CSEF

Centre for Studies in Economics and Finance

2005 Report

University of Naples Federico II

University of Salerno

Bocconi University, Milan

Contents

Introduction

What is CSEF?

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

Since 1998, CSEF premises are in the Department of Economics and Statistics of the University of Salerno, where it hosts researchers and doctoral students from other Italian universities and other countries, and it features a weekly research seminar, open to faculty and doctoral students. CSEF also collaborates with the Ph.D. Program in Economics at the University of Salerno and with the Master in Economics and Finance (MEF) at the University of Naples Federico II.

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

News

We are very happy to report that last year *Giacinta Cestone*, formerly at the Institut d'Anàlisi Econòmica (Barcelona), and *Giovanni Cespa*, formerly at the Universitat Pompeu Fabra, have been hired by the University of Salerno, joining the rank of our permanent researchers. CSEF currently hosts several researchers with postdoctoral fellowships: *Julian Messina* (PhD. from the European University Institute, currently on leave from the European Central Bank), *Thomas Steinberger* (Ph.D. from the European University Institute and formerly at the Research Department of the Central Bank of Austria), *Dimitrios Christelis* (Ph.D. from the University of Pennsylvania), *Anna Sanz de Galdeano* (Ph.D. from the European University Institute and formerly at the European Central Bank), *Mauro Staiano* (Ph.D. from the University of Naples) and *Maria Grazia Romano* (Ph.D. from the University of Naples).

We are proud to report that last August *Marco Pagano* delivered the Marshall Lecture on "Shareholder Protection, Stock Market Development, and Politics" at the 20th Annual Congress of the European Economic Association, in Amsterdam.

Currently, CSEF is an EU Marie Curie Development Host, and participates in two European Research and Training Networks: The Economics Ageing in Europe (AGE), and Financing Retirement in Europe: Public Sector Reform and Financial Market Development (FINRET).

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Main Research Projects and Funding

Main Research Projects

Economics of Aging

The objective of this research project is to analyse the economic decisions of the elderly, in particular with respect to saving, portfolio choice, retirement, health expenditures, and intergenerational transfers. The project is divided into six themes: ageing and household saving; pensions, social security and labour market behaviour; relations between health and economic resources; saving and portfolio decisions; consumption and living standards of the elderly; intergenerational transfers and the role of family transfers and their interaction with state transfers.

The research program in *Economics of Aging in Europe* is financed by the EU under its RTN Program. CSEF coordinates a network of European researchers, which includes CentER (Tilburg University), DELTA-INRA (Paris), IFS (London), and the Universities of Venice, Mannheim, Copenhagen and Cyprus. CSEF also coordinates a national network on related issues of saving, pensions and portfolio choice including researchers at the Universities of Rome Tor Vergata, Padua, Venice, Sassari and Bocconi.

Financing Retirement in Europe

The financing of pensions is one of the most significant medium to long-term economic and social issues in Europe. If established demographic and labour market trends continue, major changes to the existing national systems of retirement are inevitable. However, there is considerable debate as to the most appropriate form for new social security institutions, and even a partial move away from PAYG raises hard questions of intergenerational equity and significant risks that can fall disproportionately on certain age and social groups. This project will address a variety of questions concerning this transition, some that traditionally have been the province of public finance specialists, and others that fall within the sphere of finance. The integration of these two approaches into the same project has rarely been tried in the past.

This research program is financed by the EU under the RTN program, through the network on “Financing Retirement in Europe: Public Sector Reform and Financial Market Development”. Besides CSEF, this network includes the CEPR (Centre for Economic Policy Research), IDEI (University of Toulouse), the University of Amsterdam, Pompeu Fabra University, CORE (Catholic University of Louvain), and FMG (London School of Economics).

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

The Survey of Health, Ageing and Retirement in Europe (SHARE) (http://www.share-project.org/) is an ambitious project which collects data about Europeans aged 50 and older. The collected data include information on physical and mental health, social support networks as well as income and wealth. Project participants are currently eleven countries ranging from Scandinavia (Sweden, Denmark), Western and Central Europe (France, Belgium, The Netherlands, Germany, Switzerland, Austria) to the Mediterranean (Spain, Italy, Greece). The survey follows a common set-up across all countries with the goal of collecting data that are strictly comparable to allow cross-country research. Hence, one of the most difficult tasks consists in taking into account differences in language, culture and institutions. Within this large project, CSEF researchers Christelis, Jappelli and Padula are responsible for analyzing SHARE financial and real wealth data.

IRI Foundation project on Convergence in Corporate Governance Models

This research project, funded by the IRI Foundation, involves various individual researchers and research centres. CSEF contributes to this project with a research team on "Corporate governance, family firms and auditing", coordinated by Marco Pagano. The team, which comprises Giovanni Immordino (Salerno), Fausto Panunzi (Bocconi) and Paolo Volpin (LBS), has already produced two papers on these issues and is currently working on a third one.

Funding

In 2005 research projects at CSEF have been funded by Research Training Network Programs (RTN) and the Marie Curie Fellowship program of the EU, the Italian Ministry of Education and University (MIUR), and the Regione Campania.

Conferences

2nd Workshop for Italian PhD Students in Economics

The Second Workshop on *Contribution to Economics by Young Italian Students* was held at the University of Salerno on May 26-27, 2005. The Workshop was organized by CSEF Researchers *Giovanni Immordino* and *Mario Padula*.

Italian scholars in economics who had completed or near to complete their PhD dissertation were invited to submit one of their papers at the workshop. The aim of the workshop was to favour the interaction between young and senior researchers, providing young scholars with a useful opportunity to obtain feedback from leaders in their field. Four young researchers were selected for presentations among the 50 submissions: Alessandro Gavazza (New York University), Giovanni Gallipoli (University College London), Daniela Puzzello (Purdue University), Stefano Rossi (London School of Economics).

Each paper was discussed by a senior researcher, who also presented one of his/her own recent contributions: Ian Jewitt (Nuffield College), Lisa Linch (Tufts University), Nicola Persico (University of Pennsylvania), Fabio Schiantarelli (Boston College).

1st Csef-Igier Symposium on Economics and Institutions

The 1st CSEF-IGIER Symposium on Economics and Institutions was held at the *Centro Internazionale per la Cultura Scientifica "Villa Orlandi"* in Anacapri on June 27-July 1, 2005. The Conference was organized by Antonio Acconcia (University of Naples), Giacinta Cestone (University of Salerno), Eliana La Ferrara and Tommaso Monacelli (University Bocconi).

The conference structure reflected the intention of leaving time for free, informal discussion. Seminars took place in the mornings in two parallel sessions. Afternoons were reserved for more informal workshops and collaborative work. The conference program included papers in the areas of Industrial organization and finance, Institutions, political economy, and development, Macroeconomics. Over forty economists participated to the Symposium. There were five invited lectures given by leading international scholars: Abhijit Banerjee (MIT), Joe Harrington (Johns Hopkins University), Albert Ma (Boston University), Lucrezia Reichlin (ECARES and ECB), and Michael Woodford (Columbia University).

