from Access to Stock

Giulio Fella (Queen Mary College, London)
Optimal Severance Pay in a Matching Model

Fabio Ghironi (Boston College) and Marc Melitz (Harvard University)
International Trade and Macroeconomic Dynamics with Heterogeneous Firm

Tania Oliveira (University of Leicester) and Luisa Zanchi (University of Leeds)
Participation in higher education in Britain: The effect of ability and parental income

June Dimitris Christelis (CSEF, University of Salerno)
The Drop in the U.S. Household Saving Rate: an investigation using the Consumer Expenditure Survey

Dilip Mookherjee and Stephen Napel (Boston University)
Intergenerational Mobility and History Dependence of Inequality

September Ana Justel (Universidad Autonoma de Madrid)
Time series clustering based on forecast densities

- October*
- Daniela Fabbri (University of Lausanne) and Anna Maria Menichini (CSEF, University of Salerno)
Intellectual Property Rights, Creditor Protection and Input Allocation
- Giovanni Immordino (CSEF, University of Salerno) and Marco Pagano (University of Napoli Federico II, CSEF and CEPR)
Optimal Auditing Standards
- Anna Sanz De Galdeano (CSEF, University of Salerno)
Does Parental Divorce Affect Adolescents' Cognitive Development? Evidence from Longitudinal Data
- November*
- Burcu Duygan (European University Institute)
Aggregate Shocks, Idiosyncratic Risk, and Durable Goods Purchases: Evidence from Turkey's 1994 Financial Crisis
- Bruno Parigi and Loriana Pellizzon (University of Padua)
Local Market Integration and Control Rights
- Thomas Steinberger (CSEF, University of Salerno)
Optimal funding policies of firm-level pension plans
- December*
- Antonio Villanacci (University of Florence) and Unal Zenginobuz (Bogaziçi University)
Private Provision of a Public Good in a General Equilibrium Model: the Case of a Publicly Managed Firm
- Laura Bottazzi (Bocconi University), Marco Darin (University of Turin and Bocconi University) and Thomas Hellmann (University of British Columbia)
What Role of Legal Systems in Financial Intermediation? Theory and Evidence
- Luigi Pistaferri (Stanford University), Luigi Guiso (University of Sassari) and Fabiano Schivardi (Bank of Italy)
Disentangling Employment and Wage Rigidity

Researchers at CSEF

- ANTONIO ACCONCIA** is Associate Professor of Economics at the University of Naples Federico II. He is currently working on the effects of EU subsidies on regional inequalities in Europe; on the relationship between corruption and tax evasion, with Marcello D'Amato and Riccardo Martina; and on the consistency between fluctuations across sectors and the assumption of one permanent aggregate shock, with Saverio Simonelli.
- ACHILLE BASILE** is Professor of Mathematics at the University of Naples Federico II. Recent publications include *On the Edgeworth's conjecture in finitely additive economies with restricted coalitions* (with Maria Gabriella Graziano), Journal of Mathematical Economics 2001, *On a Marinacci uniqueness theorem for measures* (with Anna Avallone), Journal of Mathematical Analysis and Applications, 2003. The paper *Coalitional economies with public projects* (with Maria Gabriella Graziano and Anna De Simone) is forthcoming in Social Choice and Welfare, while *On a linearity theorem for measures* (with Anna Avallone) is forthcoming in Scientiae Mathematicae Japonicae.
- ALBERTO BENNARDO** is Associate Professor of Economic Policy at the University of Salerno. He received a Ph.D. in Quantitative Economics at Delta (ENS-CNRS-EHESS) in Paris in 1998 and, between 1999 and 2002 Assistant Professor of Economics at 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) appeared in 2003 in the *Journal of Political Economy*. His current work focuses on three main themes: (I) Contractual externalities generated by adverse selection and moral hazard in large competitive markets; (II) Communication between players in common agency models with moral hazard; (III) Competitive analysis of the effects of individual health risks affecting agents' preferences, in settings where the risk distribution is endogenously determined by agents' production and consumption choices.
- FRANCO BRUNI** is Professor of Economics at University Bocconi and formerly Director of the Institute of Economics "Ettore Bocconi" between 1994 and 2000. He has been Director of the *Giornale degli Economisti e Annali di Economia* and is a member of the Centre for Monetary Economics "Paolo Baffi". His main research interests are central banking and monetary policy, banking and financial regulation, the international monetary and financial system, European economic and financial integration.
- SALVATORE CAPASSO** is a research fellow at the Italian National Research Council. He obtained his PhD in 2001 from the University of Manchester and was a Research Fellow there for a year. 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 Parthenope University - 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", in the *Review of Development Economics*, with K. Blackburn and N. Bose, and

“Financial Markets Development and Economic Growth: Tales of Informational Asymmetries”, in the *Journal of Economic Surveys*.

