CENTRE FOR STUDIES IN ECONOMICS AND FINANCE

2001 Report

Dipartimento di Scienze Economiche e Statistiche

UNIVERSITÀ DEGLI STUDI DI SALERNO
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Contents

Introduction

What is CSEF?

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

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

CSEF is involved in the Ph.D. Program of the Department of Economics of the University of Salerno and in the Master in Economics and Finance (MEF) at the University of Naples Federico II. The administration of CSEF is entrusted to Lia Ambrosio.

News

In 2001 Marco Pagnozzi from Oxford University has been appointed Assistant Professor at the University of Salerno and has joined the ranks of our permanent researchers. CSEF Fellows Maria Concetta Chiuri and Marcello D'Amato were appointed Associate Professors, respectively in Bari and Salerno.

It has also been a successful year for our visiting researchers on the job market. Sebastian Pouget, who has been with us two years as a TMR Fellow was appointed Assistant Professor of Finance at the Robinson College of Business, Georgia State University (Atlanta, USA). Stefan Ambec, who has been at CSEF for one year as RTN fellow, was appointed Research Fellow at INRA/SERD, Université de Grenoble, France. Nicolas Boccard and Elena Del Rey, RTN Fellows until last August, were both appointed assistant professors at the Department of Economics of the Universitat de Girona, Spain. Klaus Adam, currently CARISAL Fellow at CSEF, will take up a position as Assistant Professor at the University of Frankfurt starting from January 2002.

In 2002 we hope to match the pace of growth of the past few years. For the third consecutive year, this January CSEF will be at the ASSA meetings in Atlanta to hire new researchers, with the support of funding from the EU. Starting in 2002, CSEF will become an inter-university research centre, joining the University of Salerno with Università Bocconi and Università Federico II di Napoli. Beside strengthening the networking between the respective economics departments, the Centre, which will keep the CSEF label, will be able to apply for research grants, organise workshops and conferences, and run research projects as a an independent legal entity.

CSEF also participates in several European research networks:

- the TMR project on the "Industrial Organisation of Banking and Financial Markets in Europe" (IOBMFE, currently in its last year),
- the RTN project on "Understanding Financial Architecture: Legal and Political Frameworks and Economic Efficiency" (UFA, in its second year of operations),
- two newly selected projects on "The Economics Ageing in Europe" (AGE) and on "Financing Retirement in Europe: Public Sector Reform and Financial Market Development" (FINRET).

Furthermore, the EU has recently selected CSEF as a Marie Curie Development Host. Finally, the department plans new junior and senior faculty appointments in economics. These appointments will allow a constant flow of young researchers' new hires in the coming years, making CSEF a professionally lively environment for both Italian and international researchers.

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Main Research Projects and Funding

Main Research Projects

Economics of Ageing in Europe

The overall objective of the research network on the Economics of Ageing in Europe is to improve our understanding of the economic decisions of the elderly, in particular with respect to saving, portfolio choice, retirement, health expenditures, and intergenerational transfers. Appropriate empirical modelling of issues relating to the economics of aging needs to recognise that individuals and households take intertemporal decisions in order to provide resources for their old age. Understanding the nature of these decisions, and the way in which these decisions react to changes in household circumstances, both currently and potentially in the future, is an important component of policy analysis in this area.

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

The research program in Ecomics of Ageing has been recently financed by the EU under its RTN Program. CSEF coordinates an international team, which includes CentER (Tilburg University), University of Venezia, IFS (London), Universität Mannheim, DELTA-INRA (Paris), University of Copenaghen and The University of Cyprus. CSEF also coordinates a national network on releted issues of saving, pensions and portfolio choice including University of Rome Tor Vergata, University of Padova, University of Venezia and Bocconi University.

Pilot Survey on Health and Wealth

In 2001 CSEF has been involved for the first time in direct collection of microeconomic data. In the past years researchers have examined several issues regarding household saving, including how pension rules affect individual saving rates, the timing of retirement, the effect of borrowing constraints on saving and the impact of various sources of risk (including income, unemployment and rate of return risk). However, given data limitation, we have not been able to study the relation between health, saving and wealth.

The *Pilot Study on Health and Wealth*, a joint venture of CSEF with the Universities of Padova and Venezia, fills this gap, collecting detailed data on health status, smoking habits, health expenditures, job invalidity and subjective expectations on a sample of over 1,000 households aged 50 or plus. Interviewers are just coming back from the field, and over the next year we will be able to analyze the interaction between health status, health expenditures, income and wealth. In particular, we will be able to verify if health status effects wealth accumulation, how the decision to retire is affected by the health status of other family members, and how the availability of savings affects the choice to provide health care for the elderly. The project aims at completing the vast body of evidence on the determinants of household saving behavior which is one of the focus of the RTN network on *The Economics of Aging*.

Analysis of Household Portfolio Choice

The past decade has seen radical changes both in financial markets and in related academic research. The European Union directives on financial integration, the removal of the remaining capital controls, the privatization of public utilities, and the recent pension reforms in various countries are but a few examples of policies that have had a great impact on financial markets. Some of the most striking effects are the broadening of the stockholder base, the growth in mutual fund participation, the increasing importance of private pension funds, and the enthusiastic employee response to retirement accounts (such as 401(k) accounts in the United States). On the liability side, there has been fast growth in credit card use and in consumer indebtedness, debt often coexisting with asset holdings offering lower rates of return than loan rates.

Despite developments in financial markets, in theoretical tools, and in databases, there has been no coordinated effort at bringing the tools and the data to bear upon issues relating to household portfolio behavior. This project seeks to fill the gap with an analysis of theoretical issues, methodology, policy issues, and household-level data analysis. The main objective of the project is to use microeconomic data for in-depth study of portfolio composition of households, portfolio diversification, portoflio mobility, characteristics of population groups of special policy interest (such as the young, the elderly, and the rich). In this project, CSEF is supported by the *Observatoire de l'Erpagne Européenne* (a Paris-based Research Foundation), which sponsors an international project on *European Stockholding* in collaboration with researchers in Germany, the Netherlands, France, the UK, Italy and Cyprus. The Turin-based Centro Luigi Einaudi sponsors a related CSEF project on the diversification of Italian household portfolios.

European Financial Market Integration

CSEF is carrying out two EU-sponsored research projects on the issue of financial market integration. The first project purports to monitor the degree of integration of European financial markets, while the second focuses on the effect of financial development and integration on economic growth at the microeconomic level.

The first one of the two studies reviews and compares existing indicators and methodologies to measure capital market integration, tests their suitability to monitor the evolution of EU capital market integration, and proposes changes to existing indicators or new, improved indicators. More specifically, the study focuses on the following questions: which indicators and methodologies can be used to measure the degree of capital market integration? What are the relative advantages of the various indicators? What particular aspect or dimension of capital market integration do they capture? What are their comparative performances when computed on the basis of EU data? How should existing indicators be changed, based on the answers to these questions?

