EIEF News

EINAUDI INSTITUTE FOR ECONOMICS AND FINANCE

In this issue EIEF interviews Ignazio Visco, Governor of the Bank of Italy, asking him to respond to the criticisms moved to the finance industry by the young 'indignados' protesting in many countries. Governor Visco also offers his views on the need to invest in human capital, both from an individual and from a social perspective.

As previously announced, EIEF has recently established two full-time endowed chairs: the "Bajola Parisani Chair in Economics and Institutions", held by Luigi Pistaferri, and the "AXA Chair in Household Finance and Insurance", held by Luigi Guiso.

Contents

President
Marco Pagano

Director
Daniele Terlizzese

EIEF
Via Sallustiana, 62
00187 Roma
Tel: +39-06-67 90 013, +39-06-67 97 105
www.eief.it

1. Can finance be the young's best friend? An interview with Ignazio Visco

EIEF: We thank Ignazio Visco for having accepted our invitation to this "collective interview". We want to get his opinions on two broad themes. On the one hand, the current dissatisfaction, expressed by many young people, with the finance industry; on the other hand, the role of merit and of competition in our society. What links these two themes is the idea that those who today are rich in ideas and willingness to work hard, but poor in accumulated resources and powerful networks to rely upon – namely young people – should naturally see finance, merit and competition as allies. Yet, they often see them as anathema.

So, let us start with finance. As economists, we see finance as the way to provide resources to those who today have good ideas, but not wealth or income, allowing them to turn those ideas into real, additional wealth that can reward both them and those who originally provided the resources. How has it been possible that, instead, finance is seen by so many young people as just a treacherous, mysterious and unfair mechanism that generates humongous "paper wealth" for a tiny minority and real misery for the rest? What did finance do to deserve this bad reputation? Do regulators share part of the blame? And is it possible tomake a better, clear case in favour of a positive role of finance?

Ignazio Visco (IV). I broadly share your view of finance as a mechanism for the good. There are many liquidity constraints hampering the working of the economy and the exploitation of good ideas, and finance can remove those constraints. In theory, at least. In practice, however, things get less clear cut. And there are cycles in the way in which finance is perceived and assessed. Before the 70's the intellectual debate used to take for granted the idea that a regulator is needed, that the market left to itself can generate inefficient results. Then came the big inflation of the 70s, combined with high unemployment. The State, the regulators, which had not prevented those developments, were blamed and the ground was ready for an ideological swing: a push for reducing the size of the State.
To buttress this swing, besides the failures of the "regulated economy", there was a powerful change, taking place in the political and economic arena. The end of the Cold war, a major opening of the economies to trade, the transfer of the technological innovations, many of them generated in the military sector, to civilian uses. The revolution in the Information and Communication Technologies (ICT) radically transformed the way in which information can be generated, collected, transferred. And this in turn allowed the ebullient innovation in the finance industry, the financial innovation. The idea, in principle correct and fruitful, was that a proliferation of new financial instruments, allowing

agents to insure themselves against many dimensions of risk, was a way to "complete the markets", to get closer to the theoretical idea of the Arrow-Debreu model with complete markets, allowing the efficient transfer of resources across time, space and states of the world. But all this was based on the presumption that the world is stationary, that the future is pretty much like the past, that we can extrapolate from relatively small samples, that there is a single "Data Generating Process" which, with enough data, we can eventually identify and learn about. If instead the world is non stationary, we end up with wrong estimates of the probabilities. And, based on these wrong estimates, the decisions to invest in the various financial instruments can lead to big mistakes. For a number of years the big investment banks were able to sustain returns much higher than what was justified by the real increase of wealth in the economy. Until at some point the day of reckoning arrives, and there is a big crash. In a way innovation, based on the presumption of stationarity, sows the seeds of the non-stationarity that will end up to undermine that very presumption.

EIEF: So, do you think there was some form of hubris, of excessive self-confidence, based on a wrong perception of risks?

IV: Yes, the fundamental non-stationarity of the economic developments were not well appreciated. But complexity was also used, somewhat perversely, as a way to obtain from the regulators a sort of benign neglect. The big players in the finance industry successfully argued with the regulators that financial innovation was too complex and too opaque for the regulators to get their head around it: you will always be behind it, so allow us to self-regulate, we can take care of ourselves. Accepting this argument was a key mistake.

EIEF: Why do you think this happened? Didn't the regulators have the right incentives to acquire the necessary information?

IV: Well, there are probably two reasons. On the one hand, the big financial players were, and are, global. They operate in the world market, and national regulators were too small and had too narrow powers to be able to confront them. The need to coordinate the regulators' actions acted, in the face of a natural tendency to preserve each regulator's sphere of influence, as a powerful drag on the ability to raise up to the challenge posed by a finance gone global. On the other hand, phenomena of regulatory capture surely happened. Powerful political and economical influences were at play, and in some cases prevailed.

EIEF: What are the regulators doing to prevent the same mistake to happen again?