GIOVANNI CESPÀ is Assistant Professor of Economics at the Universitat Pompeu Fabra and a CEPR Research Affiliate. He holds a Ph.D. in Economics from Universitat Autònoma de Barcelona. His fields of interest are market microstructure theory and corporate governance. In a recent paper (A Comparison of Market Mechanisms, forthcoming in the *RAND Journal of Economics*) he compares the price efficiency of a trading system allowing the submission of multi-price contingent orders to that of a traditional system permitting traders to submit single price contingent orders. He has also studied the conditions leading to demand anomalies in multi-asset noisy rational expectation equilibria (“Giffen Goods and Market Making”, forthcoming in *Economic Theory*) and the effect of short-term trading on the multiplicity of equilibria in a dynamic asset market (Short-term Trading and Equilibrium Multiplicity, *European Economic Review*, 2002). In his current research he characterizes the optimal strategy of a financial analyst selling fundamental information in a dynamic market, relating it to the durable goods monopolist problem (Information Sales and Insider Trading, CEPR DP 4667). With Giacinta Cestone he studies the interaction between corporate social responsibility and the quality of corporate governance when managers can build relationships with social activists to entrench themselves (Corporate Social Responsibility and Managerial Entrenchment, CEPR DP 4648).

GIACINTA CESTONE is Assistant Professor of Economics at the Universitat Autònoma de Barcelona and a CEPR Research Affiliate. She holds a Ph.D. in Economics from the Université de Toulouse. Her research focuses on corporate finance, corporate governance and industrial organization. Part of her work deals with the interaction between firms’ financial decisions and competitive behaviour. Her paper “Anticompetitive Financial Contracting: The Design of Financial Claims”, with Lucy White, has appeared in the *Journal of Finance* in 2003 and is a candidate to the *2004 Brattle Prize*. The paper “The Strategic Impact of Resource Flexibility in Business Groups”, with Chiara Fumagalli, is forthcoming in the *RAND Journal of Economics*. In recent work with Chiara Fumagalli, she studies how internal capital markets affect multi-market competition between diversified corporate groups. She also contributed to the literature on venture capital finance. An ongoing paper with Lucy White analyzes the impact of double-sided asymmetric information on venture capital syndicate arrangements. In a joint paper with Giovanni Cespa she analyzes the impact of social activism and corporate social responsibility on corporate governance.

MARIA CONCETTA CHIURI is Associate Professor of Economics at the University of Bari. In the Fall of 2004 she visited the Centre for European Studies at the New York University, developing with Daniela Del Boca a research project on the effects of social policy on intra-household economic decisions based on the European Household Panel. Her most recent research focuses also on the topic of illegal migration in Europe. Her paper “Illegal migration into Italy: evidence from a field survey” with G. De Arcangelis, A.M. D’Uggento and G. Ferri, describes the content of a field survey on illegal migration in Italy collected in 2003; the paper “Designing a survey on illegal migration in Italy” published in the *Italian Statistical Society (SIS) Conference Papers and Proceedings*, June 2004 (with A. M. D’Uggento) discusses the sampling methodology used.

DIMITRIOS CHRISTELIS is a CSEF post-doctoral Fellow. He holds a Ph.D in Economics from the University of Pennsylvania in December 2003. He is currently engaging in research on the saving behaviour of American households, on the construction of a micro-simulation model of the U.S. household sector, on the interaction between health status and portfolio choice using data from the new Study of Health, Aging and Retirement in Europe and on the estimation and simulation of a structural model of saving and fertility choice.

PAOLO COCCORESE is Associate Professor of Economics at the University of Salerno. He holds a Ph.D. in Economics from the University of Naples. His research currently focuses on the theory of industrial organisation, the market structure of the banking industry, and the role of financial markets on economic growth. In 2004, his paper "Banking competition and macroeconomic conditions: a disaggregate analysis" has been published in the *Journal of International Financial Markets, Institutions and Money*. Another paper, which studies the level of competition characterising the largest Italian banks, is forthcoming in the *Journal of Banking and Finance*.

MARCELLO D'AMATO is Professor of Economics at the University of Salerno. His current research focuses on Central Banking Institutions, political economy of social security, and applied contract theory. Recent publications include *Assessing the Political Sustainability of Parametric Social Security Reforms: the case of Italy* (with Vincenzo Galasso), in *Giornale degli Economisti e Annali di Economia*, 2002; *Aggregate Risk, Political Constraints and Social Security Design* (with Vincenzo Galasso), in *Pension Reform: Redistribution and Risk*, edited by Martin Weale, National Institute of Economic and Social Research, London, 2003; *Una nota sul disegno dei sistemi pensionistici pubblici: means tested e programmi universali a confronto*, *Studi Economici*, 2003. The paper *Credibility and Commitment in Open Economies* (with Riccardo Martina) is forthcoming in the *European Journal of Political Economy*. He is currently working on corruption and tax evasion with Antonio Acconcia and Riccardo Martina.