The second study, still at an initial stage, will estimate the impact of financial market integration on corporate financing, investment and corporate growth in European countries. It will also assess the likely consequences of EU financial market convergence. Specifically, it will address the following questions: what is the impact of financial market efficiency and development on corporate financing, investment, R&D activity and growth, according to the literature? What is the impact of the efficiency and development of EU financial markets on corporate financing, investment, R&D activity and growth? What are the likely consequences of EU financial convergence on corporate financing, investment, R&D activity and corporate growth? What are the limits to EU financial convergence entailed by the differences in the legal framework, tax code and enforcement level of EU member countries?

The study will critically review the existing literature and define a conceptual framework linking the investment and financial policies of companies to various indicators of financial efficiency and development. It will build upon existing work and move beyond it by relying on a cross-country industry-level panel data set and a company-level panel data set for EU countries and for the US with information on balance sheet variables.

The Industrial Organisation and Financial Markets in Europe

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

This research is carried out with ECARES (Bruxelles), IDEI (Toulouse), CSIC (Barcelona) and FMG (London School of Economics), within the TMR network on “The Industrial Organization of Banking and Financial Markets in Europe”.

Law, Finance and Politics

This project aims to analyze the interaction between the legal system and financial arrangements, with special focus on the effect of the law on shareholder and creditor protection. The project will also link research on law and finance with political economy. Politics plays an important role in shaping the legal and financial systems, and these give rise to significant stakeholders with influence over the political process.

On these themes, CSEF cooperates with SITE (Stockholm), CFS (Frankfurt), CEMFI (Madrid), CEPR (London), ECARES (Brussels), IDEI (Toulouse), Oxford, Princeton and Yale, in the context of the RTN network on “Understanding Financial Architecture: Legal and Political Frameworks and Economic Efficiency”.

Funding

In 2000 research projects at CSEF have been funded by Training and Mobility of Researchers Network Program (TMR), the Research Training Network Program (RTN), the Italian Ministry for Universities and Scientific Research (MURST), the Italian National Research Council (CNR), and the Banque de France.

Conference on "Courts, Banks and Firms"

Jointly with University of Napoli Federico II, Università Commerciale "Luigi Bocconi", and University of Sassari, CSEF has organized the conference on *Courts, Banks and Firms*, with financial support provided by the Italian Ministry for Universities and Scientific Research (MURST). It was held in Naples on 11 May 2001 at the "Istituto Universitario Suor Orsola Benincasa". The main purpose of this event was to provide a meeting point for judges and lawyers on one side and economists on the other to discuss the economic effects of judicial system efficiency and the determinants of the current malfunctioning of the Italian judicial system. The workshop was made of two sessions. The morning session was devoted to the presentation of four papers by economists, each followed by a brief discussion by lawyers. In the afternoon session, instead, judges and lawyers talked about the performance of the judicial system in Italy, and answered questions from economists.

Seminars

In 2001 the Department of Economics of the University of Salerno hosted one or two research seminars per week, except for February and March that witnessed a peak due to the job market seminars. Many papers were presented by invited speakers, others were given by resident researchers of CSEF:

January

Stefan AMBEC (CSEF, University of Salerno) and Yves Sprumont (University of Montreal)
Sharing a river

Andrea VINDIGNI (European University Institute)
Uncertainty and the Politics of Employment Protection

Daniela FABBRI (Universitat Pompeu Fabra and CSEF, University of Salerno) and Mario Padula (CSEF, University of Salerno)
Judicial System and Household Debt

Laurent Calvet (Harvard University), Martin Gonzales-Eiras (Univ. de San Andres) and Paolo SODINI (MIT)
Financial Innovation, Market Participation and Asset Prices

February

Julian MESSINA (European University Institute)
The Role of Product Market Regulations in the Process of Structural Change

B. Douglas Bernheim (Stanford University), Lorenzo FORNI (Banca d'Italia), Jagadeesh Gokhale (Federal Reserve Bank of Cleveland) and Laurence J. Kotlikoff (Boston University)
The Mismatch Between Life Insurance Holdings and Financial Vulnerabilities: Evidence from the Health and Retirement Survey

Sascha O. BECKER (European University Institute)
Returns to Education in Germany - A Variable Treatment Intensity Approach

Alberto BENNARDO (UCLA)
Competition with Moral Hazard: Some Applications

Eva CARCELES POVEDA (Universitat Pompeu Fabra)
Asset Prices and Business Cycles Under Market Incompleteness

Andrea CAGGESE (London School of Economics)
Financing Constraints, Irreversibility, and Firm Dynamics: Theory and Empirical Evidence

Elena DEL REY (CSEF, University of Salerno)
Optimal redistribution when the educational background matters

G. Bloise and Pietro REICHLIN (University of Roma “La Sapienza”)
Risk and intermediation in a dual financial market model

March

Antoine RENUCCI (Toulouse University)
Optimal Relationships between Entrepreneurs and Value-Enhancing Financiers

Salvatore MODICA (University of Palermo)
Buy-or-sell Equilibria in a Trading Game

Giacomo CALZOLARI (University of Bologna)
Optimal Design of Privacy Policies

April

Emilia DEL BONO (University of Oxford)
Total Fertility Rates and Female Participation in Great Britain and Italy: Estimation of a Reduced Form Model Using Regional Panel Data

Giancarlo CORSETTI (Yale University and University of Bologna)
International Dimensions of Optimal Monetary Policy

Emanuela SCIUBBA (University of Cambridge)
Relative Performance and Herding in Financial Markets

Klaus ADAM (Fondazione Carisal and CSEF, University of Salerno)
Adaptive Learning and the Cyclical Behaviour of Output and Inflation

Cristophe DEISSENBERG (Université de la Méditerannée, Aix Marseilles II) and Francisco Alvarez Gonzales (Universidad Complutense, Madrid)
Cheating for the Common Benefit in a Macroeconomic Policy Game

May

Makoto TAKASHIMA (University of Nagasaki)
Japanese Network Economy

Andres Almazan (University of Texas) and Javier SUAREZ (CEMFI, Madrid)
Entrenchment and Severance Pay in Optimal Governance Structures

Mario EBOLI (II University of Napoli)
Entrepreneurship, Knowledge and Innovation

Pierpaolo Benigno (New York University)
Optimal Monetary Policy in a Currency Area

Francesco Squintani (University of Rochester)
Optimal Contracts under Generalized Verifiability Correspondences

Davide Lombardo (Stanford University)
Is there a Cost to Poor Institutions?