IV: Several things have already been decided (though not all yet implemented in full). Most countries have revised their systems of regulation and supervision to reduce the risks for stability, to increase cooperation among authorities and to broaden the scope of the rules. With the new regulatory framework, the so called Basle III, the ability of banks' capital to absorb potential losses will be definitely improved: basically, only common equity will count as capital. And formal liquidity requirements for banks' investments are being introduced. Principles to make compensation in the finance industry more responsive to the long-term prospects of the firm have been introduced. The transparency of trading in derivatives is being increased by moving most of the transactions on centralized exchanges. Many of the perverse incentives that encouraged the assumptions of excessive

risks in securitizations have been eliminated. The reform has not yet been completed, however. Several other issues are being actively discussed, for example on the role of rating agencies, accounting standards and prudential rules. Also distinguishing between banks, reducing their complexity: to avoid facing the ugly alternatives posed by the existence of too-big-to-fail institutions, preventing them from becoming too big. And putting in place rules to allow orderly resolution schemes, in case of failures. It would be foolish to pretend that failures can be avoided, but we need to be prepared for their occurrence. Not everybody agrees on the various proposals, there are good arguments on each side of the debate. For example, the Commission does not fully share the proposals contained in the Vickers' report. And, as you hinted at the beginning, I am fully convinced that much more efforts should be devoted to better explain to the young people both what happened and what are the positive aspects of the finance industry, those from which they can benefit the most. One problem with this is that it is not simple to identify the culprits of what went wrong. Some see a bigger role played by the so called global imbalances, i.e. by the emergence of structural surpluses and deficit areas in the world, with some countries consuming persistently more than they produce and others doing the opposite.
Others blame the so called regulatory arbitrage, that is the tendency of financial players to move in search of the economies where the regulation is more favourable. It is also important to be clear on the trade-offs. Decisions to limit the power of the big financial institutions would likely reduce the efficiency of the system, but can yield a more robust and resilient system, one which does perform satisfactorily even if the assumptions under which the regulatory framework design had been derived turned out to be grossly wrong.

EIEF: Among those moves to limit the power of these institutions there is also the idea of introducing a tax on financial transactions. What is your opinion about it?

IV: When I was the Chief Economist at the OECD we published in June 2002 a special chapter of the OECD Economic Outlook on exchange market volatility and securities transaction taxes. What we wrote then pretty much represents, still today, what I think about it. I have concerns about its practical implementation, I think that if the objective is to tax financial profits there are better ways, and if the objective is to curb the size and the amount of financial transactions it might end up, if it is successful, to bring little revenue.

EIEF: But why should we want to reduce the size and the amount of the financial transactions? Do you think that there is a disconnect between the amount of financial activity and the amount of real activity?

IV: Is trading in derivatives good or bad? This is, I think, what you're asking me. Because a large part of the explosion in the value of financial transaction is attributable to derivative trades. In principle, a derivative contract is an insurance mechanism. As such, it is a beneficial addition to the set of markets available, it is a clear example of the trend towards the completion of markets which I mentioned before. But you need to know the probabilities! And if the world is non-stationary, this is a problem.

EIEF: Yet, precisely because derivatives are in zero net supply, why should we care? If they make mistakes in assessing the probabilities, some would gain what others would lose, can't we let them play their game?

IV: You see, this is to some extent the same argument used by the big finance to justify self-regulation. We're big guys, we can take care of ourselves. This would be fine, except that then there are failures and there are bailouts. There are important externalities, the unregulated markets do not take them into account.

EIEF: You're right, there are externalities. Indeed, a large part of the most recent and most interesting literature on the crisis is trying to identify precisely the nature of these externalities. But time is running short, let's briefly move to the second theme of our interview, the role of merit, and of competition, in Italy and for the young generations. In particular, there is a legitimate debate on whether the poor job prospects of graduates in this country are a consequence of a lack of qualified demand from firms, or instead the poor growth performance of firms is a consequence of poor quality of skilled labour force. Which side would you take in this debate?

IV: I think it is a bit of both, plus a third element. Italian firms, recovering from the ravages of WWII, specialized in sectors of basic production, which did not require very high skills. Moreover, to a large extent they remained small, often choosing their management within the boundaries of a single family. Neither of these factors, then, seemed to put a steep premium on merit, on the need to reach for the best talents. And, at the same time, there has been a long lasting ideological opposition to the idea of merit, in favour of a somewhat abstract notion of equality. Firms were then not well equipped to deal with radical technological changes, and they have been were slow in adopting the new ICT, let alone innovating on them. So their need of a well educated workforce, able to adopt the new technologies and to innovate on that front was also slow to emerge. All this on the side of the demand for labour, on the production side. On the supply side, the quality of our education system was not particularly high and, in some segments, it has been deteriorating. This also means that firms have faced a labour supply of mixed and uncertain quality, that presented a typical "lemon problem". As a result, the salary has been kept low, reflecting a composition of the labour force that discounted the presence of "lemons". These two aspects, the composition of our productive system and the quality of human capital, have interacted with a third factor, the introduction and the widespread use of more flexible contractual forms, which made it convenient for firms to roll-over their hiring rather than investing on longer-term, stable, but rigid, relationships. Indeed, the high turnover makes it more difficult for firms to identify the true quality of its workers, and reduces the incentives on the side of the workers to invest in firm-specific skills, rationalizing ex-post the low average salary.