SERGIO DESTEFANIS is Professor of Economics at the University of Salerno. He holds a Ph. D. in Economics at the University of Cambridge. Since 1997 he is part of the Executive Committee of the Italian Association of Labour Economics. In 2004 he has been carrying out research projects with the ISFOL, Rome and the IDEGA, Santiago de Compostela, Spain. His research interests focus on the macroeconomic analysis of the labour market, growth and development in dualistic economies and the quantitative analysis of productive processes. Recent publications include a paper on cross-country evidence on increasing returns in a volume edited by McCombie, Pugno and Soro for Palgrave; a paper on models of export-led growth in the *International Review of Applied Economics*, and a paper on the impact of infrastructure on TFP forthcoming in *Regional Studies*.

CARLO FAVERO is Professor of Economics at the University Bocconi. He holds a a D.Phil. from Oxford University, where he was a member of the Oxford Econometrics Research Centre. He has published in scholarly journals on applied econometrics, monetary policy and time-series models for macroeconomics. He is a research fellow of CEPR in the International Macroeconomics programme and a member of the scientific committee of the Euro Area Business Cycle Network, of the Centro Interuniversitario Italiano di Econometria (CIDE). He has been advisor to the Italian Ministry of Treasury for the construction of an econometric model of the Italian

economy and a consultant of the European Commission, the World Bank and the European Central Bank on monetary policy and the monetary transmission mechanism.

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 is Associate Professor of Economics at the University of Salerno. He received a Ph.D. in Economics at the University of Toulouse. He is currently working on the design and enforcement of the law (with M. Pagano), on the relationship between the optimal flexibility of the law and the private initiative (with M. Pagano and M. Polo) and on the relationship between auditing standards and corporate governance (with M. Pagano). Some of his recent papers are now forthcoming in the *European Economic Review* or under review at the *Geneva Papers on Risk and Insurance Theory* and the *Scandinavian Journal of Economics*.

TULLIO JAPPELLI is 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, and pension reforms. Last year he has published Financial market integration and economic growth in the EU (with Luigi Guiso, Mario Padula, and Marco Pagano), *Economic Policy*, October 2004. The paper "The age saving profile and the Life-Cycle Hypothesis" (with Franco Modigliani) is forthcoming in *The Collected Papers of Franco Modigliani, Volume 6* (MIT Press); Courts and banks: effect of judicial costs on credit market performance (with Marco Pagano and Magda Bianco) is forthcoming in the *Journal of Money, Credit, and Banking*; School choice and quality (with Daniele Checchi) is forthcoming in *Schooling and Human Capital Formation in the Global Economy: Revisiting the Equity-Efficiency Quandary*, edited by Peterson and Woessmann for MIT Press; Role and effects of information sharing in credit markets (with Marco Pagano) is forthcoming in *The Economics of Consumer Credit: European Experience and Lessons from the U.S*, edited by Bertola, Disney and Grant for MIT Press. In 2004 Tullio has coordinated a research group that analyzes household portfolio data of Unicredit clients and, within the Share project (Survey of Health, Ageing and Retirement in Europe), has analyzed asset and portfolio data of Europeans age 50+ with CSEF researchers Dimitris Christelis and Mario Padula.

MASSIMO MARRELLI is Professor of Public Economics and Chairman of the Faculty of Economics at the University of Naples Federico II. He holds a Ph.D. in Economics at the University of York and is a former President of the Italian Economic Association of Public Economics. His research focuses on contract theory, optimal taxation, economic analysis of law systems and tax evasion. He is currently working on a research project on collusion in repeated auctions with no side payments and with Francesca Stroffolini

(University of Naples) on the relation between the efficiency and the complexity of legal systems.

RICCARDO MARSELLI is Professor of Economics at Parthenope University, Napoli. His research focuses on the assessment of courts' efficiency with non-parametric techniques and the estimation of education production functions. He is currently involved in three research projects: (a) the estimation of a model to evaluate the main determinants of R&D expenditures (with G. Atzeni and M. Vannini); (b) the modelling of science-technology flows in a regional perspective, using citations from Italian patent data (with G. Atzeni and M. Vannini); (c) evaluation of public policy effectiveness (with M. Vannini, under the supervision of the Department for Development Policies of the Treasury, Rome). He is a scientific advisor for the Chamber of Commerce, Milan and CNPDS-ISPAC, Milan.