Claudia Olivetti (University of Pennsylvania)
Changes in Women's Hour of Market Work: the Effect of Changing Returns to Experience

October

Oliver Blanchard (MIT) and Francesco GIAVAZZI (IGIER, Università Bocconi)
Macroeconomic effects of regulation and deregulation of goods and labor markets

Klaus ADAM (University of Salerno)
Optimal Policy Inertia with Information Processing Constraints

November
Marco PAGANO (University of Salerno)
Managers, Workers, and Corporate Control

Alessandra Pelloni (University of Roma “Tor Vergata” and University of Manchester) and Robert WALDMANN (University of Roma “Tor Vergata”)
Welfare in a Model of Endogenous Technical Change

Giovanni IMMORDINO (Fondazione CARISAL and CSEF, University of Salerno)
No Logo

Matthew Jackson (Caltech) and Antonio NICOLO' (University of Padova)
The Strategy-Proof Provision of Public Goods under Congestion

Harald UHLIG (Humboldt Universität zu Berlin)
Did the Fed Surprise the Markets in 2001? A case study for VARs with sign restrictions

December

Klaus Adam (Fondazione Carisal and CSEF, University of Salerno) and Mario PADULA (University of Salerno)
Subjective Expectations and the Input/Output Trade-Off

Carlo ALTAVILLA (University of Salerno and Université Catholique de Louvain)
The Euro Exchange Rate and the Monetary Policy Transmission in the Euro Area

Giacinta CESTONE (Universitat Autonoma Barcelona)
Venture Capital Meets Contract Theory: Risky Claims or Formal Control?

Giovanni CESPA (Universitat Pompeu Fabra)
Long-Run Relationship and Price Rigidities

KLAUS ADAM graduated with a degree in Economics from the University of Bonn in 1996 and, upon completion of a Ph.D. at the European University Institute, has been appointed a fellowship by the Fondazione Carisal of Salerno in September 2000. His paper on "Learning while Searching for the Best Alternative", drawn from a chapter of his thesis, is forthcoming in the *Journal of Economic Theory*. His research interests include the modelling of learning and adaptive expectations, the economics of information and uncertainty, and experimental economics, especially in the context of macroeconomic models. Joint with Ramon Marimon he developed an innovative experimental software called MacroLab, which is now available on the net at the address http://www.dise.unisa.it/docenti/adam/macroLab/start.htm. Moreover he pursues his research interests on the relation between learning and the business cycle and the effects of information frictions on policy making.

STEFAN AMBEC joined CSEF in July 2000 as a TMR fellow. He holds a Master degree from the University of Toulouse and a Ph.D. from the University of Montreal. He has been postdoctoral fellow at GREEN, University Laval, Canada. He is currently researcher at French's research institute INRA localized at the University of Grenoble. His research applies contract theory and game theory to different topics such as the organization of R&D activities, informal financial agreement in developing countries, water management, environmental regulation and the allocation of control authority in organizations. Among his papers, "Sharing a river" (joint with Yves Sprumont) has been accepted for publication in the *Journal of Economic Theory*, and "A theoretical Foundation of the Porter Hypothesis" (joint with Philippe Barla) is forthcoming in *Economics Letters*.

ALBERTO BENNARDO received his Ph.D. in Quantitative Economics at Delta (ENS-CNRS-EHESS) in Paris during the year 19997-98. He is assistant professor in the Department of Economics of the University of California Los Angeles since 1999. He is Carisal Fellow at the University of Salerno for the year 2001-2002. His research focuses on Competition with Asymmetric Information, General Equilibrium Theory and Contract Theory. His papers analyze the effect of moral hazard phenomena in competitive (general equilibrium economies. He is currently working on the analysis of optimal contractual under adverse selection and on the effects of communication in multiprincipal models with moral hazard.

GENNARO BERNILE has been granted a Fellowship from the University of Salerno. He had previously obtained a B.A. in Economics and Business Studies from Università di Napoli "Federico II" with a final dissertation on "Quality, Management and Pay-for-Performance: an integrated approach". He is a Ph.D. candidate in Finance at the W. E. Simon Graduate School of Business Administration - University of Rochester. His research focuses on Applied Microeconomics, Corporate Finance, and Corporate Governance. His papers apply game theory, industrial organization and econometrics to the analysis of corporate decisions and governance structures in the market for corporate control.

NICOLAS BOCCARD has been a CSEFmember from May 2000 to July 2001 and is currently assistant professor in economics at the University of Girona, Spain. He had previously obtained a doctoral degree at ENSAE-CREST in Paris in 1995 and held a position as Research Fellow at CORE, Université de Louvain since then. In 2001 his research has dealt with: 1) Corporate finance. His article on the competition among financiers for the funding of start-ups has been presented in December 2001 at the XXVI Simposio de Analisis Economico in Alicante; 2) Fraud insurance and competition for customers, with P. Legros of Ecares & CEPR; 3) Electricity. On top of his cooperation with D. Benintendi of CORE on congestion management in the integrated European market and the issue of market power of electricity, Nicolas has been asked by the Fondazione Enrico Mattei (FEEM) to participate in the shared-cost RTD actions of the EC titled “Policy and Regulatory Roadmaps for the Integration of Distributed Generation and the Development of Sustainable Electricity Networks”; 4) Differentiation and imperfect competition. Several articles co-authored with Xavier Wauthy from CORE and revised in 2001 will appear in the *Japanese Economic Review* and the *International Journal of Industrial Organization* next year.

MARIA CONCETTA CHIURI is Associate Professor of Economics at the University of Bari and is associated with CSEF since 1998. Her research is in the field of consumption theory and labour supply, with a special focus on intra-household allocation of time and resources. Recently, jointly with T. Jappelli, she has completed a research on “Financial Market Imperfections and Home Ownership: A Comparative Study”, CEPR Working Paper no. 2717. The paper explores the determinants of the international pattern of home ownership using a collection of microeconomic data on fourteen OECD countries. She is also completing a paper with F. Bourguignon and E. Longobardi on “Welfare Analysis of fiscal and social security reforms in Italy: does the representation of family decision processes matter”, financed by the EC-DG Employment and Social Affairs project, coordinated by F. Laisney at ZEW. In 2001 the work with G. Ferri and G. Majnoni “The Macroeconomic Impact of Bank Capital Requirements In Emerging Economies: Past Evidence To Assess The Future”, has been accepted for publication on the *Journal of Banking and Finance* as well as the paper “Enforcing the 1988 Basel Accord Capital Requirement: Did it curtail Bank Credit in Emerging Economies?” with the same authors is now forthcoming in *Economic Notes*.

MARCELLO D’AMATO is Associate Professor of Economics at the University of Salerno. In the last academic year he has been a visiting scholar at Department of Economics of Boston University. His current research focuses on Central Banking Institutions and on the political economy of social security. Last year he completed a research paper on the relationship between commitment of monetary policy and openness (with Riccardo Martina), published as CSEF Working Paper n. 47. He has also worked with Vincenzo Galasso on two papers: “Aggregate Shocks and Social Security Design” and “La sostenibilità politica della Riforma Dini” . Other areas of research include: regional growth (with B. Pistoresi), multidimensional screening models (with L. Brighi), “Multidimensional Screening models: a case of monopoly regulation” is forthcoming in *Research in Economics*, legal systems, liquidation costs and credibility in collateralized debt contracts, and collusive behaviour in monitoring hierarchies (with A. Acconcia and R. Martina).