Seminars

In 2005 the Department of Economics of the University of Salerno hosted one or two research seminars per week. Papers were presented both by invited speakers and by resident researchers:

January

Hseuh-Ling Huynh (Boston University), *Evolution and Recursive Structure of Subgame Perfect Equilibrium*

Elena Del Mercato (University Salerno), *Existence of Competitive Equilibria with Externalities: a Differential Viewpoint*

Julian Messina (European Central Bank), Ramon Gomez Salvador (European Central Bank) and Giovanna Vallanti (London School of Economics), *Job Flow Dynamics and Firing Restrictions: evidence from Europe*

February

Charles Grant (Reading University), *Income and Wealth Effects of Italian Households*

Massimiliano Bratti (University of Warwick) and Emilia Del Bono (University of Oxford) and **Daniela Vuri** (University of Firenze), *New Mothers' Labor Force Participation in Italy: the Role of Job Characteristics*

Gabriel J. Felbermayr and **Omar Licandro** (European University Institute), *The Under-Estimated Virtues of the Two-Sector AK Model*

Monica Paiella (Bank of Italy), *The Foregone Gains of Incomplete Portfolios*

March

Tito Boeri (Bocconi University), J. Ignacio Conde-Ruiz (FEDEA) and **Vincenzo Galasso** (Bocconi University), *Cross-skill Redistribution and the Tradeoff between Unemployment Benefits and Employment Protection*

Peter Simmons (University of York), *Savings, Employment, Health Risk and Migration*

Giorgio Bellettini (University of Bologna), *When the Union Hurts the Workers: a Positive Analysis of Immigration Policy*

Pryio Banerjee (Ohio State University and Rutgers University), *Auctions with Ceilings*

April

Chiara Fumagalli (Università Bocconi) **Massimo Motta** (Eureopean University Institute) and Lars Persson (The Research Institute of Industrial Economics), *Exclusive Dealing, Entry, and Mergers*

Erich Battistin (University of Padua and IFS, London), *Errors in Survey Reports of Consumption Expenditures and their Implications for the Study of Consumers' Behaviour*

Josef Fersterer (University of Linz), **Steve Pischke** (LSE, London) and Rudolf Winter-Ebmer (University of Linz), *The Returns to Apprenticeship Training in Austria: Evidence from Failed Firms*

Luigi Benfratello, Fabio Schiantarelli e Alessandro Sembenelli (University of Turin), *Banks and Innovation: Microeconometric Evidence on Italian Firms*

May	**Jean-Marc Bonnisseau** (Panthéon Sorbonne – Université Paris 1), *Marginal Pricing Equilibria with Non-convex Normal Cones*
	Maria Concetta Chiuri (University of Bari and CSEF), Nicola Coniglio, Giovanni Ferri and Laura Serlenga (University of Bari), *Intention to Return and Propensity to Remit: A Study on Illegal Migrants in Italy*
	Dino Gerardi (Yale University), *The Folk Theorem in Dynastic Repeated Games*
	Alessandro Sbuelz (CenTER, Tilburg University, *Momentum and Mean Reversion in Strategic Asset Allocation*
June	**Marco Li Calzi** (University of Venice), *Simple Market Protocols for Risk Sharing*
	Klaus Adam (European Central Bank, *Monetary and Fiscal Interactions without Commitment: How Desirable is a Conservative Central Bank?*
	Frank Vella (European University Institute), *Estimating a Class of the Triangular Simultaneous Equations Model without Exclusion Restrictions*
October	**Jean-François Mertens** (CORE, Université Catholique de Louvain), *Intergenerational Fairness and the Discount rate for Cost-Benefit Analysis*
	Stephen Pudney (ISER, University of Essex), *Estimating the Size of the UK Illicit Drugs Market*
	Christian Julliard (London School of Economics), *Money Illusion and Housing Frenzies*
	Giacomo Calzolari (University of Bologna) and Giancarlo Spagnolo (Stockholm School of Economics), *Reputation and Collusion in Procurement*
	Paolo Bertoletti (University of Pavia), *About All-pay Auctions with Complete Information*
November	**Anna Sanz de Galdeano** (University of Salerno), *The Obesity Epidemic in Europe*
	Ana Lamo (ECB), **Julian Messina** (University of Salerno) and Etienne Wasmer (UQAM, *Are Specific Skills an Obstacle to Labour Market Adjustment? Theory and an Application to the EU Enlargement*
	Richard Disney (University of Nottingham), *Household Saving Rates and the Design of Social Security Programmes: Evidence from a Country Panel*
	Martin Brown (Swiss National Bank), *Credit Registries Relationship Banking and Loan Repayment*
December	**Andrew Ellul**, Levent Guntay (Indiana University), Ugur Lel (Board of Governors, Federal Reserve System, *External Governance and Debt Agency Costs of Family Firms*
	Fabio Braggion (Northwestern University), *Credit Market Constraints and Financial Networks in Late Victorian Britain*
	Eugenio Proto (Warwick University), *Growth Expectations and Bank Runs in Developing Economies*

Antonio Acconcia is Associate Professor of Economics at the University of Naples Federico II. He has recently completed a paper on the relation between corruption and tax evasion, with Riccardo Martina and Marcello D'Amato. He is currently working on the effects of EU subsidies on regional inequalities in Europe; on the relationship between corruption and growth; on the determinants of bureaucratic corruption in Italy, with Claudia Cantabene; on the consistency between fluctuations across sectors and the identification assumption of aggregate models, with Saverio Simonelli; and on vertical restraints under asymmetric information, with Riccardo Martina e Salvatore Piccolo.

Achille Basile is Professor of Mathematics and Chairman of the Faculty of Economics at the University of Naples Federico II. Recent publications include "On the Edgeworth's Conjecture in Finitely Additive Economies with Restricted Coalitions" (with Maria Gabriella Graziano), Journal of Mathematical Economics 2001, "On a Marinacci Uniqueness Theorem for Measures" (with Anna Avallone), Journal of Mathematical Analysis and Applications, 2003. The paper "Coalitional economies with public projects" (with Maria Gabriella Graziano and Anna De Simone) is forthcoming in Social Choice and Welfare, while "On a linearity theorem for measures" (with Anna Avallone) is forthcoming in Scientiae Mathematicae Japonicae.

Alberto Bennardo is Associate Professor of Economic Policy at the University of Salerno. He received a Ph.D. in Quantitative Economics at Delta (ENS-CNRS-EHESS) in Paris in 1998 and has been Assistant Professor of Economics at the University of California, Los Angeles between 1999 and 2002. His research fields are competition with asymmetric information, general equilibrium theory and contract theory. The paper "Bertrand and Walras Equilibria with Moral Hazard" (with André Chiappori) appeared in 2003 in the *Journal of Political Economy*. His paper "Competitive Markets with Endogenous Health Risks", with Salvatore Piccolo, appeared in 2005 as Discussion Paper in the CEPR Economic Policy series. His current work focuses on contractual externalities generated by adverse selection and moral hazard in large competitive markets; communication between players in common agency models with moral hazard; pre-contractual information gathering in perfectly and imperfectly competitive markets.

Franco Bruni is Professor of Economics at University Bocconi and formerly Director of the Institute of Economics "Ettore Bocconi" between 1994 and 2000. He has been Director of the *Giornale degli Economisti e Annali di Economia* and is a member of the Centre for Monetary Economics "Paolo Baffi". His main research interests are central banking and monetary policy, banking and financial regulation, the international monetary and financial system, European economic and financial integration.

