

---

# Literature Report

张晨峰, 华东理工大学商学院

---

## Abstract

### **A Long Way Coming: Designing Centralized Markets with Privately Informed Buyers and Sellers**

- Journal of Economic Literature---2015---Simon Loertscher, Leslie M. Marx, Tom Wilkenning

We discuss the economics literature relevant to the design of centralized two-sided market mechanisms for environments in which both buyers and sellers have private information. The existing literature and the history of spectrum auctions, including the incentive auction currently being designed by the FCC, can be employed to analyze such mechanisms. We compare the revenue-efficiency trade-off in an environment with private information on one side of the market versus the trade-off with private information on both sides of the market; we provide an impossibility theorem for the efficient allocation of goods using a deficit-free mechanism when there is private information on both sides of the market; we discuss practical deficit-free mechanisms for various environments with two-sided private information; and we provide a synthesis to guide market design efforts and related research going forward. (JEL D44, D47, D82, H82)

## Culture and Institutions

- Journal of Economic Literature---2015---Alberto Alesina, Paola Giuliano

A growing body of empirical work measuring different types of cultural traits has shown that culture matters for a variety of economic outcomes. This paper focuses on one specific aspect of the relevance of culture: its relationship to institutions. We review work with a theoretical, empirical, and historical bent to assess the presence of a two-way causal effect between culture and institutions. (JEL D02, D72, I32, J12, Z13)

### **Tiger Parenting and American Inequality: An Essay on Chua and Rubenfeld's The Triple Package: How Three Unlikely Traits Explain the Rise and Fall of Cultural Groups in America**

- Journal of Economic Literature---2015---Shelly Lundberg

The role of culture in the creation and persistence of racial and ethnic inequalities has been the focus of considerable controversy in the social sciences. In *The Triple Package: How Three Unlikely Traits Explain the Rise and Fall of Cultural Groups in America*, a new book intended for a popular audience, "tiger mom" Amy Chua and Jed Rubenfeld argue that relatively successful ethnic, religious, and national origin groups

in the United States possess a common set of culturally determined traits that drive this success: a sense of group superiority, individual insecurity, and good impulse control. The book is an unscholarly romp through fields of ethnic stereotypes and immigrant anxiety that relies on anecdote, rather than data, and that ignores the selectivity of immigrant flows. In their insistence on the need for the whole triple package, however, the authors raise issues relevant to current research on noncognitive skills—that there are important trait-environment interactions in the determinants of economic success, and that the source and impact of aspirations deserves greater attention. (JEL D63, J15, J24, Z12, Z13)

### **Immigration and Globalization: A Review Essay**

- Journal of Economic Literature---2015---George J. Borjas

This essay revisits the argument that the removal of worldwide immigration restrictions would induce a very large increase in world GDP. The recent books *Exodus: How Migration is Changing Our World* by Paul Collier and *The Price of Rights: Regulating International Labor Migration* by Martin Ruhs raise a number of questions about the underlying economic model. The essay shows how these concerns can greatly attenuate the predicted gains. (JEL F22, F66, J11, J18, J61)

### **Stress for Success: A Review of Timothy Geithner's Financial Crisis Memoir**

- Journal of Economic Literature---2015---Gary Gorton

Timothy Geithner's memoir of the financial crisis of 2007-08—*Stress Test: Reflections on Financial Crises*—is an important historical document offering details of how policies were formed and implemented during the crisis, showing the political constraints, and offering lessons for future crises. Walter Bagehot's classic rule for fighting crises—that the central bank should lend against good collateral at a high rate—is passive and incomplete. Geithner argues for the use of overwhelming force to reestablish confidence. Also,

although the Federal Reserve's new crisis lending programs needed to be anonymous so as not to reveal weak banks' identities—"stigma"—the stress tests during the crisis did reveal information that may have been useful in reestablishing confidence. (JEL B31, E44, E63, G01, G21, G28)

### **The Cambridge History of "Capitalism"**

- Journal of Economic Literature---2015---Peter Temin

This review essay of the two-volume *Cambridge History of Capitalism* (2014), edited by Larry Neal and Jeffrey G. Williamson, is divided into three parts. First, I describe three chapters from the second volume that I recommend for all economists to add depth to their understanding of the world economy today. Robert C. Allen analyzes the world distribution of income; Randall Morck and Bernard Yeung discuss the history of business groups; and Peter Lindert surveys private and public programs to help the poor. In each case, they analyze historical backgrounds that illuminate current issues. Second, I criticize the definition of capitalism used in these volumes as too expansive to be useful. I argue that this definition mars the essays in first volume by stimulating a fruitless search for capitalism in the millennium before the Industrial Revolution. Third, I describe the essays in this reference work starting from the most recent and ending with those about antiquity. (JEL N00, P10)

### **Health and the Economy in the United States from 1750 to the Present**

- Journal of Economic Literature---2015---Dora Costa

I discuss the health transition in the United States, bringing new data to bear on health indicators and investigating the changing relationship between health, income, and the environment. I argue that scientific advances played an outsized role and that health improvements were largest among the poor. Health improvements were not a precondition for modern economic growth. The gains to health are largest when

the economy has moved from "brawn" to "brains" because this is when the wage returns to education are high, leading the healthy to obtain more education. More education may improve use of health knowledge, producing a virtuous cycle. (JEL H51, I10, J13, N31, N32)

### **The Beveridge Curve: A Survey**

- Journal of Economic Literature---2015---Michael Elsby,Ryan Michaels,David Ratner

Important progress has been made in economists' understanding of the Beveridge curve, from its measurement to its expression in canonical labor market models. Yet enduring puzzles remain. Chief among these are the empirical role of vacancies in the recruitment process; the amplitude, comovement, and persistence of cyclical unemployment-vacancy dynamics; and the sources of lateral shifts in the Beveridge curve. The synthesis of these themes identifies several priorities for ongoing research, including the role of entry costs into vacancy creation in shaping Beveridge dynamics; the cyclical nature of search intensity, both off and on the job, and its relation to participation and job-to-job transitions; the theory and measurement of mismatch; and the sources of hysteresis in unemployment flows. (JEL E24, J63, J64)

### **Communicating Uncertainty in Official Economic Statistics: An Appraisal Fifty Years after Morgenstern**

- Journal of Economic Literature---2015---Charles Manski

Federal statistical agencies in the United States and analogous agencies elsewhere commonly report official economic statistics as point estimates, without accompanying measures of error. Users of the statistics may incorrectly view them as error free or may incorrectly conjecture error magnitudes. This paper discusses strategies to mitigate misinterpretation of official statistics by communicating uncertainty to the public. Sampling error can be measured using established statistical principles. The challenge is to sat-

isfactorily measure the various forms of nonsampling error. I find it useful to distinguish transitory statistical uncertainty, permanent statistical uncertainty, and conceptual uncertainty. I illustrate how each arises as the Bureau of Economic Analysis periodically revises GDP estimates, the Census Bureau generates household income statistics from surveys with nonresponse, and the Bureau of Labor Statistics seasonally adjusts employment statistics. I anchor my discussion of communication of uncertainty in the contribution of Oskar Morgenstern (1963a), who argued forcefully for agency publication of error estimates for official economic statistics. (JEL B22, C82, E23)

### **A Review of The Age of Sustainable Development by Jeffrey Sachs**

- Journal of Economic Literature---2015---Matthew Kahn

How does economic science inform the study of sustainable development? In his new book, Jeffrey D. Sachs analyzes the challenges of achieving economic growth while protecting the environment and achieving an equitable distribution of resources. This review presents an overview of this ambitious book with special emphasis on the role of the objectives of local and national leaders and their incentives to pursue the sustainability agenda. Given the huge migration to cities now playing out in the developing world, special attention is paid to the role of urbanization as a cause of sustainability opportunities and challenges. (JEL Q01, Q54, Q56, R11)

### **Learning from Failure: A Review of Peter Schuck's Why Government Fails So Often: And How It Can Do Better**

- Journal of Economic Literature---2015---David Levy,Sandra J. Peart

Peter Schuck catalogs an overwhelming list of US government failures. He points to both structural problems (culture and institutions) and incentives. Despairing of cultural change, Schuck focuses on incentives. He relies on Charles Wolf's theory of nonmarket failures in

which "internalities" replace the heavily-studied market failure from externalities (Wolf 1979). Internalities are evidence of a discord between the public goals by which a program is defended and the private goals of its administrators. What might economists contribute? We suggest that economists have neglected internalities because they take group goals as exogenously determined and we defend an alternative tradition in which group goals are endogenously determined. (JEL A11, D72, D82)

## **The Industrial Organization of Health-Care Markets**

- Journal of Economic Literature---2015---Martin Gaynor,Kate Ho,Robert Town

The U.S. health-care sector is large and growing—health-care spending in 2011 amounted to \$2.7 trillion and 18 percent of GDP. Approximately half of health-care output is allocated via markets. In this paper, we analyze the industrial organization literature on health-care markets, focusing on the impact of competition on price, quality, and treatment decisions for health-care providers and health insurers. We conclude with a discussion of research opportunities for industrial organization economists, including opportunities created by the U.S. Patient Protection and Affordable Care Act. (JEL J15, J24, J71, J81, K31)