ELENA DEL REY joined CSEF in September 2000 after completing her Ph.D. at CORE, Université Catholique de Louvain (Belgium). She had previously obtained an MA in Economics from Tufts University (MA, USA) in 1996 and a Bachelor’s Degree in Economics from the Autónoma University of Madrid in 1995. Two of the chapters of her dissertation have been published this year in the *Journal of Urban Economics and Empirica*. She attended the Conference of the International Institute of Public Finance in Linz (Austria) and the CEPR/EPRU Meeting on Dynamic Aspects of Public Expenditure in Copenhagen. At present, she holds an Associate Professor position at the University of Girona (Spain).

SERGIO DESTEFANIS is Associate Professor of Economics at the University of Salerno. He received his Ph.D. at the University of Cambridge. His research interests include wage and price determination, growth and development in dualistic economies and the quantitative analysis of productive processes. In 2000 he published (jointly with G.C. Porzio) a paper on dynamic graphics and model validation in *Applied Stochastic Models and Data Analysis*. In 2001, he published a paper on technical and allocative efficiency of manufacturing firms across Italian regions in *Lavoro e Relazioni Industriali*, and a paper on technical efficiency of Italian banks in a volume edited by M. Baldassarri for Palgrave. A paper on cross-country evidence on increasing returns is forthcoming in a volume on *Verdoorn's Law* edited by J. McCombie for McMillan.

DANIELA FABBRI joined CSEF in September 1999. After receiving a Ph.D in Economics at the Universitat Pompeu Fabra in 2001, she has been appointed post-doctoral fellow for the TMR network on «The Industrial Organization of Banking and Financial Markets in Europe» by the Institut d'Anàlisi Econòmica (CSIC), in Barcelona. Current research deals with the interaction between legal institutions and financial arrangements and the effects that these have on corporate decisions, household's choices, aggregate activity and growth. She is currently working with Mario Padula on the paper *"Judicial Costs and Household Debt"*. The paper studies, from an empirical point of view, the relationships between judicial costs and the allocation of credit to Italian households.

GIOVANNI IMMORDINO received a Ph.D. in Economics at the University of Toulouse. In September 2000 he has been appointed a fellowship by the Fondazione Carisal of Salerno. He is the recipient of the 2000 Young Economist Award assigned by the European Economic Association for the paper "Hormone beefs, chloridric chickens and international trade: can scientific uncertainty be an informational barrier to trade?"(with Giacomo Calzolari). He is currently working on the design and enforcement of the law (with M. Pagano), on a formal re-examination of the 'No Global' thesis, on the effect of information on decision-making (with M. LiCalzi).

TULLIO JAPPELLI is a Professor of Economics at the University of Salerno and a Research Fellow of the Center for Economic Policy Research. His current research focuses on saving, the determinants of income and health risks, household portfolio choice and banking. In 2001 he has published "Intertemporal choice and the cross-sectional variance of marginal utility," *Review of Economics and Statistics*, February 2001 (with Orazio Attanasio); "The International Savings Comparison Project", *Research in Economics*, June 2001; "La diversificazione del portafoglio delle famiglie italiane, in *XIX Rapporto BNL-Centro Einaudi sul rispamio e i risparmiatori in Italia*, December 2001 (with Christian Julliard and Marco Pagano). A volume on *Household Portfolios*, edited with Luigi Guiso and Michalis Haliassos, is forthcoming for MIT Press. The book provides a comprehensive account of the status of theoretical knowledge and methodological achievements in the analysis of household portfolios, as well as evidence based on consistent microeconomic data for the US, the UK, Italy, the Netherlands and Germany. With Luigi Guiso and Michael Haliassos he is currently coordinating an international project on European Stockholding financed by the Observatoire de l'Epargne Européenne, and last May has organized a Conference at Euronext in Paris on the issue. The following papers have been accepted for publication: "Money demand, financial innovation and the welfare cost of inflation, (with Orazio Attanasio and Luigi Guiso) is forthcoming in the *Journal of Political Economy*; "Private transfers, borrowing constraints and the timing of home ownership" (with Luigi Guiso) is forthcoming in the *Journal of Money, Credit and Banking*; "Information sharing, lending and defaults: cross-country evidence" (with Marco Pagano) is forthcoming in the *Journal of Banking and Finance*; "An empirical analysis of earnings and employment risk" (with Luigi Guiso and Luigi Pistaferri) is forthcoming in the *Journal of Business and Economic Statistics*; "Tax incentives and the demand for life insurance: evidence from Italy" (with Luigi Pistaferri) is forthcoming in the *Journal of Public Economics*. Two papers with Marco Pagano, "Information sharing in credit markets: an international comparison" and "Public credit information: a European perspective are forthcoming as chapters of volumes, respectively in *Preventing Default: Incentives and Institutions* (John Hopkins University Press) and in *Credit Reporting Systems and the International Economy* (MIT Press).

CHRISTIAN JULLIARD joined CSEF in September 1999 after completing a Master in Economics and Finance at the University of Naples Federico II (Italy). He had previously obtained a B.A. in International Economics and Business Studies from Istituto Universitario Navale (Naples, Italy) with a final dissertation "On the super-neutrality of money in models of economic growth". He is a doctoral student in Public Economics at the University of Salerno. Last Spring he has visited the Midi Pyrénées School of Economics, University of Toulouse I (France). He is currently attending the Ph.D. program in Economics at Princeton University. His research focuses on applied macroeconomics and econometrics, household portfolio choice and growth theory.

ANNAMARIA MENICHINI is Assistant Professor in Economics at the University of Salerno. She joined CSEF in October 1999. In 2000 she has obtained the Ph.D. at the University of York (UK). Her research interests focus on contract theory and corporate finance. She has recently been analysing the role of multiple lenders as means of mitigating agency problems and the arising problems of collusion and renegotiation (joint with Peter Simmons). Her most recent research interests focus on legal system and its role in modelling the firms' operating choices (with Daniela Fabbri).

MARIO PADULA is Assistant Professor in Economics at the University of Salerno. He joined CSEF in October 1999. He obtained a Master in Economics from Università commerciale Luigi Bocconi, where he also obtained his BA in Economics in January 1995. In November 2001 he completed his Ph.D. in Economics at University College London. His general area of research is applied consumption analysis, but his current focus is on the dynamic properties of expenditures on durable goods and on the aggregate features of microeconomic models with non-convexities. A review essay from his dissertation is published in Giornale degli Economisti e Annali di Economia, with the title "Durable Goods and Intertemporal Choices: A Survey" (*Giornale degli Economisti e Annali di Economia*, 2000, 60). He has also contributed with a paper on "Too much for retirement? Household Saving in Italy" (with Agar Brugiavini, published in *Research in Economics*, 2001, 55) to a project on a European comparison of saving and pension arrangements.