Salvatore Capasso is Associate Professor of Economics at Parthenope University (Napoli) and a Research Fellow of the University of Santiago de Compostela. He holds a Ph.D. in Economics from the University of Manchester. His fields of research are economic growth, contract theory, monetary economics and theory of financial intermediation. His latest research focuses on the relationship between criminal activity, corruption and growth and on the role of the underground economy in economic development. Latest publications include: “Financial Development, Financing Choice and Economic Growth”, in the *Review of Development Economics*, with Blackburn and Bose, and “Financial Markets Development and Economic Growth: Tales of Informational Asymmetries”, in the *Journal of Economic Surveys*.

GIOVANNI CESPA is Associate Professor of Economics at the University of Salerno and a CEPR Research Affiliate. He holds a Ph.D. in Economics from Universitat Autonoma de Barcelona. His fields of interest are market microstructure theory and corporate governance. In a recent paper (“A Comparison of Market Mechanisms,” *RAND Journal of Economics,* 2004) he compares the price efficiency of a trading system allowing the submission of multi-price contingent orders to that of a traditional system permitting traders to submit single price contingent orders. He has also studied the conditions leading to demand anomalies in multi-asset noisy rational expectation equilibria (“Giffen Goods and Market Making”, *Economic Theory,* 2005) and the effect of short-term trading on the multiplicity of equilibria in a dynamic asset market (“Short-term Trading and Equilibrium Multiplicity,” *European Economic Review*, 2002). In his current research he characterizes the optimal strategy of a financial analyst selling fundamental information in a dynamic market, relating it to the durable goods monopolist problem (“Information Sales and Insider Trading,” CEPR DP 4667). With Giacinta Cestone he studies the interaction between corporate social responsibility and the quality of corporate governance when managers can build relationships with social activists to entrench themselves (“Corporate Social Responsibility and Managerial Entrenchment,” CEPR DP 4648).

GIACINTA CESTONE is Assistant Professor of Economics at the University of Salerno and a CEPR Research Affiliate. She holds a Ph.D. in Economics from the Université de Toulouse and has been Assistant Professor of Economics at the Institut d’Anàlisi Econòmica (Barcelona) from 1999 to 2005. Her research focuses on corporate finance, corporate governance and industrial organization. In some of her papers she has studied the interaction between firms’ financial decisions and competitive behaviour. Her paper “Anticompetitive Financial Contracting: The design of financial Claims”, with Lucy White, has appeared in the *Journal of Finance* in 2003. The paper “The Strategic Impact of Resource Flexibility in Business Groups”, with Chiara Fumagalli, has been published in the *RAND Journal of Economics* in 2005. In recent work with Chiara Fumagalli, she studies how internal capital markets affect multi-market competition between diversified corporate groups. She also contributed to the literature on venture capital finance. An ongoing paper with Josh Lerner and Lucy White analyzes the impact of double-sided asymmetric information on venture capital syndicate arrangements. In a joint paper with Giovanni Cespa she analyzes the impact of social activism and corporate social responsibility on corporate governance.

MARIA CONCETTA CHIURI is Associate Professor of Economics at the University of Bari. Last year she visited the Centre for European Studies at New York University, working with Daniela Del Boca on the effects of social policy on intra-household economic decisions. Her most recent research focuses also on illegal migration in Europe. Her paper "Illegal migration into Italy: evidence from a field survey" with De Arcangelis, D'Uggento and Ferri, describes the content of a survey on illegal migration in Italy collected in 2003; the paper "Designing a survey on illegal migration in Italy" published last year in the *Italian Statistical Society* (SIS) *Conference Papers and Proceedings*, (with D'Uggento) discusses the sampling methodology used.

DIMITRIOS CHRISTELIS is a CSEF post-doctoral Marie Curie Fellow. He obtained his Ph.D in economics from the University of Pennsylvania in December 2003. He is currently engaging in research on the portfolio choice of elderly households using data from the new Study of Health, Aging and Retirement in Europe, on the imputation of missing data and on the estimation of models of firm investment.

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

MARCELLO D'AMATO is Professor of Economics at the University of Salerno. His current research focuses on Central Bank institutions, political economy of social security, and education choice and social mobility. Last year he published "Credibility and Commitment in Open Economies" *European Journal of Political Economy*, 2005 (with Riccardo Martina). Recent working papers include: "On the Determinants of Central Bank Independence", (with Barbara Pistoresi and Francesco Salsano); "Entry Deterrence with Unobservable Investment: Revisiting Limit Pricing" (with Luigi Brighi and Salvatore Piccolo); "Endogenous managerial contracts", (with Riccardo Martina and Salvatore Piccolo).

SERGIO DESTEFANIS is Professor of Economics at the University of Salerno. He holds a Ph. D. in Economics from the University of Cambridge. Since 1997 he is a member of the Executive Committee of the Italian Association of Labour Economics. His research focuses on the macroeconomic analysis of the labour market, the quantitative analysis of productive processes, and growth and development in dualistic economies. His 2005 publications include a paper on the impact of infrastructure on TFP in *Regional Studies* and a paper on recent trends in Italian wage bargaining in the *Rivista Internazionale di Scienze Sociali*. He also completed a chapter on the Mezzogiorno labour market in the ISFOL report "The European Labour Market" (edited with Floro Ernesto Caroleo); the paper "Regional Dimensions" is forthcoming in Physica Verlag. His current research includes a comparison of American and European labour markets (with Raquel Fonseca and Ronald Warren), the relationship between R&D spillovers and human capital (with Vania Sena) and the impact of business incentives on manufacturing firms.

CARLO FAVERO is Professor of Economics at the University Bocconi. He holds a D.Phil. from Oxford University, where he was a member of the Oxford Econometrics Research Centre. He has published in scholarly journals on applied econometrics, monetary policy and time-series models for macroeconomics. He is a research fellow of CEPR in the International Macroeconomics programme and a member of the scientific committee of the Euro Area Business Cycle Network, and of the Centro Interuniversitario Italiano di Econometria (CIDE). He has been advisor to the Italian Ministry of Treasury for the construction of an econometric model of the Italian economy and a consultant of the European Commission, the World Bank and the European Central Bank on monetary policy and the monetary transmission mechanism. In 2005 he has produced working papers on "Consumption, Wealth, the Elasticity of Intertemporal Substitution and Long-Run Stock Market Returns", "Valuation, Liquidity and Risk in Government Bond Markets," (with Marco Pagano and Elu Von Thadden), "The Predictive Power of the Yield Spread: further Evidence and a Structural Interpretation," (with I. Kaminska and U. Soderstrom), and revised the paper "Monetary-Fiscal Mix and Inflation Performance: Evidence from the U.S." (with Tommaso Monacelli). Currently his forthcoming articles include "Modelling and forecasting fiscal variables for the euro area", (with M. Marcellino), *Oxford Bulletin of Economics and Statistics*, "Taylor Rules and the Term Structure," *Journal of Monetary Economics*, "Financial Factors, Macroeconomic Information and the Expectations Theory of the Term Structure of Interest Rates," *Journal of Econometrics*, (with A. Carriero and I. Kaminska) and "Explaining Co-movements Between Stock Markets: The Case of US and Germany," *Journal of International Money and Finance* (with A. Bonfiglioli).