RICCARDO MARTINA is Professor of Economics at the University of Naples. He received a Ph.D. in Economics from the Università di Napoli Federico II and, in the academic year 1988-89, he was Visiting Scholar at the Department of Economics at MIT. His research interests are mainly in the areas of Industrial Organization and Public Economics. In 2004 his paper "Credibility and Commitment in Open Economies" (with Marcello D'Amato) has been accepted for publication in the European Journal of Political Economy. He has completed papers on the relationship between corruption and tax evasion (with Antonio Acconcia and Marcello D'Amato) and on the "second mover advantage" in multi-stage games with sequential choices (with Alessandro Bonatti). He is currently working with Salvatore Piccolo on the analysis of the welfare properties of market externalities in bilateral contracting and with Marcello D'Amato and Salvatore Piccolo on the relationship between competitive pressure and market structure.

ANNAMARIA MENICHINI is Assistant Professor of Economics at the University of Salerno. She holds a Ph.D. in Economics at the University of York. Her research interests focus on financial economics, contract theory, incomplete contracts. Her paper "Separating Lending from Monitoring: Efficiency Gains vs. Collusion" (CSEF WP n.109), studying the optimal organisational structure that mitigates the problems posed by contractual incompleteness, has been presented at the 2004 EFA Conference in Maastricht and at the 2004 ESEM Congress in Madrid. In 2004 she visited the University of York and the Université de Lausanne. With P. Simmons (University of York), she is working on a research project investigating the role of ex-ante and ex-post information acquisition in financial contracts. With Daniela Fabbri (Université de Lausanne), she has been analysing the role of creditor rights protection on the firm's operating choices and financial structure. Their paper, "Asset Diversion, Input Allocation and Capital Structure", has been presented at the 4th workshop of the European RTN network on financial economics in Stockholm.

NIALL O'HIGGINS is Associate Professor of Economics at the University of Salerno. He has an M.Sc in economics from the University of York and a Ph.D in Economics from the European University Institute in Florence. His principal research interests concern various aspects of labour economics and, in particular, the evaluation of labour market policies, labour markets experiences of 'vulnerable' groups and the labour market consequences of EU enlargement. His recent work includes a book (with A. Csongor & Gy. R. Lukacs) on *Labour Market Programmes for the Roma in Hungary*, ILO-

CEET, Budapest, 2003, a book on *Youth Unemployment and Employment Policy in Global Perspective*, ILO, Geneva, 2001, and papers on, "Trends in the Youth Labour Market in Developing and Transition Countries", World Bank Social Protection Discussion Paper series no. 0321, Washington D.C., 2003 and "A Wandering Minstrel I? Gypsies in the Labour Market at the Dawn of the New Millennium", presented at the AIEL Conference, September 2002, Salerno.

MARIO PADULA is Associate Professor of Econometrics 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. His recent publications are: "Financial Market Integration and Economic Growth in the EU", (with Luigi Guiso, Tullio Jappelli and Marco Pagano), *Economic Policy* 2004 and "Consumer Durables and the Marginal Propensity to Consume out of Permanent Income Shocks" *Research in Economics* 2004.

MARCO PAGANO is Professor of Economic Policy at the University of Naples Federico II, Research Fellow of CEPR and managing editor of the *Review of Finance*. In 2004, he published two articles: "Financial Market Integration and Economic Growth in the EU" (with Luigi Guiso, Tullio Jappelli and Mario Padula) in *Economic Policy*, and "The European Bond Markets under EMU" (with Ernst-Ludwig von Thadden), *Oxford Review of Economic Policy*. He also revised two papers with Paolo Volpin: "Workers, Managers, and Corporate Control", forthcoming in *The Journal of Finance*, and "The Political Economy of Corporate Governance", forthcoming in *The American Economic Review*. Finally, he developed other research projects: on the geography of equity trading with Josef Zechner, Michael Halling and Otto Randl (University of Vienna), on yield differentials between Euro-denominated government bonds with Carlo Favero (Bocconi University) and Ernst-Ludwig von Thadden (University of Mannheim), on the design and enforcement of accounting standards with Giovanni Immordino (University of Salerno), and on the optimal degree of flexibility of regulation with Giovanni Immordino and Michele Polo (Bocconi University).

MARCO PAGNOZZI is Assistant Professor of Economics at the University of Salerno. He received a D.Phil. in Economics from Oxford University and a Ph.D. in Applied Mathematics from the University of Naples Federico II. His research focuses on auction theory and its application to the sale of public assets. In 2004 he completed a paper on "Auctions with Resale", arguing why a strong bidder may prefer to lose an auction against a weak bidder and buy in the aftermarket, and a paper on "Collusion in English Auctions with Affiliated Values", arguing how colluding bidders can use their bids to signal misleading information to their rivals. He has also pursued research projects on the effects of asymmetries among bidders and on resale and demand reduction in multi-unit auctions.