MARCO PAGANO is a Professor of Economic Policy at the University of Salerno and Director of the Research Program in Financial Economics of the Center for Economic Policy Research. In 2001 his research focused on banking and corporate finance. In the area of banking, he completed the paper with Tullio Jappelli on "Information Sharing, Lending and Defaults: Cross-Country Evidence" (forthcoming in the *Journal of Banking and Finance*), the paper with Michael Manove and Jorge Padilla on "Sharing Default Information as a Borrower Discipline Device" (published in the *Rand Journal of Economics*, Winter 2001), and edited a volume on *Preventing Default: Incentives and Institutions* (John Hopkins University Press, 2001), collecting the results of a large-scale international research project funded by the IADB and the OECD. In the area of corporate finance, he worked on the political economy of corporate governance with Paolo Volpin (London Business School), producing two new papers: “The Political Economy of Finance”, forthcoming in the *Oxford Economic Policy Review*, and “Managers, Workers, and Corporate Control”. He also furthered his research on the cross-listing of shares: the paper “The Geography of Equity Listing: Why Do Companies List Abroad?” with Ailsa Röell (Princeton University) and Josef Zechner (University of Vienna) has been accepted for publication by the *Journal of Finance*, and their paper (also with Otto Randl, University of Vienna) on “What Makes Stock Exchanges Succeed? Evidence from Cross-Listing Decisions” has been published in the *European Economic Review*, 2001.

MARCO PAGNOZZI received a Ph.D. in Applied Mathematics from the University of Naples in 2000. He is currently completing a D.Phil. in Economics at the University of Oxford. In 2001 he joined CSEF and the University of Salerno, where he has been appointed Assistant Professor. Marco’s research focuses on auction theory and its application to the sale of public assets. He is currently working on three research projects: an empirical analysis (together with Paul Klemperer) of the effects of the presence of advantaged bidders in the 1995 U.S. auction for mobile-phone licenses; a theory of “sorry winners” which argues that perfectly rational bidders may regret winning an auction; and an analysis of how the prospect of a post-auction takeover affects bidding strategies. His paper “Bids as a Vehicle of (Mis)Information” was published in the proceedings of the 1999 AMASES Congress.

Visiting Researchers in 2001

ANDREW ELLUL completed his Ph.D. in Finance at the London School of Economics and Political Science. He has served as a Tutorial Fellow in Finance in the Department of Accounting and Finance and as a Research Associate at the Financial Markets Group. At the LSE, he taught courses in corporate finance and investment analysis at the undergraduate and graduate levels. His research interests focus on empirical market microstructure issues, mainly the provision of liquidity in different trading systems, and corporate finance, with particular attention to initial public offerings. He has won prizes for best papers at Annual Meetings of the Eastern Finance Association (NASDAQ Award for the paper “Inter-market Price and Volatility Impacts Generated by Large Trades: The Case of European Cross-quoted Securities”) and the Financial Management Association (Best Ph.D. Paper Award for the paper “The Dealers Ride Again: Volatility and Order Flow Dynamics in a Hybrid Market”). Andrew spent the Spring term at CSEF working with Marco Pagano on a joint research project on Pension Funds, Trading and Market Liquidity. He is currently Assistant Professor of Finance at Indiana University’s Kelley School of Business.

GIACINTA CESTONE has spent 2 months at CSEF as a visiting researcher. She is a research fellow at the Institut d’Anàlisi Econòmica (CSIC) of Barcelona and a CEPR Research Affiliate. She holds a Ph.D. in Economics from the Université de Toulouse. Her fields of interest are corporate finance, contract theory, industrial organization and banking theory. In previous work, she has analysed the interaction between corporate financing decisions and product market competition, addressing issues like the anti-competitive potential of financial arrangements and the product market effects of internal capital market allocations. She is currently studying contractual arrangements used in venture capital financing. In a work in progress, she is analysing the joint allocation of control and cash flow rights in venture capital contracts. This work makes the novel point that risky financial claims need not necessarily be associated to superior control rights. (*Venture Capital Meets Contract Theory: Risky Claims or Formal Control?,* 2001).

GIOVANNI CESPA is Assistant Professor of Finance at Universitat Pompeu Fabra, Barcelona and has spent 2 months at CSEF. During his stay he has investigated dynamic and competitive aspects of the industry for the sale of information in financial markets. More generally, his research interests concern the areas of Market Microstructure theory and Industrial Organization.

HANS W. GOTTINGER, Professor of Managerial Economics, on leave of absence from the University of Maastricht, is a Carisal Fellow from October 2000 to July 2001. His research is on information economics and network industries. In particular, he is focussing on modelling distributed information systems such as the Internet in terms of resource allocation processes. Also he looks at optimal economic models for technological racing in high tech industries such as telecommunications (forthcoming in Operations Research). He is also still interested in mathematical-economic modelling of global climate change and related environmental issues (based on his book ‘Global Environmental Economics’, Kluwer, 1998).

CHARLES GRANT is a graduate student from UCL, London and has spent 4 months at CSEF. During his time here his research investigated whether the tax system helped agents insure themselves against idiosyncratic labour market risks. He has a paper in the working paper series investigating the role of bankruptcy in helping agents smooth consumption. More generally, his research interests concern consumer behaviour. He is currently a research fellow at the EUI, Florence.

SÉBASTIEN POUGET has been a TMR fellow at CSEF from October 1999 to January 2001. He has been working toward the completion of PhD in Financial Economics at Toulouse University. His dissertation deals with bounded rationality in financial markets. He uses experimental methods to study the limits on traders' cognition and the influence of market institutions on individual rationality. He is currently Assistant Professor of Finance at the Robinson College of Business, Georgia State University (Atlanta).

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4 **Marco Pagano** (CSEF, University of Salerno and CEPR)

The Changing Microstructure of European Equity Markets, published in *The European Securities Markets: The Investment Services Directive and Beyond*, edited by Guido Ferrarini, Kluwer Law International, 1998

5 **Luigi Pistaferri** (University College London and CSEF, University of Salerno)

Recommendations in the Italian Labour Market: An Empirical Analysis

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The Welfare Effects of Liquidity Constraints, published in *Oxford Economics Papers*.

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What Makes Stock Exchanges Succeed? Evidence from Cross-Listing Decisions

2001

51 **Hans W. Gottinger** (University of Maastricht, Fondazione CARISAL and CSEF, University of Salerno)

Modeling Stochastic Innovation Races

We consider a firm moving towards a stochastic final destination, to be chosen from a discrete set after a decision period. The decision period itself may be deterministic or stochastic. We assume the firm can move at variable innovation (R&D) speed associated with a monotone nondecreasing variable cost, and it can also stop and move anywhere. There is a fixed cost per time unit "carried" by the firm as well, associated with keeping at the knowledge (technology) frontier. We investigate various types of the firm's optimal trajectory in the R&D race during the decision period.
Keywords. Innovation, Race, Competition, Strategy, Industrial Economics
http://www.dise.unisa.it/WP/wp51.pdf

52 **Tullio Jappelli** (CSEF, University of Salerno, and CEPR) and **Luigi Pistaferri** (Stanford University, CEPR and SIEPR)

Tax Incentives and the Demand for Life Insurance: Evidence from Italy

The theoretical literature suggests that taxation can have a large impact on household portfolio selection and allocation. In this paper we consider the tax treatment of life insurance, considering the cancellation of tax incentives in Italian life insurance contracts for investors with high marginal tax rates and the introduction of incentives for those with low rates. Using repeated cross-sectional data from 1989 to 1998, we find that the tax reforms had no effect on the decision to invest in life insurance or the amount invested. The likely explanations are the lack of information and lack of committment to long-term investment.
JEL Classification**:** D91, H20.
Keywords**:** Tax incentives, Saving, Portfolio choice**.**
http://www.dise.unisa.it/WP/wp52.pdf