EIEF: The debate concerning the responses to the crisis seems to be dominated by distributional issues: who should pay, what is the fair way to share the burden? This is so in the U.S., in Germany, in Italy. But, in particular in our country, this risks obfuscating the fact that there is a big efficiency gap to be overcome. Would you agree with this?

IV: Yes, I do. The best way to increase the lot of those who are behind is not to give them a bigger spoon, but to increase the size of the pot. You see, when I was at the OECD in the second half of the 90s, the idea of building a "knowledge economy" came out. I confess that at the time I was somewhat sceptical. The concept seemed a bit woolly, I could not quite put my finger on what it was that needed to be done. Yet we went on a technical assistance mission in Korea, which had just joined the OECD and was dramatically hit by the Asian financial crisis. They took the report, and decided that it was the right way to go. And they did it! Now they almost invariably cap the education rankings, and have had an economic miracle. The lessons I would draw from this, which are very relevant for our country, are: plan for the long term; and make sure that education is one of the main pillars of that plan.

2. New People at EIEF

Luigi Pistaferri holds the newly created "Bajola Parisani Visiting Chair in Economics and Institutions". He joined EIEF Faculty last September (he is currently on leave from Stanford University). After getting his Ph.D. at University College London in 1999, Luigi's quickly established a sterling international reputation. He is currently a Faculty Fellow of CEPR, a Research Associate of NBER, and a co-Editor of the American Economic Review. He has recently been awarded a prestigious European Research Council Grant, for a period of five years (2011-2016). His main fields of interest are labour economics, applied micro and macroeconomics. In particular, his recent research has focused on how firms and consumers develop ways to reduce their intertemporal exposure to risk whenever there are credit market imperfections. In this area, the EIEF Working Paper "Credit within the firm", written with Luigi Guiso and Fabiano Schivardi, analyses empirically how the degree of financial development affects the role of the firm as an internal credit market. More information on Luigi's recent papers is available here. The goal of the research funded by the ERC grant is to understand and quantify the behavioral, organizational, and contractual responses to uncertainty by consumers and firms, to describe their logic, to assess their effectiveness and their potential drawbacks; the research project will use large scale administrative data and matched employer-employee ones. More specific research questions that will be tackled are: (a) how do consumption and family labor supply respond to permanent shocks to resources, in an environment with incomplete markets? (b) what is the importance of peer effects on consumption, their social multiplier and their amplifying effect on welfare and/or tax policies? (c) what are the trade-offs between insurance and efficiency in introducing, as several European countries are contemplating to do, lifetime limits on welfare use? (d) how big are the adjustment costs faced by firms when changing investment plans in response to product demand shocks? Luigi is also involved in the teaching activities of EIEF's Graduate Program, and in the Fall term he taught an advanced course in Labor Economics covering job search models, the impact of public policies on individual behaviour, and household consumption choices under complete and incomplete markets. The course syllabus is available here.

Sergei Kovbasyuk is our new Assistant Professor in Finance who joined EIEF Faculty last August from Toulouse School of Economics, France, where he got his Ph.D. His main fields of interest are corporate finance, contract theory and economics of information. In his job market paper "Optimal Certification Design", he assesses when a regulation that prohibits payments to rating agencies rating contingent on the rating issued is welfare improving. Contrary to conventional wisdom, such a regulation hinders information revelation and harms social welfare when the contract between the seller of the certified good and the certifier is public. If the contract is private (i.e. when buyers do not observe the payments), contingent payments can lead to "rating inflation" and have limited information value, so mandating flat fees can increase social welfare. In *"Scarce Monitoring Capital, Underpricing of IPOs and Discrimination among Investors"*, Sergei shows how investment decisions of large investors provide information to small investors in initial public offerings: if an entrepreneur sells some shares to a large investor, the valuation of shares by small investors goes up. The paper then compares a fixed price offering and an offering which allows price discrimination by entrepreneurs among investors and shows that the former is welfare improving. In *"The Wisdom of the Crowd"*, Sergei analyses how decentralized information acquisition by independent experts about new projects can affect their success. The analysis highlights that a critical mass of independent investors with the necessary expertise in a particular industry (venture capitalists) is essential for an active and efficient market for new projects to emerge. Sergei is also involved in the teaching activities of the Graduate Program and in the Fall term he gave a review course in Corporate Finance.

Daniele Massacci joined the ranks of EIEF's young researchers last September. He is the winner of 2011 Franco Modigliani Fellowship in Economics and Finance (awarded by the *Associazione Borsisti Marco Fanno*) and elected to spend his fellowship at EIEF. Daniele got his Ph.D. at Cambridge University (United Kingdom) and has been Lecturer at the University of Surrey; his main fields of interest are asset pricing and financial econometrics. Daniele will also be involved in the teaching activities of the Graduate Program; in particular, in the Spring term 2012 he will give a course in empirical asset pricing.

3. Conferences and other events

In the Summer and Fall 2011 EIEF hosted or organized, in co-operation with other institutions, several conferences and events. Some highlights are presented below, more information is available here or by clicking on the links below.