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

VINCENZO GALASSO is an Associate Professor of Economics at Bocconi University, a research fellow of IGIER, research affiliate of CEPR and an associate editor of the European Journal of Political Economy. His current research focuses on the political economy of structural reforms, and on welfare state and pension reforms. Last year he revised the books “The Political Future of Social Security in Aging Societies”, forthcoming in 2006 for MIT Press, and “Structural Reforms Without Prejudices” forthcoming in 2006 for Oxford University Press, edited with Boeri, Castanheira and Faini. Last year he has published “Positive Arithmetic of the Welfare State” in the *Journal of Public Economics* (with Conde Ruiz). During the year, he has also been a consultant of the OECD and a project evaluator for the European Commission.

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

TULLIO JAPPELLI is Professor of Economics at the University of Salerno and a Research Fellow of CEPR. His current research focuses on saving, the relation between health and economic resources, household portfolio choice, and pension reforms. In 2005 he published “Courts and Banks: Effect of Judicial Costs on Credit Market Performance” (with Marco Pagano and Magda Bianco) in the *Journal of Money, Credit, and Banking*; “Awareness and Stock Market Participation” (with Luigi Guiso) in the *Review of Finance*; “The Life-Cycle Hypothesis, Fiscal Policy and Social Security,” in the *Banca Nazionale del Lavoro Quarterly Review*; “The Age Saving Profile and the Life-Cycle Hypothesis” (with Franco Modigliani) in *The Collected Papers of Franco Modigliani, Volume 6*; “Wealth and Portfolio Composition in SHARE” (with Dimitris Christelis and Mario Padula) in the volume *Health, Ageing and Retirement in Europe*. The following papers have been accepted for publication: “Intertemporal Choice and Consumption Mobility” (with Luigi Pistaferri) is forthcoming in the *Journal of the European Economic Association*; “Searching for Non-Monotonic Effects of Fiscal Policy: New Evidence” (with Francesco Giavazzi, Marco Pagano, Marina Benedetti) is forthcoming in *Monetary and Economic Studies*; “The Impact of Perceived Public School Quality on Private School Choice in Italy” (with Daniele Checchi) is forthcoming in the MIT Press volume *Schooling and Human Capital Formation in the Global Economy*; “Role and Effects of Information Sharing in Credit Markets” (with Marco Pagano) is forthcoming in the MIT Press volume *The Economics of Consumer Credit: European Experience and Lessons from the U.S.*

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

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

RICCARDO MARTINA is Professor of Economics at the University of Naples Federico II. He received a Ph.D. in Economics from the University of Naples. His research interests are mainly in the areas of Industrial Organization and Public Economics. Last year he published "Credibility and Commitment in Open Economies" in the *European Journal of Political Economy* (with Marcello D'Amato). Recently he completed a paper on the relationship between corruption and tax evasion (with Antonio Acconcia and Marcello D'Amato) and a paper on the "second mover advantage" in multi-stage games with sequential choices (with Alessandro Bonatti). He is currently working with Salvatore Piccolo on the analysis of the welfare properties of market externalities in bilateral contracting, and with Marcello D'Amato and Salvatore Piccolo on the relationship between competitive pressure and market structure.

ANNAMARIA MENICHINI is an Assistant Professor in Economics at the University of Salerno. She has a DPhil. in Economics at the University of York. Her research interests focus on financial economics, contract theory, incomplete contracts. Her paper "Liars and Inspectors: Optimal Financial Contracts when Monitoring is Unobservable", with Peter Simmons is forthcoming in *Contributions in Theoretical Economics* (BEJTE Journals). The paper "Third Parties as an Incentive to Comply" is currently under revision. Last year she visited the Universite' de Lausanne, working on a joint project with Daniela Fabbri on the determinants of trade credit demand. Their paper, "Asset Diversion, Input Allocation and Trade Credit" (CSEF WP n. 146), has been presented at the Workshop on Economics and Institutions in Capri, the Conference in Tribute to J.J. Laffont in Toulouse, and the 2005 European Economic Association in Amsterdam.

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

NIALL O'HIGGINS is Associate Professor of Economics at the University of Salerno. He has an M.Sc in economics from the University of York and a Ph.D in Economics from the European University Institute in Florence. His principal research interests concern various aspects of labour and industrial economics and, in particular, the evaluation of labour market policies, labour markets experiences of 'vulnerable' groups, the labour market consequences of EU enlargement and the evaluation of industrial policy. His recent work includes papers on labour market entry and home leaving in Italy (forthcoming in a book edited by De Freitas), two papers on the employment of the Roma (forthcoming in UNDP's Human Development Report on Roma, and in *Comparative Economic Studies*), a paper on panel attrition in the Capitalia survey of firms, a book (with Csongor and Lukacs) on *Labour Market Programmes for the Roma in Hungary*, ILO-CEET, Budapest, 2003, and a book on *Youth Unemployment and Employment Policy in Global Perspective*, ILO, Geneva, 2001.

MARIO PADULA is Associate Professor of Econometrics at the University of Salerno. He has a Master in Economics from University Bocconi and a Ph.D. in Economics from University College London. His current research interests are the dynamic properties of expenditures on durable goods, pension reforms, relation between health and saving, the aggregate features of microeconomic models with non-convexities, and the effect on credit allocation of law enforcement. He is involved in several international projects on saving, retirement and health. Last year he published "Consumer Durables and the Marginal Propensity to Consume out of Permanent Income Shocks", *Research in Economics*, and "Legal Institutions, Credit Market and Poverty in Italy (with Daniela Fabbri) in *Credit Market for the Poor*, edited by Howard Rosenthal, Russell Sage Foundation.

MARCO PAGANO is Professor of Economic Policy at the University of Naples Federico II, Research Fellow of CEPR and managing editor of the *Review of Finance*. In 2005, he published four articles: "Courts and Banks: Effects of Judicial Enforcement on Credit Markets" (with Magda Bianco and Tullio Jappelli), in the *Journal of Money, Credit and Banking*; "Workers, Managers, and Corporate Control" (with Paolo Volpin), in the *Journal of Finance*; "The Political Economy of Corporate Governance" (with Paolo Volpin), in the *American Economic Review,* and "The Modigliani-Miller Theorems: A Cornerstone of Finance," forthcoming in *Banca Nazionale del Lavoro*

Quarterly Review. The *JF* article with Paolo Volpin won the "Egon Zehnder International Prize" for the best paper in the ECGI Finance Working Paper series. Marco also prepared a paper titled "Shareholder Protection, Stock Market Development, and Politics" (with Paolo Volpin), which formed the basis of his Marshall Lecture at the 20th Annual Congress of the European Economic Association, and will appear in the *Journal of the European Economic Association* in 2006. He completed four more papers in 2005: "IPO Underpricing and After-Market Liquidity" (with Andrew Ellul), forthcoming in the *Review of Financial Studies*, and "Searching for Non-Monotonic Effects of Fiscal Policy: New Evidence" (with Francesco Giavazzi, Tullio Jappelli and Marina Benedetti), forthcoming in *Monetary and Economic Studies*; "Role and Effects of Credit Information Sharing" (with Tullio Jappelli), forthcoming in the MIT Press volume *The Economics of Consumer Credit: European Experience and Lessons from the US*; "Legal Determinants of the Return on Equity" (with Davide Lombardo), forthcoming in the Elsevier volume *Corporate and Institutional Transparency for Economic Growth in Europe*.

