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What is CSEF?

The Centre for Studies in Economics and Finance (CSEF) has been established by the University of Salerno, the University of Naples Federico II, and Bocconi University 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 Naples, the Centre can apply for research grants, organise workshops and conferences, and run research projects as an independent legal entity. For 2007-2009, the three founding institutions have appointed six researchers as their representatives in the CSEF Scientific Committee: *Marcello D'Amato* (Salerno), *Carlo Favero* (Bocconi), *Tullio Jappelli* (Naples), *Riccardo Martina* (Naples), *Marco Pagano* (Naples), *Michele Polo* (Bocconi). The Centre is directed by Tullio Jappelli, and the administration is entrusted to *Lia Ambrosio*.

News

Last year brought good news to several CSEF Fellows. We are very happy to report that *Giacinta Cestone* and *Annamaria Menichini* have been promoted Associate Professors of Economics at the University of Salerno; *Chiara Fumagalli* has been promoted Associate Professor of Economics at Bocconi University; *Alberto Bennardo* has been promoted Professor of Economics at the University of Salerno.

We are proud to report that CSEF Fellow *Giovanni Pica* was the recipient of the 2006 Ezio Tarantelli's Award for the best paper of the year by the Italian Association of Labour Economists; Fellow *Marco Pagnozzi* was the recipient of the SIEP prize for the best paper presented at the annual meeting of the Italian Society of Public Economics.

After serving three years in the Scientific Committee, *Franco Bruni* (Bocconi) has been replaced by *Michele Polo*. We thank Franco for his help and collaboration in setting up our research centre.

Last year CSEF hosted several researchers with postdoctoral fellowships: *Raghu Suryanarayanan* (Ph.D. from the University of Chicago), *Julian Messina* (PhD. from the European University Institute), *Dimitrios Christelis* (Ph.D. from the University of Pennsylvania), *Mauro Staiano* (Ph.D. from the University of Naples), *Maria Grazia Romano* (Ph.D. from the University of Naples),

Giuseppe De Marco (Ph.D from the University of Naples) and *Ciro Avitabile* (Ph.D. student at University College London). *Elena Del Mercato* (University of Salerno) has joined CSEF as a Research Fellow.

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Main Research Projects

Main research areas

Research activity at CSEF focuses on three main areas:

- (i) analysis of household choices (saving, portfolio and labor decisions);
- (ii) financial economics (banking, securities markets, corporate finance);
- (iii) microeconomic theory (information economics, contract theory, regulation).

Household choices

The research project on Economics of Aging in Europe studies the economic choices of the elderly, with special reference to retirement, saving, portfolio and health spending decisions. The project also deals with the implications of aging for the welfare of the elderly and the impact of social security reform on retirement and saving decisions. The project is coordinated by Tullio Jappelli and includes Vincenzo Galasso, Mario Padula, Dimitris Christelis, Marcello D'Amato and Giovanni Pica. In this project CSEF participates to an international network of European researcher centers, which includes CentER (Tilburg University), PSE (Paris Jourdan Sciences Economiques), IFS (London), and the Universities of Venice, Mannheim, Copenhagen and Cyprus. CSEF also coordinates a related national network including researchers at the Universities of Rome Tor Vergata, Padua, Venice, Sassari and Bocconi.

A related project is the Survey of Health, Ageing and Retirement in Europe (SHARE), an ambitious data-gathering effort that focuses on Europeans aged 50 and older. Current participants range from Scandinavia (Sweden, Denmark), Western and Central Europe (France, Belgium, The Netherlands, Germany, Switzerland, Austria) to the Mediterranean (Spain, Italy, Greece). 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. Within this project, CSEF Fellows Christelis, Jappelli and Padula are responsible for analyzing SHARE financial and real wealth data.

Other related projects have focused on the econometric analysis of the labor market: Sergio Destefanis has performed research on the macroeconomic analysis of the market, while Giovanni Pica has analyzed labor market institutions and the demand for labor by firms.

Financial economics

The research project on Corporate Governance, Family Firms and Auditing has studied the effects of the legal protection of non-controlling shareholders on stock market development, on the growth of family firms and on the monitoring activity carried out by auditors. The project, funded by the IRI Foundation, is coordinated by Marco Pagano, and includes Giovanni Immordino and Fausto Panunzi.

Another ongoing project deals with the theoretical and empirical analysis of Information sharing among banks and involves Marco Pagano, Tullio Jappelli, Alberto Bennardo and Salvatore Piccolo.

Other research projects in the area of finance concern venture capital syndicate arrangements in the presence of double-sided asymmetric information (Giacinta Cestone, joint with Josh Lerner and Lucy White), the sale of security price information by stock exchanges (Giovanni Cespa, joint with Thierry Foucault), the existence of bubbles in markets with differential information (Giovanni Cespa joint with Xavier Vives), the role of trade credit (Annamaria Menichini, joint with Daniela Fabbri), and the competitive structure of the credit market (Paolo Coccoresse).

Microeconomic theory

The main themes investigated in this research area are the design of regulation and the economics of information. The projects carried out in 2006 include work on the regulation of vertical restraints and contract theory (Salvatore Piccolo, in collaboration with David Martimort), the flexibility of regulation and its effect on entrepreneurial initiative (Giovanni Immordino, Marco Pagano and Michele Polo), the design of regulation in the presence of corruption (Marcello D'Amato and Riccardo Martina), the relationship between efficiency and complexity of the judicial system (Massimo Marrelli), the effect of information revelation on contracting and risk sharing opportunities (Alberto Bennardo), the role of precontractual information gathering as a substitute for postcontractual monitoring (Annamaria Menichini in collaboration with Peter Simmons) and the relationship between efficiency and equilibrium in the presence of externalities and public goods (Elena del Mercato, in collaboration with Jean-Marc Bonnisseau and Monique Florenzano).

Funding

Research projects carried out at CSEF in 2006 were funded by Research Training Network Programs (RTN), the Marie Curie Fellowship program of the EU, the Italian Ministry of University and Research (MIUR).

Conferences

3rd Workshop for Italian PhD Students in Economics

The Third Workshop on *Contribution to Economics by Young Italian Students* was held at the Hotel Convento San Michele in Salerno on May 25-26, 2006. The Workshop was organized by CSEF Fellows *Sergio Destefanis, Giovanni Pica* and *Salvatore Piccolo*.

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, providing 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: Giacomo De Giorgi (University College London), Luca David Opmolla (New York University), Andrea Pataconi (Oxford University) e Carlo Rosa (London School of Economics).

Each paper was discussed by a senior researcher, who also presented one of his own recent contributions: Carlo Favero (Bocconi University), Francis Kramarz (CREST-INSEE, Parigi), Ramon Marimon (Universitat Pompeu Fabra, Barcellona) and Andrea Prat (London School of Economics).

