CSEF
Centre for Studies in Economics and Finance

ACTIVITY REPORT 2010

CENTRE FOR STUDIES IN ECONOMICS AND FINANCE
University of Naples "Federico II"
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University of Naples Federico I
University of Salerno
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What is CSEF?

The Centre for Studies in Economics and Finance (CSEF) was established by the University of Naples Federico II, the University of Salerno, and Bocconi University to perform and promote research on household choices, financial economics and microeconomic theory. The primary aim of CSEF is to link up researchers in Naples, Salerno and Bocconi with international research on these issues via seminars, conferences, exchange of researchers and joint research projects.

CSEF premises are at the Department of Economics of the University of Naples Federico II, where CSEF hosts researchers and doctoral students from other Italian and foreign universities. CSEF runs a weekly research seminar, open to faculty and doctoral students, and collaborates with the Master in Economics and Finance (MEF) at the University of Naples Federico II.

Besides strengthening the networking between its parent institutions, the Centre applies for research grants, organizes workshops and conferences, and runs research projects as an independent entity.

The Centre's administration is entrusted to **Lia Ambrosio** and **Maria Rosaria Esposito**.

News

This has been a great year for CSEF, with the younger cohort or researchers expanding, and getting important academic recognitions and professional appointments or advancements.

First of all, we are delighted to welcome three new Fellows**,** who joined CSEF in the Fall of 2010. **Marialaura Pesce**, who specializes in general equilibrium theory and holds a Ph.D. in Mathematics for Economic Analysis and Finance from the University of Naples Federico II, has been appointed Assistant Professor in Mathematical Economics in the Department of Economics of this university. **Sarah Draus**, whose research focuses on market microstructure, after obtaining a Ph.D. in Finance from the Université Paris-Dauphine has been appointed Post-Doctoral Fellow at CSEF. On the 14th of December, Sarah was awarded the 2010 Pirou/Aguirre-Basualdo prize for doctoral dissertations in economics and management by the Chancellerie des Universités de Paris. **Giovanni Walter Puopolo**, whose research focuses on asset pricing, holds a Ph.D. in Finance from the University of Lausanne and Swiss Finance Institute and has been appointed Assistant Professor of Financ at Bocconi University.

We are also very happy to report that **Francesco Flaviano Russo**, who joined CSEF in September 2009 as Post-Doctoral Fellow, has been hired as Assistant Professor by the University of Naples Federico II.

CSEF Fellows **Francesco Drago, Marco Pagnozzi**, **Giovanni Pica** and **Salvatore Piccolo** have been promoted to Associate Professors, and CSEF Fellows **Salvatore Capasso** and **Chiara Fumagalli** have been promoted to full professors.

Moreover, we wish to congratulate CSEF Fellows **Francesco Drago** and **Salvatore Piccolo** upon being awarded the Post-Doctoral Research Grant of the Unicredit and Universities Foundation.

Last but not least, in 2010 CSEF has benefited from the presence of excellent researchers who carried out joint projects with CSEF Fellows and taught in the

Master in Economics and Finance: **Andrew Ellul** (Indiana University), **Cristina Cella** (Indiana University) and **Rajeev H. Dehejia** (Tufts University).

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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), especially regarding saving, portfolio choice, retirement and labor supply.

(ii) Financial economics (banking, securities markets, corporate finance, market microstructure). Main areas of research include law and finance, corporate governance, and issues at the interface between finance and macroeconomics.

(iii) Microeconomic theory, and in particular the economics of information, contract theory, and the design of regulation.

Funding

Research projects carried out at CSEF in 2010 were funded by the Compagnia di San Paolo, the Sixth Research and Technological Development Framework Programme, the Italian Ministry of University and Research (MIUR), the Millstein Center at the Yale School of Management and the Unicredit Group.

Conferences

ACLE-CSEF Workshop on Economics and Law

Held at the Department of Economics of the University of Naples Federico II in March 2010, the workshop was organized by *Giovanni Immordino* (CSEF) and Carmine Guerriero (ACLE - Amsterdam University).

First Workshop ME@Velia

(Meetings in Economics at Velia)

The Workshop on ***Socially Wasteful and Illegal Behavior in Markets and Institutions,*** held at the Fondazione Alario in Ascea Marina on 8-12 June 2010, was organized by Nicola Persico (NYU), Alberto Bennardo (CSEF) and Anna Maria C. Menichini (CSEF).

The goal of the workshop was twofold. First, to foster exchanges of ideas between economic theorists and empirical researchers on issues at the forefront of current research. Second, to contribute to the training of Italian young researchers and graduate students by putting them in touch with young economists with a distinguished publication record. Meeting participants included a few keynote speakers, a group of invited young economists from Europe and U.S., and Italian researchers and doctoral students interested in the theme of the meeting. The keynote speakers were Luigi Guiso (EUI), Tracy Lewis (Duke University), Andy Newman (Boston University), Marco Pagano (CSEF) and Nicola Persico (NYU).

6th Csef-Igier Symposium on Economics and Institutions

On June 21-25, 2010, the Centre for Studies in Economics and Finance (CSEF) and the Innocenzo Gasparini Institute for Economic Research (IGIER Bocconi) held their annual joint Symposium on Economics and Institutions. As in past editions, the conference structure reflected the intention of leaving time for free, informal discussion, with seminars taking place in the mornings in three parallel sessions, and afternoons being reserved for more informal workshops and collaborative work. The conference program included papers in Microeconomic Theory, Finance, Industrial Organization and Applied Microeconomics.

This year the invited speakers were **Utpal Bhattacharya** (Indiana University), **Pierre-André Chiappori** (Columbia University), **Peter Cramton** (University of Maryland), **Bentley MacLeod** (Columbia University), **Pedro Santa-Clara** (Universidade Nova de Lisboa) and **Aleh Tsyvinski** (Yale University). The Workshop was organized by CSEF Fellows Carlo Altavilla, Alberto Bennardo, Carlo Favero, Giovanni Immordino, Marco Pagano and Marco Pagnozzi.

Seminars

In 2010 CSEF hosted one or two research seminars per week. Papers were presented both by invited speakers and resident researchers:

January	**Laurent Bach** (Paris School of Economics), *Why are Family Firms so Small?*
	Sarah Draus (Université Paris-Dauphine, DRM-Finance), Does Inter-Market Competition Lead to Less Regulation?
	Lucia Corno (Bocconi University), Peer Effects on Criminal Behavior. Evidence from the Homeless in Italy
	Luigi Pascali (Boston College), Banks and Development: Jewish Communities in the Italian Renaissance and Current Economic Performance
February	**Cristina Cella** (Kelley School of Business, Indiana University), *Institutional Investors and Corporate Investment*
	Marianna Caccavaio (Bocconi University), Who Gains from Financial Reforms? Evidence from the Chinese Stock Market
	Claudia Neri (Northwestern University), Strategic Thinking and Subjective Expectations in a Double Auction Experiment
March	**Raoul Minetti** (Michigan State University), Sharing Information in the Credit Market: Contract-Level Evidence from U.S. Firms (with T. Doblas-Madrid)
	Alberto Zazzaro (Università Politecnica delle Marche), *Income, Consumption and Remittances: Evidence from Immigrants to Australia* (with G. Bettin and R. Lucchetti)
	Michael Manove (Boston University), Reserve Capacity and the Fragility of Economic Networks
April	**Yael Hochberg** (Northwestern University), *The Size and Specialization of Direct Investment Portfolio*
	Julien Prat (IAE-CSIC, Barcelona), *Job Market Signaling and Empoyer Learning* (con C. Alós-Ferrer)
	Elena Carletti (EUI), *Financial Connections and Systemic Risk* (with F. Allen and A. Babus)
May	**Elisabetta Iossa** (Brunel University e Università di Roma Tor Vergata), *Contracts as Threats: on a Rationale for Rewarding a while Hoping For B* (with G. Spagnolo).
	Lorenzo Zirulia (University of Bologna), Knowledge Spillovers, Competition, and Taste for Science in a Model of R&D Incentive Provision (with N. Lacetera)
	Cristina Cella (Indiana University), *Investors' Horizons and the Amplification of Market Shocks* (with A. Ellul and M.A. Giannetti)
	Gabriele Camera (Purdue University), Institutions for Long-run Cooperation: Experiments on Markets with Frictions (with M. Casari)
	Francesco Giovannoni (Bristol University), *Reputational Bidding* (with M. Makris)
	Andrew Ellul (Indiana University), Stronger Risk Controls, Lower Risk: Evidence from U.S. Bank Holding Companies