MARCO PAGNOZZI Is Assistant Professor of Public Economics at the University of Naples Federico II. He has a D.Phil. in Economics from Oxford University and a Ph.D. in Applied Mathematics from the University of Naples Federico II. His research focuses on auction theory and its application to the sale of public assets. In 2005 he completed a paper on "Disadvantaged Bidders in Ascending Auctions", analyzing the effects of asymmetries among bidders in common-value auctions, and a paper on "Resale and Demand Reduction in Multi-Object Auctions", arguing that the possibility of resale encourages demand reduction in uniform-price auctions.

GIOVANNI PICA is Assistant Professor of Economics at the University of Salerno. He received a Ph.D. in Applied Mathematics from the University of Naples *Federico II* in 2001 and a Ph.D. in Economics from Universitat Pompeu Fabra in 2004. In 2002 he has been *Jean Monnet Fellow* at the European University Institute of Florence and in 2003-04 a Lecturer at the University of Southampton. His research interests span across macroeconomics, international trade and labour economics. In a recent paper, (*Capital Markets Integration and Labour Market Institutions*, CSEF WP 144) he analyses the long-run effects of capital markets integration on production and wages, explicitly accounting for the impact of deeper economic linkages on labour market institutions. He has also studied, from a theoretical and empirical point of view, the effects of regulation on bilateral Foreign Direct Investments flows (*FDI, allocation of talents and differences in regulations*, with José V. Rodríguez Mora, CEPR WP 5318). With Adriana Kugler he analysed the effects of Employment Protection Legislation on job flows in the Italian labour market (*Effects of Employment Protection on Job and Worker Flows in Italy*, NBER WP 11658). His current research analyses the conditions under which demand-driven trade arises in a model with heterogeneous agents and endogenous career choices (with José V. Rodríguez Mora), and the wage effects of Employment Protection Legislation (with Marco Leonardi).

SALVATORE PICCOLO is Assistant Professor of Economics at University of Salerno. He is currently completing a Ph.D. in Economics at Northwestern University. Salvatore also has a Master in Economics and Finance from the University of Naples and a Master in Mathematical Economics from the University of Toulouse. His research focuses on contract theory and mechanism design with applications to industrial organization, auctions, banking and general equilibrium theory. The doctoral thesis is based on three essays analyzing the private and welfare properties of contracting incompleteness in competitive environments with information asymmetries. This year he completed a paper with Alberto Bennardo analyzing a general equilibrium model where workers' preferences and productivity depend on their health status, and occupational choice affects the individual distributions of health risks. Recently, he also completed a project with Marcello D'Amato and Riccardo Martina analyzing the relationship between competitive pressure and market structure. He has also started two new projects on sequential common agency and banking (with Alberto Bennardo and Marco Pagano), and on the strategic effects of contracting completeness.

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

ANNA SANZ DE GALDEANO joined CSEF in May 2004 as Post-doctoral Marie Curie Fellow. She has a PhD in Economics at the European University Institute, and has held visiting positions at Universidad Carlos III de Madrid and at the Research Department of the European Central Bank. Her primary research interest is in labour economics and health economics with a particular focus on program evaluation. She has evaluated the impact of the 1996 Health Insurance Portability and Accountability Act on job-lock, studied the effect of parental divorce on adolescents' cognitive development, and explored the relationship between parental employment and the amount of time devoted to child care. Her current research includes evaluations of the impact of obesity on the demand for health care services, studies of the demand for health care and health insurance in Portugal and analyses of the effects of firm-level bargaining on the structure of Spanish wages. Two of her recent papers are forthcoming in the Industrial and *Labor Relations Review* ("Job-Lock and Public Policy: Evidence from Clinton's Second Mandate") and in *Economics Letters* ("The Euro Area Wage Curve", with Jarkko Turunen).

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

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

FRANCESCA STROFFOLINI is Associate Professor of Public Economics at the University of Naples Federico II. Her research focuses on welfare theory and inequality, regulation, and contract theory. Recent publications include "Price Cap Regulation and Information Acquisition" (with Elisabetta Iossa) in *International Journal of Industrial Organization*, and "Revenue Sharing and Information Acquisition" (with Elisabetta Iossa), in *Information Economic and Policy*. Current research with Elisabetta Iossa focuses on industries characterized by an upstream natural monopoly and a downstream imperfect competitive market with regulation through the access price and, in particular, the desirability of separation with respect to integration when there is uncertainty on the market demand and the monopolistic firm has to invest money to gather information on its realization. A second line of research (with Massimo Marrelli) concerns the relationship between the efficiency and the complexity of a legal system. She is also involved in a research project (with Elisabetta Iossa) comparing different forms of private public partnership with respect to traditional procurement in the public services sector (such as health, transport), and in a study on tax evasion and the structure of a tax system (with Massimo Marrelli).

Visiting Researchers in 2005

RENATA BOTTAZZI is a Research Economist at the Institute for Fiscal Studies, London. Last year she received her Ph.D. in Economics from University College London with a thesis of "*Essays on Household Labour Market Participation, Housing, and Wealth Accumulation Decisions*". Previously, she received a Doctoral degree in Economics of the Public Sector from the University of Salerno, with a thesis of "*Essays on Household Behaviour*". Her research interests include household consumption and labour supply, saving, and housing decisions over the life cycle. In the Fall of 2005 she visited CSEF to work with Tullio Jappelli and Mario Padula on the impact of Italian pension reforms on retirement expectations and wealth accumulation decisions. At IFS she is working on the interaction between labour supply and housing decisions in a structural life cycle model (with Orazio Attanasio, Hamish Low, Lars Nesheim and Matthew Wakefield).

RAQUEL FONSECA joined CSEF in September 2002 as Post-doctoral fellow and, after spending three years at CSEF, in September moved to Los Angeles to take a research position at Rand Corporation. Raquel has a Ph.D in Economics from the Catholic University of Louvain. Her research focuses on matching between job offers and workers, skill regional mismatch, gender discrimination and entrepreneurship. Recent papers include "Welfare Effects of Social Security Reforms Across Europe: the Case of France and Italy" (with Thepthida Sopraseuth), CSEF Working Paper n. 138, and "Can the Matching Model Account for Spanish Unemployment?" (with Rafael Muñoz) in *Investigaciones Economicas.*

LUIGI PISTAFERRI is Assistant Professor of Economics at Stanford University, a Research Fellow of CEPR, and a Faculty Fellow of SIEPR. His current research focuses on household consumption behaviour, income dynamics, and insurance of labour market risks. His articles have been published in Econometrica, Journal of Political Economy, Review of Economic Studies, and other top journals in Economics. He is involved in research projects with various CSEF Fellows, including Tullio Jappelli and Mario Padula, and has spent several months at CSEF as a visitor over the last few years.