53 **Luis Eeckhoudt** (Catholic Faculties of Mons and Lille), **Christian Gollier** (GREMAQ and IDEI, Université de Toulouse), **Giovanni Immordino** (GREMAQ, Université de Toulouse, Fondazione CARISAL and CSEF, University of Salerno)

How Diagnostic Tests Affect Prevention: a Cost-Benefit Analysis

The purpose of this paper is to offers insight for evaluating research and development in diagnostic tests. We show that a rational policy maker perfectly informed about health risks may choose to reduce investment in prevention when efficient diagnostic tests become available. We show that prevention and diagnostic tests are substitutes rather than complements. As a result the regular improvements in diagnostic technology that are observed can justify a lower investment on prevention at any given unitary price for this activity. The analysis is a useful tool for the allocation of funding between diagnostic and preventive medicine.
JEL Classification**:** D81
Keywords. prevention, diagnostic tests.
http://www.dise.unisa.it/WP/wp53.pdf

54 **Stefan Ambec** (CSEF, University of Salerno) and **Philippe Barla** (GREEN, Université Laval, Canada)

A Theoretical Foundation of the Porter Hypothesis

This note shows that, by reducing agency costs, an environmental regulation may enhance pollution-reducing innovation while at the same time increasing firms'private benefit.
JEL Classification**:** L22, L51, O32.
Keywords. Renegotiation, Regulation, R&D, Porter Hypothesis
http://www.dise.unisa.it/WP/wp54.pdf

55 **Klaus Adam** (European University Institute, Fondazione CARISAL and CSEF, University of Salerno)

Competitive Prices in Markets with Search and Information Frictions

This paper introduces directed search into the sequential search model of Diamond (1971) by allowing buyers to observe the distribution of prices charged by two (or more) distinct subgroups of firms in the market. This enables buyers to direct their searches towards the most desirable group of firms. Search within groups remains random since price information about each of the groups is imperfect, as in a standard setup. I find that competitive pricing is then the *unique* equilibrium outcome. This holds even when different buyers observe very different groups of firms and face different and strictly positive levels of search costs. Considering an explicit learning scheme the paper shows that convergence of prices to competitive equilibrium depends crucially on the level of search costs and the number of groups observed by buyers. Lower search costs and a higher number of observed groups generate a higher price elasticity of demand and thereby favor the emergence of competitive prices.
Keywords: Diamond paradox, competitive pricing, random and directed sequential search, equilibrium search model, learning
JEL Classification: D81, D83
http://www.dise.unisa.it/WP/wp55.pdf

56 **Stefan Ambec** (CSEF, University of Salerno) and **Joseph A. Doucet** (University of Alberta, Canada)

Competition along a river : Decentralizing hydropower production

We analyze the production of electricity from *n* power stations situated along a river in a dynamic model. Each power station's production of electricity is constrained by the quantity of water available to it (capacity constraint) as well as limitations of reservoir capacity (storage constraint). Due to the water flow, production from one power station affects the production capacity of the next downstream power station. We show that when no constraint (capacity or storage) is binding, competition dominates monopoly. We then provide some examples in which, because one power station is constrained, monopoly dominates competition. Finally, we illustrate the model with an empirical example.
Keywords: Hydropower, Electricity, Competition, Regulation, Water.
JEL Classification. L10, L50, L94, Q48
http://www.dise.unisa.it/WP/wp56.pdf

57 **Daniela Fabbri** (Universitat Pompeu Fabra and CSEF, University of Salerno)

The Legal Enforcement of Credit Contracts and the Level of Investment

This paper analyses the effect of the degree of the legal enforcement of credit contracts on the

level of private investment. We use a model of corporate finance with moral hazard and collateralized asset. We introduce in the model a third agent: the government, which is responsible for the enforcement of credit contracts.\ In particular we consider the right to repossess two different types of assets in case of default: inside collateral and outside collateral. We show that the existence of credit constraints and their level depend on the degree of enforceability of creditor rights, provided by the public sector. Moreover, we find the optimal degree of legal enforcement and we investigate how it depends on the firms' wealth endowment.
Keywords**:** moral hazard, collateral, corporate finance, legal enforcement.
JEL Classification. G30, K1, K4
http://www.dise.unisa.it/WP/wp57.pdf

58 **Magda Bianco** (Banca d'Italia), **Tullio Jappelli** and **Marco Pagano** (CSEF, University of Salerno, and CEPR)

Courts and Banks: Effects of Judicial Enforcement on Credit Markets

The costs of enforcing contracts is a key determinant of market performance. We document this point with reference to the credit market. We start by presenting a model of opportunistic debtors and inefficient courts. According to the model, improvements in judicial efficiency reduce credit rationing and increase lending, while have an ambiguous effect on interest rates, depending on banking competition and on the type of judicial reform. These predictions are supported by panel data on Italian provinces and by cross-country evidence. In Italian provinces with longer trials or large backlogs of pending trials, credit is less widely available than elsewhere. International evidence also shows that the depth of mortgage markets is inversely related to costs of mortgage foreclosure and other proxies for judicial inefficiency.
Keywords: enforcement, judicial efficiency, credit market, lending, interest rates
JEL Classification**:** G2, K4
http://www.dise.unisa.it/WP/wp58.pdf

59 **Elena Del Rey** (CSEF, University of Salerno), and **Marìa del Mar Racionero** (School of Economics, Deakin University)

Optimal educational choice and redistribution when cultural background matters

Higher education plays an important role in determining lifetime earnings. In turn, the decision to become educated depends to a large extent on family characteristics, such as wealth and cultural background. In this paper, we focus on the interaction between fiscal policies and educational choices when cultural background matters. We derive optimality conditions for a linear income tax and a lump-sum subsidy for education in a dynamic framework in which generations are linked by cultural background. The factors that determine their sign and magnitude include concerns for redistribution, efficiency, and the educational externality on future generations
Keywords: Optimal linear income tax, Subsidies, Higher education, Educational background
JEL Classification**:** H21, H41
http://www.dise.unisa.it/WP/wp59.pdf

60 **Stefan Ambec** (CSEF, University of Salerno) and **Michel Poitevin** (Département de sciences économiques, C.R.D.E., Université de Montréal and CIRANO)

Organizational Design of R&D activities

This paper addresses the question of whether R&D should be carried out by an independent research unit or be produced in-house by the firm marketing the innovation. We define two organizational structures. In an integrated structure, the firm that markets the innovation also carries out and finances research leading to the innovation. In an independent structure, the firm that markets the innovation buys it from an independent research unit which is financed externally. We compare the two structures under the assumption that the research unit has some private information about the real cost of developing the new product. When development costs are negatively correlated with revenues from the innovation, the integrated structure dominates. The independent structure dominates in the opposite case.