June	**Giovanni Mastrobuoni** (Collegio Carlo Alberto), *Migration Restrictions and Criminal Behavior: Evidence from a Natural Experiment* (with P. Pinotti) **Orazio Attanasio** (University College London), *Evaluating Development Policies*
October	**Andrzej Skrzypacz** (Graduate School of Business, Stanford University), *Optimal Dynamic Auctions for Durable Goods: Posted Prices and Fire-sales* (with S. Board) **Michela Cella** (Università di Milano Bicocca), *Oligopolistic Screening and Two-way Distortion* (with F. Etro) **Arpad Abraham** (European University Institute), *Optimal Income Taxation with Asset Accumulation* (with S. Koenne and N. Pavoni) **Emanuele Tarantino (Tilburg** University), *Vertical Integration with Complementary Inputs* (with M. Reisinger) **Bruno Contini** (Università di Torino), *(Very) Long Term Youth Unemployment or Disposable Workforce?* (with E. Grand) **Esteban Jaimovich** (Collegio Carlo Alberto), *Excessive Public Employment and Rent-Seeking Traps* (with J.P. Rud)
November	**Ciro Avitabile** (University of Naples Federico II), *Citizenship, Fertility and Child Quality* **Emilio Calvano** (Bocconi), *Can Online Advertising Markets Save the Media?* (with S. Athey and J. Gans) **Marcello Pagnini** (Bank of Italy), *Information technology, banking organization and lending to SME* (with S. Mocetti and E. Sette) **Matteo Ciccarelli** (European Central Bank), *Trusting the Bankers:A New Look at the Credit Channel of Monetary Policy* (with A. Maddaloni) **Christian Traxler** (Max Planck Institute for Research on Collective Goods), *Beer, booze and brawls - Panel evidence on the causal effect of alcohol on crime in Prussia, 1882-1913* (with C. Burhop)
December	**Dino Gerardi** (Collegio Carlo Alberto), *The Role of Commitment in Bilateral Trade* **Christopher Carroll** (Johns Hopkins University), *A Tractable Model of Precautionary Reserves, Net Foreign Assets, or Sovereign Wealth Funds* (with O. Jeanne) **Sergio Beraldo** (University of Naples Federico II), *Good Standing and Cooperation* **Antonio Nicolò** (University of Padua), *Information and Elections* (with J.X. Eguia) **Alessandro Pavan** (Northwestern University), *Dynamic Managerial Compensation: On the Optimality of Seniority-based Schemes* (with D. Garrett)

ANTONIO ACCONCIA is Associate Professor of Economics at the University of Naples Federico II. In 2009 he wrote a paper on “Accomplice-Witnesses, Organized Crime and Corruption: Theory and Evidence from Italy,” together with G..Immordino, S. Piccolo and P. Rey, and in 2010 a paper on “Underpricing and distance: an empirical analysis” with L. Pennacchio and A. Del Monte. He is currently working on the effect of fiscal policy on output and consumption (with S. Simonelli e G. Corsetti) and the impact of the Italian leniency program related to mafia crimes (with S. Piccolo e G. Immordino).

CARLO ALTAVILLA is Associate Professor of Economics at the University of Naples Parthenope and Research Affiliate at CESifo (Munich). He received a Ph.D. in Economics from the Catholic University of Leuven. His research interests cover international monetary policy, time series econometrics and forecasting. In 2010 he has published: “Forecasting and Combining Competing Models of Exchange Rate Determination” (with P. De Grauwe) in *Applied Economics*; “Evaluating the Effect of Monetary Policy on Unemployment with Alternative Inflation” (with M. Ciccarelli), forecasts in *Economic Modeling*; “Non-Linearities in the Relation between the Exchange Rate and its Fundamentals” (with P. De Grauwe), in *International Journal of Finance and Economics*.

CIRO AVITABILE is a Franco Modigliani Research Fellow at the University of Naples Federico II and Junior Fellow of Netspar. He received a PhD in Economics from the University College London and also holds a PhD in Public Economics from the University of Salerno. In 2009 and 2010 he produced two CSEF Working Papers, titled “Does Conditionality Matter for Adults’ Health? Evidence from a Randomized Experiment” and “Advantageous Selection in the Private Hospital Insurance Market in Europe: Evidence on the Role of Education and Cognitive Ability”. He has also been working on the effect of health information and social norms on the demand for health services. He is currently studying the effect of legal status at birth on fertility and parental investment related decisions of immigrants.

ACHILLE BASILE is Professor of Mathematics and Chairman of the Faculty of Economics at the University of Naples Federico II. Recent publications include “Core and Equilibria in Coalitional Asymmetric Information Economies” (with C. Donnini and M.G. Graziano), in the *Journal of Mathematical Economics*, 2009, and “Economies with Informational Asymmetries and Limited Vetoer Coalitions” (with C. Donnini and M.G. Graziano) in *Economic Theory*, 2009. Last December he has been elected President of the Italian Association of AMASES (Association of Mathematics Applied to Economic and Social Sciences) for 2011-13.

MATTEO BASSI is a CSEF Post-doctoral Fellow. He received a Ph.D. in Economics from the Toulouse School of Economics, discussing a dissertation on *Behavioral Public Economics*. His current research deals with public economics, political economy and behavioral economics. In 2010 he wrote two CSEF Working Papers: “Addiction and The Role of Commitment Devices” and “ Mirrlees meets Laibson: Optimal Income Taxation with Bounded Rationality.” He is currently working on optimal taxation problems with bounded rationality (income taxation, capital taxation and commodity taxation), on the political economy of social security with time inconsistent agents and on the economics of addiction.

ALBERTO BENNARDO is Professor of Economics at the University of Salerno and CEPR Research Affiliate. His current research focuses on three themes: the effects of information sharing in credit markets with multi-bank lending; private and social incentives to gather information in perfectly and imperfectly competitive financial markets; managers second-best optimal compensation schemes in the presence of manipulation opportunities. In 2010 he revised the paper "Multiple-Bank Lending, Creditor Rights and Information Sharing", joint with M. Pagano and S. Piccolo, and produced a new paper on "Perks as Second Best Optimal Compensations", joint with P.A. Chiappori and J. Song.

SALVATORE CAPASSO is Professor of Economics at the University of Naples Parthenope. He holds a Ph.D. in Economics from the University of Manchester. His research focuses on economic growth, contract theory, monetary economics and theory of financial intermediation. Current publications include "Threshold Effects of Corruption: Theory and Evidence", forthcoming in *World Development* (joint with N. Bose and A. Murshid), and "Endogenous Information Frictions, Stock Market Development and Economic Growth", forthcoming in *The Manchester School*. His latest research focuses on the relationship between criminal activity, corruption and growth and on the role of the underground economy in economic development.

GIOVANNI CESPA is a Reader at Cass Business School and a CEPR Research Affiliate. His research focuses on market microstructure theory and corporate governance. In the former field, he has investigated the effect of short term behaviour in financial markets, the properties of different trading mechanisms, and the relationship between the sale of financial market information and insider trading in a dynamic market. In the latter (with G. Cestone), he investigated the relationship between corporate social responsibility and corporate governance. His recent research focuses on the informational properties of asset prices and consensus opinion in markets with differential information ("Dynamic Trading and Asset Prices: Keynes vs. Hayek" and "Higher Order Expectations, Illiquidity, and Short Term Trading", both with X. Vives). With T. Foucault, he also investigates the market for the sale of price and quote information by focussing on its welfare properties ("Insiders-Outsiders, Transparency, and the Value of the Ticker") and its implication for liquidity ("Dealer Attention, Liquidity Spillovers, and Endogenous Market Segmentation").