MATTHEW WAKEFIELD spent two months at CSEF as Marie Curie Fellow. He is a Senior Research Economist at the Institute for Fiscal Studies in London, and a PhD student at University College, London. His research interests include examining how people respond to incentives to save and to provide for their retirement, and structural life-cycle modelling of individuals' choices over consumption and saving. While at CSEF Matt worked on an empirical investigation of how individuals responded to the UK's 'stakeholder pension' reform, and on a life-cycle model that incorporates a house purchase decision alongside saving choices. His recent publications include "Effectiveness of Tax Incentives to Boost (Retirement) Saving: Theoretical Motivation and Empirical Evidence" (with Orazio Attanasio and James Banks), *OECD Economic Studies* 2005, and "Ill-health and Retirement in Britain: A Panel Data Based Analysis' (with Richard Disney and Carl Emmerson), forthcoming in *Journal of Health Economics*.

CSEF Working Papers

Here is the full list of the Working Papers published by CSEF. The papers can be downloaded with Acrobat (version 3.0 or later) from the URL **http://www.dise.unisa.it/books/wpcsef.htm**.

1998

1 **Tullio Jappelli** and **Marco Pagano**, *The Determinants of Savings: Lessons from Italy*

2 **Luigi Guiso** and **Tullio Jappelli**, *Background Uncertainty and the Demand for Insurance against Insurable Risks*

3 **Orazio Attanasio**, **Luigi Guiso** and **Tullio Jappelli**, *The Demand for Money, Financial Innovation and the Welfare Cost of Inflation: An Analysis with Households' Data*

4 **Marco Pagano**, *The Changing Microstructure of European Equity Markets*

5 **Luigi Pistaferri**, *Recommendations in the Italian Labour Market: An Empirical Analysis*

6 **Orazio Attanasio** and **Tullio Jappelli**, *Intertemporal Choice and the Cross Sectional Variance of Marginal Utility*

7 **Luigi Pistaferri**, *Superior Information, Income Shocks and the Permanent Income Hypothesis*

8 **Luigi Guiso, Tullio Jappelli** and **Luigi Pistaferri**, *What Determines Earnings and Employment Risk?*

9 **Tullio Jappelli** and **Franco Modigliani**, *The Age-Saving Profile and the Life-Cycle Hypothesis*

10 **Michael Manove**, **A. Jorge Padilla** and **Marco Pagano**, *Collateral vs. Project Screening: A Model of Lazy Banks*

11 **Michael Haliassos** and **Christis Hassapis**, *Borrowing Constraints, Portfolio Choice, and Precautionary Motives: Theoretical Predictions and Empirical Complications*

12 **Tullio Jappelli** and **Luigi Pistaferri**, *Using Subjective Income Expectations to Test for Excess Sensitivity of Consumption to Predicted Income Growth*

13 **Tullio Jappelli** and **Marco Pagano**, *The Welfare Effects of Liquidity Constraints*.

1999

14 **Tullio Jappelli**, *The Age-Wealth Profile and The Life-Cycle Hypothesis: a Cohort Analysis with a Time Series of Cross-Sections of Italian Households*

15 **Maria Concetta Chiuri**, *Intra-Household Allocation of Time and Resources: Empirical Evidence on a Sample of Italian Households with Young Children*

16 **Francesco Giavazzi**, **Tullio Jappelli** and **Marco Pagano**, *Searching for Non-Keynesian Effects of Fiscal Policy*

17 **Luigi Guiso** and **Tullio Jappelli**, *Private Transfers, Borrowing Constraints and the Timing of Home-ownership*

18 **Giacinta Cestone**, *Corporate Financing and Product Market Competition: An Overview*

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20 **Thierry Tressel**, *Financial Intermediation and Growth: Long Run Consequences of Capital Market Imperfections*

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23 **Tullio Jappelli** and **Luigi Pistaferri**, *Intertemporal Choice and Consumption Mobility*

24 **Marco Pagano** and **Davide Lombardo**, *Legal Determinants of the Return on Equity*

25 **Marco Pagano** and **Davide Lombardo**, *Law and Equity Markets: a Simple Model*

26 **Maria Concetta Chiuri**, *Individual Decisions and Household Demand for Consumption And Leisure*

27 **Tullio Jappelli** and **Luigi Pistaferri**, *The Dynamics of Household Wealth Accumulation in Italy*

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30 **Mario Padula**, *Euler Equations and Durable Goods*

2000

31 **Berthold U. Wigger**, *Gifts, Bequests and Growth*

32 **Heidrun C. Hoppe** and **Ulrich Lehmann-Grube**, *Spatial Competition in Credit Markets*

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36 **Tullio Jappelli** and **Marco Pagano**, *Information Sharing in Credit Markets: A Survey*

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40 **Charles Grant**, *Credit Constraints, and Insurance: Some Empirics*

41 **Annamaria Menichini**, *On the Role of Bargaining Power under No Commitment to Audit*

42 **Giuliana Palumbo**, *Decision Rules and Optimal Delegation of Information Acquisition*

43 **Luigi Guiso** and **Tullio Jappelli**, *Household Portfolios in Italy*

44 **Maria Concetta Chiuri** and **Tullio Jappelli**, *Financial Markets Imperfections and Homeownership: An International Comparison*

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2001

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58 **Magda Bianco**, **Tullio Jappelli** and **Marco Pagano** *Courts and Banks: Effects of Judicial Enforcement on Credit Markets*

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68 **Klaus Adam**, *On the Relation between Robust and Bayesian Decision Making*

69 **Klaus Adam**, *Learning and Equilibrium Selection in a Monetary Overlapping Generations Model with Sticky Prices*

70 **Javier Giner** and **Sandra Morini**, *Improving the Quality of the Input in the Term Structure Consistent Models*

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75 **Marco Pagano** and **Paolo Volpin**, *Managers, Workers, and Corporate Control*

2002

76 **Marco Pagano** and **Paolo Volpin**, *The Political Economy of Finance*

77 **Giovanni Immordino**, *No Logo*

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81 **Klaus Adam**, *Optimal Stabilization Policy When the Private Sector Has Information Processing Constraints*

82 **Luigi Guiso** and **Tullio Jappelli**, *Stockholding in Italy*

83 **Tullio Jappelli** and **Luigi Pistaferri**, *Tax Incentives for Household Saving and Borrowing*

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88 **Luigi Guiso**, **Michael Haliassos** and **Tullio Jappelli,** *Household Stockholding in Europe: Where Do We Stand and Where Do We Go?*

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2003

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

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

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

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

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

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

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

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2004

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

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

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

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

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

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

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

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

2005

130 Thomas Steinberger, *Social Security and Entrepreneurial Activity*

We solve the dynamic occupational choice problem of a finitely lived, borrowing constrained household which faces exogenously given stochastic wages and business returns. Entrepreneurship means investing personal wealth into a risky asset and neither receiving wage income nor paying social security contributions. Social security benefits in retirement depend on the number of contribution periods. We show that, entrepreneurial activity depends negatively on the generosity of the social security system and non-monotically on the size of the system. Numerical results for a multi-period version suggest that for reasonable parameter values the relationship between the size of the social security system and entrepreneurial activity is negative. In simulation experiments, we find that lowering social security contributions for the young has a relatively larger effect on entrepreneurial activity than other ways to reduce the size of the system.