## **Research on Teaching Economics to Undergraduates**

- Journal of Economic Literature---2015---Sam Allgood,William B. Walstad,John Siegfried

This survey summarizes the main research findings about teaching economics to undergraduates. After briefly reviewing the history of research on undergraduate economic education, it discusses the status of the economics major numbers and trends, goals, coursework, outcomes, and the principles courses. Some economic theory is used to explain the likely effects of pedagogical decisions of faculty and the learning choices that students make. Major results from empirical research are reviewed from the professor perspective

on such topics as teaching methods, online technology, class size, and textbooks. Studies of student learning are discussed in relation to study time, grades, attendance, math aptitude, and cheating. The last section discusses changes in the composition of faculty who teach undergraduate economics and effects from changes in instructional technology and then presents findings from the research about measuring teaching effectiveness and the value of teacher training. (JEL A22, I23, J44)

## **Revisiting Samuelson's Foundations of Economic Analysis**

- Journal of Economic Literature---2015---Roger Backhouse

Paul Samuelson's Foundations of Economic Analysis played a major role in defining how economic theory was undertaken for many years after the Second World War. This paper fills out Samuelson's account of the book's origins and corrects some details, making clear his debt to E. B. Wilson and establishes that turning the thesis into a book was a long process. The contents of the book and its reception are then reviewed. (JEL A22, B20, B31)

## **Racial Realism: A Review Essay on John Skrentny's After Civil Rights**

- Journal of Economic Literature---2015---Kevin Lang

In his valuable contribution, *After Civil Rights*, John Skrentny shows that in many sectors of the labor market, race is used in ways that were unanticipated when the 1964 Civil Rights Act was enacted. With separate chapters on the professions and business, the public sector, media and entertainment, and the low-skill market, he demonstrates that the new racial realism is widespread, generally has some justification from social scientific research, and is usually inconsistent with judicial decisions. I review the racially realistic practices (racial matching, increasing diversity, racial signaling, and racial characteristics) and discuss their

implications for labor economics and for policy. (JEL J15, J24, J71, J81, K31)

### **Envirodevonomics: A Research Agenda for an Emerging Field**

- Journal of Economic Literature---2015---Michael Greenstone,B. Kelsey Jack

Environmental quality in many developing countries is poor and generates substantial health and productivity costs. However, the few existing measures of marginal willingness to pay (MWTP) for environmental quality improvements indicate low valuations by affected households. This paper argues that this seeming paradox is the central puzzle at the intersection of environmental and development economics: Given poor environmental quality and high health burdens in developing countries, why is MWTP seemingly so low? We develop a conceptual framework for understanding this puzzle and propose four potential explanations for why environmental quality is so poor: (1) due to low income levels, individuals value increases in income more than marginal improvements in environmental quality; (2) the marginal costs of environmental quality improvements are high; (3) political economy factors undermine efficient policymaking; and (4) market failures such as weak property rights and missing capital markets distort MWTP for environmental quality. We review the literature on each explanation and discuss how the framework applies to climate change, which is perhaps the most important issue at the intersection of environment and development economics. The paper concludes with a list of promising and unanswered research questions for the emerging sub-field of "envirodevonomics." ( JEL I15, O10, O44, Q50)

### **Robert E. Lucas Jr.'s Collected Papers on Monetary Theory**

- Journal of Economic Literature---2015---Thomas Sargent

This paper is a critical review of and a reader's guide to a collection of papers by Robert E. Lucas, Jr. about

fruitful ways of using general equilibrium theories to understand measured economic aggregates. These beautifully written and wisely argued papers integrated macroeconomics, microeconomics, finance, and econometrics in ways that restructured big parts of macroeconomic research. ( JEL A31, E00, E13, E50)

### **Jon Elster's Securities against Misrule: Juries, Assemblies, Elections: A Review Essay**

- Journal of Economic Literature---2015---David Austen-Smith

The standard economic approach to designing institutions for collective decision making recognizes individuals' strategically rational motivations for misrepresentation and asks how best, given an objective function, to design a set of incentives and constraints to internalize or negate such motivations. Securities Against Misrule offers, in the author's phrase, an "essay in persuasion" to the effect that such an approach is fundamentally misguided. Instead, Elster argues for a behavioral approach centered on designing institutions for good decision making, rather than good outcomes, by individuals whose actions are chronically subject to emotional, self-interested, and prejudicial distortions. ( JEL D02, D71, D72, D82)

### **The Science, Economics, and Politics of Global Climate Change: A Review of The Climate Casino by William Nordhaus**

- Journal of Economic Literature---2015---Adam Jaffe,Suzi Kerr

The problem of global climate change presents overwhelming factual, analytical, and normative challenges. Nordhaus surveys this terrain bravely and mostly successfully. He explains the scientific/economic consensus that the planet is warming, that people are responsible, that the consequences are bad, and that immediate action is benefit/cost justified. He also discusses the efficient policy response, and the challenges of achieving coordinated global action. His approach is mostly that of standard neo-classical economics, and some of the limitations of that paradigm in this context are not

addressed. But overall, *The Climate Casino* provides an excellent self-contained introduction to the subject. ( JEL D61, H23, Q51, Q54, Q58,D72)

### **A Review of William Easterly's *The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor***

- Journal of Economic Literature---2015---Carol Graham

William Easterly marshals yet another brilliant critique of established development policies, with a focus on the experts' excessive focus on state-led policies and goals (à la Myrdal) and ignorance of bottom-up solutions, including technology and individual rights (à la Hayek). It suggests a world where success occurs in spite of nation-states. Yet not all bottom-up leads to success, and the worst disasters, as in civil violence, occur where states fail. Easterly highlights the important links between success and individual freedom and opportunity. He fails to note that myriad impoverished individuals cannot exercise these freedoms due to low expectations or compromised rights. ( JEL A11, D82, E61, I23, O10, O40)

### **A Review of Angus Deaton's *The Great Escape: Health, Wealth, and the Origins of Inequality***

- Journal of Economic Literature---2015---David Weil

This book explores the relationship between the material standard of living and health, both across countries and over time. Above all, Deaton is interested in the question of whether income growth contributes significantly to better health. His answer is no: saving lives in poor countries is not expensive, and there are many episodes of massive health improvements in the absence of income growth. As an alternative, he argues that the cross-sectional correlation between health and income is induced by variation in institutional quality, while over time, parallel improvements in income and health have been a result of advancing knowledge. (JEL E23, I12, I14, I15, O15, O47)

### **News-Driven Business Cycles: Insights and Challenges**

- Journal of Economic Literature---2014---Paul Beaudry,Franck Portier

There is a widespread belief that changes in expectations may be an important independent driver of economic fluctuations. The news view of business cycles offers a formalization of this perspective. In this paper we discuss mechanisms by which changes in agents' information, due to the arrival of news, can cause business cycle fluctuations driven by expectational change, and we review the empirical evidence aimed at evaluating their relevance. In particular, we highlight how the literature on news and business cycles offers a coherent way of thinking about aggregate fluctuations, while at the same time we emphasize the many challenges that must be addressed before a proper assessment of the role of news in business cycles can be established. (JEL D83, D84, E13, E32, O33)

### **Behavioral Contract Theory**

- Journal of Economic Literature---2014---Botond Köszegi

This review provides a critical survey of psychology-and-economics ("behavioral-economics") research in contract theory. First, I introduce the theories of individual decision making most frequently used in behavioral contract theory, and formally illustrate some of their implications in contracting settings. Second, I provide a more comprehensive (but informal) survey of the psychology-and-economics work on classical contract-theoretic topics: moral hazard, screening, mechanism design, and incomplete contracts. I also summarize research on a new topic spawned by psychology and economics, exploitative contracting, that studies contracts designed primarily to take advantage of agent mistakes. (JEL A12, D03, D82, D86)

## **Strategy in History and (versus?) in Economics: A Review of Lawrence Freedman's Strategy: A History**

- Journal of Economic Literature---2014---Avinash Dixit

This essay reviews Lawrence Freedman's book "Strategy: A History". The main themes—definitions, strategies in war, business, politics, and revolutions—are overviewed. The value of game-theoretic thinking for practical strategy is assessed. A critical discussion of some concepts and dichotomies emphasized by Freedman, e.g., strategy is governed by the starting point, not the end point, and of the role of stories and scripts in strategy, follows. (JEL A11, A12, C70, D74)

## **The Ethics of Efficient Markets and Commons Tragedies: A Review of John Broome's Climate Matters: Ethics in a Warming World**