2nd Csef-Igier Symposium on Economics and Institutions

The 2nd CSEF-IGIER Symposium on Economics and Institutions was held at the *Centro Internazionale per la Cultura Scientifica "Villa Orlandi"* in Anacapri on June 26-30, 2006. The Conference was organized by Vincenzo Galasso, Tullio Jappelli, Riccardo Martina, Marco Pagano and Michele Polo. The conference structure reflected the intention of leaving time for free discussion, informal workshops and collaborative work. The conference program included papers in the areas of Industrial Organization; Finance; Household Behaviour and Public Policy. Over fifty economists participated to the Symposium. There were five invited lectures given by leading international scholars: Erik Maskin (Harvard University), Hayne Leland (University of California Berkeley), Dilip Mookherjee (Boston University), Richard Disney (University of Nottingham), Steve Zeldes (Columbia University), and Patrick Rey (University of Toulouse).

Seminars

In 2006 CSEF hosted one or two research seminars per week. Papers were presented both by invited speakers and by resident researchers:

January

Dimitrios Christelis (University of Salerno), *Expected Bequests and Wealth in SHARE*

Giovanni Pica (University of Salerno), *The Effect of Employment Protection Legislation on Wages: a Regression Discontinuity Approach*

Michele Pellizzari (Bocconi University), *Welfare Magnets in Europe and the Costs of a Harmonised Social Assistance*

- February**
- Sandro Brusco** and Fabio Castiglionesi (Stony Brook SUNY), *Liquidity Coinsurance, Moral Hazard and Financial Contagion*
- Gabriella Chiesa** (University of Bologna), *Optimal Risk Transfer, Monitored Finance and Real Investment Activity*
- Fernanda Mazzotta** (University of Salerno), *The Effects of Family Background on Unemployment and Poverty Duration*
- March**
- Philippe Aghion (Harvard University) and **Salvatore Modica** (University of Palermo), *Open Source without Free-Riding*
- Maia Guell, **Jose Rodriguez Mora** and Christopher Telmer (Universitat Pompeu Fabra), *Intergenerational Mobility and the Informative Content of Surnames*
- Maia Guell** (Universitat Pompeu Fabra), *Fixed-term Contracts and the Duration Distribution*
- Daniele Checchi** (University of Milan) and Luca Flabbi (Georgetown University), *Intergenerational Mobility and Schooling. Decisions In Italy and Germany*
- April**
- Giacinta Cestone** (University of Salerno), *Venture Capital Meets Contract Theory: Risky Claims or Formal Control?*
- Alberto Bennardo** (University of Salerno), *Information Gathering, Disclosure and Contracting in Competitive Markets*
- Christian Belzil (Centre National de Recherche Scientifique) and **Marco Leonardi** (University of Milan), *Can Risk Aversion Explain Schooling Attainment?*
- May**
- Raghu Suryanarayanan** (University of Chicago), *Investing and Pricing without Regret*
- Massimo Guidolin (Federal Reserve Bank of St. Louis) and **Giovanna Nicodano** (University of Turin), *Small Caps in International Equity Portfolios: The Effects of Variance Risk*
- Andrea Ichino** (European University Institute) and Enrico Moretti (Berkeley University), *Absenteeism, Earnings and Biological Gender Differences*
- Thierry Foucault** (HEC School of Management, Paris) and A. Menkveld (Vrije Universiteit Amsterdam), *Competition for Order Flow and Smart Order Routing Systems*
- June**
- Jan van Ours** (Tilburg University) and Milan Vodopivec (World Bank), *Shortening the Potential Duration of Unemployment Benefits Does Not Affect the Quality of Post-Unemployment Jobs: Evidence from a Natural Experiment*
- October**
- Antonio Nicolò** (University of Padova), *Termination Clauses in Partnerships*

Paolo Vitale (University of Pescara), *A Market Microstructure Analysis of Foreign Exchange Intervention*

Thomas Harr and **Thomas Rønde** (University of Copenhagen), *Regulation of Banking Groups*

Laura Blow (IFS), Martin Browning (Oxford University) and **Ian Crawford** (IFS and University of Surrey), *Revealed Preference Analysis of Characteristics Models*

Miquel Faig and **Belén Jerez** (Universidad Carlos III), *Inflation, Prices, and Information in Competitive Search*

November

Jean-Marc Bonnisseau (Centre d'Economie de la Sorbonne, Université Paris 1 Panthéon-Sorbonne), and **Elena del Mercato** (University of Salerno), *Possibility Functions and Regular Economies*

Gabrielle Demange (EHESS, Paris), *Sharing Information in Web Communities*

Giuseppe De Marco (University of Salerno) and Jacqueline Morgan (University of Naples), *Altruistic Behavior and New Refinement Concepts in Normal Form Games*

December

Giovanni Immordino (University of Salerno and CSEF), *Globalization and Advertisement*

Alessandro Pavan (Northwestern University), *Global Games with Endogenous Information: Multiplicity vs Predictions*

Jonathan Heathcote, Kjetil Storesletten and **Gianluca Violante** (New York University), *Consumption and Labor Supply with Partial Insurance: An Analytical Framework*

- ANTONIO ACCONCIA** is Associate Professor of Economics at the University of Naples Federico II. He has recently completed the paper “Vertical Restraints under Asymmetric Information: On the Role of Participation Constraints” (under revision for *The Journal of Industrial Economics*). He is currently working on the role of *Mani Pulite* in deterring corruption in Italy (with Claudia Cantabene); on the effects of EU subsidies on regional inequalities in Europe; on the relationship between corruption and growth; and on the role of technology shocks in determining business fluctuations (with Saverio Simonelli). He has been the chair of the organizing committee of the *Fourth International Conference of the World Association for Sustainable Development* held in Naples (Global and Local resources in Achieving Sustainable Development), 6-8 November 2006.
- CIRO AVITABILE** is a CSEF Post-doctoral Fellow. He received a PhD in Economics from University of Salerno and the Master of Advanced Studies from University Pompeu Fabra. He is completing a PhD in Economics at University College London and is a part-time researcher at the Institute of Fiscal Studies. His research interests are in the fields of labour economics, health economics and program evaluation. He is currently working on the impact of social networks on health care utilization both in developed and developing countries. He is also analysing the determinants of the transition from wage employment to self-employment before the retirement in the US and in Europe.
- ACHILLE BASILE** is Professor of Mathematics and Chairman of the Faculty of Economics at the University of Naples Federico II. Recent publications include “On a Marinacci Uniqueness Theorem for Measures” (with Anna Avallone) published in *Journal of Mathematical Analysis and Applications*, “Coalitional economies with public projects” (with Maria Gabriella Graziano and Anna De Simone), *Social Choice and Welfare*, and “On a Linearity Theorem for Measures” (with Anna Avallone), *Scientiae Mathematicae Japonicae*.
- ALBERTO BENNARDO** is Professor of Economics at the University of Salerno and CEPR Research Affiliate. His research fields are Microeconomic Theory and Applied Contract Theory. His paper “Bertrand and Walras Equilibria with Moral Hazard” (with André Chiappori) appeared in 2003 in the *Journal of Political Economy*. His current work focuses on the analysis competitive markets with endogenous uncertainty (his paper “Competitive Markets with Endogenous Health Risks”, with Salvatore Piccolo, appeared in 2005 as CEPR Discussion Paper); on the analysis of information sharing in financial markets, where common agency relationships between market players determine market outcomes; and on the effects of information gathering in perfectly and imperfectly competitive financial markets.
- SALVATORE CAPASSO** is Associate Professor of Economics at Parthenope University (Naples). In the last two years he has also been a Research Fellow at the University of Santiago de Compostela, Spain and, in 2006, a Visiting Professor at the University of Wisconsin-Milwaukee. He holds a Ph.D. in Economics from the University of Manchester. His fields of research are economic growth, contract theory, monetary economics and theory of financial intermediation.