131 François Bourguignon and Maria Concetta Chiuri, *Labor Market Time and Home Production: A New Test for Collective Models of Intra- household Allocation*

The allocation of time is a crucial decision that influences many aspects of household welfare, above all consumption, income level and home production. This paper presents a new methodology to estimate woman domestic productivity using a French time use survey, at least whenever the recursivity property for constrained utility maximization with home production applies. It provides empirical evidence not rejecting a collective model of household decision making over working time, as the sum of time spent in domestic production and market labor time. Our results show also that female domestic productivity is a relevant variable explaining intra-household distribution of resources.

132 Dimitrios Christelis, Tullio Jappelli and Mario Padula, *Wealth and Portfolio Composition in SHARE. The Survey of Health, Ageing and Retirement in Europe*

This paper provides basic statistics on household total wealth, financial assets, and financial assets composition of the elderly as key indicators of the well-being and quality of life of the elderly. Median total wealth varies much less than median financial wealth across countries. As for financial asset ownership, the chapter focuses on bonds, stocks, mutual funds and life-insurance policies and documents the polarization between Nordic and Mediterranean countries. The elderly tend to invest more in stocks and to have a more diversified portfolio in Northern and Central Europe than in the South. The chapter also offers insights about the relation between financial risk exposure and age and the time that the elderly spend managing their financial assets.

133 Giovanni Immordino and Marco Pagano, *Optimal Auditing Standards*

We study regulation of the auditing profession in a model where audit quality is unobservable and enforcing regulation is costly. The optimal audit standard falls short of the first-best audit quality, and is increasing in the economy's wealth, in the riskiness of firms and in the amount of funding they seek. The model can encompass collusion between clients and auditors, arising from the joint provision of auditing and consulting services: deflecting collusion requires less ambitious standards. The optimal audit standard depends also on the corporate governance of client firms: audit standards and corporate governance are complements. Finally, banning the provision of consulting services by auditors eliminates collusion but may not be optimal in the presence of economies of scope.

134 Giovanni Pica and José V. Rodríguez Mora, *FDI, Allocation of Talents and Differences in Regulation*

This paper presents evidence on the effect of countries proximity in regulation on bilateral FDI flows. By exploiting the OECD International Direct Investment Statistics and data on nationwide regulation levels, we find a significant negative effect of the absolute value of the difference between countries indexes of regulation on the associated bilateral flows of FDIs, controlling for each country regulation level. Motivated by this evidence, we build a model where agents are heterogeneous and differ in their abilities to be entrepreneurs or workers. Entrepreneurs may engage in FDIs, which entails incurring additional fixed costs, one of which is the cost of learning the foreign regulation. In this framework, more similar regulations foster FDI, raise wages, output and productivity. The increase in productivity is the consequence of very efficient foreign entrepreneurs driving out of the market inefficient local firms, improving the allocation of talent in the economy as a whole.

135 Adriana Kugler and Giovanni Pica, *The Effects of Employment Protection on the Italian Labour Market*

This paper uses the Italian Social Security employer-employee panel to study the effect of a reform that introduced a cost for unjust dismissals only for firms below 15 employees, while leaving firing costs unchanged for bigger firms. We find that the increase in dismissal costs decreased accessions and separations in small relative to big firms, the more so in sectors with higher employment volatility. Moreover, the reform reduced firms' entry rates while increasing the exit rate. We also find evidence that higher EPL flattened employment policies over the cycle.

136 Tullio Jappelli and Marco Pagano, *Role and Effects of Credit Information Sharing*

Information sharing about borrowers' characteristics and their indebtedness can have important effects on credit markets activity. First, it improves the banks' knowledge of applicants' characteristics and permits a more accurate prediction of their repayment probabilities. Second, it reduces the informational rents that banks could otherwise extract from their customers. Third, it can operate as a borrower discipline device. Finally, it eliminates borrowers' incentive to become over-indebted by drawing credit simultaneously from many banks without any of them realizing. This chapter provides a brief account of models that capture these four effects of information sharing on credit market performance, as well as of the growing body of empirical studies that have attempted to investigate the various dimensions and effects of credit reporting activity. Understanding the effects of information sharing also helps to shed light on some key issues in the design of a credit information system, such as the relationship between public and private mechanisms, the dosage between black and white information sharing, and the "memory" of the system. Merging the insights from theoretical models with the lessons of experience, one can avoid serious pitfalls in the design of credit information systems.

137 Antonio Acconcia and Saverio Simonelli, *Revisiting the One Type Permanent Shocks Hypothesis: Aggregate Fluctuations in a Multi-Sector Economy*

We use data for the US manufacturing sectors to revisit recent explanations of aggregate fluctuations in labor productivity and employment. The two main findings are: (a) the common working hypothesis that a single source of shocks is responsible for the long-run persistence of labor productivity is difficult to reconcile with the behavior of this variable across sectors; (b) the near zero correlation between the aggregate productivity and employment growth rates can be explained as the outcome of strong positive and negative correlations within, respectively, the durable and non-durable goods sectors. Within the durable goods sector, investment specific innovations have positive effects on both labor productivity and hours worked at short- as well as long-run horizons. The effect on labor productivity, however, is not detected with aggregate data.

138 Raquel Fonseca and Thepthida Sopraseuth, *Welfare Effects of Social Security Reforms Across Europe : the Case of France and Italy*

This paper uses a calibrated life cycle model to quantify the distributional effects of Social Security reforms. We focus only on two countries: Italy and France because they adopted two different strategies to cope with aging. While France marginally modified its defined pension plan, Italy switched from a defined pension plan to a contributive system. We find both reforms redistributes welfare unevenly: high skilled workers are the primary winners of the French reform and self employed individuals, especially unskilled workers, are the losers under the new Italian Social Security arrangement.

139 Marco Pagano, *The Modigliani-Miller Theorems: A Cornerstone of Finance*

The Modigliani-Miller (MM) theorems are a cornerstone of finance for two reasons. The first is substantive and it stems from their nature of "irrelevance propositions": by providing a crystal-clear benchmark case where capital structure and dividend policy do not affect firm value, by implication these propositions help us understand when these decisions may affect the value of firms, and why. Indeed, the entire subsequent development of corporate finance can be described essentially as exploring the consequences of relaxing the MM assumptions. The second reason for the seminal importance of MM is methodological: by relying on an arbitrage argument, they set a precedent not only within the realm of corporate finance but also (and even more importantly) within that of asset pricing.

140 Tullio Jappelli, *The Life-Cycle Hypothesis, Fiscal Policy, and Social Security*

The paper reviews some of the most important results of the Life Cycle Hypothesis for understanding individual and aggregate saving behaviour. It then turns to the implications for fiscal policy and social security, highlighting Modigliani's seminal contributions. Over time competing theories have emerged, and some empirical findings are difficult to reconcile with LCH; chiefly aspects of inertia, myopia, and irrational behaviour documented by the recent behavioural literature. But the LCH is still the benchmark model to think about individual saving decisions, the aggregate evidence and policy issues.

141 Antonio Acconcia, Riccardo Martina and Salvatore Piccolo, *Vertical Restraints under Asymmetric Information: On the Role of Participation Constraints*

We study a manufacturer-retailer relationship where, besides the adverse selection and moral hazard components, it is explicitly considered a type-dependent participation constraint capturing the shadow cost of exclusive dealings. The welfare effects of contracts based on both retail price and sales are compared to those of contracts contingent solely upon sales. When the type-dependent outside option severely aspects the agency problem and contracts are set non-cooperatively, retail price restrictions may be detrimental to consumers. At the same time, if contracts are set cooperatively, we show that whenever sales-based contracts are observed they are detrimental to consumers.