http://www.dise.unisa.it/WP/wp60.pdf

61 **Hans W. Gottinger** (University of Maastricht, Fondazione CARISAL and CSEF, University of Salerno)

Network Size, Value and Cycles

http://www.dise.unisa.it/WP/wp61.pdf

62 **Hans W. Gottinger** (University of Maastricht, Fondazione CARISAL and CSEF, University of Salerno)

Technological Races in Global Industries (Technology Races)

The starting point of our consideration on technological racing are stochastic models that view corporations as moving objects to approach a stochastic destination. A major focus is the strategic orientation of corporations in participating in such a race , revealing empirically observable phenomena such as ‘catchup’ and ‘leapfrogging’, as supported by statistical measurements. Next to the analysis of behavioural patterns on the corporate or industry level is their aggregation on a national scale that extends to racing on economic growth among (groups of) countries. A major conjecture of the paper is that technological racing patterns on a micro scale reinforce globalization and limit control of national and industry policy.

http://www.dise.unisa.it/WP/wp62.pdf

63 **Nicolas Boccard** (CSEF, University of Salerno and CORE, UCL Belgium) and **Riccardo Calcagno** (CentER, Tilburg University)

Asymmetries of Information in Electronic Systems

We study the efficiency of the equilibrium price in a centralized, order-driven market where asymmetrically informed traders are active for several periods and can observe each other current and past orders, as in electronic systems of trading. We show that the more precise the information the higher the incentive to reveal it in the first trading rounds. On the contrary, strategic competition forces the less informed trader to wait the end of the trading period to reveal his information. This implies that when differences in information quality are very important, the liquidity of the market decreases as we approach the date of public revelation. We are able to show that more transparent markets as the ones organized via electronic systems are not performing better than markets organized on floor trade in terms of revelation of information, due to the oligopolistic behavior of insiders.

Keywords: asymmetric information, liquidity, insider trading, strategic revelation.

JEL Classification: D 43, G 14.

http://www.dise.unisa.it/WP/wp63.pdf

64 **Nicolas Boccard** (CSEF, University of Salerno and CORE, UCL Belgium)

Financing Start-ups: Advising vs. Competing

High-tech start-ups get external finance and guidance mostly from venture capitalists and/or business angels. We identify a simultaneous double moral hazard for the management style of entrepreneurs and the decision to advise the firm for financiers. We embed this relationship into the financial competition where strategic choices are equity shares, liquidation rights and quality of advising. We show that the financier holds all liquidation rights, that more competition weakly decreases the financier's equity share. Surprisingly, the response in advising quality is non-monotone. In a regime of soft competition, the financier owns the start-up and more competition weakens advising quality. In a regime of acute competition, more competition improves advising quality and lowers the financier's equity share in the start-up. Hence, advising and equity, are substitutes at the industry level once competition effects are taken into account.

Keywords: Start-ups, Contract Design, Equity, Oligopoly Competition

JEL Classification: D4, G3, L1, L2.

http://www.dise.unisa.it/WP/wp64.pdf

65 **Daniela Fabbri** (Universitat Pompeu Fabra and CSEF, University of Salerno) and **Mario Padula** (CSEF, University of Salerno and University College London)

Judicial Costs and Household Debt

This paper investigates the effect of judicial costs on households debt, merging data drawn from a representative Italian sample, the Survey of Household Income and Wealth, with data on the performance of judicial districts. We estimate a probit model to test the hypothesis that th working of courts affects the probability that households are credit constrained. Moreover, we estimate a tobit model for the amount of debt to investigate if borrowing by those who are not rationed in the credit market is also sensitive to judicial costs. We find that the working of the judicial system impacts on probability of being credit constrained and that the amount of debt held by non-constrained households decreases when the quality of the judicial enforcement worsen.
http://www.dise.unisa.it/WP/wp65.pdf

66 **Charles Grant** (University College London and CSEF, University of Salerno) and **Mario Padula** (CSEF, University of Salerno and University College London)

Risk Sharing and the Tax System

Several papers have documented that US consumers can not fully insure themselves against all their idiosyncratic risks, but little is understood about which mechanisms provide insurance. We investigate whether, as some suggest, progressive taxes provide additional insurance. The methodology distinguishes insurance from redistribution, and can by applied to testing any potential insurance mechanism. Using repeated cross-sections from the US consumer expenditure survey **(**CEX**)**, we relate changes in consumption inequality to several measures of tax progressivity. Identification exploits the variation in taxes both across states and over time. Our results suggest, under weak assumptions, that progressive taxes do not induce insurance, while stronger assumptions quantify this effect.
http://www.dise.unisa.it/WP/wp66.pdf

67 **Mario Padula** (CSEF, University of Salerno) and **Luigi Pistaferri** (Stanford University and CEPR)

Education, Employment and Wage Risk

We measure the return to education by accounting for differences in wage and unemployment risk confronted by individuals with different levels of education. When markets are incomplete, risk-averse individuals value jobs to which less income risk is associated. In this case a measure of the return to education based only on the expected post-schooling wages can be misleading. We estimate the implicit return to schooling under four different scenarios: no uncertainty, unemployment risk, wage risk, and both wage and unemployment risk. The empirical analysis uses US and Italian microeconomic data. The main finding is that the return of schooling is downward biased if no account is made for risk.

http://www.dise.unisa.it/WP/wp67.pdf

68 **Klaus Adam** (Fondazione CARISAL and CSEF, University of Salerno)

On the Relation between Robust and Bayesian Decision Making

This paper compares Bayesian decision theory with robust decision theory where the decision maker optimizes with respect to the worst state realization. For a class of robust decision problems there exists a sequence of Bayesian decision problems whose solution converges towards the robust solution. It is shown that the limiting Bayesian problem displays infinite risk aversion and that its solution is insensitive (robust) to the precise assignment of prior probabilities. Moreover, the limiting Bayesian objective turns out not to be time separable even if the objective function of the robust decision makers displays time separability.

http://www.dise.unisa.it/WP/wp68.pdf

69 **Klaus Adam** (Fondazione CARISAL and CSEF, University of Salerno)

Learning and Equilibrium Selection in a Monetary Overlapping Generations Model with Sticky Prices

This paper studies the properties of adaptive learning as a device to select amongst the rational expectations equilibria of a monetary overlapping generations model. It extends previous contributions by introducing monopolistic competition and improves upon them by analyzing learning in a model with a well-defined temporary equilibrium map, a coherent informational setup, and properly specified microfoundations. The main result is that adaptive learning is a robust selection mechanism that independent from the degree of imperfect competition always selects the same equilibrium. The indeterminate steady state and the non-stationary equilibria are never stable. The determinate low inflation steady state is the unique stable equilibrium; however, depending on how agents forecast, stability is found to be related to observable characteristics of the economy.
Keywords: adaptive learning, equilibrium selection, rational expectations, indeterminacy, stability

JEL Classification.: E31, D83, C62

http://www.dise.unisa.it/WP/wp69.pdf

70 **Javier Giner** and **Sandra Morini** (University of La Laguna, Tenerife)

Improving the Quality of the Input in the Term Structure Consistent Models

In finance, getting an accurate estimation of the term structure of interest rates is essential because this information is often used as input by other pricing financial models. In this paper, we point out the importance of selecting a suitable estimation of the term structure of interest rates. To show this fact, we use the Spanish Bond Market to estimate the initial interest rate and forward curves for one day, by using both McCulloch (1975) cubic polynomial splines, and Legendre's polynomials (Morini, 1998). We use these curves as input for pricing pure discount bonds with the Ho and Lee (1986) and Hull and White (1990) models. Then, we find the important result that using an inadequate interest rate curve affects dramatically the behaviour of the dynamic term structure models and, consequently, the estimation of the asset pricing models.
JEL Classification**:** E43.
Keywords**:** Term structure of interest rates, dynamic consistent models.

http://www.dise.unisa.it/WP/wp70.pdf

71 **Anna Maria C. Menichini** (CSEF, University of Salerno) and **Peter Simmons** (Department of Economics and Related Studies, University of York)

Are two investors better than one?

