Literature Report

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Abstract

Two-sided competition with vertical differentiation

- Journal of Economics---2017---Guillaume Roger

Abstract This paper studies duopoly in which two-sided platforms compete in differentiated products in a two-sided market. Direct competition on both sides leads to results that depart from much of the current literature. Under some conditions the unique equilibrium in pure strategies can be computed. It features discounts on one side and muted differentiation as the cross-market externality intensifies competition. Less standard, that equilibrium fails to exist when the externality is too powerful (that side becomes too lucrative). A mixed-strategy equilibrium always exists and is characterized. These results are robust to variations in the extensive form. The model may find applications in the media, internet trading platforms, search engine competition, social media or even health insurance (HMO/PPO).

Welfare effects of payment truncation in piece rate tournaments

- Journal of Economics---2017---Zhen Wang,Tomislav Vukina

Abstract This article analyzes the optimal response of a principal to the regulatory proposal which would truncate agents' bonus payment in a piece rate tournament at zero. In a model with risk-neutral and heterogenous abilities agents, we analyze the principal's problem of optimal choice of contract parameters under both regular and truncated tournament scenarios. The results show that the principal could significantly mitigate potential welfare losses due to tournament truncation by adjusting the payment scheme. The optimal adaptation to tournament truncation results in a situation where both higher and lower ability players would benefit from the policy while average ability players would lose.

Privatization and efficiency: a mixed oligopoly approach

- Journal of Economics---2017---Tai-Liang Chen

Abstract While models of mixed oligopoly have been analyzed within a rapidly growing literature, little is known about the mechanism of efficiency improvement relating to partial privatization. In this paper, we endogenize efficiency improvement in relation to the level of privatization. We show that in the short run, an improvement in efficiency associated with a state-owned firm reduces the output substitution among firms, and that the reduction in output substitution effect is proportional to the strength of the improve-

ment in efficiency. Specifically, if the effect of efficiency improvement is sufficiently small, the magnitude of the improvement of social welfare is reduced. In the literature, the optimal policy in the long run is full nationalization. However, we argue that the optimal policy for a state-owned firm is partial privatization. Moreover, efficiency improvement provides the impetus for indirect entry regulation of private entrants.

Seasonality, price discrimination, and welfare

- Journal of Economics---2017---Francisco Galera,Pedro Mendi,Juan Carlos Molero

Abstract We discuss a potential limitation to a widely accepted result, namely that an output increase is a necessary condition for welfare to increase with price discrimination. We use a theoretical model to show that the existence of seasonal demand fluctuations may allow for a simultaneous reduction in average output and increase in average welfare. We also discuss a number of extensions of our basic model.

Hendry, David F. and Doornik, Jurgen A.: Empirical model discovery and theory evaluation: automatic selection methods in econometrics

- Journal of Economics---2017---Giampiero M. Gallo

2017

Obinger, Herbert, Schmitt, Carina and Traub, Stefan: The political economy of privatization in rich democracies

- Journal of Economics---2017---Massimo Florio

2017

Exclusivity and exclusion on platform Markets

- Journal of Economics---2017---Subhasish Chowdhury,Stephen Martin

Abstract We examine conditions under which an exclusive license granted by the upstream producer of a component that some consumers regard as essential to one of two potential suppliers of a downstream platform market can make the unlicensed supplier unprofitable, although both firms would be profitable if both were licensed. If downstream varieties are close substitutes, an exclusive license need not be exclusionary. If downstream varieties are highly differentiated, an exclusive license is exclusionary, but it is not in the interest of the upstream firm to grant an exclusive license. For intermediate levels of product differentiation, an exclusive license is exclusionary and maximizes the upstream firm’s payoff.

Pricing and price competition in consumer markets

- Journal of Economics---2017---Ante Farm

Abstract This paper offers a simple model of the price mechanism in markets where buyers take prices as given and prices are set by sellers, as in most consumer markets. It explains price competition by arguing that a market price goes down if—and only if—a price cut appears profitable to a firm even if its competitors follow suit. It also explains why markets do not always clear, that is, why production can be restricted by sales and not capacity at prices set by firms.

Consumer flexibility, data quality and location choice

- Journal of Economics---2017---Irina Baye,Irina Hasnas

Abstract We analyze firms’ location choices in a Hotelling model with two-dimensional consumer heterogeneity, along addresses and transport cost parameters (flexibility). Firms can price discriminate based on perfect data on consumer addresses and (possibly) imperfect data on consumer flexibility. We show that firms’ location choices depend on how strongly consumers differ in flexibility. Precisely, when consumers are relatively homogeneous, equilibrium locations are socially optimal regardless of the quality of customer flexibility data. However, when consumers are relatively differentiated, firms make socially optimal location choices only when customer flexibility data becomes perfect. These results are driven by the optimal strategy of

a firm on its turf, monopolization or market-sharing, which in turn depends on consumer heterogeneity in flexibility. Our analysis is motivated by the availability of customer data, which allows firms to practice third-degree price discrimination based on both consumer characteristics relevant in spatial competition, addresses and transport cost parameters.

Privatization of state holding corporations

- Journal of Economics---2017---Juan Bárcena-Ruiz,María Begoña Garzón

Abstract Many countries have privatized part of their state holding corporations in recent years. However, the literature on this issue has analyzed mainly the privatization of uniproduct public firms. We consider a state holding corporation with two plants that may produce complement or substitute goods. Assuming that private firms are more efficient than the state holding corporation we find the following: If the marginal cost of the state corporation is low, it is not privatized either if goods are substitutes or if they are complements. However, if the marginal cost of the state corporation is high the two plants of the state holding corporation are sold to a single private investor if goods are complements, and to different investors if goods are substitutes. If goods are close substitutes and the marginal cost of the state corporation takes an intermediate value only one plant is privatized. We extend the model to consider that firms are equally efficient, that they face quadratic cost functions and that there are n uniplant private firms producing each good. We find two differences with the previous result: The government never privatizes just one plant of the state corporation, and when goods are complements the two plants of the state corporation are sold to different investors if n is high.

Antràs, Pol: Global production: firms, contracts, and trade structure

- Journal of Economics---2017---Anna Gumpert

2017

Horizontal differentiation and economic growth under non-CES aggregate production function

- Journal of Economics---2017---Alberto Bucci,Vladimir Matveenko,Владимир Матвеенко

Abstract We present a model of economic growth driven by horizontal innovation in which, unlike the existing literature, the final output sector employs a non-specified, non-CES, additive production function. Our motivation in conducting such analysis is based on the recognition that the use of a CES aggregate production function in the final output sector leads to the unrealistic conclusion that the gross markup of price over marginal costs set in the monopolistically-competitive intermediate sector is constant. We derive necessary and sufficient conditions for an equilibrium with perfect competition in the final output market to exist even in the presence of a non-CES technology. These conditions generalize the usual properties of the CES case. We also analyze the long-run relation between economic growth and variable markups.

Endogenous cycles and human capital

- Journal of Economics---2017---Dimitrios Varvarigos

Abstract Existing evidence shows that human capital investment is countercyclical. In a dynamic model, I show that countercyclical investment in human capital arises as a result of a parametric combination relating to preferences and technologies. This countercyclical reaction is responsible for complex dynamics in the evolution of human capital, thus initiating a self-sustained sequence of events that generate endogenous cycles.

A top dog tale with preference complementarities

- Journal of Economics---2017---Emanuela Randon,Peter Simmons

Abstract The emergence of a winner-take-all (top dog) outcome is generally due to political or institutional constraints or to specific technological features which favour the performance of just one individual. In this

paper we provide a different explanation for the occurrence of a top-dog equilibrium in exchange economies. We show that once heterogeneous complementarities (i.e. Scarf’s preferences) are analysed with general endowment distributions, a variety of equilibria different from the well-known symmetric outcome with full utilisation of resources can emerge. Specifically, we show that stable corner equilibria with a winner-take-all (top dog) individual arise that are Pareto optima although the remaining individuals are no better off than with zero consumption and resources can be unused. Because of heterogenous complementarities, market mechanisms are weak and cannot overcome the top dog’s power. Voting mechanisms or taxation policies can reduce the top dog’s privileged position.

Multistage public education, voting, and income distribution

- Journal of Economics---2017---Katsuyuki Naito,Keigo Nishida

Abstract This paper proposes a theory to study the formulation of education policies and human capital accumulation. The government collects income taxes and allocates tax revenue to primary and higher education. The tax rate and the allocation rule are both endogenously determined through majority voting. The tax rate is kept at a low level, and public funding for higher education is not supported unless the majority of individuals have human capital above some threshold. Although public support for higher education promotes aggregate human capital accumulation, it may create long-run income inequality because the poor are excluded from higher education.

A new interpretation of the condition for precautionary saving in the presence of an interest-rate risk

- Journal of Economics---2017---Marco Magnani

Abstract This note reconsiders the classical problem of precautionary saving in the presence of an interest-rate risk, and provides a new interpretation of the threshold of 2 for the relative prudence index, which characterizes the necessary and sufficient condition for precautionary saving.

Frank, Robert H.: Success and luck: good fortune and the myth of meritocracy

- Journal of Economics---2017---Peter Rosner

2017

Herbst, P. Edward and Schorfheide, Frank: Bayesian estimation of DSGE models

- Journal of Economics---2017---Alexander Kriwoluzky

2017

Patent litigation and cross licensing with cumulative innovation

- Journal of Economics---2016---Haejun Jeon

Abstract We investigate the firms’ investment decisions in the presence of litigation over infringement and cross licensing as a way to settle. The model endogenously determines not only the timing of investments but also their capacities, the degree of overlap between the initial and the subsequent innovations, and the way the competitors resolve the dispute. It shows that the firms’ R&D competition in the burgeoning market is more likely to entail a lawsuit and distinctly differentiated products, while they easily agree on cross licensing to utilize each other’s works in the slow-growing market, leaving little difference between the products. From the perspective of public policy, it is clarified that the policy on patent scope cannot yield the first-best result in terms of the speed of innovation, and the welfare analysis shows that social welfare is higher when the conflict is settled via cross licensing. However, the weak protection on patent rights, which is shown to encourage cross licensing, does not always guarantee the highest level of social welfare since it weakens the leader’s bargaining power in the negotiation, leading to fewer advanced products with higher prices.

Optimal product differentiation in a circular model

- Journal of Economics---2016---Qiang Gong,Qihong Liu,Yi Zhang

Abstract Since circular model was introduced in Salop (Bell J Econ 10:141–156, 1979), it has been the workhorse for analyzing spatial competition among differentiated firms. A common assumption in this literature is that firms are evenly spaced on the circle, even when entry is allowed. We characterize conditions for even spacing to be an equilibrium, using a two-stage (location-then-price) circular model with general transport cost function. Under duopoly competition, we characterize a mild sufficient condition—the first derivative of transport cost is concave (together with an assumption governing the transport cost difference to the two firms). If one only considers pure strategy equilibrium in prices, this sufficient condition is weakened to the first derivative of transport cost being $$-$$ - 1-concave. These conditions ensure that firms' profits are concave in their prices when firms are evenly spaced and that even spacing maximizes profits. Under oligopoly competition we characterize a necessary condition for even spacing to be an equilibrium. This necessary condition requires a firm's profit to be concave in location at the symmetric location. It involves the third derivative of transport cost function, so having convex transport cost in general is neither necessary nor sufficient to determine equilibrium location choice. Our results have implications for studies employing circular models, especially in terms of welfare analysis which depends on firms' location choices.

A Bertrand–Edgeworth oligopoly with a public firm

- Journal of Economics---2016---Zoltán Rácz,Attila Tasnádi

Abstract We determine conditions under which a pure-strategy equilibrium of a mixed Bertrand–Edgeworth oligopoly exists. In addition, we determine its pure-strategy equilibrium whenever it exists and compare the equilibrium outcome with that of the standard Bertrand–Edgeworth oligopoly with only private firms.

Wray, L. Randall: Why Minsky matters: An introduction to the work of a maverick economist

- Journal of Economics---2016---Elisabetta De Antoni

2016

Conti-Brown, Peter: The power and independence of the Federal Reserve

- Journal of Economics---2016---Carsten Hefeker

2016

Taxes, subsidies, regulation in dynamic models

- Journal of Economics---2016---Giacomo Corneo,Sergio Vergalli

2016

Investment stimuli under government present-biased time preferences

- Journal of Economics---2016---Luca Di Corato

Abstract This paper examines the net benefit accruing to a present-biased government contemplating the option of speeding up investment setting a lower tax rate on future profits or an investment subsidy as an incentive. The literature generally suggests the use of an investment subsidy rather than a reduced tax rate. However, this study shows that, depending on the degree of present-biasedness, it may be more advantageous for the government to set a lower tax rate. The government, in fact, when selecting the instrument to be used for speeding up investment, trades off the immediate and certain cost of a subsidy against the random tax revenues accruing from the investment. Hence, from the short-sighted perspective of current government, a lower tax rate may appear optimal as long as the consideration given to the earnings of future governments is small and/or the current government's duration is short.

Accelerated depreciation, default risk and investment decisions

- Journal of Economics---2016---Paolo Panteghini,Sergio Vergalli

Abstract In this article we focus on a representative firm that can decide when to invest under default risk. On the one hand, this firm can benefit from generous tax depreciation allowances, on the other hand it faces a default risk. Our aim is to study the effects of tax depreciation allowances in a risky environment. As will be shown in our numerical analysis, generous tax depreciation allowances lead to a decrease in a firm' s leverage and, in most cases, cause a reduction in default risk. This result has a strong policy implication, in that it shows that an investment stimulus pack is expected neither to increase the default risk nor to cause financial instability.

Dynamic tax evasion with audits based on visible consumption

- Journal of Economics---2016---Rosella Levaggi,Francesco Menoncin

Abstract We solve the problem of a representative agent who maximises the expected present utility of his intertemporal consumption under the assumption that an optimal fraction of his wealth is hidden to the tax authorities (we show conditions under which evasion is expedient). Evasion affects the capital dynamics in two ways: the growth rate of capital increases because some taxes are not paid, but when caught evading the consumer has to pay a fine (proportional to evasion). Consumption can be allocated between ordinary goods and so-called visible goods. The latter are used by the Government for targeting the audit, since they are considered like an indicator of consumer' s income. In fact, the probability of being caught is a function of the distance between the actual and the presumed consumption in visible goods. We find a closed form solution to the dynamic optimization problem and show how fiscal and audit parameters affect the optimal evasion and the optimal allocation between the two types of consumptions.

Smooth preferences, symmetries and expansion vector fields

- Journal of Economics---2016---Andrea Mantovi

Abstract Tyson (J Math Econ 49(4): 266–277, 2013) introduces the notion of symmetry vector field for a smooth preference relation, and establishes necessary and sufficient conditions for a vector field on consumption space to be a symmetry vector field. The structure of a such a condition is discussed on both geometric and economic grounds. It is established that symmetry vector fields do commute (i.e. have vanishing Lie bracket) for additive and joint separability. The marginal utility of money is employed as a normalization of the expansion vector field (Mantovi, J Econ 110(1): 83–105, 2013) which results in the fundamental (expansion-) symmetry vector field. Finally, a characterization of symmetry vector fields is given in terms of their action on the distance function, and a pattern of complete response is discussed for additive preferences. Examples of such constructions are explicitly worked out. Potential implications of the results are discussed.

Sell, Friedrich L.: The new economics of income distribution: introducing equilibrium concepts into a contested field

- Journal of Economics---2016---Ben Etheridge

2016

Baradaran, Mehrsa: How the other half banks: exclusion, exploitation, and the threat to democracy

- Journal of Economics---2016---Olivia Bosshart

2016

Two ways to auction off an uncertain good

- Journal of Economics---2016---Alison Watts

Abstract An auction framework is examined where each seller is uncertain about whether or not he will have a good available to sell. A timely example includes the auctioning off of radio spectrum by licensed primary

users to unlicensed secondary users. A licensed primary user may not use the spectrum all of the time, but may not know in advance whether or not he will need the spectrum himself and thus whether or not he will have spectrum bandwidth available to rent out. We consider two types of auctions: an ex-post auction which takes place after each seller learns about the availability of the good and an ex-ante auction which takes place before each seller learns about availability. The expected payoffs to buyers, sellers, and to society are then compared. The ex-ante auction can cause buyers to bid on multiple expected units to ensure that they end up with at least one actual unit. Such over purchasing can create a loss to society. Sellers will prefer the ex-post auction since if fewer units are actually available to sell, then they can be sold at a higher price. Whereas in the ex-ante auction all sellers have one expected unit available to sell which results in a lower price. However, if high value buyers are common, then a buyer may prefer the ex-ante auction as it can be easier to win an expected unit than an ex-post actual unit. In contrast, if a buyer has a high valuation and if high value buyers are uncommon, then he may prefer the ex-post auction since he has a strong chance to win an actual unit.

Relationship-specific investment as a barrier to entry

- Journal of Economics---2016---Hiroshi Kitamura,Akira Miyaoka,Misato Sato

Abstract This study constructs a model of a relationship-specific investment in a dynamic framework. Although such investment decreases operating costs and increases the current joint profits of firms in vertical relationships, its specificity reduces the ex-post flexibility to change a trading partner in the future. We demonstrate that whether the investment contract deters entry even in the absence of exclusionary terms depends on not only the specificity but also the efficiency of the investment. We also show that an increase in the investment efficiency does not necessarily improve the equilibrium social welfare.