In July EIEF hosted the 11th Doctoral Workshop in Economic Theory and Econometrics (MOOD 2011), designed to stimulate the interaction between senior economists and doctoral students. This annual event is the result of the cooperation between four Italian research Institutions – the Bank of Italy, Collegio Carlo Alberto, EIEF and LUISS - that are present on the international job market for young economists. Financial support was also provided by the Journal of Applied Econometrics and by the journal LABOUR. The programme included five sessions: Matching and Search, Banking and Finance, Education, Networks and Productivity, Treatment Effects. The presenters, all PhD students who will be on the 2012 job market, provided a broad overview of the arguments currently explored at the frontier of economic research. In turn, they received constructive feedbacks and criticisms, useful at the work-in-progress stage of their research, from the highly qualified attendance, including visiting scholars of international reputation.

Again in July EIEF also hosted a conference organized by LaVoce.info, the Italian online newspaper specialized in providing an economic interpretation of current affairs. Tito Boeri (the editor) assessed the reach and the contribution of the newspaper to the public debate, then special topics were taken up: Fabiano Schivardi (University of Cagliari and EIEF) analysed the causes of the productivity slowdown of the Italian manufacturing system and put forward some concrete proposals to overcome the current constraints on entrepreneurs' activity; Silvia Giannini (Bologna University) and Maria Cecilia Guerra (University of Modena and Reggio Emilia) reviewed the fiscal reform proposed by the Berlusconi government, highlighting its inability to correct the most serious distortions of the current system; Giuseppe Pisauro (University of Rome "La Sapienza") analysed the prospects for fiscal consolidation in Italy also in the light of the reform of the Stability and Growth Pact.

In September there was in Alghero (Sardinia - Italy) the 9th Hydra Workshop on Dynamic Macroeconomics, which EIEF co-sponsored and co-organized together with the ECB, the Swiss National Bank, the University of Bern, the University of Cagliari and the University of Sassari. The workshop brings together leading researchers in this field (among the presenters there were Fernando Alvarez, Marios Angeletos, Behzad Diba, Charles Engel, Chris Hellwig, Pat Kehoe, Bob Shimer and Harald Uhlig). The workshop, which is highly interactive and stimulating, discussed theoretical and highly sensitive policy issues, such as sovereign debt crises in a monetary union, the effectiveness of fiscal policy in recessions, the origins of fluctuations, the flows of ideas and their effect on growth, the optimal quantity of money.

In October, EIEF and the Center for Financial Studies (Goethe University, Frankfurt) organized a conference on Household Finance. The conference was held at the EIEF's premises in Rome and provided an overview of the most recent empirical and theoretical research on household financial behaviour and how this is influenced by government policies and the overall economic environment. On the first day the discussion focused on household access to credit and preferences for risk. A plenary session followed on Consumer Protection with contributions by Marco Ottaviani (Bocconi University) and Peter Tufano (Oxford University) on consumer protection in financial markets. The second day was devoted to the implications of financial expertise and advice, as well as of income and stock market risk for house hold portfolio decisions, on social relations and household finance outcomes. The conference highlighted relevant open issues such as the role of financial sophistication and literacy, the role of financial advice and expertise, and the importance of networks to improve household access to credit.

Forthcoming Conferences and Workshops in 2012

On April 12-13, 2012, EIEF will host the second edition of the "Workshop on Structural Approaches to Industry Dynamics, Trade and Productivity" co-funded with COST. The event follows up the first edition organized by EIEF in April 2009. The aim of the workshop is to bring together researchers in industry dynamics and productivity to discuss recent developments in the field. The preliminary programme is available here.

On 27-28 April, 2012 EIEF will host a conference on "Economics of Interactions and Culture". The event is co-organized with the European Research Council, the University of Rome "La Sapienza" and CEPR. The aim of the conference is to present and discuss recent research on the role of cultural traits, beliefs and social norms in a wide range of socio-economic interactions and in shaping the functioning of institutions and legal systems. This event is the follow up of two previous Conferences on similar topics held in December 2008 and January 2010. For more details, see the Call for papers.

GRANTS

In 2008 EIEF funded eight research projects by young scholars based in Italy. Of those, four have so far produced results that have already been accepted for publication. Andrea Attar (writing with Thomas Mariotti and François Salanié) published the article: "*Nonexclusive Competition in the Market for Lemons*", Econometrica, 2011, Volume 79, Issue 6, pages 1869-1918; Francesco Bartolucci, Alessio Farcomeni and Fulvia Pennoni wrote a book: "*Latent Markov Models: Applications in Social Science and Economics*", to be published by Chapman&Hall/CRC by March 2012; Marco Casari's paper (written with Gabriele Camera and Maria Bigoni): "Cooperative Strategies in Anonymous Economies: an Experiment" is forthcoming in Games and Economic Behavior; Francesco Drago's paper: "*Indirect Effects of a Policy Altering Criminal Behavior: Evidence from the Italian Prison Experiment*" is forthcoming in the American Economic Journal: Applied Economics.

At the beginning of 2012 EIEF decided to fund eight new research projects. The full list is available here.