GIOVANNI PICA is Assistant Professor of Economics at the University of Salerno. He received a Ph.D. in Applied Mathematics from the University of Naples Federico II in 2001 and a Ph.D. in Economics from Universitat Pompeu Fabra in 2004. In 2002 he has been *Jean Monnet Fellow* at the European

University Institute of Florence and in 2003-04 a Lecturer at the University of Southampton. His research interests span across macroeconomics, political economy, labour economics and microeconometrics. His latest research focuses on the interaction between endogenous policies and macroeconomic outcomes. In particular, the paper "International Political Spillovers: the Case of Labour Market Regulation" analyses the political incentives to introduce a minimum wage in an overlapping generations framework and discusses the implication on capital accumulation and growth. Recent work with Adriana Kugler (University of Houston) analyses the effects of Employment Protection Legislation and Product Market Regulation on the Italian labour market. Currently, he is working with José V. Rodríguez Mora (Universitat Pompeu Fabra) on an empirical and theoretical analysis of the effects of regulation on bilateral foreign direct investments flows and on the economy wide allocation of resources.

SALVATORE PICCOLO is Assistant Professor of Economics at University of Salerno. He is currently completing a Ph.D. in Economics at Northwestern University (Chicago, USA). Salvatore also holds a Master in Economics and Finance (MEF, 2001) from the University of Naples and a Master in Mathematical Economics from the University of Toulouse (MPSE) in 2002. His research focuses on contract theory and mechanism design with applications to industrial organization, auctions, banking and general equilibrium theory. The doctoral thesis is based on three essays analyzing the private and welfare properties of vertical restraints in competitive environments under informational asymmetries. He is also working on a paper (with Alberto Bennardo) studying a simple general equilibrium model where workers' preferences and productivity depend on their health state, and occupational choices affect the individual distributions of health risks. Recently, he has started a new project (with Marcello D'Amato and Riccardo Martina) analyzing the relationship between competitive pressure and market structure.

MARIA GRAZIA ROMANO is a CSEF doctoral Fellow. She is currently enrolled in the Ph.D. program in Applied Mathematics at the University of Naples "Federico II". In 2000 she completed a Master in Economics and Finance at the University of Naples "Federico II" and in 2002 a Master in Financial Markets and Intermediaries at the University of Toulouse I. Her research focuses on market microstructure and corporate finance.

ANNA SANZ DE GALDEANO is a CSEF Post-doctoral Fellow. She received her PhD in Economics at the European University Institute in June 2003. She has held visiting positions at Universidad Carlos III de Madrid and at the Research Department of the European Central Bank and joined CSEF in May 2004. Her primary research interest is in labour economics and health economics with a particular focus on program evaluation. She has evaluated the impact of the 1996 Health Insurance Portability and Accountability Act on job-lock, studied the effect of parental divorce on adolescents' cognitive development, and explored the relationship between parental employment and the amount of time devoted to child care. Her current research includes evaluations of the impact of obesity on the demand for health care services, studies of the demand for health care and health insurance in Portugal and analyses of the effects of firm-level bargaining on the structure of Spanish wages.

MAURO STAIANO is a CSEF Post-doctoral Fellow. He has 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 (MEF) 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 is a CSEF Post-doctoral Fellow. He received a Ph.D. from the European University Institute (Florence, Italy) in 2003 and joined CSEF in April 2003. In his research he studies the consequences of imperfections in financial markets on economic decisions by households and firms, focusing in particular on household portfolio choice, investment and financial policy of firms, and the evolution of privately-owned firms. His research has recently been presented at the European Finance Association meeting in Glasgow. In a paper (with T. Hintermaier) forthcoming in the *Journal of Economic Dynamics and Control*, he studies 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 the welfare impact of funding regulations for private DB pension plans. 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”.

FRANCESCA STROFFOLINI is associate professor in Public Economics at the University of Naples. Her research focuses on: welfare theory and inequality, regulation, contract theory. Recent publications include “Price Cap Regulation and Information Acquisition” (with E. Iossa, Brunel University, UK) in *International Journal of Industrial Organization*, 2002; “Revenue Sharing and Information Acquisition” (with E. Iossa), forthcoming in *Information Economic and Policy*. In current research she studies (with E. Iossa) industries characterized by an upstream natural monopoly and a downstream imperfect competitive market with regulation through the access price and, in particular, the desirability of separation with respect to integration when there is uncertainty on the market demand and the monopolistic firm has to invest money to gather information on its realization. A second line of research (with M. Marrelli) concerns the relationship between the efficiency and the complexity of a legal system. She is also currently involved in a research project (with E. Iossa) which intends to compare different forms of private public partnership with respect to traditional procurement in the public services sector (such as health, transport) with an analysis of Italian experiences. A new research project (with M. Marrelli) concerns tax evasion and the structure of a tax system.