His latest research focuses on the relationship between criminal activity, corruption and growth and on the role of the underground economy in economic development. Latest publications include: "Stock Markets Development and Economic Growth", in *Domestic Resource Mobilization and Financial Development*, McGraw Hill; "Crime, Inequality and Economic Growth" in *Innovation, Unemployment and Policy in the Theories of Growth and Distribution*, Edward Elgar; "Financial Development, Financing Choice and Economic Growth", in the *Review of Development Economics* (with Blackburn and Bose), and "Financial Markets Development and Economic Growth: Tales of Informational Asymmetries", in the *Journal of Economic Surveys*.

GIOVANNI CESPÀ is Associate Professor of Economics at the University of Salerno 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 ("Information Sales and Insider Trading with Long-Lived Information," forthcoming in the *Journal of Finance*) he characterizes the patterns of price efficiency and depth in a dynamic market where information is provided by a financial analyst, and contrasts them to those arising in a market where an insider trades, showing that the quality of the former market always dominates that of the latter. In his research he has also studied efficiency properties of stock market mechanisms ("A Comparison of Market Mechanisms," *RAND Journal of Economics*, 2004), the conditions leading to demand anomalies in multi-asset noisy rational expectation equilibria ("Giffen Goods and Market Making", *Economic Theory*, 2005) 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). 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). His ongoing research focusses on bubbles (with Xavier Vives-IESE) and on the sales of information by stock exchanges (with Thierry Foucault-HEC).

GIACINTA CESTONE is Associate Professor of Economics at the University of Salerno and a CEPR Research Affiliate. She holds a Ph.D. in Economics from the Université de Toulouse and has been Assistant Professor of Economics at the Institut d'Anàlisi Econòmica (Barcelona) from 1999 to 2005. Her research focuses on corporate finance, corporate governance and industrial organization. Part of her work deals with the interaction between firms' financial decisions and product market competition ("Anticompetitive Financial Contracting: The Design of Financial Claims", with Lucy White, *Journal of Finance* 2003, and "The Strategic Impact of Resource Flexibility in Business Groups", with Chiara Fumagalli, *RAND Journal of Economics* 2005). She also contributed to the literature on venture capital finance. An ongoing paper with Josh Lerner and Lucy White analyzes the impact of double-sided asymmetric information on venture capital syndicate arrangements. She has also investigated the relationship between corporate social responsibility and corporate governance in a joint paper with Giovanni Cespa currently under revision. Her latest paper (joint with Salvatore Piccolo and Maria Grazia Romano) studies the relationship

between innovation incentives and product market competition in a model where contractual parties are unable to observe the value of a firm's innovation.

MARIA CONCETTA CHIURI is Associate Professor of Economics at the University of Bari. Her research interests focus on family economics, home ownership and migration. During 2006 she published four articles on *The Review of Economics of the Household* based on a joint project with O. Bargain, M. Beblo, D. Beninger, R. Blundell, R. Carrasco, F. Laisney, V. Lechene, E. Longobardi, N. Moreau, M. Myck, J. Ruiz-Castillo, F. Vermeulen. She has recently completed a book on irregular migration with N. Coniglio and G. Ferri, that will appear in early 2007 by Il Mulino. She also finished a paper with Tullio Jappelli entitled "Do the elderly reduce housing equity? An international comparison" (CSEF Working Paper n. 158).

DIMITRIOS CHRISTELIS is a Research Fellow for the Study of Health, Aging and Retirement in Europe (SHARE). He obtained his Ph.D in Economics from the University of Pennsylvania in 2003. He is currently working on household portfolio choice, imputation of missing data and estimation of models of firm investment. His paper "Cognitive Ability and Portfolio Choice" (co-authored with Tullio Jappelli and Mario Padula) appeared in 2006 as CSEF Working Paper No. 157.

PAOLO COCCORESE is Associate Professor of Economics at the University of Salerno. He holds a Ph.D. in Economics from the University of Naples Federico II. His current research focuses on the theory of industrial organisation, the market structure of the banking industry, and the role of financial markets on economic growth. Recent publications include: "Banking Competition and Macroeconomic Conditions: a Disaggregate Analysis", *Journal of International Financial Markets, Institutions and Money*, 2004; "Competition in Markets with Dominant Firms: A Note on the Evidence from the Italian Banking Industry", *Journal of Banking and Finance*, 2005; "Dynamical Systems and the Arising of Cooperation in a Cournot Duopoly" (with V. Cafagna), *Chaos, Solitons and Fractals*, 2005.

MARCELLO D'AMATO is Professor of Economics at the University of Salerno. His current research focuses on Central Bank institutions, the political economy of social security, and on education choice and social mobility. He has recently published "Credibility and Commitment in Open Economies", *European Journal of Political Economy*, (with R. Martina), 2005. Recent working papers include: "On the Determinants of Central Bank Independence", *Materiali di Discussione n. 505*, (with B. Pistoiesi e F. Salsano), 2005; "Entry deterrence with Unobservable Investment: Revisiting Limit Pricing", *Materiali di Discussione n. 509*, (with L. Brighi e S. Piccolo), 2005; "Endogenous Managerial Contracts", CSEF Working Papers 148 , (with R. Martina e S. Piccolo), 2005.

ELENA L. DEL MERCATO is Assistant Professor of Mathematics at the University of Salerno. She holds a PhD in Mathematics for Economic Decisions from the University of Pisa. Her current research focuses on externalities and public goods in general equilibrium and cooperative game theory. Last year she published "Existence of Competitive Equilibria with Externalities: a Differential Viewpoint", *Journal of Mathematical Economics*; "Taxes and Money in Incomplete Financial Markets" (with Antonio Villanacci), *Decisions in Economics and Finance*, 2006. The paper "Edgeworth and Lindahl Equilibria of a General Equilibrium Model with Private Provision of Public Goods" (with Monique Florenzano) is forthcoming in *Journal of Public Economic Theory*. Recent working papers include "The Core of a Coalitional Exchange Economy" and "Possibility Functions and Regular Economies" (with Jean-Marc Bonnisseau). She is currently Associate Member of the ESF Network on "Public Goods, Public Projects and Externalities".