- Journal of Economic Literature---2014---William Nordhaus

What are the ethical implications of our contributions to global warming on an individual level? In his extended essay, John Broome analyzes the moral implications of our imposing damages on future generations through our greenhouse-gas emissions. He argues that we as individuals owe restitution to those who are in the future damaged by these unjust acts. He suggests that restitution can be accomplished by completely offsetting emissions and thereby having a zero carbon footprint. This review examines the force of his arguments and suggests that off-setting emissions on an individual basis is an imperfect substitute for collective action or more encompassing contributions to those hurt by our externalities. (JEL D63, Q21, Q54, Q58)

## **What's the Future of Public Higher Education? A Review Essay on Gary C. Fethke and Andrew J. Policano's Public No More: A New Path to Excellence for America's Public Universities**

- Journal of Economic Literature---2014---Ronald Ehrenberg

Gary Fethke and Andrew Policano's book "Public No More: A New Path to Excellence for America's Public Universities" paints a picture of a future for public research universities that is very different than what many people will want to see. Their message is that the financial and governance models under which public universities have operated have broken down and that new models are required. While I do not always agree with their prescriptions, I argue that private research universities face many of the same issues as their public counterparts and that this book deserves to be widely read by all people concerned with the future of American higher education. (JEL H75, I22, I23, I28)

## **A Review of Peter Temin's The Roman Market Economy**

- Journal of Economic Literature---2014---Francois Velde

Herein, I review Peter Temin's book, "The Roman Market Economy", and take the occasion to alert economists to the exciting work that is being done and could be done in the economic history of the ancient world. (JEL C80, N01, N13, N73)

## **The Macroeconomics of Trend Inflation**

- Journal of Economic Literature---2014---Guido Ascari, Argia Sbordone

Most macroeconomic models for monetary policy analysis are approximated around a zero inflation steady state, but most central banks target an inflation rate of about 2 percent. Many economists have recently proposed even higher inflation targets to reduce the incidence of the zero lower bound constraint on monetary policy. In this survey, we show that the conduct of monetary policy should be analyzed by appropriately accounting for the positive trend inflation targeted by policymakers. We first review empirical research on the evolution and dynamics of U.S. trend inflation and some proposed new measures to assess the volatility and persistence of trend-based inflation gaps. We then construct a Generalized New Keynesian model that

accounts for a positive trend inflation. In this model, an increase in trend inflation is associated with a more volatile and unstable economy and tends to destabilize inflation expectations. This analysis offers a note of caution regarding recent proposals to address the existing zero lower bound problem by raising the long-run inflation target.

### **What Do We Learn from the Weather? The New Climate-Economy Literature**

- Journal of Economic Literature---2014---Melissa Dell, Benjamin F. Jones, Benjamin A. Olken

A rapidly growing body of research applies panel methods to examine how temperature, precipitation, and windstorms influence economic outcomes. These studies focus on changes in weather realizations over time within a given spatial area and demonstrate impacts on agricultural output, industrial output, labor productivity, energy demand, health, conflict, and economic growth, among other outcomes. By harnessing exogenous variation over time within a given spatial unit, these studies help credibly identify (i) the breadth of channels linking weather and the economy, (ii) heterogeneous treatment effects across different types of locations, and (iii) nonlinear effects of weather variables. This paper reviews the new literature with two purposes. First, we summarize recent work, providing a guide to its methodologies, datasets, and findings. Second, we consider applications of the new literature, including insights for the “damage function” within models that seek to assess the potential economic effects of future climate change.

### **Review Essay on Charles F. Manski’s Public Policy in an Uncertain World: Analysis and Decisions**

- Journal of Economic Literature---2014---John Geweke

Public policy setting often involves quantitative choices with quantitative outcomes. Yet unqualified statements about the precise consequences of alternative choices characterize much of the policy analysis bearing on

these decisions. *Public Policy in an Uncertain World: Analysis and Decisions* by Charles F. Manski characterizes and richly illustrates the nature of this unwarranted certitude. It details specific constructive alternatives on which the economics profession has achieved varying degrees of consensus. Those in our profession charged with the education of future policy analysts should consider using it and how to round out its presentation of decision making from their own perspective.

### **The New Science of Cities by Michael Batty: The Opinion of an Economist**

- Journal of Economic Literature---2014---Jacques Thisse

Cities are the cradle of a wide range of cultural, social, and technological innovations that are at the heart of modern economic growth and development. Half of humanity today lives in cities but, until the last two decades, economists have paid much less attention to cities than have other social scientists. By contrast, geographers have long studied the role of cities in human affairs. Michael Batty, a distinguished scholar in the field of human geography, has recently written *The New Science of Cities*, a synthesis of his work and of some other prominent urban geographers. A review of his book is the first objective of this essay. The second is to discuss and compare the tools and concepts developed by urban economists with those of urban geographers in the hope of triggering a fruitful debate between those two groups of social scientists.

### **The Limits of Inference with Theory: A Review of Wolpin (2013)**

- Journal of Economic Literature---2014---John Rust

This essay reviews Kenneth I. Wolpin’s (2013) monograph *The Limits of Inference without Theory*, which arose from lectures he presented at the Cowles Foundation in 2010 in honor of Tjalling Koopmans. While I readily agree with Wolpin’s basic premise that empirical work that eschews the role of economic theory faces unnecessary self-imposed limits relative to empirical



work that embraces and tries to test and improve economic theory, it is important to be aware that the use of economic theory is not a panacea. I point out that there are also serious limits to inference with theory: 1) there may be no truly "structural" (policy invariant) parameters, a key assumption underpinning the structural econometric approach that Wolpin and the Cowles Foundation have championed; 2) there is a curse of dimensionality that makes it very difficult for us to elucidate the detailed implications of economic theories, which is necessary to empirically implement and test these theories; 3) there is an identification problem that makes it impossible to decide between competing theories without imposing ad hoc auxiliary assumptions (such as parametric functional form assumptions); and 4) there is a problem of multiplicity and indeterminacy of equilibria that limits the predictive empirical content of many economic theories. I conclude that though these are very challenging problems, I agree with Wolpin and the Cowles Foundation that economists have far more to gain by trying to incorporate economic theory into empirical work and test and improve our theories than by rejecting theory and presuming that all interesting economic issues can be answered by well-designed controlled, randomized experiments and assuming that difficult questions of causality and evaluation of alternative hypothetical policies can be resolved by simply allowing the "data to speak for itself."

### **The Choice between Formal and Informal Intellectual Property: A Review**

- Journal of Economic Literature---2014---Bronwyn Hall,Christian Helmers,Mark Rogers,Vania Sena

We survey the economic literature, both theoretical and empirical, on the choice of intellectual property protection by firms. Our focus is on the trade-offs between using patents and disclosing versus the use of secrecy, although we also look briefly at the use of other means of formal intellectual property protection.

### **Addressing Global Environmental Externalities: Transaction Costs Considerations**

- Journal of Economic Literature---2014---Gary D. Libecap

Is there a way to understand why some global environmental externalities are addressed effectively, whereas others are not? The transaction costs of defining the property rights to mitigation benefits and costs is a useful framework for such analysis. This approach views international cooperation as a contractual process among country leaders to assign those property rights. Leaders cooperate when it serves domestic interests to do so. The demand for property rights comes from those who value and stand to gain from multilateral action. Property rights are supplied by international agreements that specify resource access and use, assign costs and benefits including outlining the size and duration of compensating transfer payments, and determining who will pay and who will receive them. Four factors raise the transaction costs of assigning property rights: (i) scientific uncertainty regarding mitigation benefits and costs; (ii) varying preferences and perceptions across heterogeneous populations; (iii) asymmetric information; and (iv) the extent of compliance and new entry. These factors are used to examine the role of transaction costs in the establishment and allocation of property rights to provide globally valued national parks, implement the Convention on the International Trade in Endangered Species of Wild Fauna and Flora, execute the Montreal Protocol to manage emissions that damage the stratospheric ozone layer, set limits on harvest of highly-migratory ocean fish stocks, and control greenhouse gas emissions.

### **The Changing Role of Government in Financing Health Care: An International Perspective**

- Journal of Economic Literature---2014---Mark Stabile,Sarah Thomson

This paper explores the changing role of government involvement in health care financing policy outside the United States. It provides a review of the economics literature in this area to elucidate the implications of

recent policy changes on efficiency, costs, and quality. Our review reveals that there has been some convergence in policies adopted across countries to improve financing incentives and encourage efficient use of health services. In the case of risk pooling, all countries with competing pools experience similar difficulties with selection and are adopting more sophisticated forms of risk adjustment. In the case of hospital competition, the key drivers of success appear to be what is competed on and measurable, rather than whether the system is public or private. In the case of both the success of performance-related pay for providers and issues resulting from wait times, evidence differs within and across jurisdictions. However, the evidence does suggest that some governments have effectively reduced wait times when they have chosen explicitly to focus on achieving this goal. Many countries are exploring new ways of generating revenues for health care to enable them to cope with significant cost growth, but there is little evidence to suggest that collection mechanisms alone are effective in managing the cost or quality of care.