GIACINTA CESTONE is a Senior Lecturer at Cass Business School and a ECGI Research Associate. Her research focuses on corporate finance, corporate governance and industrial organization. She has investigated the interaction between firms' financial decisions and product market competition. Her current research empirically investigates how firms' product market behaviour is affected by affiliation with long-pursed business groups, in the paper "The Deep Pocket Effect of Internal Capital Markets," joint with X. Boutin, C. Fumagalli, G. Pica and N. Serrano-Velarde. She is also doing research on venture capital in her paper "Venture Capital Meets Contract Theory: Risky Claims or Formal Control?".

DIMITRIS CHRISTELIS is a Research Officer of the Survey of Health, Aging and Retirement in Europe (SHARE). He obtained his Ph.D. in Economics from the University of Pennsylvania. His recent research interests include household portfolio choice, imputation of missing data, and panel data estimation methods. Recently, he has been working on the effects of fear of terrorism on household economic decisions (with D. Georgarakos), on cross-country comparisons of smoking persistence (with A. Sanz-de-Galdeano), and on the analysis of different forms of household stockholding (with D. Georgarakos and M. Haliassos), on estimating panel discrete choice models (with R. Fonseca), and on the effect of childhood health and socio-economic status on portfolio choice in older age (with L. Dobrescu and A. Motta).

MARCELLO D'AMATO is Professor of Economic Policy at the University of Salerno. His current research focuses on the institutional design of Central Banks, the political economy of social security, education and social mobility, and managerial incentives. Recently he published "On the determinants of Central Bank independence in open economies" (with B. Pistoresi and F. Salsano), in *International Journal of Finance and Economics*, 2009, and "Political Intergenerational Risk Sharing" (with V. Galasso) in the *Journal of Public Economics*, 2010.

ELENA L. DEL MERCATO is Maître de Conférences of Mathematics at University Paris 1 Panthéon-Sorbonne (Paris), and previously Assistant Professor at the University of Salerno (2004-08). Her research focuses on market failure as incomplete markets, externalities and public goods in microeconomic theory. In 2010 she published "Externalities, Consumption Constraints and Regular Economies" (with J.-M. Bonnisseau) in *Economic Theory*. Work in progress includes "Markets for Externalities à la Arrow-Laffont: Equilibrium and Optimality" and "Externalities in Production Economies and Competitive Equilibria: Existence and Regularity" (with V. Platino).

SERGIO DESTEFANIS is Professor of Economics at the University of Salerno, where he also heads the Ph.D. Programme in Economics. He holds a Ph.D. in Economics from the University of Cambridge. Last year he has been elected President of the Italian Association of Labour Economics (AIEL). His research focuses on the macroeconomic analysis of the labour market, the quantitative analysis of productive processes, and growth and development in dualistic economies. In 2010 he published a paper with G. Mastromatteo on "Wage Inequality and Labour-market Performance. A Role for Corporate Social Responsibility?" in *International Economics,* and two papers in the *International Journal of Manpower,* one with M. Fernandez-Grela and Y. Pena-Boquete on "The Distribution of Gender Wage Discrimination in Italy and Spain: A Comparison Using the ECHP", and one with G. Mastromatteo on "Labour-market Performance in the OECD. Some Recent Cross-country Evidence". His current research deals with the relationships between technology and firm size distribution (with P. Ganugi and L. Crosato), the comparison of American and European labour markets (with R. Fonseca and R. Warren), and the evaluation of the OECD Jobs Strategy (with G. Mastromatteo).

FRANCESCO DRAGO is Assistant Professor at the University of Naples Parthenope and a Research Affiliate at IZA, Bonn. He obtained his Ph.D. in Economics from the University of Siena. His research interests are in the fields of labour economics, behavioural economics and crime. In 2009 he published "The Deterrent Effects of Prison: Evidence from a Natural Experiment," *Journal of Political Economy*, joint with R. Galbiati and P. Vertova; the paper "Prison Conditions and Recidivism," with R. Galbiati and P. Vertova, is forthcoming in *American Law and Economics Review*. He is currently involved in several research projects. With R. Galbiati he is analyzing the spillover effects and social interactions in crime using Italian micro data; with C. Traxler and F. Mengel he studies spillovers from law enforcement using micro data from Austria; with P. Buonanno, R. Galbiati and G.

Zanella he is revising a paper on the evolution and the determinants of crime rates in Europe, which was commissioned by *Economic Policy.* He is also working on "Career Consequences of Hyperbolic Time Preferences," "Social Interactions in the Classroom: a Theoretical Model of Social Status and Signaling" (with M.R. Carillo), "Crime and Social Interactions" (with R. Galbiati) and "Diffusion and Emergence of Institutions: Evidence from Italian Medieval Cities" (jwith M. Belloc and R. Galbiati).

SARAH DRAUS is a CSEF Post-doctoral Fellow. In 2009 she completed a doctorate in finance regarding the organisation and the regulation of stock markets at the University of Paris-Dauphine. She is the winner of the Pirou / Aguirre-Basualdo price for doctoral dissertations defended in economics and management, awarded by the Chancellerie des Universités de Paris. She also earned a special distinction awarded by the jury of the AFFI – NYSE Euronext price for doctoral dissertations and her doctorate was nominated for the AFFI – FNEGE thesis price. Her research focuses on competition in the stock market industry, order-flow fragmentation and the role of information disclosure requirements. Currently she is studying the effects of fragmentation of trading volume on the level of listing requirements determined by competing stock markets, the channels through which a listing decision certifies the quality of firms, and the consequences that a change in mandatory disclosure requirements on the German stock market had on the listing decisions of firms, as well as on their stock liquidity and their corporate decisions.

CARLO FAVERO holds the Deutsche Bank Chair in Quantitative Finance and Asset Pricing at Bocconi University and is a CEPR Research Fellow. His current research focuses on the interaction between theory and data for identification, specification and estimation of econometric models relevant for policy analysis and forecasting, and the interaction between demographics and financial markets. In 2009 he published "Monetary Policy Inertia. More a Fiction than a Fact?" (with A. Consolo) in the *Journal of Monetary Economics*, and "On the Statistical Identification of DSGE Models" (with A. Consolo and A. Paccagnini) in the *Journal of Econometrics*. In 2010, he published "Demographics and Stock Market Fluctuations" (with A. Tamoni) in *CESifo Economic Studies* and "How Does Liquidity Affect Bond Yields? (with M. Pagano and E.-L. Von Thadden) in the *Journal of Financial and Quantitative Analysis.* Moreover, he has four forthcoming articles: "A Spectral Estimation of Tempered Stochastic Volatility Models and Option Pricing" (with J. Li and F. Ortu) in *Computational Statistics and Data Analysis*, "Reconciling VAR based and Narrative Measures of the Tax Multiplier" (with F. Giavazzi) in the *American Economic Journal: Economic Policy*, "Term Structure Forecasting: No-arbitrage Restrictions Versus Large Information Set" (with L. Niu and L. Sala) in the *Journal of Forecasting*, and "Demographic Trends, the Dividend-Price Ratio and the Predictability of Long-Run Stock Market Returns (with A. Gozluklu and A. Tamoni) in the *Journal of Financial and Quantitative Analysis*.

CHIARA FUMAGALLI is Associate Professor of Economics at Bocconi University and a CEPR Research Affiliate. She is also special consultant of LECG. She holds a Ph.D. in Economics from Universitat Pompeu Fabra. Her research focuses on industrial organization, in particular on competition policy issues. Part of her work deals with the interaction between firms' financial decisions and competitive behaviour. In a 2009 paper with X. Boutin, G. Cestone, G. Pica and N. Serrano Velarde, she tests empirically whether internal capital market allocations affect market entry. In 2009 she published the article "On the anticompetitive effect of exclusive dealing when entry by merger is possible" (with M. Motta and L. Persson) in *The Journal of Industrial Economics*, and produced two new papers: "Exclusive dealing: the interaction between foreclosure and investment promotion" (with M. Motta and T. Ronde), which studies the welfare effects of exclusive dealing when investment promotion can interact with potential foreclosure, and "A simple theory of predation" (with M. Motta), which proposes a new rationale for predatory pricing based on the interaction between scale economies, sequential buyers and an incumbency advantage. Moreover, she has contributed to the debate on damages for exclusionary behaviour in a joint paper with J. Padilla and M. Polo, "Damages for exclusionary practices: a primer", published in *Competition Law and Enforcement of art. 82*, edited by F. Etro and I. Kokkoris, OUP, 2010.