Interlocking cross-ownership in a unionised duopoly: when social welfare benefits from "more collusion"

- Journal of Economics---2016---Luciano Fanti

Abstract The present study analyses the effects of two-sided cross-ownership structures in a Cournot duopoly with firm-specific monopolistic unions. Since such mutual cross-participations imply a lower degree of competition, the conventional wisdom is that consumer surplus and social welfare, despite the increase in industry profits, are harmed. By contrast, when the labour market is unionised, we show the counterintuitive result that both consumer surplus and social welfare increase with the share of mutual cross-participation. Interestingly, this occurs not only when unions are wage-aggressive but even if they are fairly "risk-averse" . Therefore, a rather paradoxical conclusion—which may have anti-trust policy implications—is that the interlocking cross-ownership ensuring the highest profit (i.e. the "most" collusive mutual cross-participation) may be socially preferred when there are unions in oligopoly industries. Finally, it is shown that, even though details change, the results also hold qualitatively under differentiated products, price competition and triopoly.

Congestion in production correspondences

- Journal of Economics---2016---Walter Briec,Kristiaan Kerstens,Ignace Van de Woestyne

Abstract This contribution aims to detect and measure more severe forms of congestion than the ones that could hitherto be evaluated in axiomatic production theory. To this end, we define a new S-disposal axiom, a kind of limited strong disposability. This S-disposal assumption leads to a duality result between a general input directional distance function and the cost function that is weaker than the ones established in the literature. Finally, we indicate how finite data sets can or cannot be rationalized by a minimal technology compatible with S-disposal, thereby generalizing the nonparametric weak axiom of cost minimization test.

de La Grandville, Olivier: Economic growth: a unified approach

- Journal of Economics---2016---Peter McAdam

2016

Contract competition between hierarchies, managerial compensation and imperfectly correlated shocks

- Journal of Economics---2016---Michela Cella,Federico Etro

Abstract We analyze competition through incentive contracts for managers in duopoly. Privately informed managers exert surplus enhancing effort that generates an externality on the rival. Asymmetric information on imperfectly correlated shocks creates a two-way distortion of efforts under strategic substitutability in effort and a double downward distortion under strategic complementarity in effort. In the first case, as with contracts for R&D activity or small contractual spillovers for quantity and price competition, increasing the correlation of types reduces the polarization of contracts and the differentials in managerial compensations between efficient and inefficient managers. In the second case, as with large contractual spillovers, the opposite occurs.

Customer poaching and coupon trading

- Journal of Economics---2016---Georgia Kosmopoulou,Qihong Liu,Jie Shuai

Abstract The price discrimination literature typically makes the assumption of no consumer arbitrage. This assumption is increasingly violated in the digital economy, where coupons are traded with increased frequency online. In this paper, we analyze the welfare impacts of coupon trading using a modified Hotelling model where firms send coupons to poach each other's loyal customers. The possibility of coupon trading renders this important instrument for price discrimination less effective. Moreover, coupon distribution has unintended consequences when coupon traders sell coupons back to a firm's loyal customers. Consequently, coupon trading may reduce firms' incentive to distribute coupons, leading to higher prices and profits. We find that, an increase in coupon distribution cost lowers promotion frequency but raises promotion depth, and an increase in the fraction of coupon traders lowers both promotion frequency and promotion depth.

Nonprofit organizations, free media and donor's trust

- Journal of Economics---2016---Maja Adena

Abstract Nonprofit organizations (NPOs) solicit donations from individuals and in turn offer goods and services whose quality cannot be (easily) ascertained by the donors. This creates incentives for "bad" NPOs to enter the market and free ride on donor trust. This paper presents a model in which the media helps to reduce the problem of asymmetric information in the market for NPOs. This occurs through two channels. On the one hand, the media can, with some probability, uncover a "bad" organization if it has entered the market. On the other hand, the media reduces the incentives for bad types to enter the market in the first place. Overall, the media enhances the trust of the donors and increases the level of donations and the amount of public good produced.

On ambiguity apportionment

- Journal of Economics---2016---Christophe Courbage,Beatrice Rey

Abstract This paper investigates the notion of changes in ambiguity over loss probabilities in the smooth ambiguity model developed by Klibanoff, Marinacci and Mukerji (Econometrica 73:1849–1892, 2005). Changes in ambiguity over loss probabilities are expressed through the specific concept of stochastic dominance of order n defined by Ekern (Econ Lett 6:329–333, 1980). We characterize conditions on the function capturing attitudes towards ambiguity under which an individual always considers one situation to be more ambiguous than another in a model of two states of nature. We propose an intuitive interpretation of the properties

of this function in terms of preferences for harms disaggregation over probabilities, also labelled ambiguity apportionment.

Eckwert, Bernhard and Zilcha, Itzhak: The economics of screening and risk sharing in higher education: human capital formation, income inequality, and welfare

- Journal of Economics---2016---Robert Schwager

2016

Free entry and social inefficiency under co-opetition

- Journal of Economics---2016---Keisuke Hattori,Takeshi Yoshikawa

Abstract We investigate the social desirability of free entry under co-opetition where firms compete in a homogeneous product market while sharing common property resources that affect industry-wide demand. Our findings indicate that free entry leads to socially excessive or insufficient market entry, depending on the commitment of investment in common property resources. In the non-commitment case, where quantities and investment are simultaneously chosen, there is a possibility of insufficient entry. However, in the pre-commitment case, where investment is chosen at a prior stage, free entry leads to excess entry and a reduction in common property resources. Interestingly, in this case, the excess entry results of Mankiw and Whinston (RAND J Econ 17:48–58, 1986) hold even without entry costs or economies of scale. These results have important policy implications for entry regulation.

Optimal know-how transfers in licensing contracts

- Journal of Economics---2016---Pedro Mendi,Rafael Moner-Colonques,José Sempere-Monerris

Abstract This paper studies optimal licensing contracts in the presence of moral hazard associated with costly provision of know-how by the licensor. In our setting, the target market is defined as the fraction of consumers that have a positive valuation for the product that is licensed. It is shown that, no matter how thin the target market is, know-how transfer always takes place. Consistent with actual practice, the optimal licensing contract includes a royalty on sales to attenuate the moral hazard problem. However, full know-how transfer will not occur for low enough maximum willingness to pay and high enough convexity of know-how cost. Finally, it is also shown that the effective (inclusive of the royalty) marginal cost exceeds the one when know-how transfer does not occur thus showing a potential malfunction of know-how transfer specially if the recipient is a developing country.

Combining the endogenous choice of timing and competition version in a mixed duopoly

- Journal of Economics---2016---Hong-Ren Din,Chia-Hung Sun

Abstract This paper extends Sun (Econ Lett 120:364–368, 2013) conceptcombining the endogenous choice of timing and competition version from a pure duopoly model to a mixed duopoly model. We find that choosing a price contract and playing in the first period make up a dominant strategy for the private firm. The public firm’s best response to the private firm’s dominant strategy is also to choose a price contract and play in the first period. As a result, simultaneous price competition is the unique equilibrium outcome, no matter whether the goods are substitutes or complements. Combining the findings in Sun (Econ Lett 120:364–368, 2013), we present that simultaneous price competition is the unique result with complement products, irrespective of whether for a pure duopoly model or for a mixed duopoly model.

Mixed oligopolies and collusion

- Journal of Economics---2016---Stefano Colombo

Abstract We introduce a firm partially owned by the government in a dynamic model of collusion between a subset of private firms. We show that increasing the

public ownership of the non-colluding firm may help collusion between the private firms.

Gernot Wagner and Martin L. Weitzman: Climate shock: the economic consequences of a hotter planet

- Journal of Economics---2016---Joachim Weimann

2016

Stern, Nicholas: Why are we waiting?: the logic, urgency and promise of tackling climate change

- Journal of Economics---2016---Frank Neher

2016

Sustaining collusion in markets with entry driven by balanced growth

- Journal of Economics---2016---Joao Correia-da-Silva,Joana Pinho,Helder Vasconcelos

Abstract This paper studies the sustainability of collusion in markets where growth is not restricted to occur at a constant rate and may trigger future entry. Entry typically occurs later along the punishment path than along the collusive path (since profits are lower in the former case), and may not even occur along the punishment path. The possibility of delaying or even deterring entry may, therefore, constitute an additional incentive for deviating just before entry is supposed to occur along the collusive path. If firms set quantities and revert to Cournot equilibrium after a deviation, this incentive more than compensates for the fact that there are more firms after entry, making collusion harder to sustain before entry than after entry. If, instead, firms set prices or use optimal penal codes, deterring entry by breaking the cartel is not profitable, and thus collusion is harder to sustain after entry than before entry. The proposed model encompasses and explains conflicting results derived in the extant literature under more restrictive settings, and derives some novel results.

Leniency programs under demand uncertainty: cartel stability and the duration of price wars

- Journal of Economics---2016---Konstantinos Charistos

Abstract Leniency programs reduce sanctions against cartel members that either report spontaneously the existence of the infringement or cooperate during the investigation and facilitate prosecution. This paper investigates the impact of leniency programs on cartel stability when demand is uncertain and firms cannot perfectly observe their rival’s choices. We show that pre-investigation leniency may or may not be effective in destroying the cartel, but in neither case affects the duration of price wars. Post-investigation leniency may have ambiguous welfare effects, in affecting both cartel stability and price wars duration. LPs applying in situations where leniency is not urgently needed may be not only ineffective, but also welfare reducing. Hence, in markets where negative demand shocks are sufficiently frequent, leniency policies may produce undesirable effects.

Revenue royalties

- Journal of Economics---2016---Stefano Colombo,Luigi Filippini

Abstract Under the assumption of decreasing returns to scale, we compare several licensing mechanisms—per-unit royalty, an ad valorem royalty, and a revenue-royalty, and combinations with fixed fees—for an insider patentee. In the case of a non-drastic innovation, the patentee maximizes its profits by offering, respectively, an ad valorem royalty, a revenue-royalty and a two-part per-unit royalty, if the cost function is scarcely or highly convex, moderately-low convex, and moderately-high convex. In the case of a drastic innovation, the patentee always offers an ad valorem royalty contract.

Moral hazard in innovation: the relationship between risk aversion and performance pay

- Journal of Economics---2016---Pu Chen,Sanxi Li,Jianye Yan,Xundong Yin

Abstract Standard principal–agent models study the situation in which there is moral hazard within a given production method. The classic prediction of these models is that incentives tend to decrease with risk and risk averseness of the agent. The prediction is inconsistent with empirical findings, which reveal that both negative and positive relationships between risk and the power of incentives co-exist in the real-world. Our paper develops a tractable model to illustrate that introducing innovation effort could well explain the puzzle of the relationships between the power of incentives, risk and risk-averseness of the agent. In particular, we assume that the agent can exert two unobservable efforts: a production effort and an innovation effort. While the production effort can increase output within a particular production method, the innovation effort can generate an innovative but riskier production method. We show that, when inducing innovation is unnecessary, the standard result that incentives tend to decrease with risk and risk averseness holds. However, when inducing innovation becomes necessary, incentives may increase with risk and risk averseness. The insights in this paper are especially important today, when innovative but riskier technologies upgrade very quickly.

Akerlof, George A. and Shiller, Robert J.: Phishing for phools: The economics of manipulation and deception

- Journal of Economics---2016---Carl Christian Weizsäcker

2016

Utilitarian population ethics and births timing

- Journal of Economics---2016---Gregory Ponthiere

Abstract Births postponement is a key demographic trend of the last decades. To examine its social desirability, we study how utilitarian criteria rank histories equal on all dimensions except the age at which individuals give birth to their children. We develop a T-period dynamic overlapping generations economy with a fixed living space, where individual welfare is increasing in the available space per head, and where agents have children in one out of two fertility periods. When comparing finite histories with an equal total number of life-periods, classical, average and critical-level utilitarian criteria select the same fertility timing, i.e. the one leading to the most smoothed population path. When comparing infinite histories with stationary population sizes, utilitarian criteria may select different birth timings, depending on individual utility functions. Those results are compared with the ones obtained when agents value coexistence time with their descendants. Finally, we identify conditions under which a shift from an early births regime to a late births regime is socially desirable.

Harsh occupations, health status and social security

- Journal of Economics---2016---Pierre Pestieau,Maria Racionero

Abstract We study the optimal design of a social security system when individuals differ in health status and occupation. Health status is private information but is imperfectly correlated with occupation: individuals in harsh occupations are more likely to be in poor health. We explore the desirability of letting the social security policy differ by occupation and compare the results with those obtained when disability tests are used instead. We show that tagging by occupation is preferable to testing when the audit technology is relatively expensive and/or the proportion of disabled workers differs markedly across occupations. Expected utility differences between occupations could induce workers to switch occupations if they were able to. We explore the implications of imposing equality of expected utility across occupations.

Optimal implicit collusion in repeated procurement auctions

- Journal of Economics---2016---Hong Wang

Abstract We develop a model of implicit collusion in repeated procurement auctions in which suppliers can only observe past auction prices, but not all bids and the identities of winners. We focus on symmetric perfect public equilibria (SPPE) and use the dynamic programming techniques to characterize the optimal SPPE. We allow for a public randomization device and find that the implementation of the optimal collusive equilibrium can be simply obtained by using the bang-bang property, because suppliers just need to adopt the collusive bidding schedule and depending on the past winning bids, with a certain probability they stick to that strategy or move to Nash reversion. The optimal implicit collusion is characterized by a rigid-bidding scheme with punishments occurring on the equilibrium path. As a result, the optimal collusion can not achieve full efficiency.

Assaf, Razin: Understanding global crises: an emerging paradigm

- Journal of Economics---2016---Konstantin Wacker

2016

Bargaining and collusion in a regulatory relationship

- Journal of Economics---2016---Raffaele Fiocco,Mario Gilli

Abstract We investigate regulation as the outcome of a bargaining process between a regulator and a regulated firm. The regulator is required to monitor the firm’s costs and to reveal its information to a political principal (Congress). In this setting, we explore the scope for collusion between the regulator and the firm, which results in the manipulation of the regulator’s report on the firm’s costs to Congress. The firm’s benefit of collusion arises from the higher price the efficient firm is allowed to charge when the regulator reports that it is inefficient. However, a higher price reduces the gains from trade the parties can share in the bargaining process. As a result of this trade-off, the efficient firm has a stake in collusion only if the regulator’s bargaining power in the regulatory relationship is relatively high. Then, we derive the optimal institutional response to collusion and characterize the conditions under which allowing collusion is desirable.

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Cournot–Bertrand comparison in a mixed oligopoly

- Journal of Economics---2016---Junichi Haraguchi,Toshihiro Matsumura

Abstract We revisit the classic discussion comparing price and quantity competition, but in a mixed oligopoly in which one state-owned public firm competes against private firms. It has been shown that in a mixed duopoly, price competition yields a larger profit for the private firm. This implies that firms face weaker competition under price competition, which contrasts sharply with the case of a private oligopoly. Here, we adopt a standard differentiated oligopoly with a linear demand. We find that regardless of the number of firms, price competition yields higher welfare. However, the profit ranking depends on the number of private firms. We find that if the number of private firms is greater than or equal to five, it is possible that quantity

competition yields a larger profit for each private firm. We also endogenize the price-quantity choice. Here, we find that Bertrand competition can fail to be an equilibrium, unless there is only one private firm.

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A model of advance selling with consumer heterogeneity and limited capacity

- Journal of Economics---2016---X. Wang,Chenhang Zeng

Abstract We study advance selling in a model with a capacity constraint for the seller and in the presence of both consumer heterogeneity and demand uncertainty. Buyers face different levels of uncertainty about their valuations in the advance selling period: one group of buyers (called informed buyers) know their individual valuations while the other group (called uninformed buyers) only know the distribution of their valuations. We find that the seller's optimal pricing strategy depends on his capacity size as well as the size of informed buyers. For a small capacity size, the Constant Price strategy with the highest possible price is adopted. For sufficiently large capacity sizes, both Advance Purchase Discount and Advance Purchase Premium strategies may be optimal. In general, the larger the size of informed buyers the more likely an Advance Purchase Premium strategy is adopted.

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Consistent location conjectures under spatial price discrimination

- Journal of Economics---2016---John Heywood,Zheng Wang

Abstract This paper is the first to model consistent location conjectures under spatial price discrimination. With linear production cost, the well-known association of spatial price discrimination with efficiency vanishes as duopolists with consistent conjectures collocate at the center. With convex production cost, the duopolists do not collocate but continue to locate closer to the center than under Nash conjectures. Yet, with sufficient cost convexity, this movement to the center can actually increase welfare relative to Nash. We extend the results with linear costs to multiple private firms.

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Gershkov, Alex and Benny Moldovanu: Dynamic allocation and pricing: a mechanism design approach

- Journal of Economics---2016---Marco LiCalzi

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Gershkov, Alex and Benny Moldovanu: Dynamic allocation and pricing: a mechanism design approach

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Incomplete financial markets with real assets and wealth-dependent credit limits

- Journal of Economics---2016---Matthew Hoelle,Marina Pireddu,Antonio Villanacci

Abstract In this paper we analyze the effects of restricted participation in a two-period general equilibrium model with incomplete financial markets and two key elements: the competitive trading of real assets, i.e., assets having payouts in terms of vectors of commodities, and household-specific inequality constraints that restrict participation in the financial markets. Similar to certain arrangements in the market for bank loans, household borrowing is restricted by a household-specific wealth dependent upper bound on credit lines in all states of uncertainty in the second period. We first establish that, generically in the set of the economies, equilibria exist and are finite and regular. We then show that equilibria are generically suboptimal. Finally, we provide a robust example demonstrating that the equilibrium allocations can be Pareto improved through a tightening of the participation constraints. This suggests, contrary to what is often cited as economic wisdom in the popular press, that in a setting with frictions resulting in an inefficient allocation the regulation of markets may have a Pareto-improving effect on the economy.