4. Visitors

Fall 2011/Spring 2012

Fernando Alvarez
University of Chicago

Emanuela Cardia
Université de Montréal, Québec

Gary Charness
University of California, Santa Barbara

Yeon-Koo Che
Columbia University

Valentino Dardanoni
Università degli Studi di Palermo

Larry Epstein
Boston University

Claudio Ferraz
Pontifícia Universidade Católica do Rio de Janeiro

Paola Giuliano
University of California, Los Angeles

Antonio Guarino
University College London

Helios Herrera
Columbia University

Gur Huberman
Columbia Business School

Julian Jamison
Federal Reserve Bank of Boston

Shachar Kariv
University of California, Berkeley

Jakub Kastl
Stanford University

Aubhik Khan
Ohio State University

Christian Lundblad
University of North Carolina's Kenan-Flagler Business School

Rody Manuelli
Washington University in St. Louis

Rajnish Mehra
Arizona State University

Tommaso Nannicini
Bocconi University

Ed Nosal
Federal Reserve Bank of Chicago

Stephen Schaefer
London Business School

Danila Serra
Florida State University

Julia Thomas
Ohio State University

Alessandra Voena
Stanford University

More information on 2011-12 Visiting Program is available here.

5. Lectures

Summer Lectures

From mid June to mid July 2011 EIEF organized a series of Summer Lectures, meant to provide a brief overview of recent pioneering research in four broad areas: Macroeconomics, Political Economy/Law and Economics/Household choices, International Finance and Trade, Finance and Regulation. In particular, among others the lectures covered topics such as "Theory of Contracts" (Luca Anderlini), "Political Economy of Public Debt" (Marco Battaglini), "Principles of Optimal Taxation" (Mike Golosov), "Sticky Price Models" (Fernando Alvarez), "Culture and Women choices" (Raquel Fernandez), "Traditional and Shadow Banking" (Guillermo Ordonez), "Information Aggregation and Transmission" (Aleh Tsyvinski), "Psychological Games and Experimental Asset Markets" (Martin Dufwenberg) (for the full list and related material see here). The Summer Lectures are one of the ways in which the intellectual resources attracted by EIEF are made available to a broader community of economists and policy makers. The audience mainly consisted of graduate students from various Italian Universities and of economists from the Bank of Italy, the Ministry of Economics and Finance and other Italian institutions and from commercial banks. They had the possibility to actively interact with the visiting scholars during the lectures and afterwards, and to discuss with them specific research issues.

LABOUR Lectures

Since 2009 EIEF has hosted the LABOUR Lectures, organized by the scholarly Journal LABOUR: Review of Labour Economics and Industrial Relations and offered by outstanding researchers in the field, with the aim to provide a broad overview of lines of research that are relevant to young labour economists. The 2011 LABOUR Lectures were given in March by Joseph Altonji (Yale University), on "Selection on Observables and Bias from Unobservables", with applications to the choice of school by students and families; in October by Jeff Wooldridge (Michigan State University) who covered specific topics in microeconometrics and policy evaluation. Wooldridge lectures were also attended by several researchers from the Regional Research Centers of the Bank of Italy. More material is available here.

Special Lectures

In the course of 2011 four short series of Special Lectures were given: by Michael Lechner (University of St. Gallen) on matching estimation and evaluation of active labour market policy, by Rajnish Mehra (Arizona State University) on the equity premium puzzle, by Gary Charness (University of California, Santa Barbara) on experimental economics and by Søren Johansen and Katarina Juselius (University of Copenhagen) on cointegrated VAR models. More material is available here.

6. Graduate Program

A broad description of EIEF Graduate Program was presented in the first issue of this Newsletter. The following, therefore, will only provide a quick update on the courses offered.

For the first time, the program started with review classes in Micro and General Equilibrium, Macro and Econometrics. These classes, held in September-October before the actual start of the regular courses, are mostly meant as quick refresher on topics that should be largely familiar and as a self-assessment tool for students, helping them to identify those areas of their background training that need to be buttressed.

After (or partly in parallel) with these courses, in the Fall 2011 the topics covered were Industrial Organization, Labour Economics, Consumption, Theory of Money, Corporate Finance, Asset Pricing, Latent Variables Models, Bayesian Econometrics and Nonparametric Methods.

Information on the courses offered in the Spring 2012 will be available here.

7. Seminars

The following is a short list of the most recent seminars

Economics

Ramon Marimon
European University Institute
November 21

Fausto Panunzi
Bocconi University
November 28

Facundo Piguillem
EIEF
December 5

Julian Jamison
Federal Reserve Bank of Boston
December 9

Xavier Ragot
Paris School of Economics
December 12

Francesco Decarolis
University of Wisconsin Madison
December 15

Giancarlo Spagnolo
University of Rome "Tor Vergata" and EIEF
December 19

Veronica Guerrieri
University of Chicago Booth School of Business
December 19

Econometrics

Camille Landais
Stanford University
November 24

Jakub Kastl
Stanford University
December 1

Maris Goldmanis
University of London
December 15

More information on past and forthcoming seminars is available here. Note that in January and February 2012 the activity will be devoted almost entirely to 'job-market' seminars.

8. Latest Working Papers

Highlights of some recent EIEF Working Papers are presented in the following. The full list is available here.