SERGIO DESTEFANIS is Professor of Economics at the University of Salerno. He holds a Ph. D. in Economics from the University of Cambridge. He is a member of the Executive Committee of the Italian Association of Labour Economics, and heads the Ph.D. Programme in Economics at the University of Salerno. His research focuses on the macroeconomic analysis of the labour market, the quantitative analysis of productive processes, and growth and development in dualistic economies. His 2006 publications include a paper (with Vania Sena) on the impact of corporate governance on firm performance in *Managerial and Decision Economics*, a paper (with Raquel Fonseca) on the impact of labour-market reforms on the Italian Beveridge Curve in Labour, a book on *The European Labour Market. Regional Dimensions*, edited with Floro Ernesto Caroleo for Physica Verlag. His current research deals with the comparison of American and European labour markets (with Raquel Fonseca and Ronald Warren), the impact of business incentives on manufacturing firms, and the productive efficiency of nonprofit organisations (with Ornella Wanda Maietta).

CARLO FAVERO is Professor of Economics at Bocconi University and a CEPR Research Fellow. His current research interests are the interaction between macroeconomic and financing in interpreting and forecasting the term structure of interest rates, fiscal policy and the term structure, and the impact of demographic factors on stock market trends. Last year he published "Taylor Rules and the Term Structure" in the *Journal of Monetary Economics*, and "Financial Factors, Macroeconomic Information and the Expectations Theory of the Term Structure of Interest Rates" in the *Journal of Econometrics* (with Carriero and Kaminska). He also edited a special issue of the *Journal Econometrics* on The Econometrics of Macroeconomics, Finance, and the Interface (with Diebold, Engle, Gallo and Schorfheide).

CHIARA FUMAGALLI is Associate Professor of Economics at Bocconi University and a CEPR Research Affiliate. She holds a Ph.D. in Economics from Universitat Pompeu Fabra. Her research focuses on industrial organization, in particular on competition policy issues and on multinational firms. Part of her work deals with the interaction between firms' financial decisions and competitive behaviour. Her paper with Giacinta Cestone "The Strategic impact of resource flexibility in business groups", has been published last year in the *RAND Journal of Economics*. In a related paper with Giacinta Cestone, she studies how internal capital markets affect multi-market competition between diversified corporate groups. She has also contributed to the literature on exclusive dealings. A recent paper with Massimo Motta ("Exclusive Dealing and Entry, when Buyers Compete"), forthcoming in the *American Economic Review*, shows that exclusive contracts can deter efficient entry only if competition in the downstream market is sufficiently weak. In an ongoing paper with Massimo Motta and Lars Persson ("Exclusive Dealing, Entry and Mergers", CEPR DP 4902) she studies the welfare effects of exclusive contracts when mergers are an entry option. Part of her work focuses on multinational corporations. In a paper appeared in 2003 in the *European Economic Review* ("On the Welfare Effects of Competition for FDI") she studies under which conditions competition among jurisdictions in order to attract a foreign firm can be welfare beneficial.

VINCENZO GALASSO is an Associate Professor of Economics at Bocconi University, a research fellow of IGER, research affiliate of CEPR and an associate editor of the *European Journal of Political Economy*. His current research focuses on the political economy of structural reforms, and on welfare state and pension reforms. In 2006, he published the book *The Political Future of Social Security in Aging Societies*, with MIT Press, and the book *Structural Reforms Without Prejudices*, with Oxford University Press, edited with Boeri, Castanheira and Faini. He has also been a consultant at the OECD, and in April 2006 he published "The Political Economy Of Structural Reform: Empirical Evidence From Oecd Countries", OECD Eco Working Paper, 7/2006 (with TT Dang, J. Hoj and G. Nicoletti). In October 2006, he was awarded the Marjolin Prize 2006 for the best paper at the 2006 SUERF meetings for the paper "Postponing Retirement: the Political Push of Ageing".

GIOVANNI IMMORDINO Is Associate Professor of Economics at the University of Salerno. He holds a Ph.D. in Economics from the University of Toulouse. He is currently working on the design and enforcement of the law (with Marco Pagano), on the relationship between the optimal flexibility of the law and the private initiative (with Marco Pagano and Michele Polo), on the relationship between auditing standards and corporate governance (with Marco Pagano), on the association between discounting and risk of expropriation (with Mario Padula) and on the relationship between foreign direct investment and different advertising strategies. In 2005 he published "Hormone Beef, Chlorinated Chicken, and International Trade" (with Giacomo Calzolari) in the *European Economic Review* and "Uncertainty and the Cost of Reversal" in the *Geneva Risk and Insurance Review*.

TULLIO JAPPELLI is Professor of Economics at the University of Naples Federico II, Research

Fellow of CEPR, Research Associate of the Center for Financial Studies (CFS, Frankfurt), and member of the Council of the European Economic Association. His current research focuses on pension reforms, household portfolio choice and the effect of information sharing on credit markets performance. In 2006 he published "Intertemporal Choice and Consumption Mobility," with Luigi Pistaferri, in the *Journal of the European Economic Association*; "Retirement Expectations, Pension Reforms, and their Effect on Private Wealth Accumulation," with Renata Bottazzi and Mario Padula, in the *Journal of Public Economics*; "Role and Effects of Information Sharing in Credit Markets," with Marco Pagano, in *The Economics of Consumer Credit: European Experience and Lessons from the US*, edited by Bertola, Disney and Grant for MIT Press. Last year the following papers have been accepted for publication: "Do People Respond to Tax Incentives? An Analysis of the Italian Reform of the Deductibility of Home Mortgage Interest," with Pistaferri, is forthcoming in the *European Economic Review*; "Health Care Quality, Economic Inequality and Precautionary Saving," with Pistaferri and Guglielmo Weber, is forthcoming in *Health Economics*; "The Impact of Perceived Public School Quality on Private School Choice," with Daniele Checchi, is forthcoming in the MIT Press volume *Schooling and Human Capital Formation in the Global Economy*, edited by Peterson and Woessman. Currently, he is studying the effect of credit information sharing in transition economies with Marco Pagano and Martin Brown (Swiss National Bank); portfolio data of Europeans age 50+ with CSEF Fellows Dimitris Christelis, Mario Padula and Renata Bottazzi; the effect of investment in financial information on portfolio performance with Luigi Guiso.

MASSIMO MARRELLI is Professor of Public Economics at the University of Naples Federico II. He holds a Ph.D. in Economics from 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 collusion in repeated auctions with no side payments and on the relation between the efficiency and the complexity of legal systems (with Francesca Stroppolini).

RICCARDO MARSELLI is Professor of Economics at Parthenope University (Naples). His research focuses on the evaluation of courts' efficiency with non-parametric techniques and the estimation of education production functions. He is currently involved in two research projects: (i) the assessment of the economic costs of crime in Italy and (ii) the role of the education system and active labor market policies in fostering employment opportunities. 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 Federico II. He received a Ph.D. in Economics from the University of Naples. His research interests are mainly in the areas of Industrial Organization and Public Economics. Last year he published "Credibility and Commitment in Open Economies" in the *European Journal of Political Economy* (with Marcello D'Amato). Recently he completed a paper on the relationship between corruption and tax evasion (with Antonio Acconcia and Marcello D'Amato) and a paper 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 Associate Professor of Economics at the University of Salerno. She received a Master and a Ph.D in Economics from the University of York. Her research interests focus on financial economics, contract theory, incomplete contracts. In 2006, the paper "Liars and Inspectors: Optimal Financial Contracts when Monitoring is Unobservable", joint with Peter Simmons, has appeared in *Contributions to Theoretical Economics* (BEJTE Journals). The paper "Third Parties, Information Disclosure and Monitoring Incentives", is forthcoming in the *Scottish Journal of Political Economy*, while "Trade Credit, Collateral Liquidation and Borrowing Constraints, joint with Daniela Fabbri, is currently under revision. In 2006 she has been visiting the University of York, working on a joint project with Simmons on the role of precontractual information gathering as a substitute for postcontractual monitoring.