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Factor substitution is an engine of growth in a model with productive public expenditure

- Journal of Economics---2016---Manuel Gómez Suárez

Abstract This paper examines the effect of the elasticity of substitution between public and private inputs on the optimal fiscal policy, long-run growth and welfare. To this end, we consider an endogenous growth model with productive public spending. If the baseline government size is suboptimally low (high), the higher the elasticity of substitution the higher (lower) are the optimal government size and, in the presence of congestion, the optimal income tax. In any case, the higher the elasticity of substitution the higher are the optimal long-run growth rate and welfare.

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Relative effects of labor taxes on employment and working hours: role of mechanisms shaping working hours

- Journal of Economics---2016---Been-Lon Chen,Chih-Fang Lai

Abstract High labor income taxes are one of the most important explanations advanced for the large decline of labor supply in Europe over the past 30 years. While in some countries the decline comes evenly from employment and hours per worker, in others it comes mostly from hours per worker, or predominantly from employment. This paper studies why labor taxes have different relative effects on employment and hours per worker. We show that different hour-shaping mechanisms are one of the underlying reasons. In the mechanism when hours per worker are bargained by matched job-worker pairs, a higher labor income tax would reduce both employment and hours per worker. As the worker’s hour-bargaining share is larger, hours per worker are decreased by more and employment is decreased by less. In the mechanism when hours per worker are determined exclusively by the household, this goes to the case when the worker has a one-hundred percent hour bargaining power. In this situation, when the leisure utility is linear in hours, the effect on employment is zero and all negative effects are on hours per worker. At the other extreme, in the mechanism when hours per worker are effectively regulated, a higher labor tax only reduces employment with a zero effect on hours. We calibrate the model and show that the

quantitative effects of Europe’s increases in average effective tax rates in the past 30 years are consistent with the theoretical predictions.

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Llavador, Humberto G., Roemer, John E. and Silvestre, Joaquim: Sustainability for a warming planet

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Stigum, Bernt P.: Econometrics in a formal science of economics: theory and the measurement of economic relations

- Journal of Economics---2016---Jennifer Castle

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- Journal of Economics---2016---Jennifer Castle

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A symmetric Heckscher–Ohlin model of endogenous growth

- Journal of Economics---2015---Basant Kapur

We study the interaction between production and R&D patterns in a open-economies model of endogenous growth. Unlike existing studies, we treat the two industries entirely symmetrically—both are imperfectly competitive, and engage in sector-specific expanding-product-variety or quality-ladder innovation activities. To achieve a more satisfactory analytical characterization, we eliminate scale effects and impose strict concavity rather than linearity on the contribution of skilled labour to industry R&D. With imperfect international knowledge spillovers, an increase in one country’s skilled-labour endowment above the other’s affects production and R&D activities in both countries, with the resulting increased production and research specialization across countries raising world innovation rates in both industries. Surprisingly, increasing one country’s skilled-labour endowment towards the other' s can reduce world innovation rates in both industries, on account of the resulting reduced specialization. Broader implications of the analysis are also discussed. Copyright Springer-Verlag Wien 2015

Optimal fiscal policies in an economy with externalities from public spending

- Journal of Economics---2015---Chia-Hui Lu

This paper examines the optimal fiscal policies in an economy with externalities from government expenditure. We extend Lucas (Oxf Econ Pap 42:293–316, 1990) two-sector endogenous growth model and consider the spillover effects from the public spending on infrastructure and education. We compare the optimal fiscal policies derived from the Ramsey allocation problem with those in the centrally-planned economy. The results of this paper are as follows. First, the optimal share of public spending on infrastructure is smaller than its relative contribution in the production function. Next, the optimal share of public spending on education is smaller than its relative contribution in the accumulation of human capital, and does not affect the tax rate of capital income. Finally, the optimal tax rate of capital income is positive if the externality from public productive spending exists. Copyright Springer-Verlag Wien 2015

Innovation and labour mobility

- Journal of Economics---2015---Rajit Biswas

The present model introduces labour mobility in an otherwise standard model of innovation and imitation. As in Grossman and Helpman (Innovation and growth in the global economy. MIT Press, Cambridge, 1992) a wide-gap and a narrow gap steady state equilibrium is characterized. It is shown that there can be multiplicity of equilibrium in the wide gap case. Interestingly, free labour mobility causes the growth rate to be identical for both the wide gap and the narrow gap case. A strengthening of intellectual property rights reduces the global growth rate of the economy both in the wide gap and narrow gap equilibrium. In case of the unique narrow gap equilibrium, stronger property rights reduces the rate of imitation unambiguously, but the effect of stronger property rights remains ambiguous in case of wide gap equilibrium. Also subsidy by North to innovation, in a Narrow gap equilibrium, has no effect on the rate of imitation or on the global growth rate. Copyright Springer-Verlag Wien 2015

Legal enforcement against illegal imitation in developing countries

- Journal of Economics---2015---Keishun Suzuki

This study investigates the effect of intellectual property rights (IPR) enforcement in a developing country on imitation, innovation, economic growth, and welfare using a North–South quality ladder model. Unlike existing studies, this study explicitly distinguishes IPR protection and IPR enforcement by incorporating illegal imitation and seizure activity into the model. The four main results are, first, a higher seizure rate does not always decrease imitation rate in the South. Second, a higher seizure rate does not always encourage innovation in the North. Third, although a sufficiently high seizure rate is required to enhance economic growth, such a policy reform would deteriorates welfare in both the North and South. Finally, unlike seizure, prohibiting imports of illegal imitations from the South always lowers illegal imitation. Copyright Springer-Verlag Wien 2015

Miao, Jianjun: Economic dynamics in discrete time

- Journal of Economics---2015---Martin Barbie

2015

Downstream and upstream oligopolies when retailer' s effort matters

- Journal of Economics---2015---Franz Wirl

This paper investigates the different terms of strategic interactions (non-cooperative, simultaneous move): wholesale versus retail pricing—between Bertrand competing retailers and an upstream oligopoly. The crucial extension is that retailers can play a significant role and this can turn conventional wisdom upside down, e.g.: retail competition need not benefit the upstream firms and wholesale pricing can dominate retail pricing in spite of double marginalization because of the incentives it provides to retailers. In addition, the consequences are investigated of differentiating both pricing instruments either at the downstream (this is motivated by Apple's entry into the ebook market) or at the upstream level.

Stability, strategic substitutes, strategic complements

- Journal of Economics---2015---Jeroen Hinloopen

The Routh–Hurwitz stability condition is disentangled for choice variables that are strategic substitutes or strategic complements. This yields distinct stability conditions that are not necessarily symmetric. Two examples illustrate this result.

Competition and privatization policies revisited: the payoff interdependence approach

- Journal of Economics---2015---Toshihiro Matsumura,Makoto Okamura

We investigate the relationship between competition and privatization policies. Existing studies measure the strength of competition based on the number of firms, and show that the optimal degree of privatization is higher in more competitive markets. We introduce an interdependent payoff structure into a mixed oligopoly and revisit this problem. Here, we assume that firms consider their own and other firms' profits. In the model, competition increases when firms are negatively affected by rivals' profits. We find that under the assumption of quadratic production costs, which is popular in mixed oligopolies, the optimal degree of privatization is higher when there is less market competition. This finding contrasts with those of prior studies. However, this result may be reversed when we adopt alternative model formulation. Furthermore, in the constant marginal cost case, the optimal degree of privatization is always lower when there is less market competition, which is opposite to the result in the quadratic cost case. Our results suggest that the relationship between an optimal privatization policy and the strength of competition crucially depends on the market structure, including the cost conditions.

Privatization in the presence of patent licensing

- Journal of Economics---2015---Shuai Niu

This paper analyzes the licensing policy for a cost-reduction technology of a foreign R&D institution when it is faced with a domestic monopoly manufacturer. It is found that, due to objective differences, a public domestic manufacturer will be charged higher than a private domestic manufacturer for a certain licensed technology. Accordingly, to save on the licensing payment made to the foreign R&D institution, the domestic government is recommended to (partly) privatize the public manufacturer.

Endogenous timing in a mixed duopoly model

- Journal of Economics---2015---José Naya

This paper complements the existing literature on endogenous timing in mixed duopoly models by assuming that there is a private firm and a partly privatized one in the market. It is shown that the endogenous timing of the game depends on both the partially privatized firm degree of privatization and the existing product differentiation. However, the obtained results assuming Cournot competition are quite different to those obtained under Bertrand competition.

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- Journal of Economics---2015---Claudio Lucifora

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Managerial delegation and welfare effects of cost reductions

- Journal of Economics---2015---Thijs Jansen,Arie Lier,Arjen Witteloostuijn

We extend the literature on the welfare effects of cost reductions by developing strategic delegation Cournot oligopoly games with $$n$$ n firms, linear cost and demand functions, and sales bonuses. Our method generalizes Zhao (Int J Ind Organ 19:455–469, 2001), and expresses the results in terms of the effects of both small and large cost reductions. We find that the firm exit region with sales delegation is larger than in the classical Cournot duopoly benchmark case. We prove that the likelihood of a welfare loss after a cost reduction by an inefficient firm is higher with sales delegation. We show that repairing the welfare loss from such a cost reduction for any $$n > 2$$ n > 2 requires firm exit. Copyright Springer-Verlag Wien 2015

Learning by doing and horizontal mergers

- Journal of Economics---2015---Apostolis Pavlou

We demonstrate in an n-firms dynamic model that a horizontal merger instead of having adverse welfare effects, due to an increase in concentration, may be welfare improving when production is characterized by learning-by-doing. In particular, within this framework we illustrate that contrary to the conventional wisdom even a horizontal merger, which leads to the monopolization of an industry, may improve welfare. This observation holds when the learning effect is strong and firms care for future profits, that is, they are patient enough. When the merger does not lead to monopoly it always lowers prices, given that the merger materializes, but the number of the active firms cannot be high enough since then market congestion occurs. Copyright Springer-Verlag Wien 2015

International cross-ownership of firms and strategic privatization policy

- Journal of Economics---2015---Dapeng Cai,Yukio Karasawa-Ohtashiro

We consider how the international cross-ownership of firms affects the privatization of a public firm competing with foreign firms. We show that when firms compete á la Cournot in a third market under a linear demand function, the domestic ownership of foreign firms can impede privatization, whereas the foreign ownership of the domestic firm can promote privatization. Moreover, the domestic ownership of foreign firms can render neither complete privatization nor complete nationalization optimal under moderate conditions. Conversely, when firms compete á la Bertrand, we demonstrate that it is always optimal to pursue complete nationalization. Copyright Springer-Verlag Wien 2015

Does two-part tariff licensing agreement enhance both welfare and profit?

- Journal of Economics---2015---Arijit Mukherjee,Yingyi Tsai

It is general belief that firm profit is higher under two-part tariff licensing, while social welfare is greater under fixed-fee licensing. We show that this conclusion need not hold when technology transfer is costly and, in particular, when the quality of licensed technology is endogenously chosen. We demonstrate that both social welfare and firms profit are higher under two-part tariff licensing than they are under fixed-fee licensing. We also show that a higher quality of technology is licensed under the two-part tariff scheme than it is under the fixed-fee licensing contract. Our analysis suggests that both firms and society may prefer two-part tariff licensing contract under costly technology transfer. This study presents direct contrast result and contributes, therefore, to the extant literature wherein the transfer of technology is costless. Copyright Springer-Verlag Wien 2015

Competition and uncertainty in a paper’s news desk

- Journal of Economics---2015---Ascension Andina-Diaz

We propose a model in which different types of journalists have superior information to a newspaper’s editor. Journalists compete for having their report published, but when writing their reports, they are uncertain about the preferences of the editor. We analyze the effects of competition and uncertainty on the incentives of the journalists to write informative reports. We obtain that there is not a unique prediction as to the effects of competition, but the correct answer depends on how much uncertainty there is. Thus, if the editor is perceived to be honest, we show there is an equilibrium in which all the journalists write informative reports, provided that a certain level of competition is met. In contrast, if the editor is perceived to be biased, partial revelation of information exists, even in the absence of competition. Last, high levels of uncertainty inevitably results in uninformative reporting. Copyright Springer-Verlag Wien 2015

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2015

Competition, innovation, and the effect of R&D knowledge

- Journal of Economics---2015---Alexander Steinmetz

This paper analyzes the effect of learning-by-doing in R&D on firms’ incentives to innovate. As a benchmark without learning it is shown that relaxing the usual assumption of imposed imitation yields additional strategic effects. Therefore, the leader’s R&D effort increases with the gap as she is trying to avoid competition in the future. When firms gain experience by performing R&D technological leaders rest on their laurels allowing followers to catch up. Contrary to the benchmark case, the leader’s innovation effort declines with the lead. This causes an equilibrium where the incentives to innovate are highest when competition is most intense. Copyright Springer-Verlag Wien 2015

Competing R&D joint ventures in Cournot oligopoly with spillovers

- Journal of Economics---2015---Antonio Tesoriere

This paper considers competition between R&D cartels, whereby prospective Cournot competitors coordinate their R&D decisions in order to maximize joint profit. It studies how R&D activity, aggregate profit, consumer surplus, and social welfare vary as the number of competing cartels varies. It also compares equilibrium with second best R&D, and discusses the policy implications of the results. The results show that the effects of R&D cartel competition depend on the welfare criterion adopted and on whether there are cooperative synergies or not. Copyright Springer-Verlag Wien 2015

Risk aversion in the Nash bargaining problem with uncertainty

- Journal of Economics---2015---Sanxi Li,Hailin Sun,Jianye Yan,Xundong Yin

In this study, we apply the aggregation property of Identical Shape Harmonic Absolute Risk Aversion utility functions to analyze the comparative statics properties of a bargaining model with uncertainty. We identify sufficient and necessary conditions under which an increase in one’s degree of risk aversion benefits/hurts one’s opponent. We apply our model to analyze the problems of bargaining over both insurance and incentive contracts. Copyright Springer-Verlag Wien 2015

Social responsibility in a bilateral monopoly

- Journal of Economics---2015---Björn Brand,Michael Grothe

We work on a linear bilateral monopoly to analyze the effects of firms' social concern. Both firms in the market, the up-stream manufacturer and the downstream retailer, can be socially concerned. Firm's social concern is modeled through a broader firm objective. In addition to their profit both firms also care about a share of consumer surplus. In our two stage game, at first the manufacturer fixes the wholesale price per quantity, which has to be paid by the retailer. Subsequently, the retailer chooses the optimal quantity. First, the game is analyzed for exogenous levels of social concern for both firms. Afterwards, both firms are able to choose endogenously their respective level of social concern. The results show that firm's social concern increases firm profit for the manufacturer as well as the retailer's profit. Moreover, the firms' broader objective function softens the classical double marginalization problem, because in equilibrium all market participants, consumers included, are better off compared to a bilateral monopoly with two pure profit-maximizing firms. Therefore, firms' social responsibility results in a Pareto improvement. Copyright Springer-Verlag Wien 2015

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Public capital, health persistence and poverty traps

- Journal of Economics---2015---Pierre-Richard Agénor

Growth dynamics and health outcomes are studied in a three-period overlapping generations model with public capital. Agents face a non-zero probability of death in adulthood. Parental health affects the health status of their children at birth, and health status in adulthood depends on health in childhood. An autonomous increase in life expectancy has an ambiguous impact on growth, because of an adverse effect on the public–private capital ratio. If life expectancy depends endogenously on health status, multiple equilibria may emerge. A reallocation of public spending toward either health or infrastructure may put the economy on a convergent path to a high-growth, high productivity steady state. However, escaping from a health-induced poverty trap can occur only if the quality of public spending is sufficiently high. Copyright Springer-Verlag Wien 2015

Redistributive taxation, wealth distribution, and economic growth

- Journal of Economics---2015---Toshiki Tamai

This paper examines the relationship between wealth distribution and economic growth in an endogenous growth model with heterogeneous households and redistributive taxation. In this paper, we incorporate an endogenous determination of redistributive policy into the model, focusing on the relation between pre- and post-tax inequality. Endogenous redistributive policy affects wealth distribution and economic growth. Therefore, the relation between post-tax inequality and economic growth is different from that between pre-tax inequality and economic growth. Results show that there exists a negative correlation between pre-tax inequality and economic growth, whereas there exists an inverted-U relationship between post-tax inequality and economic growth in a voting equilibrium. Copyright Springer-Verlag Wien 2015

Entrepreneurial finance and economic growth

- Journal of Economics---2015---Paolo Giordani

This paper incorporates the process of entrepreneurial finance into an endogenous growth model with horizontal innovation (Romer J Polit Econ 98:S71–S102, 1990 ; Jones J Polit Econ 103(4):759–784, 1995b). To capture the market frictions existing in the financing of innovation, entrepreneurial finance is described as a process of "search and matching" between entrepreneurs proposing their innovative ventures and capitalists selecting and financing the most valuable projects. We determine the amount of resources devoted to innovation along the balanced growth path.