WP 2011/17

Giancarlo Spagnolo in "Legalizing Bribes", with Martin Dufwenberg, contributes to identify concrete measures to fight corruption. Starting from Kaushik Basu's recent proposal to "*legalize the act of giving the bribe and double the fine for accepting the bribe*", the paper develops a formal model that allows to draw conclusions regarding which legal rules should work well in what setting. In particular, it is shown that Basu's proposal gets mixed and highly context-dependent results as regards usefulness with harassment bribes (payments people give in order not to be denied what they are legally entitled to). To overcome many of the objections to Basu's proposal, the authors propose the following: "*rather that legalize bribe-giving, only bribe givers who report should be awarded legal immunity*".

WP 2011/16

Giancarlo Spagnolo in "Time Horizon and Cooperation in Continuous Time", with Maria Bigoni, Marco Casari and Andrzej Skrzypacz, uses laboratory experiments on Prisoner's Dilemma games played in continuous time to study how cooperation levels and learning patterns change under different time horizons and lengths of interaction. Understanding the determinants of cooperation is crucial for all social sciences. Many economic interactions, from teams working in the same plant to firms pricing in electronic markets, are closer to continuous than to discrete time. The paper finds that cooperation levels tend to be higher when the horizon is deterministic rather than stochastic, the opposite than in the discrete case.

WP 2011/15

Franco Peracchi in "Childhood circumstances and adult outcomes: Evidence from SHARELIFE", with Enkelejda Havari, studies the association between childhood environment and adult outcomes. He concentrates on the cohorts born between 1930 and 1954 in 13 European countries, and combines the available historical information with micro-level data from the Survey of Health Ageing and Retirement in Europe (SHARE). The results show that those who experienced war-related episodes of financial hardship and hunger in childhood have, relative to those who never suffered these experiences, lower educational attainment and worse health in adulthood, but not lower income.

WP 2011/14

Andrea Pozzi in "Who Is Hurt by E-commerce? Crowding out and Business Stealing in Online Grocery" shows that large retail chains can exploit online distribution to increase their pull and leverage their advantage in price and product variety on households living further away from their location. This causes market share losses for competitors, especially small grocers who rely on geographic differentiation to withstand competition from big-box stores. The demise of differentiation in location induced by the diffusion of online shopping is poised to increase concentration of market share in the hands of the big chains at the expenses of mom-and-pop stores.

9. Recently published papers

Forthcoming

"Risk, Monetary Policy and The Exchange Rate", Pierpaolo Benigno (with Benigno, G., and S. Nisticò) in D. Acemoglu and M.Woodford, eds., NBER Macroeconomics Annual 2011.

"Durable Consumption and Asset Management with Transaction and Observation Costs", Luigi Guiso and Francesco Lippi (with F. Alvarez), American Economic Review.

"The Determinants of Attitudes towards Strategic Default on Mortgages", Luigi Guiso (with Sapienza, P., and L. Zingales), Journal of Finance.

"Risk Allocation and the Costs and Benefits of Public – Private Partnership", Elisabetta Iossa (with D. Martimort), RAND Journal of Economics.

"The Market for Lawyers and Quality Lawyers in the Legal Services", Elisabetta Iossa (with B. Jullien), RAND Journal of Economics.

"Vertical Integration and Costly Demand Information in Network Industries", Elisabetta Iossa (with F. Stroffolini), Review of Industrial Organization.

"Oil and the macroeconomy: A quantitative structural analysis", Francesco Lippi (with A. Nobili), Journal of the European Economic Association.

"Infinite-Dimensional Autoregressive Systems and the Generalized Dynamic Factor Model", Marco Lippi, Journal de la Société Française de Statistique.

"Monetary Policy and Price Responsiveness to Aggregate Shocks under Rational Inattention", Luigi Paciello, Journal of Money, Credit and Banking.

"Finance and Employment", Marco Pagano (with G. Pica), Economic Policy.

"Short-Selling Bans around the World: Evidence from 2007-09 Crisis", Marco Pagano (with A. Beber), Journal of Finance.

"Juvenile Deliquency and Conformism", Eleonora Patacchini (with Y. Zenou), Journal of Law, Economics & Organization.

"Asymptotically Efficient Estimation of the Conditional Expected Shortfall", Franco Peracchi (with Leorato, S., and A.V. Tanase), Computational Statistics and Data Analysis.

"Heterogeneity in health responses and anchoring vignettes", Franco Peracchi (with C. Rossetti), Empirical Economics.

"Estimating Engel curves under unit and item nonresponse", Franco Peracchi (with G. De Luca), Journal of Applied Econometrics.

"A generalized missing-indicator approach to regression with imputed covariates", Franco Peracchi (with Dardanoni,V., and S. Modica), Stata Journal.

"Shopping Cost and Brand Exploration in Online Grocery", Andrea Pozzi, American Economic Journal: Microeconomics.

"Does Idiosyncratic Business Risk Matter for Growth?", Fabiano Schivardi (with C. Michelacci), Journal of the European Economic Association.

"The Collusive Drawbacks of Sequential Auctions", Giancarlo Spagnolo (with G.L. Albano), Journal of Public Procurement.

"Fines, Leniency and Rewards in Antitrust", Giancarlo Spagnolo (with Bigoni, M., Fridolfsson, S., and C. Le Coq), RAND Journal of Economics.