### **The Return of "Patrimonial Capitalism": A Review of Thomas Piketty's Capital in the Twenty-First Century**

- Journal of Economic Literature---2014---Branko Milanovic

Capital in the Twenty-First Century by Thomas Piketty provides a unified theory of the functioning of the capitalist economy by linking theories of economic growth and functional and personal income distributions. It argues, based on the long-run historical data series, that the forces of economic divergence (including rising income inequality) tend to dominate in capitalism. It regards the twentieth century as an exception to this rule and proposes policies that would make capitalism sustainable in the twenty-first century.

### **The Economic Importance of Financial Literacy: Theory and Evidence**

- Journal of Economic Literature---2014---Annamaria Lusardi,Olivia Mitchell

This paper undertakes an assessment of a rapidly growing body of economic research on financial literacy. We start with an overview of theoretical research, which casts financial knowledge as a form of investment in human capital. Endogenizing financial knowledge has important implications for welfare, as well as policies intended to enhance levels of financial knowledge in the larger population. Next, we draw on recent surveys to establish how much (or how little) people know and identify the least financially savvy population subgroups. This is followed by an examination of the impact of financial literacy on economic decision making in the United States and elsewhere. While the literature is still young, conclusions may be drawn about the effects and consequences of financial illiteracy and what works to remedy these gaps. A final section offers thoughts on what remains to be learned if researchers are to better inform theoretical and empirical models as well as public policy.

### **From Divergence to Convergence: Reevaluating the History behind China's Economic Boom**

- Journal of Economic Literature---2014---Loren Brandt,Debin Ma,Thomas Rawski

China's long-term economic dynamics pose a formidable challenge to economic historians. The Qing Empire (1644-1911), the world's largest national economy before 1800, experienced a tripling of population during the seventeenth and eighteenth centuries with no signs of diminishing per capita income. While the timing remains in dispute, a vast gap emerged between newly rich industrial nations and China's lagging economy in the wake of the Industrial Revolution. Only with an unprecedented growth spurt beginning in the late 1970s did this great divergence separating China from the global leaders substantially diminish, allowing China to regain its former standing among the world's largest economies. This essay develops an integrated framework for understanding that entire history, including both the divergence and the recent convergent trend. We explain how deeply embedded political and economic institutions that contributed to a long process of extensive growth before 1800 subsequently prevented

China from capturing the benefits associated with the Industrial Revolution. During the twentieth century, the gradual erosion of these historic constraints and of new obstacles erected by socialist planning eventually opened the door to China's current boom. Our analysis links China's recent development to important elements of its past, while using recent success to provide fresh perspectives on the critical obstacles undermining earlier modernization efforts, and their eventual removal.

### **Empirical Evidence on Inflation Expectations in the New Keynesian Phillips Curve**

- Journal of Economic Literature---2014---Sophocles Mavroeidis,Mikkel Plagborg-Møller,James H. Stock

We review the main identification strategies and empirical evidence on the role of expectations in the New Keynesian Phillips curve, paying particular attention to the issue of weak identification. Our goal is to provide a clear understanding of the role of expectations that integrates across the different papers and specifications in the literature. We discuss the properties of the various limited-information econometric methods used in the literature and provide explanations of why they produce conflicting results. Using a common dataset and a flexible empirical approach, we find that researchers are faced with substantial specification uncertainty, as different combinations of various a priori reasonable specification choices give rise to a vast set of point estimates. Moreover, given a specification, estimation is subject to considerable sampling uncertainty due to weak identification. We highlight the assumptions that seem to matter most for identification and the configuration of point estimates. We conclude that the literature has reached a limit on how much can be learned about the New Keynesian Phillips curve from aggregate macroeconomic time series. New identification approaches and new datasets are needed to reach an empirical consensus.

### **A Flourishing Economist: A Review Essay on Edmund Phelps's Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge, and Change**

- Journal of Economic Literature---2014---Joel Mokyr

In his recent *Mass Flourishings*, Edmund Phelps makes a strong and eloquent plea for a more dynamic economy, which he sees not only as a key for economic performance, but also as necessary for what he calls "the good life." This review essay evaluates those claims in the light of economic history.

### **Rethinking the Principles of Bank Regulation: A Review of Admati and Hellwig's The Bankers' New Clothes**

- Journal of Economic Literature---2014---Roger Myerson

In an important new book, Anat Admati and Martin Hellwig raise broad critical questions about bank regulation. These questions are reviewed and discussed here, with a focus on how the problems of maintaining a stable financial system depend on fundamental problems of information and incentives in financial intermediation. It is argued that financial regulatory reforms can be reliably effective only when their basic principles are understood by informed citizens, and that Admati and Hellwig's book is a major contribution toward this goal, as it clearly lays out the essential case for requiring banks to have more equity.

### **The New Economics of Equilibrium Sorting and Policy Evaluation Using Housing Markets**

- Journal of Economic Literature---2013---Nicolai Kuminoff,V. Smith,Christopher Timmins

Households "sort" across neighborhoods according to their wealth and their preferences for public goods, social characteristics, and commuting opportunities. The aggregation of these individual choices in markets and in other institutions influences the supply of

amenities and local public goods. Pollution, congestion, and the quality of public education are examples. Over the past decade, advances in economic models of this sorting process have led to a new framework that promises to alter the ways we conceptualize the policy evaluation process in the future. These "equilibrium sorting" models use the properties of market equilibria, together with information on household behavior, to infer structural parameters that characterize preference heterogeneity. The results can be used to develop theoretically consistent predictions for the welfare implications of future policy changes. Analysis is not confined to marginal effects or a partial equilibrium setting. Nor is it limited to prices and quantities. Sorting models can integrate descriptions of how non-market goods are generated, estimate how they affect decision making, and, in turn, predict how they will be affected by future policies targeting prices or quantities. Conversely, sorting models can predict how equilibrium prices and quantities will be affected by policies that target product quality, information, or amenities generated by the sorting process. These capabilities are just beginning to be understood and used in applied research. This survey article aims to synthesize the state of knowledge on equilibrium sorting, the new possibilities for policy analysis, and the conceptual and empirical challenges that define the frontiers of the literature.

### **Exchange Rate Predictability**

- Journal of Economic Literature---2013---Barbara Rossi

The main goal of this article is to provide an answer to the question: does anything forecast exchange rates, and if so, which variables? It is well known that exchange rate fluctuations are very difficult to predict using economic models, and that a random walk forecasts exchange rates better than any economic model (the Meese and Rogoff puzzle). However, the recent literature has identified a series of fundamentals/ methodologies that claim to have resolved the puzzle. This article provides a critical review of the recent literature on exchange rate forecasting and illustrates the

new methodologies and fundamentals that have been recently proposed in an up-to-date, thorough empirical analysis. Overall, our analysis of the literature and the data suggests that the answer to the question: "Are exchange rates predictable?" is, "It depends"?on the choice of predictor, forecast horizon, sample period, model, and forecast evaluation method. Predictability is most apparent when one or more of the following hold: the predictors are Taylor rule or net foreign assets, the model is linear, and a small number of parameters are estimated. The toughest benchmark is the random walk without drift.

### **Facts and Challenges from the Great Recession for Forecasting and Macroeconomic Modeling**

- Journal of Economic Literature---2013---Serena Ng, Jonathan H. Wright

This paper provides a survey of business cycle facts, updated to take account of recent data. Emphasis is given to the Great Recession, which was unlike most other postwar recessions in the United States in being driven by deleveraging and financial market factors. We document how recessions with financial market origins are different from those driven by supply or monetary policy shocks. This helps explain why economic models and predictors that work well at some times do poorly at other times. We discuss challenges for forecasters and empirical researchers in light of the updated business cycle facts.

### **A Review Essay about Foundations of Neuroeconomic Analysis by Paul Glimcher**

- Journal of Economic Literature---2013---Colin F. Camerer

Neuroeconomics aims to discover mechanisms of economic decision, and express them mathematically, to predict observed choice. While the contents of neuroeconomic models and evidence are obviously different than in traditional economics, (some of the) goals are identical: to explain and predict choice, the effects of comparative statics, and perhaps make interesting new welfare judgments that are defensible. To this end, Paul

Glimcher's important book carefully describes how economics, psychological, and neural levels of explanation can be linked (a structure which has been successful in visual neuroscience). As Glimcher shows, the neural evidence is quite strong for a process of learning valuations through prediction error, and a simple model of neural valuation and comparison that corresponds to random utility (though subject to normalization, which produces menu effects). There is also rapidly growing evidence for more complicated constructs in behavioral economics, including prospect theory's account of risky choice, hyperbolic time discounting, level-k models of games, and social preferences corresponding to internal reward based on what happens to other agents.