The welfare analysis highlights the sub-optimality of the equilibrium innovative efforts due to search and bargaining frictions. We analyze the role of the policy maker to restore the optimality of investments in innovation. Copyright Springer-Verlag Wien 2015

The stochastic Mitra–Wan forestry model: risk neutral and risk averse cases

- Journal of Economics---2015---Adriana Piazza,Bernardo Pagnoncelli

We extend the classic Mitra and Wan forestry model by assuming that prices follow a geometric Brownian motion. We move one step further in the model with stochastic prices and include risk aversion in the objective function. We prove that, as in the deterministic case, the optimal program is periodic both in the risk neutral and risk averse frameworks, when the benefit function is linear. We find the optimal rotation ages in both stochastic cases and show that they may differ significantly from the deterministic rotation age. In addition, we show how the drift of the price process affects the optimal rotation age and how the degree of risk aversion shortens it. We illustrate our findings for an example of a biomass function and for different values of the model' s parameters. Copyright Springer-Verlag Wien 2015

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Dynamic analysis of wage inequality and creative destruction

- Journal of Economics---2015---Keiichi Kishi

This paper investigates the transitional dynamics of a basic Schumpeterian growth model under constant relative risk aversion. In this model, there are three patterns governing the evolution of wage inequality, but only if the intertemporal elasticity of substitution in consumption is sufficiently low: (a) skill-biased technological change, i.e., technological progress leads to a widening of wage inequality; (b) unskill-biased technological change, i.e., technological progress leads to a contraction of wage inequality; and (c) unbiased technological change, i.e., technological progress is independent of wage inequality. By conducting comparative dynamics of an unexpected permanent increase in research productivity in any sector, which we interpret as the arrival of new general purpose technologies, we show that the property of technological change shifts entirely from unskill-biased to skill-biased. The evolution of wage inequality in the model is then consistent with the shift in the trend in wage inequality beginning in the 1970s in the US economy. Copyright Springer-Verlag Wien 2015

Capital-induced labor migration in a spatial Solow model

- Journal of Economics---2015---Joao Plinio Juchem Neto,Julio Claeyssen

In this work we consider labor mobility in the spatial Solow model for economic growth. Besides considering that labor diffuses from regions with higher density to regions with lower density of labor, we consider that workers move from regions with lower density of capital to regions with higher density of capital, and that the labor force grows following a logistic law. Through stability analysis, we show that the introduction of capital-induced labor migration in the Solow model is a necessary condition for reaching an unstable regime that can generate a rich spatio-temporal dynamics. Numerical simulations show that, depending on the migration intensity and on the size of the economy, this modified Solow model can develop, endogenously, four kinds of behavior for the economy: (i) convergence to a homogeneous steady-state; (ii) convergence to a non-homogeneous steady-state; (iii) development of periodic spatio-temporal cycles; and (iv) development of irregular and aperiodic spatio-temporal cycles. Copyright Springer-Verlag Wien 2015

Economic growth under two forms of intellectual property rights protection: patents and trade secrets

- Journal of Economics---2015---Keishun Suzuki

This paper analyzes the effects on growth of strengthened patent protections, where trade secrets are introduced as an additional protection method. Strengthening patent protection decreases the amount of common knowledge, which has two asymmetric effects on incentives to innovate. First, as competitors cannot freely use technological information, it helps successful innovators earn higher profits. Second, less disclosure of information reduces R&D productivity. The model shows that the relative importance of patents versus trade secrets determines whether the former positive effect dominates the latter negative effect. As a result, strengthened patent protection can increase economic growth when the risk of leakage of trade secrets is high. Conversely, when the risk is low, stronger patent protection hinders growth. Similar opposing results are also found in welfare analysis. Copyright Springer-Verlag Wien 2015

A Multi-sector Model of Public Expenditure and Growth

- Journal of Economics---2015---Lifeng Zhang

A large and rich body of empirical and theoretical research examines the role of public expenditure in fostering economic growth. This paper develops a model of endogenous growth with a particular focus on the role of public expenditure in structural changes. We consider the dynamics of a multi-sector economy that allows for differences among sectors in the output elasticity of public expenditure, and demonstrate that there exists a unique balanced growth path that is locally saddle-path stable. Along the balanced growth path, the endogenous growth of public expenditure and its disproportionate effect on different sectors result in changes in the relative prices of goods, which, in turn, cause structural changes represented by a reallocation of resources across sectors. Quantitatively, the faster the economic growth triggered by the policy, the greater the changes in the reallocation of labor. Copyright Springer-Verlag Wien 2015

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- Journal of Economics---2015---Rupert Sausgruber

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Information policies in procurement auctions with heterogeneous suppliers

- Journal of Economics---2015---Domenico Colucci,Nicola Doni,Vincenzo Valori

This work studies a reverse auction in which a buyer needs to acquire a given good or service from suppliers having different costs. The sellers are characterized by qualities that are the buyer’ s private information. Comparing the outcomes of different policies regarding the revelation of such information prior to the auction, we find that maximizing the procurer’ s expected utility requires either concealing or privately revealing the suppliers’ quality, depending on the degree of heterogeneity in costs and qualities. Asymmetric revelation, if allowed, increases the buyer’ s expected utility when costs differences are large. Conversely social efficiency calls for public disclosure of qualities. Hence there is a trade-off between efficiency and rent extraction by which the buyer has incentive to withhold information that would benefit social welfare. Copyright Springer-Verlag Wien 2015

Decentralized union-oligopoly bargaining when wages signal strength

- Journal of Economics---2015---Wei Ding

This paper analyzes decentralized wage bargaining in a unionized oligopoly industry. The novel features of the proposed model are that firms are subject to incomplete information concerning their cost and that wages may signal firms' private information. The potential for signaling exerts an upward shift on the equilibrium wage profile which mitigates the externality that has been shown to weaken unions' bargaining power in decentralized wage bargaining. Copyright Springer-Verlag Wien 2015

Colluding with a conscience

- Journal of Economics---2015---Rudy Santore,Youping Li,Stephen Cotten

Other-regarding preferences have been documented in many strategic settings. We provide a model in which the managers of firms in an oligopoly have preferences for both consumer welfare and own income. We find that profit sharing can function as a facilitating practice. Managers must receive a sufficiently large share of profits for collusion to be sustained, and the optimal collusive price increases with the degree of profit sharing. Thus, restrictions on performance-based compensation may be consistent with the objectives of antitrust policy. We also find that an increase in industry concentration can harm consumers even if the firms were already successfully colluding. Copyright Springer-Verlag Wien 2015

Privatization in the presence of foreign competition and strategic policies

- Journal of Economics---2015---Bouwe Dijkstra,Anuj Mathew,Arijit Mukherjee

Recent evidence shows that developing and transition economies are increasingly privatizing their public firms and also experiencing rapid growth of inward foreign direct investment (FDI). In an international mixed oligopoly with strategic tax/subsidy policies, we analyze the interaction between privatization and FDI. We find that the incentive for FDI increases with privatization. However, the possibility of FDI reduces the degree of privatization. Our paper shows that FDI policies reducing the fixed-cost of undertaking FDI may need to complement the privatization policies to attract FDI and to improve domestic welfare. Copyright Springer-Verlag Wien 2015

Media bias, slant regulation, and the public-interest media

- Journal of Economics---2015---Wen-Chung Guo,Fu-Chuan Lai

This study addresses the role of government in reducing media bias that arises from the demand side. Introducing a public-interest media outlet reduces the equilibrium slants that would otherwise exist under laissez-faire. Subsidy for the truthful report and price regulation are designed to effectively remedy media bias. The socially optimal subsidy policy can reduce both slant and media prices. Copyright Springer-Verlag Wien 2015

Vague, Richard. The next economic disaster: Why it's coming and how to avoid it

- Journal of Economics---2015---Angelo Baglioni

2015

Quality choice and advertising regulation in broadcasting markets

- Journal of Economics---2015---Miguel González-Maestre,Francisco Martínez-Sánchez

We consider the role of the endogenous choice of platform quality in a broadcasting duopoly market where competing media platforms also choose their levels of advertising. We compare the equilibrium levels of quality, advertising and welfare under private and mixed duopoly competition. We show that the welfare comparison between the private and mixed duopoly regimes depends crucially on the interplay between the net direct effect of advertising on welfare and the degree of substitutability between platforms. We also consider the effects on quality and welfare of recent policies that tend to eliminate advertising as a source of financing for publicly-owned platforms. Copyright Springer-Verlag Wien 2015

Market concentration and persuasive advertising: a theoretical approach

- Journal of Economics---2015---Nelson Sá

This paper examines the structural relation between persuasive advertising intensity and market concentration. The interaction of advertising costs with the consumer's willingness to pay shapes the way markets respond to changes in sunk cost structures. This adjustment may involve firm entry and exit or modifications in advertising levels. It is shown that a non-monotonic association between advertising intensity and concentration may emerge even in the absence of collusion, requiring as a necessary condition that the ratio of operational profits and advertising cost elasticities with respect to a measure of perceived quality be decreasing. This result is robust to changes in both exogenous and endogenous sunk cost parameters. A simple tool is also proposed to empirically assess the behavior of the elasticities ratio. Finally, the model describes how intertemporal general equilibrium mechanisms may skew or even reverse the advertising-concentration relation through scale effects. Copyright Springer-Verlag Wien 2015

Hidden collusion by decentralization: firm organization and antitrust policy

- Journal of Economics---2015---Emilie Dargaud,Armel Jacques

This paper develops a theory of the centralization of firms engaged in multi-market collusive agreements. A centralized organization (called the unitary or U-form) allows price coordination across several markets, whereas with decentralized (the multidivisional or M-form) firms the probability that the antitrust authority will find evidence of collusion on one market while investigating the other is lower. We show that the firm's choice of internal structure depends to a large extent on product substitutability and the instruments used by the antitrust authority. Copyright Springer-Verlag Wien 2015

On the relationship between market power and bank risk taking

- Journal of Economics---2015---Kaniska Dam,Marc Escrihuela-Villar,Santiago Sánchez-Pagés

We analyze risk taking behavior of banks in the context of spatial competition. Banks mobilize unsecured deposits by offering deposit rates, which they invest either in a prudent or a gambling asset. Limited liability along with high return of a successful gamble induce moral hazard at the bank level. We show that when the market power that the banks enjoyed in the deposit market is low, banks invest in the gambling asset. On the other hand, for sufficiently high levels of market power, all banks choose the prudent asset to invest in. We further show that a merger of two neighboring banks increases the likelihood of prudent behavior. Also, introduction of a deposit insurance scheme exacerbates banks' moral hazard problem if the insurance premium is sufficiently low. Finally, we introduce a loan market where the borrowers of the banks choose the investment strategy prior to the deposit contracts. We show that as the market power that the banks enjoy in the loan market increases the borrowers tend to take more risk. Copyright Springer-Verlag Wien 2015

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- Journal of Economics---2015---Nicola Coniglio

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Higher education expansion, tracking, and student effort

- Journal of Economics---2015---Kangoh Lee

This paper studies the effects of tracking on student effort and academic achievement during secondary school. Students under the comprehensive school system make effort to increase their academic achievement that determines the probability of gaining admissions to college. As college admissions become less competitive or it becomes easier to gain admissions, it increases the benefits of effort, encouraging more effort. Those students streamed into academic tracks at early ages under tracking are most likely to be admitted to college, and the competitiveness of college admissions does not affect their effort. As a result, tracking tends to perform worse in terms of average secondary-school academic achievement, as higher education expands and college admissions become less competitive. Copyright Springer-Verlag Wien 2015

Consumption tax, seigniorage tax and tax switch in a cash-in-advance economy of endogenous growth

- Journal of Economics---2015---Wen-ya Chang,Hsueh-fang Tsai,Juin-jen Chang,Kuo-Hao Lee

This paper studies the effects of alternative tax policies (a consumption tax, seigniorage tax, and tax switch) on economic growth under different methods of government budget adjustment in a monetary endogenous growth model with a labor–leisure choice and a cash-in-advance constraint which is only imposed on consumption. It is found that the validity of both the Mundell–Tobin effect and the consumption tax neutrality crucially depends on the adjustment methods used to maintain the balanced government budget. In addition, we find that a switch from a consumption tax to a seigniorage tax unambiguously enhances economic growth. This result stands in sharp contrast to that of Ho et al. (J Money Credit Bank 39:105–131, 2007), in that it does confirm the validity of the qualitative equivalence between the money-in-the-utility-function and cash-in-advance approaches in terms of the effect of tax shifting away from a consumption tax towards a seigniorage tax. Copyright Springer-Verlag Wien 2015

Non-cooperative versus cooperative family

- Journal of Economics---2015---Atsue Mizushima,Koichi Futagami

This paper focuses on strategic interaction within a family and examines individual decision making. We set up a two-stage game model. In the first stage of the game, a man and a woman who have not yet met simultaneously determine their education levels non-cooperatively. In the second stage, they marry and determine their leisure time. In the second stage, we compare two decision modes, non-cooperative and cooperative, in order to characterize the nature of cooperation within the families. In addition, we extend the basic model on the basis of a Stackelberg game. In this setting, we consider the case in which a man acts as a leader and a woman acts as a follower. We show that the leader invests in higher education and chooses more leisure time than the follower. This coincides with the empirical findings. Copyright Springer-Verlag Wien 2015

Strategic delay and information cascades

- Journal of Economics---2015---Edward Cartwright

In a setting where agents must choose between two investments, Zhang (in RAND J Econ 28:188–205, 1997) proposed an equilibrium in which there is strategic delay. This equilibrium relied upon there being an information cascade. We shall demonstrate that an information cascade need not generally occur. It will only occur if and only if the cost of investing takes relatively extreme values. Taking this into account we derive a revised equilibrium that is still characterized by strategic delay. Copyright Springer-Verlag Wien 2015

An attorney fee as a signal in pretrial negotiation

- Journal of Economics---2015---Jeong-Yoo Kim

We consider the signaling role of attorney fees which have been usually assumed as exogenous in literature. We show that there exists an equilibrium in which the informed plaintiff uses both the attorney fee and the settlement demand as signals for his damage amount. If attorney service is not productive, this equilibrium yields higher social welfare than the equilibrium involving solely the settlement demand as a signal. If attorney service is productive, however, social welfare is lower in the former equilibrium. This has a policy implication that regulating attorney fees is socially desirable if the attorney service is productive.

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- Journal of Economics---2015---Francesco Daveri

2015

Precautionary saving under many risks

- Journal of Economics---2014---Donatella Baiardi,Marco Magnani,Mario Menegatti

This paper studies precautionary saving when many small risks are considered. We first introduce two simultaneous risks: labor income and interest rate risks. We show that, in this context, sufficient conditions for precautionary saving are weaker than in similar models. Moreover, we find that, unlike previous literature, precautionary saving can occur in the case of negative covariance between the two risks and in the case of imprudence. We then extend our analysis to a three-risk framework, where a background risk is included. We derive sufficient conditions for precautionary saving which are interpreted in the light of the previous literature.

Sequential procurement auctions with risk-averse suppliers

- Journal of Economics---2014---Takeshi Nishimura

We compare two procurement mechanisms, bundling and unbundling, in a two-stage auction model with risk-averse suppliers. The mechanisms differ in that the two tasks of investment and production are procured through a single auction or two sequential auctions. Suppliers' production costs are affected by two risk factors, aggregate risk and idiosyncratic risk, as well as by the cost-reducing investment. We show that the bundling mechanism is optimal for a buyer and socially desirable if the aggregate risk is below certain thresholds. The result may not hold true for idiosyncratic risk.

Equal, proportional, and mixed sharing of cooperative production under the threat of sabotage

- Journal of Economics---2014---Jörg Franke

This paper analyzes the consequences of a parametrized class of sharing rules on the propensity of individuals to sabotage each other in a cooperative production framework. The considered sharing rules include equal and proportional sharing as special cases and are parametrized with respect to their sensitivity to relative input contributions. This parameter affects the equilibrium provision of productive individual labor (that increases the respective individual input contribution) but also the propensity to sabotage others (which decreases the input contributions of sabotaged individuals). The theoretical analysis shows that sharing rules in which more weight is put on equal sharing induce zero sabotage in equilibrium; however, they might also lead to inefficient underproduction. In contrast, sharing rules that are highly sensitive with respect to relative input contributions lead to destructive sabotage activities and moreover to inefficient overproduction.

Strategic delegation in consumer cooperatives under mixed oligopoly

- Journal of Economics---2014---Michael Kopel,Marco Marini

The main aim of this paper is to study the propensity of consumer cooperatives (Coops) to use incentive schemes in situations of strategic interaction with profit-maximizing firms (PMFs). Our model provides a reason why Coops are less prone than PMFs to pay variable bonuses to their managers. We show that this occurs under price competition when in equilibrium the Coop prefers to pay a flat wage to its manager relying instead on her intrinsic motivation, whereas the profit-maximizing rival adopts a variable, high-powered incentive scheme. The main rationale is that, by recruiting a manager whose preferences are aligned with the company goals (e.g., a consumer-owner), the Coop is per se highly expansionary in term of output.

Therefore, the Coop does not need to rely on an externally hired manager who sets prices aggressively to expand market share and quantity. Furthermore, adopting a monetary reward based on sales and profits leads to distorted incentives with respect to the Coop's goal, which after all is the welfare of its members.

Erratum to: Strategic delegation in consumer cooperatives under mixed oligopoly

- Journal of Economics---2014---Michael Kopel,Marco Marini

2014

Rosanvallon, Pierre: The society of equals

- Journal of Economics---2014---Charlotte Bartels

2014

Taxation and the quality of entrepreneurship

- Journal of Economics---2014---Andrea Asoni,Tino Sanandaji

We study the effect of taxation on entrepreneurship, investigating how taxes affect both the number of start-ups and their average quality. We show theoretically that even with risk neutral agents and no tax evasion progressive taxes can increase entrepreneurial entry, while reducing average firm quality. So called "success taxes" encourage start-ups with lower value business ideas by reducing the option value of pursuing better projects. This suggests that the most common measure used in the literature, the likelihood of entry into self-employment, may underestimate the adverse effect of taxation.