VINCENZO GALASSO is Associate Professor of Economics at Bocconi University, Director of the Dondena Center for Research on Social Dynamics, CEPR Research Fellow and IGIER Research Fellow. He is also associate editor of the European Journal of Political Economy and member of the editorial board of the Journal of Pension Economics and Finance. His current research focuses on the interactions between fertility decisions and welfare state, on the selection of politicians and the political economy of structural reforms. In 2010 he has published "Competing on good politicians", (with T. Nannicini) forthcoming in the *American Political Science Review,* "The Political Economy of Flexicurity" (with T. Boeri and J.I. Conde-Ruiz) in the *Journal of the European Economic Association* (forthcoming) and "Political Intergenerational Risk Sharing" (with M. D'Amato) in *Journal of Public Economics*. He has served as an external consultant to the OECD for the publication "Making Reform Happens" by writing the chapter on pension and labor market reforms.

MARIA GABRIELLA GRAZIANO is Professor of Mathematics at the University of Naples Federico II. Her current research focuses on general equilibrium theory, infinite dimensional economies, economies with public goods, economies with uncertainty and asymmetric information. She has recently published the papers: "The measure of blocking coalitions in differential information economies" (with G. Bimonte) in *Economic Theory* (2009), "Core and equilibria in coalitional asymmetric information economies" (with A. Basile and C. Donnini), in *Journal of Mathematical Economics* (2009), "The Edgeworth's conjecture in finitely additive production economies" (with C. Donnini), in *Journal of Mathematical Analysis and Applications* (2009), "Economies with informational asymmetries and limited vetoer coalitions" (with A. Basile and C. Donnini), *Economic Theory* (2010); and "Coalitional fairness under asymmetric information" (with M. Pesce), *Mediterranean Journal of Mathematics* (2010). Recent working papers include: "Linear cost share equilibria and the veto power of the grand coalitions" (with M. Romaniello), accepted for publication in *Social Choice and Welfare*; "Fairness properties of constrained market equilibria" (with C. Donnini and M. Pesce); "On mixed markets with public goods" (with A. Basile and M. Pesce); and "Stable sets and public projects" (with M. Romaniello).

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 relationship between organized crime and leniency programs ("Accomplice-Witnesses and Organized Crime: Theory and Evidence from Italy" with A. Acconcia, S. Piccolo and P. Rey, 2009), the relationship between legal institutions and innovation ("Legal Institutions, Innovation and Growth", with L. Anderlini, L. Felli and A. Riboni, 2010), the role played by reciprocity in the resolution of the partnership problem ("Partnership, Reciprocity and Team Design", with G. De Marco, 2010) and the optimal way to compensate optimistic managers ("Optimal Compensation Contracts for Optimistic Managers", with A. Menichini and M. Romano, 2010). His recent research has focused on the design and enforcement of the law ("Legal Standars, Enforcement and Corruption", with M. Pagano, *Journal of the European Economic Association*, 2010; "Incentives to Innovate and Social Harm: Laissez-Faire, Authorization or Penalties?" with M. Pagano and M. Polo, recently resubmitted to the *Journal of Public Economics*.

TULLIO JAPPELLI is Professor of Economics at the University of Naples Federico II, Research Fellow of CEPR and International Fellow of Netspar (Tilburg); he is co-editor of *Economic Policy* and of the *Giornale degli Economisti*. In 2010 he published: "Does consumption inequality track income inequality in Italy?" (with L. Pistaferri), *Review of Economic Dynamics*; "Cognitive abilities and portfolio choice" (with D. Christelis and M. Padula), *European Economic Review*; "Do the elderly reduce housing equity? An international comparison" (with M.C. Chiuri), *Journal of Population Economics*; "The consumption response to income changes" (with L. Pistaferri), *Annual Review of Economics*; "Economic literacy: An international comparison," *The Economic Journal*; "Household portfolio diversification" (with C. Julliard and M. Pagano), *Studi Economici*; "Financial market integration under EMU" (with M. Pagano), in *Euro - The First Decade*, edited by Buti et al. for Cambridge University Press; "Financial Integration in Europe" (with M. Pagano) in *Encyclopedia of Financial Globalization*. With A. Brugiavini he has edited a book on households' risks and demand for insurance and has contributed (with M. Padula and G. Pica) to a volume on social mobility in Italy. Two papers have been accepted for publication: "The portfolio effect of pension reforms: evidence from Italy" (with R. Bottazzi and M. Padula) is forthcoming in the *Journal of Pension Economics and Finance*, and "Financial integration and consumption smoothing" (with L. Pistaferri) is forthcoming in *The Economic Journal*. Currently he is working on projects on accounting transparency, tax pressure and access to finance (with M. Pagano, A. Ellul and F. Panunzi), financial advise (with M. Haliassos and A. Hackethal), bequest taxation (with G. Pica and M. Padula), financial literacy (with M. Padula) and risk ambiguity (with J. Butler and L. Guiso).

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. His recent research focuses on the relationship between corruption and tax evasion, on the "second mover advantage" in multi-stage games with sequential choices, and on tax evasion and incentive contracts in oligopolistic markets.

ANNAMARIA MENICHINI is Associate Professor of Economics at the University of Salerno. Her research interests focus on financial economics, contract theory and incomplete contracts. In 2010, her paper "Trade credit, collateral liquidation and borrowing constraints" (joint with D. Fabbri) has been published in the *Journal of Financial Economics.* She is currently working on a project on the commitment problem of secured lending (with D. Fabbri). Her most recent research interests focus on behavioural contract theory, with two works appearing in the CSEF working papers series (with G. Immordino and M.G. Romano).

JACQUELINE MORGAN is Professor of Game and Decision Theory at the University of Naples Federico II. Her research includes refinement concepts for "multicriteria games" (which describe strategic interactions in which players, having more than one criterion to take into account, do not have an a-priori opinion on the relative importance of all these criteria), namely "Kalai-Smorodinsky bargaining solution equilibria" (*Journal of Optimization Theory and Applications*, 2010, with G. De Marco). She has also worked on refinement concepts for Nash equilibria based on altruistic behavior of the players that allow to exhibit a selection device between network architectures in non-cooperative social networks (*TOP*, 2009, with G. De Marco) and on refinement concepts for correlated Nash equilibria which generalize the refinement concepts introduced by the authors for Nash equilibria ("Altruistic Behavior and Correlated Equilibrium Selection", 2010 CSEF WP, with G. De Marco). The following questions have been also investigated: "lower convergence of approximate solutions to vector quasi-variational problems" in presence of perturbations on the data (*Optimization*, 2010, with M.B. Lignola and V. Scalzo) and "approximations of quasi-variational problems including social Nash equilibria in abstract economies" (2010 CSEF WP, with M.B. Lignola). She is also currently working on models for trading international emission allowances of non-cooperative countries (with F. Prieur), on existence and optimality conditions for semivectorial bilevel optimal control problems (with H. Bonnel) and on approximations in multiobjective game theory.