### **Environment, Health, and Human Capital**

- Journal of Economic Literature---2013---Joshua Graff Zivin,Matthew Neidell

In this review, we discuss three major contributions economists have made to our understanding of the relationship between the environment and individual well-being. First, in explicitly recognizing how optimizing behavior, particularly in the form of residential sorting, can lead to nonrandom assignment of pollution, economists have employed a wide range of quasi-experimental techniques to develop causal estimates of the effect of pollution. Second, economic research has placed a considerable focus on the role of avoidance behavior, which is an important component for understanding the difference between biological and behavioral effects of pollution and for proper welfare calculations. Lastly, economic research has expanded the focus of analysis beyond traditional health outcomes to include measures of human capital, including labor supply, productivity, and cognition. Our review of the quasi-experimental evidence on this topic suggests that pollution does indeed have a wide range of effects on individual well-being, even at levels well below current regulatory standards. Given the importance of health and human capital as an engine for economic growth, these findings underscore the role of environmental conditions as an important factor of production.

### **Understanding China's Urban Pollution Dynamics**

- Journal of Economic Literature---2013---Siqi Zheng,Matthew Kahn

China's ongoing urban economic growth has sharply increased the population's per capita income, lowered the count of people living below the poverty line, and caused major environmental problems. We survey the growing literature investigating the causes and consequences of China's urban pollution challenges. We begin by studying how urban population and industrial growth impacts local pollution levels and greenhouse gas production. As the urban population grows richer, its demand for private transportation and electricity sharply increases. Such privately beneficial activity exacerbates urban pollution externalities. Facing these severe environmental challenges, China's urbanites increasingly demand quality of life progress. We survey the emerging literature investigating the demand for environmental progress in China. Progress in mitigating externalities hinges on whether the powerful central and local governments choose to address these issues. We analyze the political economy of whether government officials have strong incentives to tackle lingering urban externalities. We conclude by discussing future research opportunities at the intersection of environmental and urban economics

### **On the Performance of the U.S. Transportation System: Caution Ahead**

- Journal of Economic Literature---2013---Clifford Winston

Transportation is a vital sector of the U.S. economy based on consumers', firms', and government's enormous expenditures in money and time and on its effect on virtually all other sectors in the economy. I assess the performance of the transportation system and consider how it could be improved by analyzing whether the United States has the optimal mix of public and private provision. The empirical evidence indicates that our hugely important transportation system has been compromised by various government policies and

the significant welfare costs motivate either vastly improving public provision or expanding the role of the private sector

### **A Review of Enrico Moretti's The New Geography of Jobs**

- Journal of Economic Literature---2013---Edward Glaeser

Why is prosperity distributed so unevenly across America's metropolitan areas? While population growth has gone disproportionately towards the Sunbelt, high-skill areas have experienced the strongest income growth since 1970. Gaps between more and less educated areas were modest forty years ago, but they have become quite large, and far larger than would be predicted solely by the general rise in the returns to skill. Unemployment rates during the recent recession were also strongly correlated with area level education. This essay reviews Enrico Moretti's *The New Geography of Jobs*, which both describes and explains these significant regional trends

### **The Structure of Economic Modeling of the Potential Impacts of Climate Change: Grafting Gross Underestimation of Risk onto Already Narrow Science Models**

- Journal of Economic Literature---2013---Nicholas Stern

Scientists describe the scale of the risks from unmanaged climate change as potentially immense. However, the scientific models, because they omit key factors that are hard to capture precisely, appear to substantially underestimate these risks. Many economic models add further gross underassessment of risk because the assumptions built into the economic modeling on growth, damages and risks, come close to assuming directly that the impacts and costs will be modest and close to excluding the possibility of catastrophic outcomes. A new generation of models is needed in all three of climate science, impact and economics with a still stronger focus on lives and livelihoods, including the risks of large-scale migration and conflicts.

### **Climate Change Policy: What Do the Models Tell Us?**

- Journal of Economic Literature---2013---Robert Pindyck

Very little. A plethora of integrated assessment models (IAMs) have been constructed and used to estimate the social cost of carbon (SCC) and evaluate alternative abatement policies. These models have crucial flaws that make them close to useless as tools for policy analysis: certain inputs (e.g., the discount rate) are arbitrary, but have huge effects on the SCC estimates the models produce; the models' descriptions of the impact of climate change are completely ad hoc, with no theoretical or empirical foundation; and the models can tell us nothing about the most important driver of the SCC, the possibility of a catastrophic climate outcome. IAM-based analyses of climate policy create a perception of knowledge and precision, but that perception is illusory and misleading.

### **Tail-Hedge Discounting and the Social Cost of Carbon**

- Journal of Economic Literature---2013---Martin Weitzman

The choice of an overall discount rate for climate change investments depends critically on how different components of investment payoffs are discounted at differing rates reflecting their underlying risk characteristics. Such underlying rates can vary enormously, from 1 percent for idiosyncratic diversifiable risk to 7 percent for systematic nondiversifiable risk. Which risk-adjusted rate is chosen can have a huge impact on cost-benefit analysis. In this expository paper, I attempt to set forth in accessible language with a simple linear model what I think are some of the basic issues involved in discounting climate risks. The paper introduces a new concept that may be relevant for climate-change discounting: the degree to which an investment hedges against the bad tail of catastrophic damages by insuring positive expected payoffs even under the worst circumstances. The prototype application is calculating the social cost of carbon.

## How Deep Are the Roots of Economic Development?

- Journal of Economic Literature---2013---Enrico Spolaore,Romain Wacziarg

The empirical literature on economic growth and development has moved from the study of proximate determinants to the analysis of ever deeper, more fundamental factors, rooted in long-term history. A growing body of new empirical work focuses on the measurement and estimation of the effects of historical variables on contemporary income by explicitly taking into account the ancestral composition of current populations. The evidence suggests that economic development is affected by traits that have been transmitted across generations over the very long run. This article surveys this new literature and provides a framework to discuss different channels through which intergenerationally transmitted characteristics may impact economic development, biologically (via genetic or epigenetic transmission) and culturally (via behavioral or symbolic transmission). An important issue is whether historically transmitted traits have affected development through their direct impact on productivity, or have operated indirectly as barriers to the diffusion of productivityenhancing innovations across populations.

## U.S. High School Graduation Rates: Patterns and Explanations

- Journal of Economic Literature---2013---Richard Murnane

I survey the evidence on patterns in U.S. high school graduation rates over the period 1970â€“2010 and report the results of new research conducted to fill in holes in the evidence. I begin by pointing out the strengths and limitations of existing data sources. I then describe six striking patterns in graduation rates. They include stagnation over the last three decades of the twentieth century, significant race-, income-, and gender-based gaps, and significant increases in graduation rates over the first decade of the twenty-first century, especially among blacks and Hispanics. I then describe the models economists use to explain

the decisions of individuals to invest in schooling, and examine the extent to which the parameters of the models explain recent patterns in graduation rates. I find that increases in the nonmonetary costs of completing high school and the increasing availability of the GED credential help to explain stagnation in the face of substantial gaps between the wages of high school graduates and school dropouts. I point out that there are several hypotheses, but to date, very little evidence to explain the increases in high school graduation rates over the first decade of the twenty-first century. I conclude by reviewing the evidence on effective strategies to increase high school graduation rates, and explaining why the causal evidence is quite modest.

## Political Economy of Public Policies: Insights from Distortions to Agricultural and Food Markets

- Journal of Economic Literature---2013---Kym Anderson,Gordon Rausser,Johan Swinnen

The agricultural and food sector is an ideal case for investigating the political economy of public policies. Many of the policy developments in this sector since the 1950s have been sudden and transformational, while others have been gradual but persistent. This article reviews and synthesizes the literature on trends and fluctuations in market distortions and the political-economy explanations that have been advanced. Based on a rich global data set covering a half-century of evidence on commodities, countries, and policy instruments, we identify hypotheses that have been explored in the literature on the extent of market distortions and the conditions under which reform may be feasible.

## What's the Good of the Market? An Essay on Michael Sandel's What Money Can't Buy

- Journal of Economic Literature---2013---Timothy Besley

This essay will discuss the criticisms of the economic approach to markets offered by Michael Sandel's What Money Can't Buy. After reviewing the main

arguments, the essay looks at these from three main angles. First, it relates them to different traditions of thinking about markets and their achievements that have been developed by economists. Second, it discusses the idea that markets can change values as argued by Sandel in light of recent related literature in economics. Third, it discusses some of the literature on alternatives to using the market to allocate resources and the pros and cons of these.

### **Bounded-Rationality Models: Tasks to Become Intellectually Competitive**

- Journal of Economic Literature---2013---Ronald Harstad, Reinhard Selten

Research in experimental economics has cogently challenged the fundamental precept of neoclassical economics that economic agents optimize. The last two decades have seen elaboration of boundedly rational models that try to move away from the optimization approach, in ways consistent with experimental findings. Nonetheless, the collection of alternative models has made little headway supplanting the dominant paradigm. We delineate key ways in which neoclassical microeconomics holds continuing and compelling advantages over bounded-rationality models, and suggest, via a few examples, the sorts of further, difficult pushes that would be needed to redress this state of affairs. Closer collaboration between theoretic modeling and experiments is clearly seen to be necessary.