Visiting Researchers in 2004

YANNIS BILIAS is Associate Professor of Economics at University of Cyprus, specializing in microeconometrics. During his visit in CSEF, May and June of 2004, he worked on issues related to the RTN program on the Economics of Ageing. In particular, he has worked (with Michael Haliassos) on “The distribution of gains from access to stocks” and he is currently working (with Dimitris Georgarakos and Michael Haliassos) on the issue of “Equity Culture and the Distribution of Wealth”. During March 2004, he visited the Finance and Consumption Chair at EUI, Florence. Yannis has also worked on issues related to the estimation methodology of quantile regression and its applications. In 2002, he coauthored (with Anil Bera) the article “The MM, ME, ML, EL, EF and GMM Approaches to Estimation: A Synthesis”, in *Journal of Econometrics*.

TIZIANA BRANCACCIO received her PhD in 2003 from Boston College and is currently Assistant Professor at University College Dublin. Her main fields of interest are development and labour economics. During her thesis she has worked on the relationship between choice of land contracts in developing countries and farming risk, empirically testing the canonical moral hazard theory and proposing a theoretical model based on compensating differentials. Her current research focuses on estimating the offset effect of pension wealth and private wealth when agents are misinformed about their retirement benefits and knowledge evolves over time.

ISSAM HALLACK spent six months at CSEF as RTN Fellow. Issam obtained his PhD at the European University Institute, Florence, on the contract designs of sovereign debt contracts. His research interests include banking and financial intermediation, corporate finance, law and finance, sovereign debts. He was previously appointed as a researcher at the University of Oxford and at the Center for Financial Studies (University of Frankfurt). His papers have been presented at major conferences, e.g. the European Finance Association meeting, Glasgow 2003. One his papers won the prize for “Best Paper in Financial Institutions” at the Southwestern Finance Association Meeting, Orlando, 2004. Since September, Issam has a position of Assistant Professor at Bocconi University.

REBECA JIMÉNEZ has spent a year at CSEF 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. In September Rebecca took a position at the Universitat Autònoma de Barcelona.

NATALIA UTRERO GONZALEZ has spent a year at CSEF after the completion of 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 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 Raquel Fonseca and on financial institutions corporate governance with Francisco Callado. In February 2004 Natalia took a position of Assistant Professor at the Universitat Autònoma de Barcelona.

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113 Jakub Kastl and Salvatore Piccolo, *Collusive Effects of Vertical Restraints under Asymmetric Information*

This paper points out that vertical delegation, implemented through the design of quantity discount contracts, may allow upstream producers, as well as downstream retailers, to achieve profits higher than those obtained under vertical integration or contracts based on price restrictions. Our result shows that when downstream competition is sufficiently tough, the design of suitable vertical restraints implements a market outcome closer to the monopoly benchmark, which has a detrimental effect on consumer surplus. Moreover, we argue that legally banning price restricting contracts is suboptimal, the reason being that they remove a double-marginalization effect created by asymmetric information between upstream producers and downstream retailers.

114 Andrea Ichino and Anna Sanz De Galdeano, *Reconciling Motherhood and Work: Evidence from Time Use Data in Three Countries*

In this study we compare evidence based on time use data for three countries: Italy, Germany and Sweden. While in all these countries working mothers appear to dedicate less time to child care than non-working mothers, in Sweden the difference is smallest in absolute terms as well as statistically insignificant. In Italy maternal work is associated with the largest loss of maternal child care. To shed light on the possible reasons for this finding we consider the role of part-time job opportunities and formal or informal child care arrangements. We argue that while child care facilities increase mothers' access to employment, it is the availability of flexible working arrangements that allows them to work and still have enough time to allocate to child care.

115 Rebeca Jiménez-Rodríguez, *Oil Price Shocks: Testing for Non-linearity*

This paper presents evidence of a non-linear relationship between GDP growth and oil price changes in the US economy. We also argue that this non-linearity is not merely due to the use of data from the mid-1980s onwards, as most authors, so far, seem to believe. In fact, we find the existence of non-linearity with the use of data earlier than 1984, and even before 1977. Furthermore, we question that the non-linear transformations of oil prices proposed in the literature are the most appropriate indicators for reflecting such non-linearity.

116 Marco Pagnozzi, *Bidding to Lose? Auctions with Resale*

After an auction, a losing bidder can purchase the prize from the winner. We show why a strong bidder may prefer to drop out of the auction before the price has reached her valuation, and acquire the prize in the aftermarket: a strong bidder may be in a better bargaining position in the aftermarket if her rival won at a relatively low price. So it can be common knowledge that, in equilibrium, a weak bidder will win the auction and, even without uncertainty about relative valuations, resale will take place. (Furthermore, the result is robust to the addition of bidding costs.) And the possibility of reselling to a strong bidder attracts weak bidders to participate in the auction, and raises the seller's revenue. We explore how the seller can manipulate the conditions under which wealth-constrained bidders can finance their bids in order to induce a resale-equilibrium which raises the auction price.