Comparison between specific taxation and volume quotas in a free entry Cournot oligopoly

- Journal of Economics---2014---Toshihiro Matsumura,Yasunori Okumura

We revisit the classic discussion of the comparison between tax and quota, but in a free-entry Cournot oligopoly. We investigate a quantity ceiling regulation as a quota policy. We find that tariff-quota equivalence holds if the firms are symmetric and the number of firms is given exogenously. However the equivalence does not hold and taxes dominate quotas in the free entry market because quota can increases the number of entering firms and increases the loss caused by excessive entries.

Comparing Cournot and Bertrand equilibria in an asymmetric duopoly with product R&D

- Journal of Economics---2014---Ming Chang,Yan-Ching Ho

We compare the Cournot and Bertrand equilibria in an asymmetric duopoly with product R&D competition. If a firm's marginal cost is lower than that of its rival, then this firm (its rival) is referred to as the more (less) efficient firm. Under each mode of competition, there are three types of equilibria: blockaded-entry, deterred-entry, and accommodated-entry. Moreover, the presence of R&D investment makes it harder for the less efficient firm to survive. Cournot competition entails a unique equilibrium, whereas Bertrand competition may yield two equilibria. It is harder for the less efficient firm to survive under Bertrand competition than under Cournot competition. Versus Cournot competition, Bertrand competition yields higher industry output, and it shifts production from the less efficient firm to the more efficient firm. This result, together with the known size effect, explains the following three findings. First, the more efficient firm has a normal output ranking, whereas the less efficient firm may demonstrate an output reversal. Second, the more efficient firm may demonstrate a R&D reversal, whereas the less efficient firm has a normal R&D ranking (its Cournot R&D effort exceeds its Bertrand R&D effort). Third, Bertrand competition is more welfare-efficient than Cournot competition.

The cost effect in third-degree price discrimination

- Journal of Economics---2014---Francisco Galera,Markus Kinateder,Pedro Mendi

In the presence of a non-constant marginal cost and demand uncertainty, we show that an output increase is no longer a necessary condition for welfare to increase following the introduction of third-degree price discrimination. We thus highlight the existence of an effect that might offset the well known output and misallocation effects of price discrimination. We propose a specific example where this is indeed the case. Copyright Springer-Verlag Wien 2014

A pre-emption model of mergers

- Journal of Economics---2014---Baomin Dong,Frank Wang

This paper studies the paradox of the value destroying mergers in a sequential negotiation model in which the synergy accrued from the mergers is private information. This study shows that in a simultaneous competitive bidding process, the winner’s curse of overpaying rarely occurs but may arise in the target firm initiated sequential negotiations; and if the merger is successful then the outcome is never value destroying for the combined firm. Thus the acquirer’s overpayment cannot be considered as the ‘winner’s curse’ that results from the post-announcement competitive bidding but rather than the result of the target’s strengthened bargaining power in the sequential negotiations. The implications and intuition of such value-destroying mergers thus differ substantially from that of existing pre-emptive mergers and acquisitions models that use a simultaneous bidding mechanism. The results also imply that the ‘acquisition premium’ accrues to the target firms. Copyright Springer-Verlag Wien 2014

Kaplow, Louis: Competition policy and price fixing

- Journal of Economics---2014---David Encaoua

2014

Infrastructure, women’s time allocation, and economic development

- Journal of Economics---2014---Pierre-Richard Agénor,Madina Agénor

This paper develops a gender-based OLG model of endogenous growth to analyze the impact of infrastructure on women’s time allocation between market work, raising children, own health care, and home production, and its implications for education and health outcomes. Women’s health status in adulthood, which affects productivity and wages, depends on their health status in childhood. Threshold effects in health and life expectancy, associated with access to infrastructure, may generate multiple development regimes. Whether an increase in government investment in infrastructure succeeds in shifting the economy to a high-growth equilibrium depends crucially on how women reallocate their time and the strength of congestion effects. Copyright Springer-Verlag Wien 2014

Exponential discounting bias

- Journal of Economics---2014---Orlando Gomes,Alexandra Lopes,Tiago Sequeira

We address intertemporal utility maximization under a general discount function that nests the exponential discounting and the quasi-hyperbolic discounting cases as particular specifications. Under the suggested framework, the representative agent adopts, at some initial date, an optimal behavior that shapes her consumption trajectory over time. This agent desires to take a constant discount rate to approach the optimization problem, but bounded rationality, under the form of a present bias, deviates the individual from the intended goal. As a result, decreasing impatience will end up dominating the agent’s behavior. The individual will not be aware of her own time inconsistency and, therefore, she will not revise her plans as time elapses, what makes the problem relatively simple to address from a computational point of view. The general discounting framework is used to approach a standard optimal growth model in discrete time. Transitional dynamics and stability properties of the corresponding dynamic setup are studied. An extension of the standard utility maximization model to the case of habit persistence is also considered. Copyright Springer-Verlag Wien 2014

Lender deception as a response to moral hazard

- Journal of Economics---2014---Ross Tippit

The paper considers a principal–agent relationship between a borrower and lender based on a model from Bowles (Microeconomics: behavior, institutions, & evolution. Princeton University Press, Princeton, 2003). It expands the model by incorporating borrower collateral as an exogenous variable to partly assuage lender concerns about excessive risk, and a theory of lender deception is then developed. Deception is posited as a costly activity that effectively makes fraud undetectable and extracts the borrower' s economic rent arising from moral hazard despite the presence of third-party enforcement and borrower collateral. We identify under what conditions a lender may have sufficient incentives for employing deception and to what extent they would employ it. The likelihood of, and outcomes from, deception are compared between monopoly lenders those in competitive markets. The model suggests that competitive lenders have more incentive to deceive than a monopoly lender facing the same borrower. Copyright Springer-Verlag Wien 2014

Regulating harmless activity to fight crime

- Journal of Economics---2014---Florian Baumann,Tim Friehe

This paper establishes that regulating harmless activity can be an effective instrument of law enforcement when the harmless activity and the harmful activity are interdependent. This type of regulation is not without cost, as it distorts the individual choices made by both law-abiding and non-law-abiding individuals. However, it can be socially advantageous when the impact on welfare resulting from changes in the choices of offenders dominates the impact of changes in non-offenders' decisions; in addition, increasing deterrence by other means (such as raising the probability of detection or the magnitude of sanctions) can incur much higher costs. Copyright Springer-Verlag Wien 2014

Granville, Brigitte: Remembering inflation

- Journal of Economics---2014---Bernd Hayo

2014

Price competition and quality differentiation with multiproduct firms

- Journal of Economics---2014---Yi-Ling Cheng,Shin-Kun Peng

This paper examines a two-stage competition where firms simultaneously choose the number of products and qualities in the first stage, and then compete in prices. It is shown that a monopolist must sell a single product. In addition, in any equilibrium of multiproduct duopoly, there are segmented patterns of quality differentiation. Entangled configurations never emerge because each firm has an incentive to reduce the number of products facing direct competition with its rival. This result contrasts sharply with the equilibrium of non-segmented quality differentiation when firms compete in quantities. Furthermore, we find that the high-quality firm never offers more products than the low-quality firm, and quality differentiation between firms is greater than that within a firm. Copyright Springer-Verlag Wien 2014

Endogenous direct advertising and price competition

- Journal of Economics---2014---Lola Esteban,José Hernández

This paper analyzes how the use of endogenous direct advertising affects the functioning of a horizontally-differentiated market. We formulate a two-stage game of pricing and informative advertising in which two firms, first, compete with mass advertising and, later, build a database using their historical sales records and compete by directly targeting the ads on their potential customers. We show that, compared to the case where firms only use mass advertising, direct advertising yields higher advertising efforts and an intertemporal reallocation of both market power and profits from the first to the second period. We also find that targeting increases the overall firms' profit and the level of social welfare, but the impact on the average intertemporal price and consumer surplus is ambiguous. Finally, when reaching the potential market with mass advertising is sufficiently expensive, the use of direct advertising leads firms to provide the socially optimal level of advertising whereas, if mass advertising is cheap, firms tend to launch too little advertising in the first period and too much in the second. Copyright Springer-Verlag Wien 2014

Innovation or imitation? The effect of spillovers and competitive pressure on firms' R&D strategy choice

- Journal of Economics---2014---Olga Slivko,Bernd Theilen

In this paper a firm's R&D strategy is assumed to be endogenous and allowed to depend on both internal firm characteristics and external factors. Firms choose between two strategies, either they engage in R&D or abstain from own R&D and imitate the outcomes of innovators. This yields three types of equilibria, in which either all firms innovate, some firms innovate and others imitate, or no firm innovates. Firms' equilibrium strategies crucially depend on external factors. We find that the efficiency of intellectual property rights protection positively affects firms' incentives to engage in R&D, while excessive competitive pressure has a negative effect. In addition, smaller firms are found to be more likely to become imitators when the product is homogeneous and the level of spillovers is high. Regarding social welfare our results indicate that strengthening intellectual property protection can have an ambiguous effect. In markets characterized by a high rate of innovation a reduction of intellectual property rights protection can discourage innovative performance substantially. However, a reduction of patent protection can also increase social welfare because it may induce imitation. This indicates that policy issues such as the optimal length and breadth of patent protection cannot be resolved without taking into account specific market and firm characteristics. Copyright Springer-Verlag Wien 2014

Effects of capacity constraints on mixed duopoly

- Journal of Economics---2014---Pu-yan Nie

This paper highlights the mixed duopoly substitutable product with an upstream input subject to capacity constraints. The effects of capacity constraints on the mixed economy are captured. Firstly, the degree of public ownership improves the firm size difference, the price difference, the price dispersion and consumer surplus, while it reduces the price and the second firm's profits. Secondly, the efficiency difference reduces the firm size difference, the price difference and the price dispersion. Finally, under scarce capacity, the relationship between the total capacity and, the firm size difference, the price difference and the price dispersion, depends on the efficiency of the two firms. Copyright Springer-Verlag Wien 2014

Slanina, František: Essentials of econophysics modelling

- Journal of Economics---2014---Thorsten Hens

2014

Some thoughts on the Sutton approach

- Journal of Economics---2014---Federico Etro

I analyze the relation between market size and number of firms when an endogenous number of firms chooses the market strategy and (simultaneously or sequentially) an R&D investment. I generalize the linear Cournot model with an endogenous cost-reducing activity and show that, as long as exogenous fixed costs are positive, the market structure is naturally characterized by an inverted-U relation between market size and number of firms, in line with the celebrated hypothesis of Sutton. However, the increase of the market size reduces the prices and expands individual investment and production exactly as in endogenous market structure only with exogenous fixed costs. Copyright Springer-Verlag Wien 2014

New technology adoption in a Cournot oligopoly with spillovers

- Journal of Economics---2014---Yanfang Zhang,Shue Mei,Weijun Zhong

In a two-stage Cournot oligopoly where a subset of firms first make a choice between two alternative production technologies independently and then all firms compete in quantity, the effect of information spillovers is analyzed when the outcome of R&D is uncertain. It is shown that the range of parameter values that support heterogeneous firms in equilibrium will diminish as information spillovers become larger. Particularly, when the spillover effect is so strong that the investment by one firm is beneficial to its R&D active rivals, all active firms will choose the same technology. A similar result can be derived from a socially desirable point of view except that the cut-off magnitude of spillovers is different. By introducing a positive success probability to characterize the uncertainty of the R&D outcome, it is found that when information spillovers are not too small, there will be underinvestment in equilibrium relative to the social optimum. Copyright Springer-Verlag Wien 2014

A generalized framework for endogenous timing in duopoly games and an application to price-quantity competition

- Journal of Economics---2014---Quan-tao Zhu,Xin-wang Wu,Laixiang Sun

This paper extends the analysis of duopoly market by distinguishing two types of competition: (i) the basic form of competition where each firm is unrestricted in its choice of price and quantity and (ii) the non-basic form of competition where firms’ strategic choices over price and quantity are limited a priori. Our analysis focuses on the former rather than the latter. Under a very general setting of concave industrial revenue and asymmetric convex costs, we show that each firm typically makes more profit in the subgame perfect Nash equilibrium (SPNE) of the leader-follower price-quantity competition, one of the basic competition forms, than in the SPNE of the leader-follower price competition and that each firm always makes more profit under simultaneous move price-quantity competition than under simultaneous move price competition. We establish a generalized framework for endogenous timing in duopoly games which is capable of embodying and overcoming the inconsistency across the existing three frameworks in the field. We highlight the advantages of a 3-period general framework. Copyright Springer-Verlag Wien 2014

Low price signals high capacity

- Journal of Economics---2014---Klaus Kultti,Eeva Mauring

We study pricing in a model where buyers are homogeneous and sellers have either capacity one or two. We show that if buyers observe prices but not capacities then an equilibrium exists where sellers of capacity two post lower prices than sellers of capacity one. The equilibrium satisfies the intuitive criterion. Copyright Springer-Verlag Wien 2014

Radial and directional measures of the rate of technical change

- Journal of Economics---2014---Rolf Färe,Giannis Karagiannis

In this paper we develop radial and directional measures of the rate of technical change for the class of directional distance functions. For both types, we distinguish between primal and dual measures while the former are further divided into oriented (input- and output-based) and non-oriented. We highlight the pivotal role of translation elasticity in examining the interrelationships among the alternative directional measures and that of scale elasticity in the case of radial measures. We also show that the radial and directional measures are related one another through the normalized (with the value of the direction vector) dual functions. Copyright Springer-Verlag Wien 2014

Mansuri, Ghazala and Rao, Vijayendra: Localizing development. Does participation work?

- Journal of Economics---2014---L. Kempen

2014

Second chance offers in auctions

- Journal of Economics---2014---Aniruddha Bagchi,Brett Katzman,Timothy Mathews

This paper examines situations in which a seller might make a second chance (take-it-or-leave-it) offer to a non-winning bidder at a price equal to their bid at auction. This study is motivated by the take-it-or-leave-it second chance offer rules used by eBay and a number of state procurement agencies. Equilibrium bidder behavior is determined for IPV sealed bid first price, second price, English, and Vickrey auctions when a second chance offer will be made with an exogenous probability \$\$p\$\$. In all but the Vickrey auction (which elicits the dominant strategy of bidding one's value) equilibrium bids are lower than if there were no possibility of a second chance offer and higher than if a second chance offer will be made for certain. Further, the possibility of a second chance offer erodes the strategic equivalence between second price bids and English auction drop out levels. If bidders are risk averse (with CRRA preferences), this difference leads to expected revenue dominance of the second price over the English auction, both of which dominate the Vickrey auction. The first price auction is also shown to revenue dominate the Vickrey auction, and moreover, numerical results and intuition from existing literature suggest that the first price auction revenue dominates the second price auction. Copyright Springer-Verlag Wien 2014

Imperfect evaluation in project screening

- Journal of Economics---2014---Andrei Barbos

This paper studies a model in which an agent considers proposing a project of unknown quality to an evaluator, who has to decide on whether or not to accept it. Earlier papers considered the case when the evaluation is perfect and showed than higher submission fees increase the expected quality of projects submitted for review by discouraging long-shot submissions. We examine the case of two-sided incomplete information where not only the agent's, but also the evaluator's assessment of the project is imperfect. We show that under this specification, an increase in the submission fee may lead to a decrease in the quality of projects that are implemented because of its adverse effects on the evaluator's acceptance policy. Copyright Springer-Verlag Wien 2014

Exclusive contracts when the incumbent can establish a direct retailer

- Journal of Economics---2014---Hiroshi Kitamura,Misato Sato,Koki Arai

This paper constructs a model of anticompetitive exclusive dealings with potential downstream competition. Unlike in previous studies, the incumbent can establish a direct retailer with some fixed payment and can offer an exclusive contract to a downstream buyer twice. We show that the existence of these two options helps the incumbent deter socially efficient entry and earn almost monopoly profits even in the absence of scale economies and downstream competition. Copyright Springer-Verlag Wien 2014

Optimal manipulation rules in a mixed oligopoly

- Journal of Economics---2014---Corrado Benassi,Alessandra Chirco,Marcella Scrimitore

We study the optimal manipulation rules of a public firm's objective function in a mixed oligopoly with imperfect product substitutability. We start with a baseline duopoly model and compare the solutions under quantity and price competition, and the way they are affected by product substitutability. This allows us to show that partial privatization, strategic delegation and other specific government's commitments on the objective function of the public management can be looked at as special cases of these optimal rules, and to evaluate the viability of these policies under the two modes of competition. In this framework, we also discuss the equivalence between manipulation of the objective function and Stackelberg leadership. Since optimal manipulation rules change as new dimensions are added, we also derive the optimal rules under oligopoly, quadratic costs, and competition of international firms. This fairly general unified framework allows to discuss the impact of these factors on the government's implementation policies of the optimal manipulation rules. Copyright Springer-Verlag Wien 2014

Inferior factor in Cournot oligopoly revisited

- Journal of Economics---2014---Paolo Bertoletti,Pierre Mouche

We reconsider the recent work by Okuguchi (J Econ 101:125–131, 2010) on (possibly asymmetric) Cournotian firms with two production factors, one being inferior for each firm. It is shown there that an increase in the price of the inferior factor does raise the equilibrium industry output. In addition of providing a simpler and more rigorous proof of that result, we generalize it to the case of technologies with factors and also allow some firms not to use the inferior one. Copyright Springer-Verlag Wien 2014

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- Journal of Economics---2014---Ludger Linnemann

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Scheubel, Beatrice: Bismarck's Institutions. A historical perspective on the social security hypothesis