### **Boundedly Rational versus Optimization-Based Models of Strategic Thinking and Learning in Games**

- Journal of Economic Literature---2013---Vincent Crawford

Harstad and Selten's article in this forum performs a valuable service by highlighting the dominance of optimization-based models over boundedly rational models in modern microeconomics, and questioning whether optimization-based models are a better way forward than boundedly rational models. This article complements Rabin's response to Harstad and

Selten, focusing on modeling strategic behavior. I consider Harstad and Selten's examples and proposed boundedly rational models in the light of modern behavioral economics and behavioral game theory, commenting on the challenges that remain and the most promising ways forward.

### **Incorporating Limited Rationality into Economics**

- Journal of Economic Literature---2013---Matthew Rabin

Harstad and Selten (this forum) raise interesting questions about the relative promise of optimization models and bounded-rationality models in making progress in economics. This article builds from their analysis by indicating the potential for using neoclassical (broadly defined) optimization models to integrate insights from psychology on the limits to rationality into economics. I lay out an approach to making (imperfect and incremental) improvements over previous economic theory by incorporating greater realism while attempting to maintain the breadth of application, the precision of predictions, and the insights of neoclassical theory. I then discuss how many human limits to full rationality are, in fact, well understood in terms of optimization.

### **Structural Models of Nonequilibrium Strategic Thinking: Theory, Evidence, and Applications**

- Journal of Economic Literature---2013---Vincent Crawford, Miguel A. Costa-Gomes, Nagore Iriberri

Most applications of game theory assume equilibrium, justified by presuming either that learning will have converged to one, or that equilibrium approximates people's strategic thinking even when a learning justification is implausible. Yet several recent experimental and empirical studies suggest that people's initial responses to games often deviate systematically from equilibrium, and that structural nonequilibrium "level-k" or "cognitive hierarchy" models often out-predict equilibrium. Even when learning is possible and converges to equilibrium, such models allow better predictions of history-dependent limiting outcomes. This



paper surveys recent theory and evidence on strategic thinking and illustrates the applications of level-k models in economics. (JEL C70, D03, D82, D83)

## **Home Bias in Open Economy Financial Macroeconomics**

- Journal of Economic Literature---2013---Nicolas Coeurdacier, Helene Rey

Home bias is a perennial feature of international capital markets. We review various explanations of this puzzling phenomenon highlighting recent developments in macroeconomic modeling that incorporate international portfolio choices in standard twocountry general equilibrium models. We refer to this new literature as Open Economy Financial Macroeconomics. We focus on three broad classes of explanations: (i) hedging motives in frictionless financial markets (real exchange rate and nontradable income risk), (ii) asset trade costs in international financial markets (such as transaction costs or differences in tax treatments between national and foreign assets), and (iii) informational frictions and behavioral biases. Recent theories call for new portfolio facts beyond equity home bias. We present new evidence on cross-border asset holdings across different types of assets: equities, bonds and bank lending and new micro data on institutional holdings of equity at the fund level. These data should inform macroeconomic modeling of the open economy and a growing literature of models of delegated investment. (JEL E13, F41, G11, G12, G15)

## **On Economics: A Review of Why Nations Fail by D. Acemoglu and J. Robinson and Pillars of Prosperity by T. Besley and T. Persson**

- Journal of Economic Literature---2013---W. Bentley Macleod

The purpose of this essay is to review the books *Why Nations Fail* by Daron Acemoglu and James Robinson, and *Pillars of Prosperity* by Timothy Besley and Torsten Persson. The essay briefly discusses the main contributions of the books and the role of politics for economic performance. The review then discusses these

contributions in the light of recent research on organizational economics, particularly the modern theory of the firm. (JEL D23, D72, O10, O47, O57)

## **Nine Facts about Top Journals in Economics**

- Journal of Economic Literature---2013---David Card, Stefano Della Vigna

How has publishing in top economics journals changed since 1970? Using a data set that combines information on all articles published in the top-five journals from 1970 to 2012 with their Google Scholar citations, we identify nine key trends. First, annual submissions to the top-five journals nearly doubled from 1990 to 2012. Second, the total number of articles published in these journals actually declined from 400 per year in the late 1970s to 300 per year most recently. As a result, the acceptance rate has fallen from 15 percent to 6 percent, with potential implications for the career progression of young scholars. Third, one journal, the *American Economic Review*, now accounts for 40 percent of top-five publications, up from 25 percent in the 1970s. Fourth, recently published papers are on average three times longer than they were in the 1970s, contributing to the relative shortage of journal space. Fifth, the number of authors per paper has increased from 1.3 in 1970 to 2.3 in 2012, partly offsetting the fall in the number of articles per year. Sixth, citations for top-five publications are high: among papers published in the late 1990s, the median number of Google Scholar citations is 200. Seventh, the ranking of journals by citations has remained relatively stable, with the notable exception of the *Quarterly Journal of Economics*, which climbed from fourth place to first place over the past three decades. Eighth, citation counts are significantly higher for longer papers and those written by more coauthors. Ninth, although the fraction of articles from different fields published in the top five has remained relatively stable, there are important cohort trends in the citations received by papers from different fields, with rising citations to more recent papers in Development and International, and declining citations to recent papers in Econometrics and Theory. (JEL A14)

## Six Decades of Top Economics Publishing: Who and How?

- Journal of Economic Literature---2013---Daniel Hamermesh

Presenting data on all full-length articles in the three top general economics journals for one year in each decade 1960s-2010s, I analyze changes in patterns of coauthorship, age structure and methodology, and their possible causes. The distribution of number of authors has shifted steadily rightward. In the last two decades, the fraction of older authors has almost quadrupled. Top journals are publishing many fewer papers that represent pure theory, regardless of subfield, somewhat less empirical work based on publicly available data sets, and many more empirical studies based on data collected by the author(s) or on laboratory or field experiments. (JEL A14)

## Uncertainty Measures for Economics Journal Impact Factors

- Journal of Economic Literature---2013---David Stern

Academic economists appear to be intensely interested in rankings of journals, institutions, and individuals. Yet there is little discussion of the uncertainty associated with these rankings. To illustrate the uncertainty associated with citations-based rankings, I compute the standard error of the impact factor for all economics journals with a five-year impact factor in the 2011 Journal Citations Report . I use these to derive confidence intervals for the impact factors as well as ranges of possible rank for a subset of thirty journals. I find that the impact factors of the top two journals are well defined and set these journals apart in a clearly defined group. An elite group of 9-11 mainstream journals can also be fairly reliably distinguished. The four bottom ranked journals are also fairly clearly set apart. For the remainder of the distribution, confidence intervals overlap and rankings are quite uncertain. (JEL A14)

## Racial Discrimination in the Labor Market: Theory and Empirics

- Journal of Economic Literature---2012---Kevin Lang,Jee-Yeon Lehmann

We review theories of race discrimination in the labor market. Taste-based models can generate wage and unemployment duration differentials when combined with either random or directed search even when strong prejudice is not widespread, but no existing model explains the unemployment rate differential. Models of statistical discrimination based on differential observability of productivity across races can explain the pattern and magnitudes of wage differentials but do not address employment and unemployment. At their current state of development, models of statistical discrimination based on rational stereotypes have little empirical content. It is plausible that models combining elements of the search models with statistical discrimination could fit the data. We suggest possible avenues to be pursued and comment briefly on the implication of existing theory for public policy. (JEL J15, J31, J64, J71)

## Analyzing the Spectrum of Asset Returns: Jump and Volatility Components in High Frequency Data

- Journal of Economic Literature---2012---Yacine Aït-Sahalia,Jean Jacod

This paper reports some of the recent developments in the econometric analysis of semimartingales estimated using high frequency financial returns. It describes a simple yet powerful methodology to decompose asset returns sampled at high frequency into their base components (continuous, small jumps, large jumps), determine the relative magnitude of the components, and analyze the finer characteristics of these components such as the degree of activity of the jumps. We incorporate to effect of market microstructure noise on the test statistics, apply the methodology to high frequency individual stock returns, transactions and quotes, stock index returns and compare the qualitative features of the estimated process for these different

data and discuss the economic implications of the results. (JEL C58, G12, G13)

### **Women Empowerment and Economic Development**

- Journal of Economic Literature---2012---Esther Dufo

Women empowerment and economic development are closely related: in one direction, development alone can play a major role in driving down inequality between men and women; in the other direction, empowering women may benefit development. Does this imply that pushing just one of these two levers would set a virtuous circle in motion? This paper reviews the literature on both sides of the empowerment “development nexus, and argues that the interrelationships are probably too weak to be self-sustaining, and that continuous policy commitment to equality for its own sake may be needed to bring about equality between men and women. (JEL I14, I24, I32, I38, J13, J16, O15)