JULIAN MESSINA joined CSEF in September 2005 with a Marie Curie Post-Doctoral Fellowship. He received a Ph.D in Economics at the European University Institute in 2002. He is an IZA Fellow and worked at the Research Department of the European Central Bank from September 2001. His research interests include the macroeconomics of product and labour market institutions, and labour economics. In current research he studies the extent of wage rigidities in European countries, the effects of different labour market institutions in the determination of human capital investments, employment and wage dynamics. His work has been recently published or is forthcoming in the *Journal of Economic Perspectives*, *European Economic Review*, *Labour Economics*, and *Labour*.

NIALL O'HIGGINS is an Associate Professor of Economics at the University of Salerno. He holds a Ph. D. in Economics from the European University Institute in Florence. His research interests cover various areas of principally labour economics. He is currently working on home-leaving and labour market entry of young people, returns to education in Central & Eastern Europe, temporary employment contracts for young people, attrition in the Capitalia manufacturing panel (with Annamaria Nese), causes and consequences of adolescent obesity (with Adriana Barone), intra-household inequality (with Fernanda Mazzotta), age-wage profiles (with Rosa de Nicola) and an experimental investigation of learning behaviour (with Patrizia Sbriglia). In 2006 he published a book (with Andrey Ivanov et al.) *At Risk: Roma and the Displaced in Southeast Europe: Dimensions of Vulnerability*, UNDP, Bratislava, 2006 and an article, "Education and Employment Opportunities for the Roma," in *Comparative Economic Studies*.

- MARIO PADULA** is Associate Professor of Econometrics at the University of Salerno. He has a Master in Economics from Bocconi University 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, and the effect on credit allocation of law enforcement. He is involved in several international projects on saving, retirement and health. In 2006 he published "Retirement expectations, pension reforms, and their impact on private wealth accumulation," joint with Renata Bottazzi and Tullio Jappelli in the *Journal of Public Economics*.
- 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 2006, he published two articles: "IPO underpricing and after-market liquidity" (with Andrew Ellul), *Review of Financial Studies*, and "Shareholder Protection, Stock Market Development, and Politics" (with Paolo Volpin), *Journal of the European Economic Association*. He also published "Legal Determinants of the Return on Equity" (with Davide Lombardo), in an Elsevier volume *Corporate and Institutional Transparency for Economic Growth in Europe*, edited by Lars Oxelheim and "Role and "Effects of Credit Information Sharing" (with Tullio Jappelli), in *The Economics of Consumer Credit: European Experience and Lessons from the US*, edited by Giuseppe Bertola, Richard Disney and Charles Grant. Finally, he revised two papers "Where is the Market? Evidence from Cross-Listings in the U.S." (with Michael Halling, Otto Randl, and Josef Zechner) and "Optimal Auditing Standards" (with Giovanni Immordino), and completed the first version of two new papers: "Norm Flexibility and Private Initiative" (with Giovanni Immordino and Michele Polo), and "Information Sharing and Credit Market Performance: Firm-Level Evidence from Transition Countries" (with Martin Brown and Tullio Jappelli).
- MARCO PAGNOZZI** is Assistant Professor of Economics at the University of Naples Federico II. He received a D.Phil. in Economics from Oxford University in 2003 and a Ph.D. in Applied Mathematics from the University of Naples Federico II in 2000. His research focuses on auction theory and its application to the sale of public assets. In 2006 three of his papers have been accepted for publication: "Bidding to Lose? Auctions with Resale" in *RAND Journal of Economics*; "Are Disadvantaged Bidders Doomed in Ascending Auctions?" in the *Journal of Industrial Economics* (Notes & Comments); and "Overbidding to Harm Competitors: Sequential Auctions with Budget Constraints" in the *Rivista di Politica Economica*. He is currently working on two research projects: the first one on the role of speculators in multi-object auctions, and on their effects on the seller's revenue; the second one, with Rossella Argenziano, on the advantages of sharing private information in a dynamic model of learning. In September 2006 he has been awarded the SIEP prize for the best paper presented at the annual meeting of the Italian Society of Public Economics.

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 primary research interests are labour economics and macroeconomics, with a particular emphasis on the role of institutions. Last year he published "The Effects of Employment Protection and Product Market Regulations on the Italian Labor Market" (with Adriana Kugler), (2006), in the volume *Labour Market Adjustments in Europe*. The paper "Effects of Employment Protection on Job and Worker Flows: Evidence from the 1990 Italian Reform" (with Adriana Kugler) has been accepted for publication in *Labour Economics*. Recently, he completed a paper on the "Effects of Employment Protection Legislation on Wages: a Regression Discontinuity Approach" (with Marco Leonardi), that was awarded the "Ezio Tarantelli" prize by the Italian Association of Labour Economists for the best paper of the year.

SALVATORE PICCOLO is Assistant Professor of Economics at the University of Salerno and currently visiting IDEI in Toulouse. In 2006 he completed his Ph.D. in Economics at Northwestern University. Salvatore also holds a Master in Economics and Finance from the University of Naples and a Master in Mathematical Economics from the University of Toulouse. His research focuses on contract theory and mechanism design, with applications to industrial organization, auctions, banking and general equilibrium theory. His doctoral thesis is based on three essays analyzing the private and welfare properties of incomplete contracts in competitive environments with information asymmetries. Last year Salvatore published "Resale Price Maintenance under Asymmetric Information" (with D. Martimort) in *International Journal of Industrial Organization*, while the paper "Vertical Restraints under Asymmetric Information: on the Role of Participation Constraints" (with A. Acconcia and R. Martina) has been accepted in the *Journal of Industrial Economics*. Recently, he also completed a project with David Martimort analyzing the role of incomplete contracts in competing hierarchies environments. He has also started three new projects: on common agency and banking (with Alberto Bennardo and Marco Pagano); on collusion and endogenous leadership (with D. Martimort); and on competition and R&D incentives (with G. Cestone and M. Romano).