MARIO PADULA is Associate Professor of Econometrics at the University Ca' Foscari of Venice. He has a Ph.D. in Economics from University College London. His current research interests are pension reforms, financial literacy and saving, the effect of law enforcement on credit allocation, and household portfolio choice. In 2010 he published "An Approximate Consumption Function", in the *Journal of Economic, Dynamics and Control* and "Cognitive Ability and Portfolio Choice" (with D. Christelis and T. Jappelli) in *European Economic Review*. Several papers have been accepted for publications: The Portfolio Effect of Pension Reforms: Evidence from Italy" (with R. Bottazzi and T. Jappelli) is forthcoming in the *Journal of Pension Economics and Finance*; "Evidence on the Insurance Effect of Redistributive Taxation" (with C. Grant, C. Koulovatianos and A. Michaelides) is forthcoming in *The Review of Economics and Statistics*; "Inflation Dynamics and Subjective Expectations in the United States" (with K. Adam) is forthcoming in *Economic Inquiry*; "The Age-Productivity Gradient: Evidence from a Sample of F1 drivers" (with F. Castellucci and G. Pica) is forthcoming in *Labour Economics*. Last year he has also co-authored "Inequality in Living Standards since 1980", jointly with O.P. Attanasio and E. Battistin, published by the *American Enterprise Institute Press*.

MARCO PAGANO is Professor of Economic Policy at the University of Naples Federico II, President of EIEF, Research Fellow of CEPR and managing editor of the *Review of Finance*. In 2010 he published the following articles: "Inheritance Law and Investment in Family Firms" (with A. Ellul and F. Panunzi), *American Economic Review*; "How Does Liquidity Affect Government Bond Yields?" (with C. Favero and E-L. von Thadden), *Journal of Financial and Quantitative Analysis*; "Legal Standards, Enforcement and Corruption" (with G. Immordino), *Journal of the European Economic Association*; "Credit Ratings Failures and Policy Options" (with P. Volpin), *Economic Policy*; "Household Portfolio Diversification" (with T. Jappelli and C. Julliard), *Studi Economici*, Special

Issue in Memory of Lilli Basile. He also published the following chapters in books and encyclopedias: "Financial market integration under EMU" (with T. Jappelli) in *Euro - The First Decade*, edited by Buti et al for Cambridge University Press; "Financial Integration in Europe" (with T. Jappelli), in *Encyclopedia of Financial Globalization*; and "Market Transparency" (with A. Röell and T. Foucault), forthcoming in *Encyclopedia of Quantitative Finance*. Finally, he produced three new papers: "Finance and Employment" (with G. Pica); "Seeking Alpha: Excess Risk Taking and Competition for Managerial Talent" (with V. Acharya and P. Volpin), and "Accounting Transparency, Tax Pressure and Access to Finance" (with A. Ellul, T. Jappelli and F. Panunzi). The first has been commissioned by *Economic Policy*, the second was funded by a grant by the Millstein Center at the Yale School of Management, and the third is part of a project funded by a grant awarded by the Fondation Banque de France.

MARCO PAGNOZZI is Assistant Professor of Economics at the University of Naples Federico II. He has a Ph.D. in Economics from Oxford University and a Doctorate in Applied Mathematics from the University of Naples Federico II. His research focuses on auction theory and industrial organization. In 2009 he published "Bundling and Resale in Auctions" in the *International Journal of Industrial Organization*, and in 2010 "Are Speculators Unwelcome in Multi-Object Auctions?" in the *American Economic Journal: Microeconomics* and "On-Net/Off-Net Price Discrimination and 'Bill-and-Keep' vs. 'Cost-Based' Regulation of Mobile Termination Rates" (with D. Harbord) in the *Review of Network Economics.* His paper "Bids as a Vehicle of (Mis)Information: Collusion in English Auctions with Affiliated Values" is forthcoming in the *Journal of Economics and Management Strategy*. In 2010 he has also written a paper on "Vertical Separation with Private Contracts" (with S. Piccolo) He is currently studying the effects of resale and speculators on bidders' ability to collude in auctions; with K.J. Saral he is working on an experimental analysis of the effects of resale and speculators in multi-object auction, and with A. Rosato on a model of takeovers with endogenous targets.

MARIALAURA PESCE is Assistant Professor of Mathematics at the University of Naples Federico II, where she also received her Ph.D. in Mathematics for Economic Analysis and Finance. Her current research focuses on general equilibrium theory, economies with uncertainty and asymmetric information, economies with public goods. In 2010 she published four papers: "On mixed markets with asymmetric information" in *Economic Theory*, "A Note on the Private Core and Coalitional fairness under Asymmetric Information" (with M.G. Graziano), in *Mediterranean Journal of Mathematics*, "Existence of an interim and ex-ante minimax point for an asymmetric information game" (with N.C. Yannelis), in *Economics Letters*, and "Learning and Stability of the Bayesian – Walrasian Equilibrium" (with N.C. Yannelis), in *Journal of Mathematical Economics*. She has also recently submitted the paper "A new perspective to rational expectations: maximin rational expectations equilibrium" (with L. De Castro and N.C. Yannelis). Recent working papers include: "Fairness properties of constrained market equilibria" (with C. Donnini and M.G. Graziano), and "Mixed markets with public goods" (with A. Basile and M.G. Graziano).

GIOVANNI PICA is Assistant Professor of Economics at the University of Salerno. He received a Ph.D. in Economics from Universitat Pompeu Fabra. He specializes in labor economics, international economics and macroeconomics. In 2010 he published "Capital Markets Integration and Labor Market Institutions" in *The B.E. Journal of Macroeconomics*. He also has two forthcoming papers: “The age-productivity gradient: evidence from a sample of F1 drivers” (with F. Castellucci and M. Padula) in *Labour Economics*, and “Who’s Afraid of a Globalized World? Foreign Direct Investment, Local Knowledge and Allocation of Talents” (with J.V. Rodriguez Mora) in the *Journal of International Economics*. Current projects include also the relation between intergenerational mobility, estate taxation and economic outcomes, and the link between finance and employment, especially during banking crisis. Recent working papers include “The deep-pocket effect of internal capital markets” (with X. Boutin, G. Cestone, C. Fumagalli and N. Serrano Velarde), “Finance and Employment” (with M. Pagano), “Estate Taxation and Intergenerational Tranfers” (with T. Jappelli and M. Padula), “Who Pays for It? The Heterogeneous Wage Effects of Employment Protection Legislation (with M. Leonardi), and “It’s wages, it’s hours, it’s the Italian wage curve” (with S. Destefanis).

SALVATORE PICCOLO is Assistant Professor of Economics at the University of Naples Federico II. He holds a Ph.D. in Economics at Northwestern University. His research focuses on contract theory and mechanism design, with applications to industrial organization, auctions and banking. In 2010 he published the paper “The Strategic Value of Quantity Forcing Contracts” (with D. Martimort) in the *American Economic Journal: Microeconomics*. His paper “When Should Manufacturers Want Fair Trade: New Insights from Asymmetric Information” is forthcoming in the *Journal of Economics and Management Strategy*. He has also completed various projects on collusion, entry, information sharing and leniency programs.

MARIA GRAZIA ROMANO is Assistant Professor of Economics at the University of Salerno. She received a Ph.D in Applied Mathematics at the University of Naples Federico II. She also has a Master in Financial Markets and Intermediaries at the University of Toulouse. Her research focuses on market microstructure, corporate finance, microeconomics. In 2009 she published “Informational Cascades in Financial Economics: A Review” in the *Giornale degli Economisti e Annali di Economia* (2009). She is currently working on three research projects: with H. Sabourian she is studying herd behavior in financial markets with continuous investment decisions, with G. Cestone and S. Piccolo she is analyzing competition and R&D incentives, and with G. Immordino and A.M. Menichini emotional agency.

FRANCESCO FLAVIANO RUSSO is Assistant Professor of Economics at the University of Naples Federico II. He received a PhD in Economics from Boston University. His research focuses on informal and illegal economic markets. In the paper: “Informality: the doorstep of the legal system” he shows that the cross country differentials in the degree of entry regulation can explain the differentials size of the informal sectors, while tax and labour market regulations differentials cannot. In the paper: “Cocaine: the complementarity between legal and illegal trade” he proposes an explanation for the decreased price of cocaine in al the world’s biggest markets based on a decreased detection probability, which is a consequence of the increased flow of trade across country that makes it very costly to inspect all the shipments of legal goods. He is also involved in two research projects on the analysis of legalizing and regulating the drug market and the prostitution market.