2012

"International Portfolio Allocation under Model Uncertainty", Pierpaolo Benigno (with S. Nisticò), American Economic Journal: Macroeconomics, 2012, Volume 4, Issue 1, pages 144-189.

"Linear-Quadratic Approximation of Optimal Policy Problems", Pierpaolo Benigno (with M. Woodford), Journal of Economic Theory, 2012, Volume 147, Issue 1, pages 1-42.

2011

"The Inflation-Output Trade-Off with Downward wage Rigidities", Pierpaolo Benigno (with L. Ricci), American Economic Review, 2011, Volume 101, Issue 4, pages 1436-1466.

"Inflation Differentials in a Currency Area: Facts, Explanation and Policy", Pierpaolo Benigno (with Altissimo, F., and D. Rodriguez Palenzuela), Open Economic Review, 2011, Volume 22, Issue 2, pages 189-233.

"Enhancing capabilities through credit access: Creditworthiness as a signal of trustworthiness under asymmetric information", Pierluigi Conzo (with L. Becchetti), Journal of Public Economics, 2011, Volume 95, Issue 3-4, pages 265-278.

"What Determines Entrepreneurial Clusters?", Luigi Guiso and Fabiano Schivardi, Journal of the European Economic Association, 2011, Volume 9, Issue 1, pages 61-86.

"Crowding Out Intrinsic Motivation in the Public Sector", Elisabetta Iossa (with Georgellis, Y., and V. Tabvuma), Journal of Public Administration Research and Theory, 2011, Volume 21, Issue 3, pages 473-493.

"Optimal Price Setting with Observation and Menu Costs", Francesco Lippi and Luigi Paciello (with F. Alvarez), Quarterly Journal of Economics, 2011, Volume 126, Issue 4, pages 1909-1960.

"The general dynamic factor model: One-sided representation results", Marco Lippi (with M. Forni), Journal of Econometrics, 2011, Volume 163, Issue 1, pages 23-28.

"Does Inflation Adjust Faster to Aggregate Technology Shocks than to Monetary Policy Shocks", Luigi Paciello, Journal of Money, Credit and Banking, 2011, Volume 43, Issue 8, pages 1663-1684.

"Incentives to Innovate and Social Harm: Laissez-Faire, *Authorization or Penalties?"*, Marco Pagano (with Immordino, G., and M. Polo), Journal of Public Economics, 2011, Volume 95, Issue 7-8, pages 864-876.

"Ethnic identity and labour-market outcomes of immigrants in Europe", Eleonora Patacchini (with Bisin, A., Verdier, T., and Y. Zenou), Economic Policy, 2011, Volume 26, Issue 65, pages 57-92.

"Formation and persistence of oppositional identities", Eleonora Patacchini (with Bisin, A., Verdier, T., and Y. Zenou), European Economic Review, 2011, Volume 55, Issue 8, pages 1046-1071.

"Neighborhood Effects and Parental Involvement in the Intergenerational Transmission of Education", Eleonora Patacchini (with Y. Zenou), Journal of Regional Science, 2011, Volume 51, Issue 5, pages 987-1013.

"Early-life environment, height and BMI of young men in Italy", Franco Peracchi (with E. Arcaleni), Economics and Human Biology, 2011, Volume 9, Issue 3, pages 251-264.

"Estimating Income Poverty in the Presence of Missing Data and Measurement Error", Franco Peracchi (with Foliano, F., and C. Nicoletti), Journal of Business and Economic Statistics, 2011, Issue 1, pages 61-72.

"Regression with imputed covariates: A generalized missing indicator approach", Franco Peracchi (with Dardanoni, V., and S. Modica), Journal of Econometrics, 2011, Volume 162, Issue 2, pages 362-368.

"Costly Financial Intermediation in Neoclassical Growth Theory", Facundo Piguillem (with Mehra, R., and E. Prescott), Quantitative Economics, 2011, Volume 2, Issue 1, pages 1-36.

"Asset Prices, Debt Constraints and Inefficiency", Pietro Reichlin (with G. Bloise), Journal of Economic Theory, 2011, Volume 146, Issue 4, pages 1520-1546.

"Entry Barriers in Italian Retail Trade", Fabiano Schivardi (with E. Viviano), Economic Journal, 2011,Volume 121, Issue 551, pages 145-170.

"Equilibrium Selection in the Repeated Prisoner's Dilemma: Axiomatic Approach and Experimental Evidence", Giancarlo Spagnolo (with Blonski, M., and P. Ockenfels), American Economic Journal: Microeconomics, 2011, Volume 3, Issue 3, pages 164-192.

"Networks of relations and Word-of-Mouth Communication", Giancarlo Spagnolo (with S. Lippert), Games and Economic Behavior, 2011, Volume 72, Issue 1, pages 202-217.

"Measuring the Deterrence Properties of Competition Policy", Giancarlo Spagnolo (with Buccirossi, P., Ciari, L., Duso, T., and C. Vitale), Journal of Competition Law and Economics, 2011, Volume 7, Issue 1, pages 165-204.