This paper compares the optimal investor repayment contracts of a firm which has private information over its expost revenues when the finance can be provided by a single or by two investors (say a big shareholder and a group of small dispersed shareholders). Costly monitoring can be carried out by those investors who have a larger stake into the contract. When they are the only investors we use the Khalil-Parigi financial contract with non-contractible monitoring, in which the probabilities of cheating by the firm and monitoring by investors are mutual best responses. The contract is written by the firm knowing that this equilibrium will subsequently occur. With a second group of investors who have no monitoring rights, cheating and monitoring probabilities are chosen in a similar way. The small shareholders learn the results of any monitoring for free. A main result is that without commitment there is a negative correlation between repayments to the two investor groups: the contract uses the small group to smooth out the repayments of the firm optimally. This reduces the incentive for the firm to make false reports and mitigates the investor's incentive to monitor. A second result is that the two investor scenario is Pareto superior to the single investor model. A third result is that the possible extent of this smoothing depends on whether the investors have limited liability; it is found that in some circumstances investors should make repayments to the firm rather than receive them.
Keywords: contracts, multiple investors, no commitment
JEL Classification: D82, D83
http://www.dise.unisa.it/WP/wp71.pdf

72 **Daniela Fabbri** (Institut d'Anàlisi Econòmica (CSIC), CSEF, University of Salerno and Universitat Pompeu Fabra)

Legal Institutions, Corporate Governance and Aggregate Activity: Theory and Evidence

This paper investigates the interaction between legal institutions and financial arrangements and the effects that these have on corporate decisions and aggregate activity, both theoretically and empirically. In the theoretical part, we develop a two country general equilibrium model with overlapping generations and asymmetric information in the credit market. We show that, at the steady state equilibrium, the country providing tighter legal enforcement has a larger aggregate output level and a bigger capital stock. Moreover, on the level of the individual firm, credit financing, capital stock and firm size are also higher where the judicial system is working better, while the leverage ratio is the same in the two countries. The driving force behind these results is that improvements in the legal protection of the creditor rights to repossess a collateral asset, increase the investment rate of return, by tempering the inefficiencies due to asymmetric information. In the empirical part, we provide evidence that confirms our theoretical predictions: firms located in Spanish or Italian judicial districts where courts are more efficient (the number of backlogs is lower, the number of concluded trials is larger or the average length of a trial is shorter) have access to a larger amount of external finance and have a larger size. We also document that Italian regions with more effective courts are endowed with a higher stock of private capital and enjoy a higher welfare level, if measured by the added value or the gross domestic product.
Keywords: Judicial enforcement, external finance, leverage ratio, firm size, aggregate activity
JEL Classification E20, K40, G32

http://www.dise.unisa.it/WP/wp72.pdf

73 **Hans Gottinger** (University of Maastricht, Fondazione CARISAL and CSEF, University of Salerno)

Sequential Choice and R&D Racing

This paper develops a framework to analyze how choices are made when R&D competition occurs between two firms, and the aggressiveness-time tradeoffs have to be resolved in multiple stages. At issue is the way in which resources are used at each stage, i.e. are aggressiveness problems undertaken and solved (slowly) or are quick solutions adopted in an effort to get the product to market faster? We first analyze why differently positioned firms choose different targets. We focus on this translation between ex ante asymmetries between firms and ex post asymmetries in the equilibrium outcomes. Our second focus is on understanding the implications of the tradeoff between the level of aggressiveness and time spent on each stage in a multi-stage process.

Keywords. Innovation, Race, Competition, Strategy, Industrial Economics
http://www.dise.unisa.it/WP/wp73.pdf

74 **Giovanni Immordino** (Fondazione CARISAL and CSEF, University of Salerno)

Choosing between traditional and innovative technologies: the case of scientific uncertainty

We study the choice between a traditional technology characterized by known risks and an innovative technology (a geological storages for nuclear wastes, a genetically modified organism or a new treatment in medical science) subject to scientific uncertainty. We assume that the two technologies differ in first period implementation costs, second period risk, and degree of irreversibility, and we study the effect of foreseen scientific progress on the present choice between the two. If the first-period choice is restricted to be 'all or nothing', scientific progress promotes the traditional technology; with constant absolute risk aversion, scientific progress increases the optimal level of the technology with the higher implementation cost.
http://www.dise.unisa.it/WP/wp74.pdf

75 **Marco Pagano** (CSEF, University of Salerno and CEPR) and **Paolo Volpin** (London Business School)

Managers, Workers, and Corporate Control

If the private benefits of control are high and management owns a small equity stake, managers and workers are natural allies. There are two forces at play. First, managers effectively transform employees into a “poison pill’’ by signing generous long-term labor contracts and thereby reducing the firm’s attractiveness to a raider. Second, employees act as “white squires’’ for the incumbent managers, lobbying against hostile takeovers to protect the high wages enjoyed under incumbent management. Our model is consistent with available empirical findings, and yields new predictions as well.

Post doctoral fellowships

CSEF is offering two research fellowships starting in the academic year 2002-2003. We are particularly interested in young researchers who do empirical work in the following areas:

- Econometrics (Applied Econometrics)
- Microeconomics (Intertemporal Choice)
- Macroeconomics (Saving, Investment)
- Financial Economics (Asset Pricing, Portfolio Choice, Corporate Finance)
- Public Finance (Social Security)
- Health, Education and Welfare
- Law and Economics (Regulation and Business Law).

The fellowships are for non-Italian EU citizens under 35 years of age. The length of each fellowship ranges from 1 to 3 years, and salaries range from 35,000 to 48,000 Euro per annum. Fellows are expected to pursue their own research interests. Teaching one 8-week course at the graduate level is required.

Applications should be received no later than December 15, 2001. They should include curriculum vitae, one paper, and two letters of reference. Candidates should also notify by e-mail that they have sent in their application.

Interviews with the most promising candidates will be scheduled at the ASSA meetings in Atlanta from January 4-6, 2002 or at any other mutually agreeable time and location.

Application must be sent to the following address:

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Doctoral fellowships

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