- Journal of Economics---2014---Andreas Wagener

2014

Partial ownership and cross-border mergers

- Journal of Economics---2014---Frank Stähler

Partial ownership can be used as a screening device by a foreign firm which wants to merge with a local firm whose productivity is private information. As partial ownership is confined to sharing future merger profits, it cannot achieve complete separation in all cases but improves expected merger gains also in an equilibrium which is not fully separating. Without partial ownership, the foreign firm potentially discriminates against high productivities. In a pooling equilibrium with partial ownership, however, it will potentially discriminate against intermediate productivities. Copyright Springer-Verlag Wien 2014

Complementing Cournot's analysis of complements: unidirectional complementarity and mergers

- Journal of Economics---2014---Takanori Adachi,Takeshi Ebina

We study the price and welfare effects of a merger of firms producing unidirectional complements: a firm is producing a product (called an optional good) that is valuable only if it is consumed with the other product (called a base good) produced by another firm. Under the assumption that there are two types of consumers: (i) those who consume one unit of the base good only or nothing (having zero valuation of the optional good), and (ii) those who consume one unit of the composite good or nothing, we show that a merger of the two firms raises the price of the base good, resulting in lower consumer surplus for the former consumer group, if and only if the average willingness to pay in the latter consumer group is sufficiently low. This result is in sharp contrast to Cournot's (Researches into the mathematical principles of the theory of wealth, 1838) classical implication that a merger of firms producing strict complements makes all consumers strictly better off. Copyright Springer-Verlag Wien 2014

Outsourcing versus technology transfer: Hotelling meets Stackelberg

- Journal of Economics---2014---Andrea Pierce,Debapriya Sen

We consider a Hotelling duopoly with two firms $$A$$ and $$B$$ in the final good market. Both can produce the required intermediate good, firm $$B$$ having a lower cost due to a superior technology. We compare two contracts: outsourcing ($$A$$ orders the intermediate good from $$B$$) and technology transfer ($$B$$ transfers its technology to $$A$$). An outsourcing order is equivalent to building an endogenous capacity and it generates a Stackelberg leadership effect for firm $$A,$$ which is absent in technology transfer. We show that compared to the situation of no contracts there are always Pareto improving outsourcing contracts (making both firms better off and all consumers at least weakly better off), but no Pareto improving technology transfer contracts. It is also shown that if firm $$B$$ has a relatively large bargaining power in its negotiations with $$A,$$ then both firms prefer technology transfer while all consumers prefer outsourcing. Copyright Springer-Verlag Wien 2014

Licensing under convex costs

- Journal of Economics---2014---Arijit Mukherjee

We show that both the outside and inside innovators license a new product (or drastic process innovation) to all potential licensees in the presence of convex costs, which occur under decreasing returns to scale technologies. An implication of our analysis is that a monopolist producer may prefer technology licensing in a homogeneous goods industry. We also show that an inside innovator’s incentive for innovation may be higher than that of an outside innovator. Copyright Springer-Verlag Wien 2014

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- Journal of Economics---2014---Riccardo Soliani

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- Journal of Economics---2014---Valeria Miceli

2014

Regulating a manager whose empire-building preferences are private information

- Journal of Economics---2014---Ana Borges,Joao Correia-da-Silva,Didier Laussel

We obtain the optimal contract for the government (principal) to regulate a manager (agent) who has a taste for empire-building that is his/her private information. This taste for empire-building is modeled as a utility premium that is proportional to the difference between the contracted output and a reference output. We find that output is distorted upward when the manager’s taste for running large firms is weak, downward when it is strong, and equals a reference output when it is intermediate (in this case, the participation constraint is binding). We also obtain an endogenous reference output (equal to the expected output, which depends on the reference output), and find that the response of output to cost is null in the short-run (in which the reference output is fixed), whenever the manager’s type is in the intermediate range, and negative in the long-run (after the adjustment of the reference output to equal expected output). Copyright Springer-Verlag Wien 2014

Informal incentive labour contracts and product market competition

- Journal of Economics---2014---Nicola Meccheri,Luciano Fanti

This paper studies the dynamic interaction between product market competition and incentives against shirking. In contrast with standard results, efficiency wages paid by each firm can decrease when competition (i.e. the number of firms in the product market) increases. Discretionary bonuses, on the other hand, do not vary with competition. There is an upper threshold for the number of competing firms, however, above which such schemes are no longer sustainable as an equilibrium. Industry profits with bonuses are generally higher than with efficiency wages but, when information regarding firms’ misbehaviour flows at a low rate, a competition range exists for which firms can make a positive profit by only paying efficiency wages.

On the value of partial commitment for cooperative investment in buyer–supplier relationship

- Journal of Economics---2014---José Sousa,Xavier Fairise

Does formal contracting foster cooperation in a buyer–supplier relationship? In line with the literature, we find that a renegotiable contract with relationship-specific joint investments does not make it possible to reach the first-best. However, we show that a renegotiable contract may induce more cooperation than an informal arrangement can. This result may help to understand how cooperation emerges in Japanese procurement practices, which typically involve relationship-specific joint investments and renegotiable contracts.

Insider trading with product differentiation

- Journal of Economics---2014---Wassim Daher,Harun Aydilek,Fida Karam,Asiye Aydilek

This paper investigates the effect of product differentiation on the real and financial decisions of a publicly-owned firm, competing $$\grave{a}$$ la Cournot with another privately-owned firm. The results show that the degree of product differentiation affects the stock price coefficients (i.e. the market maker’s response to the real signal and to the total order flow signal) and the output of the publicly-owned firm. It also appears to have a detrimental effect on the manager’s profits and compensation scheme. The paper then proposes an extension of the benchmark model to incorporate Cournot and Stackelberg competition between two insiders in the financial market. The type of the financial competition adopted has also an effect on the results of the benchmark model that sometimes depend on the degree of product differentiation.

Tangian, Andranik: Mathematical theory of democracy. Studies in social choice and welfare

- Journal of Economics---2014---Hannu Nurmi

2014

Manski, Charles: Public policy in an uncertain world

- Journal of Economics---2014---Peter Haan

2014

Intergenerational redistribution and risk sharing with changing longevity

- Journal of Economics---2014---Torben Andersen

Trend increases in longevity are a global phenomenon challenging the fiscal sustainability of current welfare arrangements. Policy proposals abound and often build on implicit assertions concerning intergenerational equity. This paper offers a simple but manageable OLG model with endogenous retirement and cohort-specific longevity to address intergenerational redistribution and risk sharing. While it is well known that a utilitarian planner strives for consumption smoothing, it is shown that healthy ageing calls for work smoothing in the sense that retirement ages increase with longevity. Hence, cohorts with higher longevity should contribute to their larger consumption needs via later retirement, although it is shown that the planner still front-loads some financing (pre-saving). Stochastic longevity raises the issue of intergenerational risk sharing, which implies that cohorts turning out to have a high longevity are compensated at the expense of cohorts turning out to have a relatively short longevity.

Optimal size of the government: the role of the elasticity of substitution

- Journal of Economics---2014---Manuel Gómez Suárez

This paper analyzes the optimal fiscal policy in an endogenous growth model with productive public services. Government expenditure, which may be subject to different degrees of congestion, is financed by distortionary income taxation. The standard result on the equality between the growth-maximizing, welfare-maximizing and first-best income tax rates holds if and only if production is Cobb–Douglas or there is proportional congestion. With non-proportional (or in the absence of) congestion, the first-best income tax is lower than the (second-best) welfare-maximizing income tax which, in turn, is lower than the growth-maximizing income tax if the elasticity of substitution is below unity. Under mild conditions these relations are reversed if the elasticity of substitution is above unity. Intuition on these results is also provided. Copyright Springer-Verlag Wien 2014

Coalitional fairness in interim differential information economies

- Journal of Economics---2014---Chiara Donnini,Maria Graziano,Marialaura Pesce

In this paper we propose a concept of coalitional fair allocation in order to solve the tension that may exist between efficiency and envy-freeness when agents are asymmetrically informed and the equity of allocations is evaluated at the interim stage. Copyright Springer-Verlag Wien 2014

Voting in small committees

- Journal of Economics---2014---Paolo Balduzzi,Clara Graziano,Annalisa Luporini

We analyze the voting behavior of a small committee that has to approve or reject a project proposal whose return is uncertain. Members have diverse preferences: some of them want to maximize the expected value, while others have a bias towards project approval and ignore their information on the project value. We focus on the most efficient use of scarce information when members cannot communicate prior to voting, and we provide insights on the optimal composition of the committee. Our main result is that the presence of biased members can improve the voting outcome, by simplifying the strategies of unbiased members. Thus, committees with diverse members perform as well as homogeneous committees, and even better in some cases. In particular, when value-maximizing members outnumber biased members by one vote, the optimal equilibrium becomes unique. Copyright Springer-Verlag Wien 2014

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- Journal of Economics---2014---Theocharis Grigoriadis

2014

Time consuming resource extraction in an overlapping generations economy with capital

- Journal of Economics---2013---Birgit Bednar-Friedl,Karl Farmer

For worldwide fisheries production, two major trends emerge for the next decades: a significantly larger role for aquaculture and reduced output due to climate change impacts. While the former leads to an increase in cost, the latter affects natural regeneration. To address both impacts, we investigate the relevance of resource extraction costs for a private property fishery in an intertemporal general equilibrium model with capital accumulation, commodity production and a labor market. We show how the extraction cost parameter—in addition to time preference, technology and natural regeneration—matters for the existence (and stability) of an economically feasible, nontrivial stationary state. Higher extraction costs increase the equilibrium resource stock, while a reduced regeneration rate (e.g. due to climate change) decreases the stock. Moreover, resource extraction overshoots its new equilibrium value after the cost shock while after a regeneration shock extraction levels adjust monotonically towards the new equilibrium. Copyright Springer-Verlag Wien 2013

Preparing for catastrophic climate change

- Journal of Economics---2013---Yacov Tsur,Cees Withagen

We study optimal adaptation to climate change when the harmful consequences of global warming are associated with uncertain occurrence of abrupt changes. The adaptation policy entails the accumulation of a particular sort of capital that will eliminate or reduce the catastrophic damage of an abrupt climate change when (and if) it occurs. The occurrence date is uncertain. The policy problem involves balancing the tradeoffs between the (certain) investment cost prior to occurrence and the benefit (in reduced damage) that will be realized after the (uncertain) occurrence date. For stationary economies the optimal adaptation capital converges monotonically to a steady state. In most cases, investment begins immediately. However, if the initial adaptation capital exceeds a pre-specified threshold level, which lies above the optimal steady state, investment is delayed while the capital stock decreases (due to depreciation) and commences only when it reaches this threshold level. For growing economies the optimal adaptation capital stock approaches the maximal economic level above which further accumulation is ineffective. Copyright Springer-Verlag Wien 2013

Monetary policy with linear information costs

- Journal of Economics---2013---Dimitrios Voliotis

The paper adresses the problem of a monetary economy with costs of information, imposed in linear form. In particular, we make use of a strategic market game with money where equilibria are standardly non-Walrasian, permitting an active role to monetary policy. The imposition of information costs alters the demand of real balances since traders demand extra money for gathering and processing the necessary information. As a result, money injections could be proved welfare improving only when the induced information costs do not offset the resulted gains to trade. Copyright Springer-Verlag 2013

Can growth-enhanced monetary policy improve welfare when people seek social status?

- Journal of Economics---2013---Hsiu-Yun Lee,Yu-Lin Wang,Wen-Ya Chang

This paper examines the growth and welfare effects from an increase in the rate of money supply in an Ak type growth model with a relative wealth-enhanced social status motive, production externalities, and liquidity constraints. When only consumption is constrained by liquidity, fast money supply can hasten output growth unless seigniorage revenue is wasted and production externalities do not exist. We find that even though money growth normally promotes economic growth, it does not improve welfare when capital stock is over-accumulated. In general, an optimal monetary policy minimizes seigniorage. Our results also conclude that the optimal monetary policy rarely follows the Friedman rule. Copyright Springer-Verlag Wien 2013

Vertically related markets, tariffs, and technology adoption

- Journal of Economics---2013---Aleksandr Vashchilko

This study considers the effect of trade policy on the time of technology adoption. Home firm is dependent on a foreign vertically integrate firm for supplies of a key input before the technology adoption and can produce the intermediate input after the technology adoption. Both firms compete by Cournot in the home final product market. I show that the decrease in the tariff on final product imports and the increase in the tariff on input imports create incentives for earlier technology adoption by home firm. While maximizing the discounted sum of welfare, the domestic government should protect home firm initially. Further, provided the cost of technology adoption declined sufficiently over time, the domestic government should stimulate the earlier technology adoption by decreasing the tariff on final product imports and increasing the tariff on intermediate product imports. Copyright Springer-Verlag 2013

Consumption taxes in monopolistic competition: a comment

- Journal of Economics---2013---Henrik Vetter

We show that an ad valorem tax is better than an equal-revenue unit tax when consumers spend some fixed proportion of income on taxed goods, when firms use constant mark-up pricing, and entry and exit drive per-firm profit to zero. These key assumptions implies that ad valorem taxes are superior in oligopoly as well as monopolistic competition, showing that earlier results on taxes in monopolistic competition (Schröder in J Econ 83(3):281–292, 2004) are not due to the mode of competition, but rather are due to the functional forms used. Copyright Springer-Verlag Wien 2013

Agénor, Pierre-Richard: Public capital, growth and welfare. Analytical foundations for public policy

- Journal of Economics---2013---Alberto Bucci

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Optimal taxes on wealth and consumption in the presence of tax evasion

- Journal of Economics---2013---Johann Brunner,Paul Eckerstorfer,Susanne Pech

This article incorporates tax evasion into an optimum taxation framework with individuals differing in earning abilities and initial wealth. We find that despite the possibility of its evasion a tax on initial wealth should supplement the optimal nonlinear income tax, given a positive correlation between initial wealth and earning abilities. Further, even if income and initial wealth are taxed optimally, it is still desirable to levy a tax on commodities, though it can be evaded as well. Thus, our result provides a rationale for a comprehensive tax system. Optimal tax rates on commodities differ in general, however for the special case of a uniform evasion technology equal rates are optimal if preferences are homothetic and weakly separable. Copyright Springer-Verlag Wien 2013

Firm’s tax evasion in a principal-agent model with self-protection

- Journal of Economics---2013---Rongili Biswas,Carla Marchese,Fabio Privileggi

Gatekeepers have an increasing role in taxation and regulation. Whereas burdening them with legal liability for misconducts that benefit those who resort to their services actually discourages wrongdoings—as will be clarified in the article—an alienation effect can also arise. The gatekeeper might become more interested in covering up the illegal behavior. This article studies the problem with respect to tax evasion by firms in a principal-agent framework. It highlights the role of legal rules pertaining to liability for tax evasion in shaping the choices of the parties, as concealment costs vary according to whether the risk-neutral principal or the riskaverse agent is held responsible when tax evasion is detected. The main result of the analysis is that there is a simple ex post test that can be carried out to infer whether harnessing the agent was socially beneficial. Copyright Springer-Verlag Wien 2013

Mixed markets in bilateral monopoly

- Journal of Economics---2013---Arup Bose,Barnali Gupta

Should we expect to see patterns in the privatization of a public bilateral monopoly? To address this question, the paper analyzes the welfare implications of privatization and examines the interplay of firm location in the vertical stream, differential priorities on private and public profit in welfare and cost asymmetries in a mixed bilateral monopoly. We conclude that merely comparing cost savings from privatization upstream/downstream, is inadequate. If public profit is relatively insignificant in welfare, then only relative cost savings matter. However, if public profit is sufficiently important, then privatization downstream will maximize welfare if it is as (or more) cost effective compared to privatization upstream. We find that downstream privatization can be better than upstream privatization even when the latter is more cost effective than the former. Copyright Springer-Verlag Wien 2013

Optimal degree of privatization and the environmental problem

- Journal of Economics---2013---Kazuhiko Kato

We determine the optimal degree of privatization in a mixed duopoly when the environmental problem exists. With regard to the ownership of the private firms, we analyze two cases: (h) the private firm is owned by domestic private investors and (f) it is owned by foreign private investors. A comparison of the two cases presents the following results. Partial privatization is always desirable in (h), and the optimal degree of privatization is independent of the degree of environmental damage. However, in (f), whether partial privatization is desirable or not depends on the degree of environmental damage: there are cases where full privatization or full nationalization is optimal. Copyright Springer-Verlag Wien 2013

One-sided private provision of public goods with implicit Lindahl pricing

- Journal of Economics---2013---Volker Meier

We consider a sequential game in which one player produces a public good and the other player can influence this decision by making an unconditional transfer. An efficient allocation requires the Lindahl property: the sum of the two (implicit) individual prices has to be equal to the resource cost of the public good. Under mild conditions this requires a personal price for the providing player that lies below half of the resource cost. These results can, for example, justify high marginal taxes on wages of secondary earners. Copyright Springer-Verlag 2013

On the rationalizability of observed consumers' choices when preferences depend on budget sets: comment

- Journal of Economics---2013---Robert Frank,Matthew Nagler

In a recent article, Bilancini (J Econ 102:275–286, 2011) demonstrates that assuming either price-dependent preferences or preferences that depend on the choices of other individuals can render the theory of revealed preference effectively unusable. Some readers might be tempted to infer that economists had better avoid such assumptions. In this note, we argue against that conclusion in favor of a less categorical and more pragmatic approach. In several domains, we identify fundamental weaknesses in revealed preference theory and argue that in those domains, nontraditional assumptions about preferences significantly enhance our ability to explain and predict behavior. Copyright Springer-Verlag Wien 2013

Seidl, C., Pogorelskiy, K. and Traub, S.: Tax progression in OECD Countries. An integrative analysis of tax schedules and income distributions