MICHELE POLO is Professor of Economics at Bocconi University and Dean of the Institute of Economics. He holds a M.Sc. (with Distinction) at LSE and a PhD at Bocconi University. He has published in international journals on Industrial Organization, antitrust and regulation. He is fellow of IGIER and member of the Economic Advisory Group on Competition Policy at the DG Competition (European Commission). In 2005 he has published the Report *An Economic Approach to Artiche 82* (with J. Gual, M. Hellwig, A. Perrot, P. Rey, K. Schmidt, R. Stemberka), for the DG Competition, European Commission. He has also published the volume *Antitrust: Economia e Politica della Concorrenza* (Il Mulino, Bologna) joint with Massimo Motta and the paper *Regulation for Pluralism in the Media Markets*, in P. Seabright J. von Hagen (eds.) *Regulation of Media Markets*, Cambridge U.P. forthcoming 2006. Among the recent working papers in 2005/6 he has

worked on “Norms’ Flexibility and Private Initiative” (joint with M. Pagano and G. Immordino), “Take or Pay Contracts and Market Segmentation” (joint with C. Scarpa) and “Buyer Power and Quality Improvements” (joint with P. Battigalli and C. Fumagalli).

MARIA GRAZIA ROMANO is a CSEF Post-doctoral Fellow. Last year she received a Ph.D in Applied Mathematics at the University of Naples Federico II discussing a dissertation on “Informational Cascades in Capital Markets with Trading Frictions”. She also has a Master in Economics and Finance at the University of Naples Federico II and a Master in Financial Markets and Intermediaries at the University of Toulouse I. Her research focuses on market microstructure and corporate finance.

SAVERIO SIMONELLI is Assistant Professor of Economics at the University of Naples Federico II. He has a Master in Economics from the University Pompeu Fabra and a Ph.D. in Economics from the University of Naples Federico II. In 2006 he has been Jean Monnet Fellow at the European University Institute of Florence. His current research focuses on real business cycle, dynamic factor models and forecasting in real time. Recent papers include “Labor Market Dynamics and the Business Cycle: Structural Evidence for the United States” (with Morten Ravn) and “Do Surveys Help Forecasting GDP in Real Time? Evidence for the Euro area” (with Domenico Giannone and Lucrezia Reichlin). He is also continuing a joint project with Antonio Acconcia on the consistency between fluctuations across sectors and the identification assumption of aggregate models.

MAURO STAIANO is a CSEF Post-doctoral Fellow. He received a Ph.D. in Economics from the University of Naples Federico II with a dissertation on “Real Time Gross Settlement Systems”. He also has a Master in Economics and Finance (MEF) at the University of Naples Federico II and a Master in Economics at Universitat Pompeu Fabra. His recent research interests focus on the economic implications of the demographic transition.

FRANCESCA STROFFOLINI is Professor of Public Economics at the University of Naples Federico II. Her research focuses on: welfare theory and inequality, contract theory, regulation. Publications in this field include “Price cap Regulation and Information Acquisition” (with Elisabetta Iossa) in *International Journal of Industrial Organization* 2002; and “Price Cap Regulation, Revenue Sharing and Information Acquisition” (with E. Iossa) in *Information Economic and Policy* 2005. Recent research has investigated how the information acquisition issues affect the desirability of downstream integration in network industry characterized by an upstream regulated natural monopoly and a downstream imperfect competitive market with demand uncertainty. The working paper “Integration and Separation with Costly Demand Information” (with Iossa) shows that asymmetric information on demand favours separation but unobservability of information acquisition favours integration. She is also currently involved in a research project (with Iossa) which compares different forms of private public partnership with respect to traditional procurement in the public services sector.

Visiting Researchers in 2006

FRANCISCO JOSE CALLADO MUÑOZ is an Assistant Professor of Economics at Girona University, Spain. In 2003 he received his Ph.D. in Economics from Universidad Carlos III de Madrid with a thesis on Risk Control Measures in Monetary Policy Operations and Payment Systems. His research interests include payment systems, corporate governance, banking competition and corporate social responsibility issues. In the Fall of 2006 he visited CSEF to work under the supervision of Tullio Jappelli on issues related to the demand for cash and card usage in Spain, exploiting the new “Encuesta Financiera de las Familias” database of the Bank of Spain.

ANNA SANZ DE GALDEANO has a PhD in Economics at the European University Institute. Her primary research interest is in labour economics and health economics with a particular focus on program evaluation. At CSEF she was a recipient of a Marie Curie Fellowship, and worked on the impact of the US health insurance portability act on job-lock, the effect of parental divorce on adolescents’ cognitive development, and on the relationship between parental employment and the amount of time devoted to child care. Last year she published “Job-Lock and Public Policy: Evidence from Clinton’s Second Mandate”, in the *Industrial and Labor Relations Review*, and the Euro area wage curve in *Economics Letters* (with Jarkko Turunen). The paper “Parental divorce and student performance: evidence from longitudinal data (with Daniela Vuri) is forthcoming in the *Oxford Bulletin of Economics and Statistics*. Her current research includes evaluations of the impact of obesity on the demand for health care services, the demand for health care and health insurance in Portugal and the analyses of the effects of firm-level bargaining on the structure of Spanish wages.

THOMAS STEINBERGER received a Ph.D. from the European University Institute (Florence) in 2003. In his research he studies optimal financial and economic decisions of households and firms in dynamic settings with uncertainty. Thomas spent two years at CSEF as an RTN Marie Curie Fellow, studying the impact of public pension reform on entrepreneurial activity and the welfare impact of funding regulations for private DB pension plans. In a paper published in 2005 in the *Journal of Economic Dynamics and Control*, he shows that observed occupational choice decisions by households and returns to entrepreneurship can be captured well by a life-cycle portfolio choice model. Two other recently published papers analyse the cross-sectional distribution of wealth from a life-cycle perspective and business cycle dynamics in economies with imperfect financial markets.

Raghu Suryanarayanan was a Marie Curie postdoctoral fellow at the University of Salerno from February until August 2006. He holds a Ph.D. in Economics from the University of Chicago and joined the Economics Team at Morgan Stanley (London). His research interests include Asset Pricing and Intertemporal Choice under Uncertainty. Last year he wrote “Implications of Anticipated Regret and Endogenous Beliefs for Equilibrium Asset Prices: a Theoretical Framework.” (CSEF Working Papers n. 161) and “A Model of Anticipated Regret and Endogenous Beliefs” (CSEF Working Paper n. 162).

Here is the full list of the Working Papers published by CSEF. The papers can be downloaded from the URL <http://www.csef.it/wpcsef.htm>

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- 5 Luigi Pistaferri, *Recommendations in the Italian Labour Market: An Empirical Analysis*
- 6 Orazio Attanasio and Tullio Jappelli, *Intertemporal Choice and the Cross Sectional Variance of Marginal Utility*
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- 13 Tullio Jappelli and Marco Pagano, *The Welfare Effects of Liquidity Constraints.*

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- 14 Tullio Jappelli, *The Age-Wealth Profile and The Life-Cycle Hypothesis: a Cohort Analysis with a Time Series of Cross-Sections of Italian Households*
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- 144 Giovanni Pica, *Capital Markets Integration and Labour Market Institutions*
- 145 Alberto Bennardo and Salvatore Piccolo, *Competitive Markets with Endogenous Health Risks*
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- 148 Marcello D'Amato, Riccardo Martina and Salvatore Piccolo, *Endogenous Managerial Contracts*
- 149 Marco Pagano and Paolo Volpin, *Shareholder Protection, Stock Market Development, and Politics*
- 150 Tullio Jappelli, Mario Padula and Luigi Pistaferri, *A Direct Test of the Buffer-Stock Model of Saving*

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- 151 Sergio Destefanis and Vania Sena, *Health, Capabilities and Functioning: An Empirical Analysis for the UK*

We analyse the relationship between socio-economic variables and health outcomes for adult participants in three waves of the British Household Panel Survey from 1999 to 2001. We adopt Sen's capability approach and compute a capability index ranking individuals on the basis of their ability to transform health and economic resources into health functionings. The results show that, even when controlling for access to health resources, socio-economic variables affect significantly the health functioning in the UK. This suggests the need for more equalitarian access policies to health care facilities.