117 Marcello D'Amato, *Commitment of Monetary Policy with Uncertain Central Bank Preferences*

In this paper we analyse the equilibrium degree of commitment in monetary policy to an independent central banker whose preferences are imperfectly observed by private agents. We characterize the incentive compatible strategies by a central bank in office for two periods with no

restrictions on its type space. The equilibrium level of commitment is also characterized. We show that when incentive compatibility constraints are binding for a non trivial subset of types of central banks the equilibrium level of commitment involves bunching: different types of rational governments commit monetary policy to similar institutions.

118 Luigi Guiso, Tullio Jappelli, Mario Padula and Marco Pagano, *Financial Market Integration and Economic Growth in the EU*

The diversity in the current degree of financial development across the EU can be a great opportunity at a time where this area is poised to become increasingly financially integrated. Integration should accelerate the development of the most backward financial markets, and allow companies from these countries to access more sophisticated credit and security markets. In line with a large recent literature, it is reasonable to expect that financial integration will have a “growth dividend” in Europe. This paper attempts to quantify this growth dividend, using both industry and firm-level data to estimate the empirical relationship between financial market development and growth, and to gauge how it will distribute itself across countries and sectors.

119 Raquel Fonseca and Natalia Utrero, *Do Market Regulation and Financial Imperfections Affect Firm Size? New Empirical Evidence*

This paper investigates the importance that market regulation and financial imperfections have in firm size. We analyse institutions affecting labour market as Employment Protection Laws (EPL) and Product Market Regulation (PMR). Moreover, we study the effects of these institutions on firm growth. We use data from 29 industrial sectors across 15 developed countries. We find that market regulations related to financial imperfections help to explain differences in firm structure across countries.

120 Tullio Jappelli, Luigi Pistaferri and Guglielmo Weber, *Health Care Quality and Economic Inequality*

We argue that health care quality has an important impact on economic inequality and on saving behaviour. We exploit district-wide variability in health care quality provided by the Italian universal public health system to identify the effect of quality on income inequality, health inequality and precautionary saving. We find that in lower quality districts there is greater income and health dispersion and higher precautionary saving. The analysis carries important insights for the ongoing debate about the validity of the life-cycle model and interesting policy implications for the design of health care systems.

121 Maria Concetta Chiuri, Giuseppe De Arcangelis, Angela Maria D’Uggento and Giovanni Ferri, *Illegal Immigration into Italy: Evidence from a field survey*

The Survey on illegal migration in Italy (SIMI henceforth) aims to analyse the phenomenon of clandestine migrating to or through Italy. SIMI contains information concerning the main demographic, economic and social characteristics of a sample of 920 clandestine crossing Italian borders and apprehended during 2003. Migrants’ motivations, intention to send remittance and expectations about the future are collected within SIMI and reported in this paper.

122 Anna Sanz De Galdeano, *Health Insurance and Job Mobility: Evidence from Clinton’s Second Mandate*

In this paper we analyse data from the 1996 panel of the Survey of Income and Program Participation to investigate the effect of employer-provided health insurance (EPHI) on job mobility from 1996 to 2000. First, we estimate the effect of EPHI on four month job turnover. It is found that, after accounting for unobserved individual heterogeneity, holding EPHI induces substantial mobility reductions for all demographic groups, ranging from 31% to 58%. Second,

we evaluate whether the 1996 Health Insurance Portability and Accountability Act succeeded in mitigating insurance induced mobility reductions and we find that it did not.

123 Maria Grazia Romano, *Learning, Cascades and Transaction Costs*

This paper analyzes the effect of transaction costs on the social learning in an asset market with asymmetric information, sequential trading and competitive price mechanism. Both fixed and proportional transaction costs reduce the informational content of trading orders and lead to informational cascades. If transaction costs are very high, an informational cascade can occur not only when beliefs converge to a specific asset value, but also when in the market there is complete uncertainty about the asset's fundamental value. Finally, if the asset value in the bad state is sufficiently low, proportional transaction costs lead to an informational cascade only when prices are very high.