- Journal of Economics---2013---Michele Bernasconi

2013

Editorial: The economics of irreversible choices

- Journal of Economics---2013---Giacomo Corneo,Sergio Vergalli

2013

Irreversible exit decisions under mean-reverting uncertainty

- Journal of Economics---2013---Andrianos Tsekrekos

Although many economic variables of interest exhibit a tendency to revert to long-run levels, mean reverting processes are rarely used in investment and disinvestment models in the literature. Previous work by Sarkar (J Econ Dyn Control 28(2):377–396, 2003), that focuses on irreversible entry decisions, showed that mean reversion has three effects on investment: (a) the “variance effect” (mean reversion reduces the long-run uncertainty and thus brings closer the critical investment level), (b) the “realized price effect” (the lower variance resulting from mean reversion makes it less likely to reach extreme high or low price levels, thereby reducing the likelihood of reaching the investment trigger) and (c) the “risk discounting effect” (mean reversion lowers the required rate of return, which affects both the project value and the value of the real option to invest). Metcalf and Hassett (J Econ Dyn Control 19(8):1471–1488, 1995) and Sarkar (J Econ Dyn Control 28(2):377–396, 2003) showed that (a) and (b) work in opposite directions, essentially canceling each other out, however the effect of (c) depends on parameter values, making the overall effect (a–c) of mean reversion on entry decisions ambiguous and parameter-dependent. In this paper, we show that as far as irreversible exit decisions are concerned, the effect of mean reversion is negative: Mean reversion unambiguously lowers the rate of irreversible disinvestment/exit for reasonable parameter values, since the mean reversion in this case only affects the value of the real option to exit and not the value resulting from (real) option exercise. Copyright Springer-Verlag Wien 2013

Time overruns as opportunistic behavior in public procurement

- Journal of Economics---2013---Chiara D’Alpaos,Michele Moretto,Paola Valbonesi,Sergio Vergalli

We consider the supplier’s strategic choice on delivery time in a public procurement setting as the result of the firm’s opportunistic behavior on the optimal investment timing when production costs are uncertain. We model the supplier’s trade-off between the option value to defer the contract execution and the penalty payment in the event of delays. We also take into account the issue of penalty enforcement, which in turn depends on both the discretion of the court of law in voiding contractual clauses and the “efficiency” of the judicial system (i.e. the average length of civil trials). We test our main results on Italian public procurement data showing that the supplier’s incentive to delay is greater the higher the volatility of production costs and the lower the “efficiency” of the judicial system. We then calibrate the model using parameters that mimic the Italian scenario on public works procurement and calculate the maximum amount that a supplier is “willing to pay” (per day) to postpone the delivery date and infringe the contract provisions. Our calibration results are consistent with the theoretical model’s predictions and the empirical findings. Copyright Springer-Verlag Wien 2013

Land conversion pace under uncertainty and irreversibility: too fast or too slow?

- Journal of Economics---2013---Luca Di Corato,Michele Moretto,Sergio Vergalli

In this paper stochastic dynamic programming is used to investigate land conversion decisions taken by a multitude of landholders under uncertainty about the value of environmental services and irreversible development. We study land conversion under competition on the market for agricultural products when voluntary and mandatory measures are combined by the Government to induce habitat conservation. We show that land conversion can be delayed by paying landholders for the provision of environmental services and by limiting the individual extent of developable land. It is found, instead, that the presence of ceilings on aggregate conversion may lead to runs which rapidly exhaust the targeted amount of land. We study the impact of uncertainty on the optimal conversion policy and discuss conversion dynamics under different policy scenarios on the basis of the relative long-run expected rate of deforestation. Interestingly, we show that uncertainty, even if it induces conversion postponement in the short-run, increases the average rate of deforestation and reduces expected time for total conversion in the long run. Finally, we illustrate our findings through some numerical simulations. Copyright Springer-Verlag Wien 2013

On the commutativity of expansion and substitution effects

- Journal of Economics---2013---Andrea Mantovi

The reversibility of sequential economic choices concerning production and consumption is addressed. A geometric approach to substitution effects and output/income effects is set forth in terms of vector fields on bundle space. By means of suitable fixing relations the 0-homogeneity of such problems can be circumvented, so as to define global parametrizations of effects, for which Lie brackets measure the departure from commutativity. A couple of propositions are established, assessing the benchmark relevance of homothetic models. Application to Farrell decompositions, as tailored by Bogetoft et al. (Eur J Oper Res 168:450–462, 2006), results in complete agreement with the results found by such Authors. The theoretical relevance of the approach is thoroughly discussed. Copyright Springer-Verlag Wien 2013

Bargaining over productivity and wages when technical change is induced: implications for growth, distribution, and employment

- Journal of Economics---2013---Daniele Tavani

I study a model of growth and income distribution in which workers and firms bargain à la Nash (Econometrica 18(2):155–162, 1950) over wages and productivity gains, taking into account the trade-offs faced by firms in choosing factor-augmenting technologies. The aggregate environment resulting from self-interested, objective function-maximizing decision rules on wages, productivity gains, savings and investment, is described by a two-dimensional dynamical system in the employment rate and output/capital ratio. The economy converges cyclically to a long-run equilibrium involving a Harrod-neutral profile of technical change, a constant rate of employment of labor, and constant input shares. The type of oscillations predicted by the model is qualitatively consistent with the available data on the United States (1963–2003), replicates the dynamics found in earlier models of growth cycles such as Goodwin (A growth cycle, in C.H. Feinstein (ed). Socialism, Capitalism and Economic Growth. Cambridge University Press, Cambridge 1967. Cambridge University Press, Cambridge, 1967); Shah and Desai (Econ J 91:1006–1010, 1981); van der Ploeg (J Macroecon 9:1–12, 1987); Flaschel (J Econ: Zeitschrift für Nationalökonomie 44:63–69, 1984) and Sportelli (J Econ: Zeitschrift für Nationalökonomie 61(1):35–64, 1995), and can be verified numerically in simulations. Institutional change, as captured by variations in workers' bargaining power, has a positive effect on the long-run rate of growth of output per worker but a negative effect on long-run employment. Economic policy can also affect the growth and distribution pattern through changes in the unemployment compensation, which also have a positive long-run impact on labor productivity growth but a negative long-run impact on employment. In both cases, employment can overshoot its new equilibrium value along the transitional dynamics. Copyright Springer-Verlag 2013

Can consumption habit spillovers be a source of equilibrium indeterminacy?

- Journal of Economics---2013---Been-Lon Chen,Yu-Shan Hsu,Kazuo Mino

This paper investigates whether the external consumption habit can be a source of indeterminacy in a one-sector growth model when the labor supply is elastic. When there is a proper habit effect with a positive intertemporal elasticity of substitution, we find that the model exhibits indeterminacy if the coefficient of the habit formation is sufficiently large that allows for a substantial impact of current consumption on the habit. Indeterminacy arises even though the elasticity of the Frisch labor supply is positive and the elasticity of the labor demand in negative. In a calibrated version, we find that indeterminacy is empirically plausible when the habit effect is negative that features the "catching up with the Joneses" effect. Under given "catching up with the Joneses" effects, the external consumption habit can be a source of indeterminacy even if more than a half of the external consumption habit comes from past average consumption. Copyright Springer-Verlag 2013

Federalism, education-related public good and growth when agents are heterogeneous

- Journal of Economics---2013---Floriana Cerniglia,Riccarda Longaretti

In this paper we use an endogenous-growth model with human capital and heterogeneous agents to analyse the relationship between fiscal federalism and economic growth. The results show that federalism, which allows education-related public good levels to be tailored to the local distribution of human capital, increases human capital accumulation. This in turn leads to higher rates of growth. The benefits of federalism are stronger, the larger the intra-jurisdiction variance of agents' human capital. Copyright Springer-Verlag 2013

The welfare impact of a managerial oligopoly with an altruistic firm

- Journal of Economics---2013---Johan Willner

I analyse the welfare impact of a mixed market with a private or public firm that is characterised by wider objectives or altruism, in the presence of an agency problem. Contrary to some earlier findings, the total surplus turns out to be increasing in the degree of altruism. This impact is stronger than without an agency problem, despite more stringent conditions for the market to remain mixed. The altruistic firm is more cost efficient, and viable if the market can remain mixed. A competition policy that encourages entry may increase welfare, but its scope is reduced by higher altruism. Copyright Springer-Verlag 2013

On inferior inputs and marginal returns

- Journal of Economics---2013---Paolo Bertoletti,Giorgio Rampa

An input is inferior if and only if an increase in its price raises all marginal productivities. A sufficient condition for input inferiority under quasi-concavity of the production function is then that there are increasing marginal returns with respect to the other input and a non-positive marginal productivity cross derivative. Thus, contrary to widespread opinion, input "competitiveness" is not needed. We discuss these facts and illustrate them by introducing a class of simple production function functional forms. Our results suggest that the existence of inferior inputs is naturally associated with increasing returns, and possibly strengthen the case for inferiority considerably. Copyright Springer-Verlag 2013

Price competition between subsidized organizations

- Journal of Economics---2013---Jan Bouckaert,Bruno De Borger

Many firms and organizations compete for customers while at the same time receiving substantial funding from outside sources, such as government subsidies. In this paper, we study the effects of two commonly observed subsidy systems on the strategic behavior of competing firms. We compare a per unit subsidy to a subsidy allocated according to the firms' market shares. We show that, holding the total subsidy budget constant, the per unit subsidy results in lower prices, higher output, lower profits and higher overall welfare as compared to the market-share based alternative. However, we also find that a market-share based subsidy makes collusive behavior between firms much harder. Our results suggest a potential trade-off between short-run and long-run objectives: subsidy systems designed to widen participation may favor collusive behavior. The welfare implications of this trade-off are discussed. Our findings have important policy implications for the design of subsidy systems. Copyright Springer-Verlag Wien 2013

Piersanti, Giovanni: The macroeconomic theory of exchange rate crises

- Journal of Economics---2013---Philipp Harms

2013

Price competition and innovation in markets with brand loyalty

- Journal of Economics---2013---Robert Schmidt

Intuition suggests that in markets with consumer lock-in ('brand loyalty'), firms with a large customer base earn higher profits. We show for a homogeneous goods duopoly that the intuition can be misleading, as the intensity of price competition depends on the initial market split. We derive mixed-strategy equilibria, and show that competition is often most intense when the market is split evenly. As a result, firms coordinate on an asymmetric split when consumers are not yet attached to firms. We also allow for asymmetric costs, and analyze when firms with a larger customer base are more eager to innovate. Copyright Springer-Verlag 2013

Two-part tariffs set by a risk-averse monopolist

- Journal of Economics---2013---Xiangkang Yin

This paper revisits the classical issues of two-part tariffs by considering risk aversion of a monopolistic seller. Under demand uncertainty, equilibrium unit price declines and approaches towards marginal cost as the seller becomes more risk averse. Marginal-cost pricing prevails, irrespective of the seller's risk attitude, if clients are homogenous. Under cost uncertainty, unit price is higher than marginal cost and monotonically increases in risk aversion. The model is then extended to accommodate buyers' risk aversion and it is found that demand uncertainty makes unit price decline in the seller's risk aversion again but increase in buyers' risk aversion. Copyright Springer-Verlag 2013

Hotelling's webshop

- Journal of Economics---2013---Mark Lijesen

We extend Hotelling's model of spatial competition by adding an outside good, provided by a webshop. Unlike the commonly used reservation price, the price of the webshop is endogenous. We establish that a Nash equilibrium exists if the outside good is not too different from the goods sold by the bricks-and-mortar shops. Equilibrium prices positively depend on transport costs, which would not be the case for an exogenous reservation price. If the webshop serves an alternative market as well, the price of that market is partly imported into the local market. The bricks-and-mortar shops compete only with the the webshop. The lower the webshop's delivery costs are relative to the transport cost parameter, the wider the feasible range for locations of the bricks-and-mortar shops. Copyright Springer-Verlag 2013

Goodhart, Charles A.E. and Tsomocos, Dimitros P.: The challenge of financial stability: a new model and its applications

- Journal of Economics---2013---Jean-Bernard Chatelain

2013

Non-neutral information costs with match-value uncertainty

- Journal of Economics---2013---Agostino Manduchi

This paper investigates a model featuring a monopolist seller and a buyer with an uncertain valuation for the seller's product. The seller chooses an information system which allows the buyer to receive a private signal, potentially correlated with her valuation. No restrictions are imposed on the conditional distributions of the signal; the cost of the information system is proportional to its precision, measured by the mutual information between the distributions of the buyer's valuation and the signal. In equilibrium, the information system trades off the information cost against the losses deriving from a probability of trade that is either "too high," or "too low"—depending on the relative weight of the expected losses resulting from errors of the two types—and sends "non-neutral" signals, typically. Thus, in general, the probability of a correct signal depends on the buyer's actual valuation, and the probability of trade differs from the probability of a valuation exceeding the cost of production. The expected total surplus generated by the exchange is maximized, in equilibrium. Copyright Springer-Verlag 2013

Assortative matching of risk-averse agents with endogenous risk

- Journal of Economics---2013---Sanxi Li,Hailin Sun,Pu Chen

A standard risk-sharing matching game predicts negative assortative matching over agents' risk attitudes. In regards to risk sharing, less risk-averse agents prefer highly risk-averse partners, who pay a high risk premium. Negative sorting is, however, inconsistent with empirical and experimental literature. To resolve this conflict, we propose a model where agents can control the risks to their incomes. In regards to risk management, agents prefer similar partners because of their aligned objectives in risk management. When it is easy to control risks or all agents are sufficiently risk-averse, the risk-management effect dominates, leading to positive sorting. Copyright Springer-Verlag Wien 2013

Labor supply with stochastic wage rate and non-labor income uncertainty

- Journal of Economics---2013---Jianli Wang,Pu Gong

This paper deals with the labor supply problem in the contemporaneous presence of wage rate and non-labor income uncertainties. We examine the effect of a stochastic wage rate(a non-labor income uncertainty) on labor supply in the presence of a non-labor income uncertainty(a stochastic wage rate) and provide some conditions of utility function for assuring larger labor supply. We study the joint effect of two types of uncertainty on labor supply when two risks are either small or positive quadrant dependent. Our work extends the previous model of labor supply to two-risk framework and shows some new explorations on the classical issue of labor supply under uncertainty. Copyright Springer-Verlag 2013

Saving and retirement behavior under quasi-hyperbolic discounting

- Journal of Economics---2013---Lin Zhang

This paper investigates saving and retirement behavior using a quasi-hyperbolic discounting model with endogenous labor supply. The behavior of quasi-hyperbolic-discounting consumers is compared with optimal behavior, which is obtained under exponential discounting. The quasi-hyperbolic discounters, whether naïve or sophisticated, under-save and retire early compared with an exponential discounter, if and only if the present-biased marginal utility of future consumption decreases with stronger present bias. Logarithmic utility functions and constant-absolute-risk-aversion utility functions can both exhibit this property. In other words, quasi-hyperbolic discounting explains why, consistent with previous empirical studies, under-savers might also be early retirers. Under logarithmic utility, a wage tax and an interest subsidy can counteract the under-saving and early retirement and improve consumer welfare. Copyright Springer-Verlag 2013

Sweet self-deception

- Journal of Economics---2013---Dag Sommervoll

People have a tendency to procrastinate when faced with aversive tasks—but they also procrastinate in relation to beneficial matters whose rewards are instantaneous. If agents value present anticipations of future consumption, revision of consumption plans may be viewed as a benign form of self-deception. We consider a minimal generalization of the Samuelson discounted utility model to allow for utility linked to next period consumption. Agents are assumed to vary with respect to their sophistication. In this context, commitment and self-control are obstacles to the pursuit of increased utility. We also examine different environments that are likely to facilitate repeated revisions. Copyright Springer-Verlag Wien 2013

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Bundling strategy and product differentiation

- Journal of Economics---2013---Hui-Ling Chung,Yan-Shu Lin,Jin-Li Hu

The existing literature shows that a decrease in the degree of substitutability increases a monopoly's incentive to bundle. This paper in addition takes into account competition in the second product market and then re-examines how intra-brand and inter-brand product differentiations affect the incentive to bundle. In order to formally examine the above conjectures, this research builds up a two-firm, two-product model in which product 1 (monopoly product) is produced only by the bundling firm and product 2 (competing product) is produced by both firms. The analysis shows that under both Bertrand and Cournot competitions the incentive to bundle does not necessarily increase with the degree of intra-brand differentiation, while it strictly decreases with the degree of inter-brand differentiation. Moreover, under Bertrand competition bundling always decreases consumer surplus, but may increase the competitor's profit and social surplus. Under Cournot competition bundling always reduces the opponent's profit and social welfare, but may increase consumer surplus. Copyright Springer-Verlag 2013

Technology licensing under optimal tax policy

- Journal of Economics---2013---Arijit Mukherjee,Yingyi Tsai

This paper examines the role of government policy in technology licensing decision. We show that both the outside and the inside innovators license a new product (or drastic process innovation) to all potential licensees in the presence of tax/subsidy policies. An implication of our analysis is that a monopolist producer may prefer technology licensing in a homogeneous goods industry. Our results also provide a rationale for franchising to multiple sellers. Copyright Springer-Verlag 2013

Informative advertising by an environmental group

- Journal of Economics---2013---Pim Heijnen

Consuming a product does not (necessarily) reveal the environmental damage it may cause. In terms of environmental damage, most goods are credence goods. Therefore, advertising and pricing rarely can transmit such information effectively to consumers. This article considers the scope with which an environmental group (EG) can signal this information to consumers via advertising and campaigning. Although an EG can inform the public, the welfare effects are ambiguous. Therefore, the EG may not have an incentive to acquire information about the firm's production practices. However, when the firm chooses the level of environmental damage and the EG chooses whether to acquire information, there exists a mixed-strategy equilibrium for some parameter values, such that the EG acquires information, and the threat of advertising causes the firm to produce an environmentally friendly good. Copyright The Author(s) 2013