GIUSEPPE RUSSO is Assistant Professor of Economics at the University of Salerno. He holds a Ph.D in Economic Analysis and Policy from the Paris School of Economics. His research focuses on political economy, labour market institutions, and the economics of human migrations. His latest publications include “Aggregate Employment Dynamics and (Partial) Labour Market Reforms” (with R. Jimènez-Rodriguez), *Bulletin of Economic Research*, (forthcoming), and “Selective Immigration Policies, Human Capital Accumulation and Migration Duration in Infinite Horizon” (with F. Magris), *Research in Economics* (2009). His current projects concern the credibility of immigration amnesties and the vote over selective immigration policies.

SAVERIO SIMONELLI is Assistant Professor of Economics at the University of Naples Federico II. He holds a PhD in Economics from the University of Naples Federico II, and a Master in Economics from University Pompeu Fabra. His current research focuses on real business cycle, dynamic factor models and forecasting in real-time. In 2009 he published “Nowcasting Euro Area Economic Activity in Real-Time: The Role of Confidence Indicator” (with D. Giannone and L. Reichlin), in the *National Institute Economic Review*. His recent papers include “Four Facts about Changing International Co-movements” (with H. Mumtaz and P. Surico), “The Dunlop-Tarshis Observation Revisited” (with M. Ravn), “Do Surveys Help in Forecasting GDP? Evidence for the Euro Area” (with D. Giannone and L. Reichlin) and “Investment-Specific Technology Shocks in the US and European Business Cycle”. He is currently working on the effect of fiscal policy on output and consumption (with A. Acconcia and G. Corsetti) and on short-term forecasting (with D. Giannone, L. Reichlin and C. Cicconi).

FRANCESCA STROFFOLINI is Professor of Public Economics at the University of Naples Federico II. Her research focuses on welfare theory and inequality, contract theory, and regulation. Recently she investigated how information acquisition issues affect the desirability of downstream integration in a network industry characterized by an upstream regulated natural monopoly and a downstream imperfect competitive market. She is also working on a research project that analyses the desirability of different forms of private public partnership in local public services (water sector) in various institutional settings. In 2009 she published “Access price cap mechanisms and Industry Structure with information Acquisition”, in *Rivista di Politica Economica*. Other recent papers: “Vertical Integration and Costly Demand Information in Regulated Network industries” with E. Iossa, under first revision for *Review of Industrial Organization*; “Access profit Sharing Regulation with Information Acquisition and Transmission” submitted to *Research in Economics*. In april 2010 she held an invited lecture “Information Acquisition and Investment in Regulated Network Industries: the role of regulation and public asset ownership” at the DIME Workshop *The Changing Governance of Network Industries* held at Villa Doria d’Angri in Naples.

Cristina Cella is Assistant Professor at the Stockholm School of Economics. She visited CSEF in the Spring of 2010 to teach a course on “Portfolio management: asset valuation and strategies” at the Master of Economics and Finance and to further develop her research agenda on how institutional investors' investment horizons may impact corporate policies, and stock prices. More specifically, she continued working on a paper titled “Institutional Investors and Corporate Investment” and develop a new research project titled “Investors' Horizons and the Amplification of Market Shocks” on which she also presented a seminar.

Andrew Ellul is Associate Professor at Indiana University. He visited in the Spring of 2010 to teach a course on Corporate Governance at the Master of Economics and Finance and to work on a joint project with Tullio Jappelli, Marco Pagano and Fausto Panunzi on “Accounting Transparency, Tax Pressure and Access to Finance”. He also presented a seminar on “Stronger Risk Controls, Lower Risk: Evidence from U.S. Bank Holding Companies”.

Rajeev H. Dehejia is Associate Professor at Tufts University. He visited in the of 2010 Spring to teach a course on Development Economics at the Master of Economics and Finance, a course on Development and Finance at the Capri Summer School in Economics and Finance, and to work on financial incentives and fertility – an important policy topic affecting Italy and other European countries, on which he also presented a paper at the CSEF-IGIER Symposium on Economics and Institutions.

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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241 A. Beber and M. Pagano, *Short-Selling Bans around the World: Evidence from the 2007-09 Crisis*

242 G. De Marco and J. Morgan, *On Multicriteria Games with Uncountable Sets of Equilibria*

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243 T. Jappelli, M. Padula, G. Pica, *Estate Taxation and Intergenerational Transfers*

We estimate the effect of estate taxation on bequests exploiting a sequence of Italian reforms culminating with the reduction of estate taxes in 1999 and their abolishment in 2001. We use the 1993-2006 Survey of Household Income and Wealth, which has data on real estate transfers received, and information on potential donors as well as recipients. The sample includes data on 34,885 owners of real estate wealth and 120,686 potential donors. Differences-in-differences estimates indicate that the abolition of estate taxes has increased the probability of observing real estate transfers by about 2 percentage points, and square meters transferred by about 4 points. However, comparison between the stock of transfers received over the lifetime and the annual flow of transfers, and analysis that distinguishes between bequests and gifts suggest that the effect is mostly driven by tax avoidance and reporting behavior.

244 A. Bennardo, P.-A. Chiappori, J. Song, *Perks as Second Best Optimal Compensations*

The finance literature views perks either as productivity enhancing expenditures or as a result of poor managerial control by shareholders. Using a corporate jet to attend a business meeting may be justified because of the returns generated for the firm; but flying on the same jet to reach a vacation resort reflects a misappropriation of the firm's resources by the manager. Our paper challenges this view. We argue that complementarity between leisure and wages creates difficult incentive problems, because the bonuses or stock options that reward success increase the marginal disutility of effort. In such a context, we show that whenever there exist commodities ('perks') that are substitute to leisure (or even less complementary to leisure than money), the optimal incentive scheme involves overprovision of such commodities, in the sense that the agent should consume more of them that she would elect to, should she be given a choice between money and perks at the current market prices. This conclusion is valid even when perks must be provided independently of the manager's performace. Finally, we discuss the role of governance by introducing manipulations a la Peng and Röell (2006), and show that, in contrast with standard intuition, perks are used even when governance is perfect, and poorer governance may result in less perks being offered to the agent.

245 C. Donnini, M.G. Graziano and M. Pesce, *Fairness Properties of Constrained Market Equilibria*

This paper studies the notion of fairness in pure exchange economies involving uncertainty and asymmetric information. We propose a new concept of coalitional fair allocation in order to solve the tension that may exist between efficiency and envy-freeness when the equity of allocations is evaluated at the {\it interim} stage. Some characterizations of constrained market equilibria are derived extending the analysis to economies that have both an atomic and an atomless sector.

246 C. Avitabile, I. Clots-Figueras and P. Masella, *The Effect of Birthright Citizenship on Parental Integration Outcomes*

This paper provides empirical evidence on whether child legal status at birth affects the level of cultural integration of immigrant parents with native community. We consider the 1999 reform of the German nationality law, which introduced birthright citizenship for children born in Germany to non-German citizen parents. Our results show that changes in the rules that regulate child citizenship have significantly increased parents' propensity to establish contacts with German citizens and use the German language. The effect on parents' integration varies according to the initial endowment of human capital and the level of integration in their local ethnic community.

247 S. Destefanis and G. Pica, *It's Wages, it's Hours, it's the Italian Wage Curve*

Using data from the Bank of Italy's Household Survey we find that a wage curve exists in Italy after the 1992-93 wage reforms for annual and monthly wages but not for hourly wages.

Consistently, after the reforms we find a negative elasticity of annual hours and months worked with respect to the unemployment rate.

248 M.G. Graziano and M. Romaniello, *Linear Cost Share Equilibria and the Veto Power of the Grand Coalition*

We consider pure exchange economies with finitely many private goods involving the choice of a public project. We discuss core-equivalence results in the general framework of non-Euclidean representation of the collective goods. We define a contribution scheme to capture the fraction of the total cost of providing the project that each blocking coalition is expected to cover. We show that for each given contribution scheme defined over the wider class of Aubin coalitions, the resulting core is equivalent to the corresponding linear cost share equilibria. We also characterize linear cost share equilibria in terms of the veto power of the grand coalition. It turns out that linear cost share equilibria are exactly those allocations that cannot be blocked by the grand coalition with reference to auxiliary economies with the same space of agents and modified initial endowments and cost functions. Unlike the Aubin-type equivalence, this characterization does not depend on a particular contribution scheme.