### **Psychologists at the Gate: A Review of Daniel Kahneman’s Thinking, Fast and Slow**

- Journal of Economic Literature---2012---Andrei Shleifer

The publication of Daniel Kahneman’s book, *Thinking, Fast and Slow*, is a major intellectual event. The book summarizes, but also integrates, the research that Kahneman has done over the past forty years, beginning with his path-breaking work with the late Amos Tversky. The broad theme of this research is that human beings are intuitive thinkers and that human intuition is imperfect, with the result that judgments and choices often deviate substantially from the predictions of normative statistical and economic models. In this review, I discuss some broad ideas and themes of the book, describe some economic applications, and suggest future directions for research that the book points to, especially in decision theory. (JEL A12, D03, D80, D87)

### **Global Financial Stability and the Lessons of History: A Review of Carmen M. Reinhart and Kenneth S. Rogoff’s This Time Is Different: Eight Centuries of Financial Folly**

- Journal of Economic Literature---2012---Alan Taylor

In Reinhart and Rogoff’s economic history *This Time Is Different*, the authors provide a panoramic view of crises from the Middle Ages to the modern era. Published just as the current global financial storm arrived, the book quickly showed how history could provide not just useful perspective but also, as we can now see, very prescient guidance in the aftermath. In the longer run, the book serves to inspire ongoing work in long-run macro-financial history. (JEL F30, G01, G20, N20)

### **Technology Growth and Expenditure Growth in Health Care**

- Journal of Economic Literature---2012---Amitabh Chandra, Jonathan Skinner

In the United States, health care technology has contributed to rising survival rates, yet health care spending relative to GDP has also grown more rapidly than in any other country. We develop a model of patient demand and supplier behavior to explain these parallel trends in technology growth and cost growth. We show that health care productivity depends on the heterogeneity of treatment effects across patients, the shape of the health production function, and the cost structure of procedures such as MRIs with high fixed costs and low marginal costs. The model implies a typology of medical technology productivity: (I) highly cost-effective “home run” innovations with little chance of overuse, such as anti-retroviral therapy for HIV, (II) treatments highly effective for some but not for all (e.g., stents), and (III) “gray area” treatments with uncertain clinical value such as ICU days among chronically ill patients. Not surprisingly, countries adopting Category I and effective Category II treatments gain the greatest health improvements, while countries adopting ineffective Category II and Category III treatments

experience the most rapid cost growth. Ultimately, economic and political resistance in the United States to ever-rising tax rates will likely slow cost growth, with uncertain effects on technology growth. (JEL H51, I11, I18, O31)

### **Globalization, Brain Drain, and Development**

- Journal of Economic Literature---2012---Frédéric Docquier,Hillel Rapoport

This paper reviews four decades of economics research on the brain drain, with a focus on recent contributions and on development issues. We first assess the magnitude, intensity, and determinants of the brain drain, showing that brain drain (or high-skill) migration is becoming a dominant pattern of international migration and a major aspect of globalization. We then use a stylized growth model to analyze the various channels through which a brain drain affects the sending countries and review the evidence on these channels. The recent empirical literature shows that high-skill emigration need not deplete a country's human capital stock and can generate positive network externalities. Three case studies are also considered: the African medical brain drain, the exodus of European scientists to the United States, and the role of the Indian diaspora in the development of India's information technology sector. We conclude with a discussion of the implications of the analysis for education, immigration, and international taxation policies in a global context. ( JEL F02, F22, J24, J61, O15)

### **Forensic Economics**

- Journal of Economic Literature---2012---Eric Zitzewitz

A new meta-field of "forensic economics" has begun to emerge, uncovering evidence of hidden behavior in a variety of domains. Examples include teachers cheating on exams, road builders skimping on materials, violations of U.N. sanctions, unnecessary heart surgeries, and racial biases in employment decisions, traffic stops, auto retailing, and even sports judging. In each case, part of the contribution of economic analysis is in

uncovering evidence of wrongdoing. Although research questions differ, forensic economic work shares commonalities in approaches and limitations. This article seeks to draw out the common threads, with the hope of stimulating further research across fields. (JEL K13)

### **The Mirrlees Review and the State of Public Economics**

- Journal of Economic Literature---2012---Anthony Atkinson

The Mirrlees Review of taxation in the United Kingdom is a landmark in the analysis of U.K. fiscal policy, and of wide interest to public finance economists around the world. This review concentrates on what we can learn from the Review about the current state of public economics and directions for future research. (JEL E62, H20, H50)

### **The Mirrlees Review**

- Journal of Economic Literature---2012---Martin Feldstein

The Mirrlees Review is an ambitious and comprehensive analysis of the British tax system with detailed recommendations for reform. This review essay focuses on those issues that are also likely to be of interest to an American reader. The Review has the technical sophistication that readers would expect from a team of ten economists, chaired by James Mirrlees, the distinguished theorist who received the Nobel Prize for his contributions to the theory of optimal taxation. But it is written for a broader audience, explaining concepts like deadweight loss and the elasticity of tax revenue with respect to tax rates and doing so without any mathematics. (JEL D64, E21, E62, H24, H25)

### **Macroeconomics and the Term Structure**

- Journal of Economic Literature---2012---Refet Gürkaynak,Jonathan H. Wright

This paper provides an overview of the analysis of the term structure of interest rates with a special emphasis on recent developments at the intersection of

macroeconomics and finance. The topic is important to investors and also to policymakers, who wish to extract macroeconomic expectations from longer-term interest rates, and take actions to influence those rates. The simplest model of the term structure is the expectations hypothesis, which posits that long-term interest rates are expectations of future average short-term rates. In this paper, we show that many features of the configuration of interest rates are puzzling from the perspective of the expectations hypothesis. We review models that explain these anomalies using time-varying risk premia. Although the quest for the fundamental macroeconomic explanations of these risk premia is ongoing, inflation uncertainty seems to play a large role. Finally, while modern finance theory prices bonds and other assets in a single unified framework, we also consider an earlier approach based on segmented markets. Market segmentation seems important to understand the term structure of interest rates during the recent financial crisis. (JEL E31, E43, E52, E58)

### **Economic Incentives and Social Preferences: Substitutes or Complements?**

- Journal of Economic Literature---2012---Samuel Bowles,Sandra Polania-Reyes

Explicit economic incentives designed to increase contributions to public goods and to promote other pro-social behavior sometimes are counterproductive or less effective than would be predicted among entirely self-interested individuals. This may occur when incentives adversely affect individuals' altruism, ethical norms, intrinsic motives to serve the public, and other social preferences. The opposite also occurs—crowding in—though it appears less commonly. In the fifty experiments that we survey, these effects are common, so that incentives and social preferences may be either substitutes (crowding out) or complements (crowding in). We provide evidence for four mechanisms that may account for these incentive effects on preferences: namely that incentives may (i) provide information about the person who implemented the incentive, (ii) frame the decision situation so as to suggest appropriate behavior, (iii) compromise a control averse individ-

ual's sense of autonomy, and (iv) affect the process by which people learn new preferences. An implication is that the evaluation of public policy must be restricted to allocations that are supportable as Nash equilibria when account is taken of these crowding effects. We show that well designed fines, subsidies, and the like minimize crowding out and may even do the opposite, making incentives and social preferences complements rather than substitutes. (JEL D02, D03, D04, D83, E61, H41, Z13)

### **What Does Human Capital Do? A Review of Goldin and Katz's The Race between Education and Technology**

- Journal of Economic Literature---2012---Daron Acemoglu,David Autor

Goldin and Katz's *The Race between Education and Technology* is a monumental achievement that supplies a unified framework for interpreting how the demand and supply of human capital have shaped the distribution of earnings in the U.S. labor market over the twentieth century. This essay reviews the theoretical and conceptual underpinnings of this work and documents the success of Goldin and Katz's framework in accounting for numerous broad labor market trends. The essay also considers areas where the framework falls short in explaining several key labor market puzzles of recent decades and argues that these shortcomings can potentially be overcome by relaxing the implicit equivalence drawn between workers' skills and their job tasks in the conceptual framework on which Goldin and Katz build. The essay argues that allowing for a richer set of interactions between skills and technologies in accomplishing job tasks both augments and refines the predictions of Goldin and Katz's approach and suggests an even more important role for human capital in economic growth than indicated by their analysis. (JEL I20, J24, J31, O30)

### **Micro and Macro Labor Supply Elasticities: A Reassessment of Conventional Wisdom**

- Journal of Economic Literature---2012---Michael Keane,Richard Rogerson

The response of aggregate labor supply to various changes in the economic environment is central to many economic issues, especially the optimal design of tax policies. Conventional wisdom based on studies in the 1980s and 1990s has long held that the analysis of micro data leads one to conclude that aggregate labor supply elasticities are quite small. In this paper we argue that this conventional wisdom does not hold up to empirically reasonable and relevant extensions of simple life cycle models that served as the basis for these conclusions. In particular, we show that several pieces of conventional wisdom fail in the presence of human capital accumulation or labor supply decisions that allow for adjustment along both the extensive and intensive margin. We conclude that previous estimates of small labor supply elasticities based on micro data are fully consistent with large aggregate labor supply elasticities. (JEL D91, E24, J22)