124 Issam Hallak, *Why Borrowers Pay Premiums to Larger Lenders: Empirical Evidence from Sovereign Syndicated Loans*

All other terms being equal (e.g. seniority), syndicated loan contracts provide larger lending compensations (in percentage points) to institutions funding larger amounts. This paper explores empirically the motivation for such a price design on a sample of sovereign syndicated loans in the period 1990-1997. I find strong evidence that a larger premium is associated with higher renegotiation probability and information asymmetries. It hardly has any impact on the number of lenders though. This is consistent with the hypothesis that larger lenders act as main lenders, namely help reduce information asymmetries and provide services in situations of liquidity shortage. This constitutes new evidence of the existence of compensations for such unique services. Moreover, larger payment discrepancies are also associated with larger syndicated loan amounts. This provides further new evidence that larger borrowers bear additional borrowing costs.

125 Yannis Biliassos and Michael Haliassos, *The Distribution of Gains from Access to Stocks*

Recent market developments raise doubts regarding further spread of household stock market participation. We study, computationally and econometrically, net gains from access to stocks, and estimate the potentially changing role of their determinants across the distribution of such gains for US households. We highlight conflicting influences on net gains using a computational portfolio model, and use empirical estimates to derive differences in characteristics of potential entrants relative to marginal investors by the end of the dramatic recent expansion in the stockholder base. Findings suggest that downturns can have significant effects around the participation margin, through their influence on incomes, wealth, and employment. The role of education is found more limited than typically estimated, and confined to the low end of the gains distribution. Estimated characteristics of potential entrants relative to marginal stockholders suggest that further growth in participation poses considerable challenges, in view of more limited finances, younger age, more limited education and financial alertness, and above all significantly less self-declared willingness to assume financial risk by potential stockholders compared to marginal investors. The hurdle to financial practitioners interested in expanding the stockholder base is not estimated to be small.

126 Marco Pagano and Ernst-Ludwig von Thadden, *The European Bond Markets under EMU*

In this paper, we document how in the wake of monetary unification the markets for Euro-area sovereign and private-sector bonds have become increasingly integrated. Issuers and investors alike have come to regard the Euro-area bond market as a single one. Primary and secondary bond markets have become increasingly integrated on a pan-European scale. Issuance of corporate bonds has taken off on an unprecedented scale in continental Europe. In the process, both investors and issuers have reaped the considerable benefits afforded by greater competition

in the underwriting of private bonds and auctioning of public ones, and by the greater liquidity of secondary markets. Bond yields have converged dramatically in the transition to EMU. The persistence of small and variable yield differentials for sovereign debt under EMU indicates that Euro-area bonds are still not perfect substitutes. However, to a large extent this does not reflect persistent market segmentation but rather small differentials in fundamental risk. Liquidity differences play at most a minor role, and this role appears to arise partly from their interaction with fundamental risk. The challenges still lying ahead are numerous. They include the unbalance between the German-dominated futures and the underlying cash market; the vulnerability of the cash markets' prices to free-riding and manipulation by large financial institutions; the possibility of joint bond issuance by Euro-area countries; the integration of clearing and settlement systems in the Euro-area bond market, and the participation of new accession countries' issuers to this market.

127 Marco Pagnozzi, *Bids as a Vehicle of (Mis)Information: Collusion in English Auctions with Affiliated Values*

During an English auction, bidders' behaviour conveys information on their valuation of the prize. So whenever valuations are not independent, a bidder's strategy depends on the price at which his competitors drop out before he does. A ring of bidders can strategically manipulate the information reported through its members' bids, in order to mislead other bidders into bidding less aggressively and so allow a ring member to bid more aggressively. Collusion increases the probability that a ring bidder wins the auction and reduces the price he pays. The presence of a ring harms other bidders (as well as the seller) and reduces efficiency.

128 Anna Sanz de Galdeano and Daniela Vuri, *Does Parental Divorce Affect Adolescents' Cognitive Development? Evidence from Longitudinal Data*

In this paper we analyse data from the National Education Longitudinal Study of 1988 to investigate whether experiencing parental divorce during adolescence reduces measured cognitive ability. To account for the potential endogeneity of parental divorce we employ a difference-in-differences model that relies on observing teenagers' outcomes before and after divorce. We find that parental divorce does not negatively affect teenagers' cognitive development. Our results also suggest that cross-section estimates overstate the detrimental effect of parental divorce.

129 Michael Halling, Marco Pagano, Otto Randl, Josef Zechner, *Where is the Market? Evidence from Cross-Listings*

We investigate the distribution of trading volume across different venues after a company lists abroad. In most cases, after an initial blip, foreign trading declines rapidly to extremely low levels. However, there is considerable cross-sectional variation in the persistence and magnitude of foreign trading. The ratio between foreign and domestic trading volume is higher for smaller, more export and high-tech oriented companies. It is also higher for companies that cross-list on markets with lower trading costs and better insider trading protection. Foreign trading is high close to the cross-listing date but decreases dramatically in the subsequent six months. This accords with the "flow-back hypothesis" that declining foreign trading is associated with the gravitational pull of the home market.