249 S. Piccolo and M. Reisinger, *Exclusive Territories and Manufacturers' Collusion*

This paper highlights the rationale for exclusive territories in a model of repeated interaction between competing supply chains. We show that exclusive territories have two countervailing effects on the incentives for manufacturers to sustain tacit collusion. First, granting local monopolies to retailers distributing a given brand softens inter- and intrabrand competition in a one-shot game. Hence, in repeated interaction the punishment profit after deviation from the collusive agreement is larger, thereby rendering deviation more profitable. Second, exclusive territories stifle deviation profits because retailers of competing brands can adjust their pricing decisions to the wholesale contract offered by a deviant manufacturer, whilst intrabrand competition would prevent this .instantaneous reaction' mechanism. We show that the latter effect tends to dominate the former, whereby making exclusive territories a more suitable organizational mode to sustain cooperation between manufacturers. We also argue that these effects emerge only if manufacturers engage in information sharing about wholesale contracts, and show that they indeed always choose to do so in equilibrium. Otherwise, the strategic effects are absent and exclusive territories are of no use. Thus, the paper provides insights on the way exclusive territories and information sharing between supply chains should be bundled to improve manufacturers' profits.

250 S. Piccolo, *A Note on Free Entry under Uncertainty: on the Role of Asymmetric Information*

In a model of competing managerial .rms I show that the equilibrium number of firms decreases with uncertainty if entry is relatively more costly than monitoring. The result adds to the earlier theoretical contributions and is consistent with the available evidence.

251 M. Pagnozzi and S. Piccolo, *Vertical Separation with Private Contracts*

We consider a manufacturer's incentive to sell through an independent retailer, rather than directly to final consumers, when contracts with retailers cannot be observed by competitors. If retailers conjecture that identical competing manufacturers always offer identical contracts (symmetry beliefs), vertical separation by all manufacturers is an equilibrium, and it results in higher consumers' prices and manufacturers' profits. Even with private contracts, vertically separated manufacturers reduce competition by inducing less aggressive behaviour by retailers in the final market. We characterize a condition for manufacturers' profits to be higher with private than with public contracts. Our results hold both with price and with quantity competition, and do not hinge on retailers' beliefs being perfectly symmetric.

252 A. Frino, M.G. Romano, *Transaction Costs and the Asymmetric Price Impact of Block Trades*

The article examines the impact of transaction costs on the trading strategy of informed institutional investors in a sequential trading market where traders can choose to transact a large or a small amount of stock. The analysis shows how the trading strategy of informed investors and the price impact of their trades depends on market conditions. The main prediction of the model is that institutional buyers are, on average, more aggressive than institutional sellers in bearish markets and less aggressive in bullish markets. Hence, the price impact is higher for purchases when market conditions are bearish, while it is higher for sales when market conditions are bullish. However, this asymmetry vanishes during strongly bearish or bullish phases, when information-based orders stop because the informational advantage of institutional investors becomes too small with respect to the transaction costs.

253 F.F. Russo, *Cocaine: The Complementarity Between Legal and Illegal Trade*

The smuggling cost of an imported illegal good decreases as the volume of legally imported goods increases. First because more imports are typically associated to an increased number of transporters, which is an increased supply of potential smugglers. Second because, as the number of shipments increases, the individual inspection probability decreases, lowering the risk born by the smugglers and thus their compensation. I test this theory using data on the market for cocaine, finding empirical support: in a panel of countries, an increased volume of imports is robustly associated to a decreased price of cocaine. Legal and illegal trade appear to be complementary.

254 F.F. Russo, *Tax Evasion and Community Effects in Italy*

I propose an analysis of tax evasion in Italy using the data collected by the website evasori.info. This site collects reports by random internet users of the transactions in which they were involved that, lacking any legal receipt, were hidden from the tax authority. I interpret this experiment as a test of the attitude towards tax evasion by the community in which the tax offender operates: less reported episodes are an indication of a more lenient attitude. Since a more lenient attitude of the community is a lower cost of evading taxes, a smaller number of reports must be associated to less tax evasion. I show that the data confirm this claim. I also show that the presence of younger, less educated individuals and the size of the irregular labor force are associated to a more lenient attitude towards tax evasion.

255 C. Fumagalli, M. Motta, *A Simple Theory of Predation*

We propose a simple theory of predatory pricing, based on incumbency advantages, scale economies and sequential buyers (or markets). The prey needs to reach a critical scale to be successful. The incumbent (or predator) has an initial advantage and is ready to make losses on earlier buyers so as to deprive the prey of the scale the latter needs, thus making monopoly profits on later buyers. Several extensions are considered, including cases where scale economies exist because of demand externalities or two-sided market effects, and where markets are characterized by common costs. Conditions under which predation may take place in actual cases are also discussed.

256 L. Anderlini, L. Felli, G. Immordino and A. Riboni, *Legal Institutions, Innovation and Growth*

We build a stylized model of endogenous technological change and analyze the relationship between legal institutions, innovation and growth. Two legal systems are analyzed: a rigid system, where an uncontingent law is written ex ante (before knowing the current technology) and a flexible system where law-makers select the law ex post (after observing the current technology). We show that flexible legal systems dominate in terms of welfare, amount of innovation and output growth in economies at intermediate stages of technological development -- which are periods when legal change is more needed -- while rigid legal systems are preferable at early stages of technological development, when commitment problems are more severe. For mature technologies the two legal systems are shown to be equivalent. Surprisingly, we find that rigid legal systems may induce excessive (greater than first-best) R&D investment and output growth.

257 G. De Marco, G. Immordino, *Partnership, Reciprocity and Team Design*

This paper studies the impact of intention-based reciprocity preferences on the free-riding problem arising in partnerships. Our results suggest a tendency of efficient partnerships to consist of members whose sensitivity to reciprocity is -- individually or jointly -- sufficiently high. Sufficient conditions for the implementation of the efficient strategy profile require a reciprocity based sharing rule such that each partner gets a fraction of the output that is a percentage of his own reciprocity with respect to the overall reciprocity in the team. Finally, we introduce the concept of psychological strong Nash equilibrium and show that it allows for the unique and collusion-proof implementation of the efficient strategy profile.

258 G. Immordino, A.M.C. Menichini and M.G. Romano, *Optimal Compensation Contracts for Optimistic Managers*

Managers with anticipatory emotions have higher current utility if they are optimistic about the future. We study an employment contract between an (endogenously) optimistic manager and realistic investors. The manager faces a trade-off between ensuring that the chosen levels of effort reflect accurate news and savoring emotionally beneficial good news. We show that optimism may exacerbate incentive problems. Specifically, investors and manager agree over the optimal news recall when the manager's weight on anticipatory utility is low. For intermediate values, there is a conflict of interest and investors bear an extra-cost to have the manager recalling bad news. For high weights on anticipatory utility, investors become indifferent between inducing signal recollection or not, and a pooling equilibrium obtains, reminiscent of adverse selection models. We then extend the analysis to the case in which the parameter capturing anticipatory utility is the manager's private information. Last, we derive interesting testable predictions on the relationship between personality traits, managerial compensation and hiring policies.

259 E. Battistin and M. Padula, *Survey Instruments and the Reports of Consumption Expenditures: Evidence from the Consumer Expenditure Surveys*

This paper provides evidence on the relevance of the collection mode for the analysis of consumption data for the United States using complementary data sets from the Consumer Expenditure Surveys (CEX). We first show that population figures from consumption reports obtained with diaries markedly differ from those obtained using recall data. We then exploit multiple measurements of food expenditure available in the CEX to identify the effects of the collection mode on important features of the distribution of consumption (not just its mean). Finally, we show how to purge the expenditure measurements from most of the effects of the collection mode and thus obtain an improved measure of consumption that combines information from multiple reports in the CEX. The paper concludes by suggesting some guidelines for empirical research that have important implications for the measurement of inequality and well being.