2010

"The Structure of Multiple Credit Relationships: Evidence from U.S. firms", Luigi Guiso (with R. Minetti), Journal of Money, Credit and Banking, 2010, Volume 42, Issue 6, pages 1037-1071.

"Commercial Activity as Insurance: the Investment Behaviour of Non-Profit Organizations", Elisabetta Iossa (with Bennet, J., and G. Legrenzi), Annals of Public and Cooperative Economics, 2010, Volume 81, Issue 3, pages 445-465.

"Contracting out public service provision to not-for-profit firms", Elisabetta Iossa (with J. Bennet), Oxford Economic Papers, 2010, Volume 62, Issue 4, pages 784-802.

"Over-optimism and lender liability in the consumer credit market", Elisabetta Iossa (with G. Palumbo), Oxford Economic Papers, 2010, Volume 62, Issue 2, pages 374-394.

"New Eurocoin: Tracking Economic Growth in Real Time", Marco Lippi (with Altissimo, F., Cristadoro, R., Forni, M., and G. Veronese), The Review of Economics and Statistics, 2010, Volume 92, Issue 4, pages 1024-1034.

"Inheritance Law and Investment in Family Firms", Marco Pagano (with Panunzi, F., and A. Ellul), American Economic Review, 2010, Volume 100, Issue 5, pages 2414-2450.

"Credit Ratings Failures and Policy Options", Marco Pagano (with P. Volpin), Economic Policy, 2010, Volume 25, Issue 62, pages 401-431.

"How Does Liquidity Affect Government Bond Yiels?", Marco Pagano (with Favero, C., and E. von Thadden), Journal of Financial and Quantitative Analysis, 2010, Volume 45, Issue 1, pages 107-134.

"Legal Standards, Enforcement, and Corruption", Marco Pagano (with G. Immordino), Journal of the European Economic Association, 2010, Volume 8, Issue 5, pages 1104-1132.

"Tax buyouts", Fabiano Schivardi (with Del Negro, M., and F. Perri), Journal of Monetary Economics -Carnegie-Rochester Conference Series on Public Policy, 2010, Volume 57, Issue 4, pages 576-595.

"Asymmetry and Collusion in Sequential Procurement: A "Large Lot Last" Policy", Giancarlo Spagnolo (with G. L. Albano), The B.E. Journal of Theoretical Economics, 2010, Volume 10, Issue 1 (Topics), Article 43.

2009

"Are Valuation Effects Desirable from a Global perspective?", Pierpaolo Benigno, Journal of Development Economics, 2009, Volume 89, pages 170-80.

"Price Stability with Imperfect Financial Integration", Pierpaolo Benigno, Journal of Money, Credit and Banking, 2009, Supplement to Volume 41, Issue 1, pages 121-149.

"Cultural Biases in Economic Exchange?", Luigi Guiso (with Sapienza, P., and L. Zingales), Quarterly Journal of Economics, 2009, Volume 124, Issue 3, pages, 1095-1131.

"Herding by attribution of privileged information", Jean-Paul L'Huillier (with A. Quiamzade), Journal of Behavioral Decision Making, 2009, Volume 22, Issue 1, pages 1-19.

"Financial Innovation and the Transactions Demand for Cash", Francesco Lippi (with F. Alvarez), Econometrica, 2009, Volume 77, Issue 2, pages 363-402.

"Technological change and the households' demand for currency", Francesco Lippi (with A. Secchi), Journal of Monetary Economics, 2009, Volume 56, Issue 2, pages 222-230.

"Opening the Black Box: Structural Factor Models with Large Cross Sections", Marco Lippi (with Forni, M., Giannone, D., and L. Reichlin), Econometric Theory, 2009, Volume 25, Issue 5, pages 1319-1347.

"Information sharing and credit: Firm-level evidence from transition countries", Marco Pagano (with Brown, M., and T. Jappelli), Journal of Financial Intermediation, 2009, Volume 18, Issue 2, pages 151-172.

"Height and the normal distribution: Evidence from Italian military data", Franco Peracchi (with A'Hearn, B., and G. Vecchi), Demography, 2009, Volume 46, Issue 1, pages 1-25.

"An obtrusive remark on capital and comparative statics", Pietro Reichlin (with G. Bloise), Metroeconomica, 2009, Volume 60, Issue 1, pages 54-76.

"Do Mergers Improve Information? Evidence from the Loan Market", Fabiano Schivardi (with Panetta, F., and M. Shum), Journal of Money, Credit and Banking, 2009, Volume 41, Issue 4, pages 673-709.

"Buying reputation on eBay: Do recent changes help?", Giancarlo Spagnolo (with F. Dini), International Journal of Electronic Business, 2009, Volume 7, Issue 6, pages 581-598.

"The actual structure of eBay's feedback mechanism and early evidence on the effects of recent changes", Giancarlo Spagnolo (with Klein, T., Stahl, K., and C. Lambertz), International Journal of Electronic Business, 2009, Volume 7, Issue 3, pages 301-320.

"Regulating Joint Bidding in Public Procurement", Giancarlo Spagnolo (with Albano, G.L., and M. Zanza), Journal of Competition Law and Economics, 2009, Volume 5, Issue 2, pages 335-360.