Endogenous timing in a mixed oligopoly under demand uncertainty

- Journal of Economics---2013---Jianhu Zhang,Changying Li

This paper analyzes a Hotelling-type game in a mixed oligopoly, where firms can either enter the market in period 1, facing demand uncertainty, or postpone their entry, in order to acquire complete information. It is shown that, for a high (low) level of uncertainty, there is a pure (mixed)-strategy equilibrium. Moreover, the standard result in the literature—that uncertainty is a differentiation force, is only possible when the degree of uncertainty is small. An increase in the degree of uncertainty could force firms to delay their entry and lead to a socially optimal outcome. Copyright Springer-Verlag 2013

A note on merger in mixed duopoly: Bertrand versus Cournot

- Journal of Economics---2013---Kai Andree

In this note we analyze the incentives to merge in a mixed duopoly if firms compete in prices or quantities. Our model framework mainly follows Barcena-Ruiz and Garzon (J Econ 80:27–42, 2003) who set up the model with quantity competition. We extend their analysis by analyzing the case of competition in prices. Further we compare the incentives to merge with Bertrand and Cournot competition. Comparing quantity with price competition we can show that a merger is more likely with Cournot competition than with Bertrand competition. Copyright Springer-Verlag 2013

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Optimal taxation in the Uzawa–Lucas model with externality in human capital

- Journal of Economics---2013---Arantza Gorostiaga,Jana Hromcová,Miguel-Angel Lopez-Garcia

In this paper we study the optimal policy in the Uzawa–Lucas model with externality in human capital when agents value both consumption and leisure. We find that the government pursuing the first best can achieve its goal by a subsidy which depends on foregone earnings while studying and which is financed through a lump sum tax. Anyway, the optimal policy, that should be designed to provide incentives for agents to devote more time to schooling and cut both on leisure and working, is not unique. There exists an infinite number of combinations of consumption, capital income, labor income and lump sum taxes that can decentralize the first best. Copyright Springer-Verlag 2013

On a closed-form solution to the stochastic Lucas–Uzawa model

- Journal of Economics---2013---Ryoji Hiraguchi

Bucci et al. (J Econ 103:83–99, 2011) argue that under two parametric restrictions, there exists a closed-form solution path to the two-sector endogenous growth model of Lucas–Uzawa. However, they assume that the value function is a function of both the current and the initial values of the state variables. As Wälde (J Econ Dyn Control 35:616–622, 2011a) argues, the value function should depend only on the current state variables when the technology follows a geometric Brownian motion. I follow Wälde (J Econ Dyn Control 35:616–622, 2011a) and obtain, under some inequality constraints, a different value function. Copyright Springer-Verlag 2013

Cyclical growth in a Goodwin–Kalecki–Marx model

- Journal of Economics---2013---Hiroaki Sasaki

This paper presents a disequilibrium macrodynamic model that incorporates certain elements from Goodwin (the dynamics of the rate of employment and income distribution), Kalecki (an investment function independent of savings, and mark-up pricing in oligopolistic goods markets), and Marx (the reserve-army and reserve-army-creation effects). The model has a system of differential equations for the rate of utilization, profit share, and rate of employment. We show that there exist limit cycles that depend on the sizes of the reserve-army effect and reserve-army-creation effect. This implies that there exists a situation in which the economy experiences endogenous and perpetual growth cycles. Moreover, we show that if the stable long-run equilibrium corresponds to the profit-led growth regime, an increase in the bargaining power of workers increases the rate of unemployment; conversely, if the equilibrium corresponds to the wage-led growth-regime, an increase in the bargaining power of workers decreases the rate of unemployment. Copyright Springer-Verlag 2013

What circumstances lead a government to promote brain drain?

- Journal of Economics---2013---Jose Romero

This paper aims to complement the existing theoretical brain drain literature, focusing on the interaction between education, skilled emigration and government intervention in a small open economy. This article first characterises different emigration patterns that may arise in equilibrium, then seeks the conditions that lead a government to promote brain-drain. The model shows that the government may promote skilled emigration among workers with intermediate skills even though the resulting brain drain decreases per capita income. Emigrants remittances outweigh the income they would produce if they did not emigrate. Therefore, the government makes less severe the fall in per capita income that follows the brain drain by encouraging emigration among those skilled workers who are more productive abroad. Copyright Springer-Verlag 2013

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Animal spirits and the composition of innovation in a lab-equipment R&D model with transition

- Journal of Economics---2013---Pedro Gil

We study the effect of animal spirits on the composition of aggregate R&D, the consumption level and economic growth in a tournament model of horizontal and vertical R&D. By considering a full lab-equipment specification, the model predicts a positive effect of animal spirits on the balanced-growth-path (BGP) level of per-capita consumption without impacting on economic growth and on aggregate vertical R&D. However, transition is slower under "waves of enthusiasm", implying a longer period in which growth rates are higher than the BGP level. An economy that is subject to expectations shocks then converges at a time-varying speed. On average over time, transition is longer but less "painful"—i.e., with higher per-capita consumption levels—than otherwise. Copyright Springer-Verlag 2013

Dynamical analysis of the R&D-based growth model with a regime switch

- Journal of Economics---2013---Shiro Kuwahara

Several empirical studies suggest that advanced economies experience a growth regime switch from factor accumulation to knowledge accumulation. To investigate the mechanism of such a regime switch, this study develops a concise and flexible dynamic model based on Romer (J Polit Econ 98:S71–S102, 1990) by introducing two types of endogenously supplied R&D input capital. The model replicates the growth patterns of developed and underdeveloped nations, clarifies the important role that capital plays in the difference between them, and presents several implications for interest-rate subsidies and official development assistance. Further, it shows that if a country enjoying long-run growth has little initial capital, its initial economic development will be based on capital accumulation. When the capital stock becomes sufficient for supporting R&D, the economy will achieve long-run growth through R&D. Copyright Springer-Verlag Wien 2013

Regional integration and innovation offshoring with occupational choice and endogenous growth

- Journal of Economics---2013---Colin Davis

We study the effects of regional integration on patterns of production and offshoring in a two-region model of occupational choice and endogenous growth. The distribution of asset wealth and allocation of heterogenous workers into innovation and production determines relative market size. When trade costs and knowledge dispersion are high (low), the asset wealthy (poor) region has a larger market and greater shares of innovation and manufacturing. For low to intermediate levels of trade costs, innovation and manufacturing offshoring flows toward the larger region, but when trade costs and knowledge dispersion are high, offshoring flows from the larger asset wealthy region to the smaller asset poor region. Economic growth is unaffected by the shifts in innovation and production that coincide with changes in relative market size. Copyright Springer-Verlag Wien 2013

Wealth inequality, entrepreneurship and industrialization

- Journal of Economics---2013---Sahana Roy Chowdhury

The paper shows that in a two-good economy with a basic and a luxury good sector inequality is indeed a hindrance to provide sufficient incentive for entrepreneurship to low-wealth economic agents. In contrast to the literature it uses both demand and supply-side explanations for the analysis. An entrepreneurial subsidy policy to encourage entrepreneurship in autarky financed by a lump sum tax on the rich is not very effective in unequal economies since it hardly impacts the welfare. When trade is opened up in the luxury good sector of such an economy the sector might cease to exist. In such a scenario, the rich people being the sole consumers would reap the entire benefits of globalization via low price of the imported luxury good. The paper highlights that the crucial question is: ‘how to globalize’ rather than ‘whether to globalize’ and suggests policy measures to make globalization inclusive. Copyright Springer-Verlag 2013

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On the possibility of welfare-enhancing hard core cartels

- Journal of Economics---2012---Iwan Bos,Erik Pot

The conventional wisdom is that cartels which merely lead to lower production levels and higher prices are detrimental to social welfare. This paper explores the extent to which this is generally valid. We derive necessary and sufficient conditions for the existence of a hard core cartel that is beneficial for firms and society at large. Considering both strong (with side payments) and weak (without side payments) hard core cartel contracts, we find that (i) both strong and weak welfare-enhancing cartels exist when at least one firm makes a loss on part of its sales in competition, (ii) a welfare-enhancing strong cartel exists whenever there is a difference in unit cost at competitive production levels, and (iii) a welfare-enhancing weak cartel exists when the profit margin on all sales is positive and the cost difference is sufficiently large. Copyright The Author(s) 2012

On hierarchical competition in oligopoly

- Journal of Economics---2012---Ludovic Julien,Olivier Musy,Aurélien Saïdi

In this paper, we consider a hierarchical oligopoly model, in which firms compete on quantities of an homogeneous product. We provide a proof and an interpretation that under the three necessary and sufficient conditions of linear aggregate demand, constant and identical marginal costs, the strategy of leaders at any stage depends neither on the number of leaders who play after nor on the number of remaining stages. So, all firms behave as Cournotian oligopolists on the residual demand. We show that these three assumptions are not only sufficient but also necessary. Any departure from any of these assumptions rules out this property. Copyright Springer-Verlag 2012

Leaders and competitors

- Journal of Economics---2012---Susumu Cato,Ryoko Oki

The purpose of this article is to investigate the properties of equilibrium in a market with a leader. In particular, we examine how the equilibrium values depend on existing competitors. When the number of competitors is exogenously given, most equilibrium values, including the leader’ s strategies, depend on the structure of the competitors: the number of incumbent competitors, their technologies, and their objective functions. In contrast, when an entry is endogenous, the equilibrium values, including not only the leader’ s strategies but the entrants’ as well, are independent of such properties of the incumbent competitors. We provide several applications of our main result in industrial organization issues. Copyright Springer-Verlag 2012

Product differentiation and competitive pressure

- Journal of Economics---2012---Bernd Theilen

This paper compares the commonly used linear demand model introduced by Bowley (The mathematical groundwork of economics, Oxford University Press, Oxford, 1924) with the specification of Shapley and Shubik (Kyklos 22:30–44, 1969). The latter has the advantage that aggregate demand does not depend on a parameter that measures the degree of product differentiation. This allows to interpret variations in the degree of product differentiation as changes in competitive pressure because these changes can influence aggregate demand only through changes in equilibrium prices and quantities. The consequences of the alternative specifications are made explicit with two applications. In both cases the different specifications yield substantial changes in important results in industrial economics. Copyright Springer-Verlag 2012

Profitable parallel trade in unionized markets

- Journal of Economics---2012---Arijit Mukherjee,Laixun Zhao

Why do producers often accept parallel trade in some markets such as automobiles, clothing, toys and consumer electronics? This paper points to a new factor, viz., the wage reducing effect of parallel trade in unionized markets, which may make parallel trading beneficial to a manufacturer. The benefit of parallel trade disappears in our analysis when such factor is removed. Copyright Springer-Verlag 2012

A note on mergers and relocation

- Journal of Economics---2012---Alexander Rasch

Posada and Straume (J Econ 83:243–265, 2004) analyze a three-firm model of a circular city where two of the firms merge and may choose to relocate. They propose an equilibrium with relocation where taking part in the merger yields higher profits than staying outside, i.e., relocation may solve the so-called merger paradox. In this note, it is shown that the equilibrium candidate considered is not an equilibrium. Copyright Springer-Verlag 2012

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Simplifying numerical analyses of Hamilton–Jacobi–Bellman equations

- Journal of Economics---2012---Dirk Bethmann,Markus Reiß

We introduce a simple method for computing value functions. The method is demonstrated by solving for transitional dynamics in the Uzawa and Lucas endogenous growth model. We use the value function approach to solve both the social planner’ s optimization problem in the centralized economy and the representative agent’ s optimization problem in the decentralized economy. The complexity of the Hamilton–Jacobi–Bellman equations is significantly reduced to an initial value problem for one ordinary differential equation. This approach allows us to find the optimal controls for the non-concave Hamiltonian in the centralized case and to identify the symmetric equilibrium in the decentralized case. Copyright Springer-Verlag 2012

Rational expectations and monopolistic trades

- Journal of Economics---2012---Patrick Leoni

We argue that the use of rational expectations in monopolistic markets, as typically done, is overly restrictive because the rationale of this approach is not met in those markets. In a model that encompasses a general equilibrium framework, we consider a monopolist (a producer) with subjective beliefs that endogenously hedges against fluctuations in input prices in a complete market. We introduce a notion of entropy of beliefs, and we characterize long-run optimal rational investments with this entropy. For irrational beliefs, we show that long-run profits are a decreasing function of this entropy. However, long-run profits always remain positive as long as the entropy remains finite despite the Market Selection Hypothesis that would predict long-run 0-profit. Copyright Springer-Verlag 2012

International linkage of inflation rates in a dynamic general equilibrium

- Journal of Economics---2012---Atsumasa Kondo,Koji Kitaura

This paper uses the Neumeyer–Yano’s monetary dynamic general equilibrium model to investigate the inter-connectivity of the world economy through bond holding beyond national borders. The possibility that unexpected inflation in one country transmits to another is demonstrated within a framework in which the nominal exchange rate is flexibly determined so that the purchasing power parity holds. Deflation can also be imported through the same channel. Whether inflation or deflation diffuses internationally depends on the level of fiscal deficit. Although a country may suffer from monetary disturbances from abroad, each country can completely defend itself by implementing appropriate fiscal policies. Copyright Springer-Verlag 2012

Why is mobile capital taxed?

- Journal of Economics---2012---Kangoh Lee

The government for a jurisdiction has both capital and labor taxes at its disposal. It taxes mobile capital to finance the public good despite the desire to attract capital and despite the tax on immobile labor if capital incomes are distributed more unequally than labor incomes among the residents of the jurisdiction. The result extends to progressive taxes and to pure redistribution. Copyright Springer-Verlag 2012

Product market competition, open shop union and wage

- Journal of Economics---2012---Arijit Mukherjee

We show that if the product market is not very much concentrated, open shop union, where the union density is less than one, may not be a justification for a positive relationship between product market competition and unionized wage, irrespective of the union density, bargaining power of the union and the union’s preference for wage and employment. Copyright Springer-Verlag 2012

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Counterfeiting, enforcement and social welfare

- Journal of Economics---2012---Ming-Fang Tsai,Jiunn-Rong Chiou

This paper uses a vertical product differentiation model to discuss the influences caused by counterfeiting on prices and outputs of original products, consumer surplus and social welfare. We also explore the impact of the government' s enforcement on counterfeiting and social welfare. We find that as counterfeiting may occur, sales of the original product could either increase or decrease. The welfare effects of government enforcement are shown as follows. First, a strict enforcement on counterfeiting by government may either increase or decrease welfare. Second, when counterfeiting emerges, welfare under a stricter enforcement is not necessarily larger than that without enforcement. Last, a strict enough enforcement can still improve welfare even if there is a relatively high enforcement cost. Copyright Springer-Verlag 2012

Price and quality competition

- Journal of Economics---2012---Ioana Chioveanu

This study considers an oligopoly model with simultaneous price and quality choice. Ex-ante homogeneous sellers compete by offering products at one of two quality levels. The consumers have heterogeneous tastes for quality: for some consumers it is efficient to buy a high quality product, while for others it is efficient to buy a low quality product. In the symmetric equilibrium firms use mixed strategies that randomize both price and quality, and obtain strictly positive profits. This framework highlights trade-offs which determine the impact of consumer protection policy in the form of quality standards. Copyright Springer-Verlag 2012

Mixed duopoly, cross-ownership and partial privatization

- Journal of Economics---2012---Ritika Jain,Rupayan Pal

This paper investigates the effects of cross-ownership on optimal privatization, and vice-versa, in mixed duopoly. It shows that cross-ownership is profitable to the private firm only if the level of privatization of the public firm is sufficiently high. In equilibrium, cross-ownership does not take place even if there is partial privatization. However, the possibility of cross-ownership significantly limits the socially optimal level of privatization in most of the situations. Moreover, it demonstrates that full nationalization is socially optimal, in case of sufficiently convex identical cost functions and homogeneous goods. These results have strong implications to both divestment and competition policies. Copyright Springer-Verlag 2012

Presence of foreign investors in privatized firms and privatization policy

- Journal of Economics---2012---Ming Hsin Lin,Toshihiro Matsumura

This paper investigates how the presence of foreign investors in privatized firms affects privatization policy in a mixed oligopoly. We find that an increase in the stockholding ratio of foreign investors in a privatized firm increases the optimal degree of privatization, whereas an increase in the penetration of foreign firms in product markets reduces it. These results imply that the degree of openness of financial markets and that of product markets have contrasting implications for the optimal privatization policy. Copyright Springer-Verlag 2012

Incomplete contract, bargaining and optimal divisional structure

- Journal of Economics---2012---Te Bao,Yongqin Wang

When complete contracting is not possible, allocating control structure becomes the second-best arrangement. This paper analyzes the design of optimal divisional structure within an organization where ex post bargaining between the potential divisional managers is possible. In much the same light as Aghion and Tirole (J Political Econ 105(1):1–29, 1997), we study the control problem in the context of search for projects.

Our model shows that when the managers cannot bargain with one another, internal integration is preferred to internal separation. Where bargaining is possible, formal divisional structure defines both the ex post bargaining position of the two managers and their incentive to search ex ante. When the managers tend to arrive at a more favorable project to the principal via bargaining, the general leader of a firm may want to choose separation instead to increase the probability of bargaining, as the symmetrical incentive requires both managers to search and get informed. Copyright The Author(s) 2012

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