260 R. Jiménez-Rodríguez and G. Russo, *Aggregate Employment Dynamics and (Partial) Labour Market Reforms*

European labour markets have undergone several important innovations over the last three decades. Most countries have reformed their labour markets since the mid-1990s, with the liberalization of fixed-term contracts and temporary work agencies being the common elements to such reforms. This paper investigates the existence of a change in the dynamic behaviour of the aggregate employment for major European Union countries - France, Germany, Italy, and Spain. According to our results, partial labour market reforms have made the response of the aggregate employment to output shocks larger and quite comparable to that found for the UK - the most flexible labour market in Europe since the Thatcher reforms.

261 A. Basile, M.G. Graziano and M. Pesce, *Mixed Markets with Public Goods*

We use a mixed market model for analyzing economies with public projects in which the condition of perfect competition is violated. We discuss core-equivalence results in the general framework of non-Euclidean representation of the collective goods. We show that if large traders are similar to each other, then they lose their market power and hence the equivalence theorem can be restored. This is possible assuming a cost distribution function to fix the fraction that each large or small agent is expected to cover of the total cost of providing the project. We show that, for each given individual and coalitional contribution scheme, the resulting core is equivalent to the corresponding linear cost share equilibria. Finally, we investigate on weaker equivalences when the assumption that all large traders are of the same type is dropped. An analysis of mixed markets with public goods via atomless economies is provided, joint with an extension of Schmeidler and Vind results on the measure of blocking coalitions.

262 G. Immordino, A.M.C. Menichini and M.G. Romano, *A Simple Impossibility Result in Behavioral Contract Theory*

The paper analyses, within a moral hazard scenario, a contract between an agent with anticipatory emotions and a principal who responds strategically to those emotions. The agent receives a private signal on the profitability of the task he was hired for. If the signal is informative about the return from effort, the agent would benefit from knowing accurate news. However, if the agent derives utility from the anticipation of his final payoff, the suppression of a bad signal may induce a positive interim emotional effect. We show that it may be impossible to achieve the first-best, even though the risk-neutral parties are symmetrically informed at the contracting stage and complete contracts can be written.

263 M.G. Graziano and M. Romaniello, *Stable Sets and Public Projects*

We introduce von Neumann-Morgenstern solution concepts in market models involving the choice of a public project. We show that vN-M stable sets, suitably defined in connection to public goods provision, are consistent with results from bargaining via cartels. We find as necessary the assumption that stability is defined with respect to blocking procedures in which coalitions do not necessarily pay for the whole realization of the project, but only for a fraction of it and that costs are distributed uniformly in each corner of the market. Under this assumption, we obtain large games solutions by the finite ones via embedding procedures. Going further in the investigation of stable solutions, we define stable sets following the “sophisticated” approach suggested by Harsanyi (see [15] and [17]), proving that a sigma-sophisticated stable set corresponds to the solution in the associated payoff space.

264 S. Destefanis and G. Mastromatteo, *More Jobs? A Panel Analysis of the Lisbon Strategy*

We assess the impact on employment growth of the Lisbon Strategy, examining long-run trends in total, female and old-age employment rates from 1994 to 2009. We find that the Strategy had some favourable (but weak) impact, especially for old-age workers. However, no improvement ensued from its mid-term reassessment.

265 M. Leonardi and G. Pica, *Who Pays for it? The Heterogeneous Wage Effects of Employment Protection Legislation*

Theory predicts that the wage effects of government-mandated severance payments depend on workers’ and firms. relative bargaining power. This paper estimates the effect of employment protection legislation (EPL) on workers. individual wages in a quasi-experimental setting, exploiting a reform that introduced unjust-dismissal costs in Italy for firms below 15 employees and left .ring costs unchanged for bigger .rms. Accounting for the endogeneity of the treatment status, we find that high-bargaining power workers (stayers, white collar and workers above 45) are almost left unaffected by the increase in EPL, while low-bargaining power workers (movers, blue collar and young workers) suffer a drop both in the wage level and its growth rate.

266 M. Bassi, *Mirrlees meets Laibson: Optimal Income Taxation with Bounded Rationality*

This paper studies an optimal taxation problem in a dynamic economy inhabited by individuals who differ in productivity (as in Kocherlakota, 2006) and in the short-term discount factor. We determine incentive compatible Pareto optimal allocations in a multidimensional screening model where individuals have to report truthfully their types. Moreover, we characterize the optimal non linear tax on capital and labor income that implements such allocations in a competitive equilibrium. Two forms of bounded rationality are considered: in the first one, some individuals discount future payoffs at a higher rate than others (myopia). In this application, the planner respects consumers' sovereignty, and maximizes a Paretian social welfare function. In the second application, some individuals are time inconsistent: they systematically change future plans and regret ex-post for the lack of commitment power. We show that the marginal tax on capital income implementing the optimal allocation consists of several elements, which combine incentive compatibility and bounded rationality considerations. The resulting optimal tax is a decreasing function of both the fraction of short-sighted individuals and the intensity of myopia/hyperbolic discounting. Our results are not driven by the paternalistic behavior of the planner, but by the incentive/self control problem and the necessity of providing the right incentive to high productive, far-sighted individuals. However, when the planner would like to push hyperbolic individuals toward the right consumption/saving path, we show that the optimal marginal tax includes also a paternalistic component that further decrease the optimal tax compared to the case with only exponential agents.

267 M. Bassi, *Addiction and The Role of Commitment Devices*

This paper studies if external commitment devices are effectively capable of helping agents to reduce their consumption of addictive goods (alcohol, cigarettes, drugs, fatty foods etc.). The main assumption introduced in the model is that individuals are sophisticated hyperbolic discounters. The model shows that making easier the access to such instruments has ambiguous effects on individuals' welfare. First, hyperbolic agents purchase commitment devices less often that they wish to. Second, once the device has been purchased, consumption of addictive goods does not necessarily decrease. In particular, for mild level of addiction, commitment devices effectively reduce consumption and improve health status. However, for severe level of addiction, the consumption of the sin good increases, and the availability of commitment devices worsens the addictive problem. Finally, policy implications are derived.

268 M.B. Lignola and J. Morgan, *Approximations of Quasi-Variational Problems Including Social Nash Equilibria in Abstract Economies*

We consider quasi-variational problems (variational problems having constraint sets depending on their own solutions) which appear in concrete economic models such as social and economic networks, financial derivative models, transportation network congestion and traffic equilibrium. First, using an extension of the classical Minty lemma, we show that new upper stability results can be obtained for parametric quasi-variational and linearized quasi-variational problems, while lower stability, which plays a fundamental role in the investigation of hierarchical problems, cannot be achieved in general, even on very restrictive conditions. Then, regularized problems are considered allowing to introduce approximate solutions for the above problems and to investigate their lower and upper stability properties. We stress that the class of quasi-variational problems include social Nash equilibrium problems in abstract economies, so results about approximate Nash equilibria can be easily deduced.

269 G. De Marco and J. Morgan, *Altruistic Behavior and Correlated Equilibrium Selection*

This paper studies new refinement concepts for correlated equilibria based on altruistic behavior of the players and which generalize some refinement concepts introduced by the authors in previous papers for Nash equilibria. Effectiveness of the concepts, relations with the corresponding notions for Nash equilibria and with other correlated equilibrium refinements are investigated. The analysis of the topological properties of the set of solutions concludes the paper.

270 F. Drago and R. Galbiati, *Indirect Effects of a Policy Altering Criminal Behaviour: Evidence from the Italian Prison Experiment*

We exploit the Collective Clemency Bill passed by the Italian Parliament in July 2006 to evaluate the indirect effects of a policy that randomly commutes actual sentences to expected sentences for 40 percent of the Italian prison population. We estimate the direct and indirect impact of the residual sentence – corresponding to a month less time served in prison associated with a month of expected sentence – at the date of release on individual recidivism. Using prison, nationality and region of residence to construct reference groups of former inmates, we find large indirect effects of this policy. In particular, we find that the reduction in the individuals' recidivism due to an increase in their peers' residual sentence is at least as large as their response to an increase in their own residual sentence. From this result we estimate a social multiplier in crime of 2.