142 Francesco Giavazzi, Tullio Jappelli, Marco Pagano and Marina Benedetti, *Searching for Non-Monotonic Effects of Fiscal Policy: New Evidence*

Data revisions and the availability of a longer sample offer the opportunity to reconsider the empirical findings that suggest that in the OECD countries national saving responds non-monotonically to fiscal policy. The paper confirms that the circumstance most likely to give rise to a non-monotonic response of national saving to a fiscal impulse is a "large and persistent impulse", defined as one in which the full employment surplus, as a percent of potential output, changes by at least 1.5 percentage points per year over a two-year period. This particular circumstance remains the only statistically significant one even when we allow for non-monotonic responses to arise when public debt is growing rapidly or interest rate spreads are widening. We find that non-monotonic responses are similar for fiscal contractions and expansions. In particular, an increase in net taxes has no effect on national saving during large fiscal contractions or expansions. For government consumption there is a large, albeit in some specifications less then complete, offset during expansions or contractions.

143 Anna Sanz De Galdeano, *The Obesity Epidemic in Europe*

This paper uses longitudinal micro-evidence from the European Community Household Panel to investigate the obesity phenomenon in nine EU countries from 1998 to 2001. The author documents cross-country prevalence, trends and cohort-age profiles of obesity among adults and analyses the socioeconomic factors contributing to the problem. The associated costs of obesity are also investigated, both in terms of health status, health care spending and absenteeism.

144 Giovanni Pica, *Capital Markets Integration and Labor Market Institutions*

This paper analyzes the long-run effects of capital markets integration on production and wages, explicitly accounting for the impact of deeper economic linkages on labor market institutions. We consider a two-country OLG model where labor market imperfections are modelled as an endogenous wage floor. We first characterize the closed economy and provide conditions for the minimum wage to arise in steady state. We then show that increased integration always provides incentives to reduce labor market rigidities. However, this is not enough to conclude that openness is unambiguously beneficial.

145 Alberto Bennardo and Salvatore Piccolo, *Competitive Markets with Endogenous Health Risks*

We study a general equilibrium model where agents' preferences, productivity and labor endowments depend on their health status, and occupational choices affect individual health distributions. Efficiency typically requires agents of the same type to obtain different expected utilities if assigned to different occupations. Under mild assumptions, workers with riskier jobs must get higher expected utilities if health affects production capabilities. The same holds if health affects preferences and health enhancing consumption activities are sufficiently effective, so that income and health are substitutes. The converse obtains when health affects preferences, but health enhancing consumption activities are not very effective, and hence income and health are complements. Competitive equilibria are first-best if lottery contracts are enforceable, but typically not if only assets with deterministic payoffs are traded. Compensating wage differentials which equalize the utilities of workers in different jobs are incompatible with ex-ante efficiency. Finally, absent asymmetric information, there exist deterministic cross-jobs transfers leading to ex-ante efficiency.

146 Daniela Fabbri and Anna M.C. Menichini, ***Asset Diversion, Input Allocation and Trade Credit***

We study a general equilibrium model where agents' preferences, productivity and labor endowments depend on their health status, and occupational choices affect individual health distributions. Efficiency typically requires agents of the same type to obtain different expected utilities if assigned to different occupations. Under mild assumptions, workers with riskier jobs must get higher expected utilities if health affects production capabilities. The same holds if health affects preferences and health enhancing consumption activities are sufficiently effective, so that income and health are substitutes. The converse obtains when health affects preferences, but health enhancing consumption activities are not very effective, and hence income and health are complements. Competitive equilibria are first-best if lottery contracts are enforceable, but typically not if only assets with deterministic payoffs are traded. Compensating wage differentials which equalize the utilities of workers in different jobs are incompatible with ex-ante efficiency. Finally, absent asymmetric information, there exist deterministic cross-jobs transfers leading to ex-ante efficiency.

147 Thomas Steinberger, *Pension Benefit Default Risk and Welfare Effects of Funding Regulation*

This paper analyzes the welfare effects of funding regulation for defined benefit pension plans subject to pension benefit default risk in an incomplete financial markets OLG-setting with aggregate uncertainty and idiosyncratic pension default risk. The financial market incompleteness arises from the inability to trade human capital claims. Using numerical methods to solve for equilibrium, we show first that default-free defined benefit pension plans are welfare-improving even in a dynamically efficient economy. Second, we show that in the presence of default risk funding regulations improve aggregate welfare by making larger size plans more attractive and that full funding is not necessarily the optimal policy. Our results provide a rationale for the widespread under-funding of defined benefit pension plans and might explain the decline of these plans after the introduction of stringent funding regulation in the US.

148 Marcello D'Amato, Riccardo Martina and Salvatore Piccolo, *Endogenous Managerial Contracts*

The relationship between managerial incentives and product market competition is studied in an imperfectly competitive industry where two managerial firms, compete by setting quantities. Owners simultaneously choose between two contractual regimes: a cost-based and a profit-based one, while privately informed managers perform an unverifiable cost-reducing activity and choose quantities. We characterize the incentive properties of alternative managerial remuneration schemes owners may use to control managers behavior and we study the equilibrium relationship between owners' and managers' choices, efficiency and market competition. It is showed that a competing-contracts effect, at play under profit target, may induce firm owners not to select the constrained efficient allocation in the pre-specified set of contracts. Moreover, under profit-based schemes a pure agency effect, at play directly through information rents, drives a positive impact of competition on managerial effort. As a result an inverted-U shaped relationship between product market competition, managerial effort and agency costs obtains, thus leading to marginal costs convex with respect to a measure of competition.

149 Marco Pagano and Paolo Volpin, *Shareholder Protection, Stock Market Development, and Politics*

This paper presents a political economy model where there is mutual feedback between investor protection and stock market development. Better investor protection induces companies to issue more equity and thereby leads to a broader stock market. In turn, equity issuance expands the shareholder base and increases support for shareholder protection. This feedback loop can generate multiple equilibria, with investor protection and stock market size being positively correlated across equilibria. The model's predictions are tested on panel data for 47 countries over 1993-2002, controlling for country and year effects and endogeneity issues. We also document international convergence in shareholder protection to best-practice standards, and show that it is correlated with cross-border M&A activity, consistent with the model.

150 Tullio Jappelli, Mario Padula and Luigi Pistaferri, *A Direct Test of the Buffer-Stock Model of Saving*

Recent models with liquidity constraints and impatience emphasize that consumers use savings to buffer income fluctuations. When wealth is below an optimal target, consumers try to increase their buffer stock of wealth by saving more, while, if wealth is above target, they increase consumption. This important implication of the buffer stock model of saving has not been subject to direct empirical testing. We derive from the model an appropriate theoretical restriction and test it using data on working-age individuals drawn from the 2002 Italian Survey of Household Income and Wealth. One of the most appealing features of the survey is that respondents report the amount of wealth held for precautionary purposes, which we interpret as target wealth in a buffer stock model. The test results do not support buffer stock behavior, even among population groups that are more likely, a priori, to display such behavior. The saving behavior of young households is instead consistent with models in which impatience, relative to prudence, is not as high as in buffer stock models.