- 152 Chiara Fumagalli and Massimo Motta, *Buyers' Miscoordination, Entry, and Downstream Competition*

This paper shows that buyers' coordination failures might prevent entry in an industry with an incumbent firm and a more efficient potential entrant. If there was a single buyer, or if all buyers formed a central purchasing agency, coordination failures would be avoided and efficient entry would always occur. More generally, exclusion is the less likely the lower the number of buyers. For any given number of buyers, exclusion is the less likely the more fiercely buyers compete in the downstream market. First, intense competition may prevent miscoordination equilibria from arising; second, in cases where miscoordination equilibria still exist, it lowers the maximum price that the incumbent can sustain at such exclusionary equilibria.

- 153 Chiara Fumagalli, Massimo Motta and Lars Persson, *Exclusive Dealing, Entry, and Mergers*

We extend the literature on exclusive dealing by allowing the incumbent and the potential entrant to merge. This uncovers new effects. First, exclusive deals can be used to improve the incumbent's bargaining position in the merger negotiation. Second, the incumbent finds it easier to elicit the buyer's acceptance than in the case where entry can occur only by installing new capacity. Third, exclusive dealing reduces welfare because (i) it may trigger entry through merger whereas de-novo entry would be socially optimal (ii) it may deter entry altogether.

Finally, we show that when exclusive deals include a commitment to future prices, they will increase welfare.

154 Antonio Acconcia, *Endogenous Corruption and Tax Evasion in a Dynamic Model*

When the government provides public services necessary to production tax evasion results in some degree of income redistribution which may imply an higher or a lower level of aggregate income in the long run. The outcome mainly depends on the burden of social pressure. If the tax administration is harmed by corruptibility of some agents then the performance of the economy is also affected by the diffusion of corruption, its impact depending upon the cost of detecting a bribe agreement. When such cost varies with the stage of development, as it happens if the latter determines the level of transparency, then poverty traps may emerge and the steady state level of income will depend on the initial condition. Some implications of the model are in line with recent empirical evidence.

155 Charles Grant and Mario Padula, *Informal Credit Markets, Judicial Costs and Consumer Credit: Evidence from Firm Level Data*

How does the punishment for default affect repayment behaviour? We use administrative data provided by the leading Italian lender of unsecured credit to the household sector to investigate the effect of two potentially important factors: judicial efficiency and the availability of informal credit from family and friends. By making economic assumptions we can place upper and lower bounds on these effects. We find that the availability of informal credit reduces repayment, while variation in court enforcement has no significant effect. Moreover, households with access to informal credit are more likely to borrow from our lender

156 Monica Paiella, *The Foregone Gains of Incomplete Portfolios*

This paper estimates a lower bound to the foregone gains of incomplete portfolios, which are in turn a lower bound to the (unobserved) entry costs that could rationalize non-participation to financial markets. My estimates provide a heuristic test for the cost-based explanation of limited financial market participation: high estimates would imply implausibly high participation costs. Using the CEX and assuming isoelastic utility and a relative risk aversion of 3 or less, for the stock market I estimate an average lower bound ranging between 0.7 and 3.3 percent of consumption. Since annual total (observable plus unobservable) participation costs are likely to exceed these bounds, the cost-based explanation is not rejected by this test.

157 Dimitrios Christelis, Tullio Jappelli and Mario Padula, *Cognitive Abilities and Portfolio Choice*

We study the relation between cognitive ability and the decision to invest in stocks using the recent Survey of Health, Ageing and Retirement in Europe (SHARE). The survey has detailed data on wealth and portfolio composition of individuals aged 50+ in 11 European countries and three indicators of cognitive abilities: mathematical, verbal fluency, and recall skills. We find that the propensity to invest in stocks is strongly associated with cognitive abilities, for both direct stock market participation and indirect participation through mutual funds and investment accounts. We also find that stockholding increases with social interactions, intention to leave a bequest, and is negatively associated with health status.

158 Maria Concetta Chiuri and Tullio Jappelli, *Do the Elderly Reduce Housing Equity? An International Comparison*

We explore the pattern of elderly homeownership using microeconomic surveys of 17 OECD countries. In most countries the survey is repeated over time, permitting construction of an international dataset of repeated cross-sectional data, merging 59 national household surveys on about 300,000 individuals. We find that ownership rates decline considerably after age 60 in most countries. However, a large part of the decline depends on cohort effects. Adjusting for this, we find that ownership rates fall after age 70 by about half a percentage point per year.

Interestingly, ownership trajectories are quite similar in all countries – except Finland and Canada - and are not correlated with a wide set of indicators that we examine.

159 Antonio Acconcia and Claudia Cantabene, *A Big Push to Deter Corruption: Evidence from Italy*

During the first half of the 1990s a pool of Italian judges carried out an investigation, named Mani Pulite (literally “clean hands”), that led many people to be prosecuted and convicted because of corruption. The impact of Mani Pulite was so much influential that since then many indicators suggest a steadily decreasing path for bureaucratic corruption in Italy. This paper shows that Mani Pulite was mainly effective in deterring corruption as it broke up the feed due to infrastructure investments, mainly those related to public buildings, sanitation, and land reclamation.

160 David Martimort and Salvatore Piccolo, *The Strategic Value of Incomplete Contracting in a Competing Hierarchies Environment*

We provide a rationale for contractual incompleteness in a setting with manufacturer-retailer hierarchies. In a class of simple manufacturers-retailers economies, characterized by adverse selection and moral hazard, we show that principals dealing with (exclusive) agents who compete on a downstream market, may prefer to leave contracts silent on some (potentially) verifiable performance measures whenever certain other aspects of agents’ activity remain non-contractible. Two effects are at play once one moves from a complete to an incomplete contracting. First, reducing the number of screening instruments has a detrimental effect on principals, as it makes information revelation more costly and drives up the information rents associated to informational asymmetry. Second, it may provide principals with strategic power in that it allows to force competing hierarchies to behave in a more friendly manner on the downstream market. In contrast with previous literature, conjecturing a positive relationship between transaction costs and contracting incompleteness, it is demonstrated that equilibrium contracts display forms of incompleteness whenever agency costs are small enough. Implications on the use of vertical arrangements based on resale price maintenance in imperfectly competitive industries are also discussed.

161 Raghu Suryanarayanan, *A Model of Anticipated Regret and Endogenous Beliefs*

This paper clarifies and extends the model of anticipated regret and endogenous beliefs based on the Savage (1951) Min-max Regret Criterion developed in previous work by the same author. A decision maker chooses an action with state contingent consequences but cannot precisely assess the true probability distribution of the state. She distrusts her prior about the true distribution and surrounds it with a set of alternative but plausible probability distributions. The decision maker minimizes the worst expected regret over all plausible probability distributions and alternative actions, where regret is the loss experienced when the decision maker compares an action to a counterfactual feasible alternative for a given realization of the state. Preliminary theoretical results provide a systematic algorithm to find the solution to the decision problem and show how models of Min-max Regret differs from models of ambiguity aversion and expected utility. In particular, the solution to the decision problem can always be represented as a saddle point solution to an equivalent zero sum game problem. This new problem jointly produces the solution to the Anticipated Regret problem and the endogenous belief. We then use the endogenous belief to define the implicit certainty equivalent and to build an infinite horizon and time consistent problem for a decision maker minimizing her lifetime worst expected regrets.

162 Raghu Suryanarayanan, *Implications of Anticipated Regret and Endogenous Beliefs for Equilibrium Asset Prices: A Theoretical Framework*

This paper builds further investigates the implications of the model of Anticipated Regret and endogenous beliefs based on the Savage (1951) Min-max Regret Criterion for equilibrium asset pricing. A decision maker chooses an action with state contingent consequences but cannot

precisely assess the true probability distribution of the state. She distrusts her prior about the true distribution and surrounds it with a set of alternative but plausible probability distributions. The decision maker minimizes the worst expected regret over all plausible probability distributions and alternative actions, where regret is the loss experienced when the decision maker compares an action to a counterfactual feasible alternative for a given realization of the state. We first study the Merton portfolio problem and illustrate the effects of anticipated regret on the sensitivity of portfolio rules to asset returns. We then embed the model in a version of the Lucas (1978) economy. We characterize asset prices with distorted Euler equations and analyze the implications for the volatility puzzles and Euler pricing errors puzzles.

163 Giovanni Immordino, Marco Pagano and Michele Polo, *Norm Flexibility and Private Initiative*

We model an enforcement problem where firms can take a known and lawful action or seek a profitable innovation that may enhance or reduce welfare. The legislator sets fines calibrated to the harmfulness of unlawful actions. The range of fines defines norm flexibility. Expected sanctions guide firms' choices among unlawful actions (marginal deterrence) and/or stunt their initiative altogether (average deterrence). With loyal enforcers, maximum norm flexibility is optimal, so as to exploit both marginal and average deterrence. With corrupt enforcers, instead, the legislator should prefer more rigid norms that prevent bribery and misreporting, at the cost of reducing marginal deterrence and stunting private initiative. The greater is potential corruption, the more rigid the optimal norms.

164 Vincenzo Galasso, *Postponing Retirement: the Political Push of Aging*

Conventional economic wisdom suggests because of the aging process, social security systems will have to be retrenched. In particular, retirement age will have to be largely increased. Yet, is this policy measure feasible in OECD countries? Since the answer belongs mainly to the realm of politics, I evaluate the political feasibility of postponing retirement under aging in France, Italy, the UK, and the US. Simulations for the year 2050 steady state demographic, economic and political scenario suggest that retirement age will be postponed in all countries, while the social security contribution rate will rise in all countries, but Italy. The political support for increasing the retirement age stems mainly from the negative income effect induced by aging, which reduces the profitability of the existing social security system, and thus the individuals net social security wealth.

165 Jose Ignacio Conde-Ruiz, Vincenzo Galasso, Paola Profeta, *Early Retirement and Social Security: A Long Term Perspective*

We provide a long term perspective on the individual retirement behaviour and on the future of retirement. In a Markovian political economic theoretical framework, in which incentives to retire early are embedded, we derive a political equilibrium with positive social security contribution rates and early retirement. While aging has opposite economic and political effects on social security contributions, it may lead to postponing retirement -- by reducing the generosity of pension benefits -- unless the political effect leads to a large increase in contribution and hence higher benefits. Economic slowdowns, captured by a reduction in wage income in youth, will also induce workers to postpone retirement and to vote for less social security.

166 Salvatore Capasso, *Stock Market Development and Economic Growth: a Matter of Information Dynamics*

The aim of this paper is to provide further insights into the linkages between stock market development and economic growth. When it is not possible to distinguish between investment projects with different rates of return, market valuation of those projects is an "average value" reflecting the expected return across all investment opportunities. Consequently, as in a typical lemon's market, higher return projects are penalised since they attract lower than fair prices. This informational cost, or dilution cost, depends on the degree of informational asymmetry in the market, as well as on the type of financial contract issued by the firm to finance those

projects – typically, equity or debt. On this basis, we interpret the development of stock market as the result of a change in the level of informational costs which decrease with capital accumulation and induce firms to switch from debt financing to a less costly equity financing.

167 Luigi Guiso and Tullio Jappelli, *Information Acquisition and Portfolio Performance*

Rational investors perceive correctly the value of financial information. Investment in information is therefore rewarded with a higher Sharpe ratio. Overconfident investors overstate the quality of their own information, and thus attain a lower Sharpe ratio. We contrast the implications of the two models using a unique survey of customers of an Italian leading bank with portfolio data and measures of financial information. We find that the portfolio Sharpe ratio is negatively associated with investment in information. The negative correlation is stronger for men than women and for those who claim they know stocks well, arguably because these investors are more likely to be overconfident. We also show that investment in information is associated with more frequent trading, less delegation of portfolio decisions and less diversified portfolios. In each case, the effect of information is stronger for investors who, a priori, are suspected to be more overconfident.

168 Sergio Destefanis and Raquel Fonseca, *Labour-Market Reforms and the Beveridge Curve. Some Macro Evidence for Italy*

A matching theory approach is utilised to assess the impact on the Italian labour market of the 1997 Law Treu, which considerably eased the regulation of temporary work and favoured its growth in Italy. We re-parameterise the matching function as a Beveridge Curve and estimate it as a production frontier, finding huge differences in matching efficiency between the South and the rest of the country. The legge Treu appears to have improved matching efficiency in the North of the country, particularly for skilled workers, but also to have strengthened competition among skilled and unskilled workers, especially in the South.

169 Marco Pagnozzi, *Are Disadvantaged Bidders Doomed in Ascending Auctions?*

A bidder is said to be advantaged if she has a higher expected valuation of the auction prize than her competitor. When the prize has a common-value component, a bidder competing in an ascending auction against an advantaged competitor bids especially cautiously and, hence, the advantaged bidder wins most of the time. However, contrary to what is often argued, a disadvantaged bidder still wins with positive probability, even if his competitor's advantage is very large and even if the disadvantaged bidder has the lowest actual valuation ex-post. Therefore, the disadvantaged bidder has an incentive to participate in the auction, and the presence of a bidder with a small advantage does not have a dramatic effect on the seller's revenue.