### **Consumer Protection and Contingent Charges**

- Journal of Economic Literature---2012---Mark Armstrong, John Vickers

Contingent charges for financial services, such as fees for unauthorized overdrafts, are often controversial. We study the economics of contingent charges in a stylized setting with naive and sophisticated consumers. We contrast situations where the naive benefit from the presence of sophisticated consumers with situations where competition works to subsidize the sophisticated at the expense of the naive, arguably unfairly. The case for regulatory intervention in these situations depends in good part, but not only, on the weight placed on distributional concerns. The economic and legal issues at stake are well illustrated by a case on bank charges recently decided by the U.K. Supreme Court. (JEL D14, D18, G21, G28, L51)

### **Financial Advice**

- Journal of Economic Literature---2012---Roman Inderst, Marco Ottaviani

Financial advice could play an essential role in well-functioning markets for retail financial products, given

that many consumers find it difficult to evaluate the complex products on offer. However, conflicts of interest, which are pervasive in some parts of the industry, can turn advice into a curse rather than a blessing for consumers, especially when consumers are not sufficiently wary. Through a simple model of financial advice, we overview the pros and cons of various policy interventions, such as imposing mandatory disclosure, banning commissions, and regulating contract cancellation terms. (JEL D14, D18, G21, G28)

### **The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review**

- Journal of Economic Literature---2012---Emmanuel Saez, Joel Slemrod, Seth Giertz

This paper critically surveys the large and growing literature estimating the elasticity of taxable income with respect to marginal tax rates using tax return data. First, we provide a theoretical framework showing under what assumptions this elasticity can be used as a sufficient statistic for efficiency and optimal tax analysis. We discuss what other parameters should be estimated when the elasticity is not a sufficient statistic. Second, we discuss conceptually the key issues that arise in the empirical estimation of the elasticity of taxable income using the example of the 1993 top individual income tax rate increase in the United States to illustrate those issues. Third, we provide a critical discussion of selected empirical analyses of the elasticity of taxable income in light of the theoretical and empirical framework we laid out. Finally, we discuss avenues for future research. (JEL H24, H31, J22)

### **Economic Perspectives on Corporate Social Responsibility**

- Journal of Economic Literature---2012---Markus Kitzmueller, Jay Shimshack, Markus Kitzmuller

This paper synthesizes the expanding corporate social responsibility (CSR) literature. We define CSR from an economic perspective and develop a CSR taxonomy that connects disparate approaches to the subject. We

explore whether CSR should exist and investigate conditions when CSR may produce higher welfare than other public good provision channels. We also explore why CSR does exist. Here, we integrate theoretical predictions with empirical findings from economic and noneconomic sources. We find limited systematic empirical evidence in favor of CSR mechanisms related to induced innovation, moral hazard, shareholder preferences, or labor markets. In contrast, we uncover consistent empirical evidence in favor of CSR mechanisms related to consumer markets, private politics, and public politics. (JEL D21, L21, M14)

### **The Enlightened Economy: An Economic History of Britain 1700-1850: Review Essay**

- Journal of Economic Literature---2012---Gregory Clark

The British Industrial Revolution is the key break in world history. Yet the timing, location, and cause of this Revolution are unsolved puzzles. Joel Mokyr's book is one of a number of recent attempted solutions. He explains the Industrial Revolution through the arrival of a particular ideology in Britain, associated with the earlier European intellectual movement of the Enlightenment. This review considers how Mokyr's "idealist" approach fares as an account of the Industrial Revolution, compared to the spate of recent proposed "materialist" explanations. ( JEL N13, N63)

### **Economic History or History of Economics? Grand Pursuit: The Story of Economic Genius: Review Essay**

- Journal of Economic Literature---2012---Orley Ashenfelter

In this essay, I review Sylvia Nasar's long awaited new history of economics, *Grand Pursuit: The Story of Economic Genius* . I describe how the book is an economic history of the period 1850-1950, with distinguished economists' stories inserted in appropriate places. Nasar's goal is to show how economists work, but also to show that they are people too—with more than enough warts and foibles to show they are human!

I contrast the general view of the role of economics in *Grand Pursuit* with Robert Heilbroner's remarkably different conception in *The Worldly Philosophers: The Lives, Times, and Ideas of the Great Economic Thinkers* . I also discuss more generally the question of why economists might be interested in their history at all. (JEL B10, B20, B30, N00)

### **Fighting Poverty One Experiment at a Time: Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty: Review Essay**

- Journal of Economic Literature---2012---Martin Ravallion

Abhijit Banerjee and Esther Duflo offer a coherent vision for an economics of poverty and antipoverty policy. Their economics is grounded in an effort to understand the economic and psychological complexities in the lives of poor people, informed by social experiments and field observations. Their preferred policies entail small reforms at the margin, also informed by experiments—specifically randomized control trials. While the book provides some interesting insights, I question how far its approach will get us in fighting global poverty. (JEL I32, I38, O15, P36)

### **Thinking Small: Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty: Review Essay**

- Journal of Economic Literature---2012---Mark Rosenzweig

In *Poor Economics* , Abhijit Banerjee and Esther Duflo eschew grand theorizing about poverty reduction in favor of an approach in which intelligently designed and tested small interventions, based on a scientific understanding of the lives of the poor, marginally improve their welfare. In so doing, they describe the findings from the recent large literature describing the behavior and institutions of the poor and the consequences of policy and experimental interventions targeted to poverty populations. In this review, I assess whether "thinking small" with its associated policy regime of transfers, subsidies, and nudges, is both a practical and

effective policy prescription for "fighting" poverty and whether the set of studies that have focused on populations that have not escaped poverty has improved our fundamental understanding of both the consequences and causes of poverty. (JEL I32, I38, O15)

### **Getting Up to Speed on the Financial Crisis: A One-Weekend-Reader's Guide**

- Journal of Economic Literature---2012---Gary Gorton, Andrew Metrick

All economists should be conversant with "what happened?" during the financial crisis of 2007-09. We select and summarize sixteen documents, including academic papers and reports from regulatory and international agencies. This reading list covers the key facts and mechanisms in the build-up of risk, the panics in short-term-debt markets, the policy reactions, and the real effects of the financial crisis. (JEL E32, E44, E52, G01, G21, G28)

### **Reading about the Financial Crisis: A Twenty-One-Book Review**

- Journal of Economic Literature---2012---Andrew Lo

The recent financial crisis has generated many distinct perspectives from various quarters. In this article, I review a diverse set of twenty-one books on the crisis, eleven written by academics, and ten written by journalists and one former Treasury Secretary. No single narrative emerges from this broad and often contradictory collection of interpretations, but the sheer variety of conclusions is informative, and underscores the desperate need for the economics profession to establish a single set of facts from which more accurate inferences and narratives can be constructed. (JEL E32, E44, E52, G01, G21, G28)

### **Nonlinear Models of Measurement Errors**

- Journal of Economic Literature---2011---Xiaohong Chen, Han Hong, Denis Nekipelov

Measurement errors in economic data are pervasive and nontrivial in size. The presence of measurement errors causes biased and inconsistent parameter estimates and leads to erroneous conclusions to various degrees in economic analysis. While linear errors-in-variables models are usually handled with well-known instrumental variable methods, this article provides an overview of recent research papers that derive estimation methods that provide consistent estimates for nonlinear models with measurement errors. We review models with both classical and nonclassical measurement errors, and with misclassification of discrete variables. For each of the methods surveyed, we describe the key ideas for identification and estimation, and discuss its application whenever it is currently available. (JEL C20, C26, C50)

### **Sign Restrictions in Structural Vector Autoregressions: A Critical Review**

- Journal of Economic Literature---2011---Renee Fry-McKibbin, Adrian Pagan

The paper provides a review of the estimation of structural vector autoregressions with sign restrictions. It is shown how sign restrictions solve the parametric identification problem present in structural systems but leaves the model identification problem unresolved. A market and a macro model are used to illustrate these points. Suggestions have been made on how to find a unique model. These are reviewed. An analysis is provided of whether one can recover the true impulse responses and what difficulties might arise when one wishes to use the impulse responses found with sign restrictions. (JEL C32, C51, E12)

### **Labor Supply and Taxes: A Survey**

- Journal of Economic Literature---2011---Michael Keane

I survey the male and female labor supply literatures, focusing on implications for effects of wages and taxes. For males, I describe and contrast results from three basic types of model: static models (especially those that account for nonlinear taxes), life-cycle models with



savings, and life-cycle models with both savings and human capital. For women, more important distinctions are whether models include fixed costs of work, and whether they treat demographics like fertility and marriage (and human capital) as exogenous or endogenous. The literature is characterized by considerable controversy over the responsiveness of labor supply to changes in wages and taxes. At least for males, it is fair to say that most economists believe labor supply elasticities are small. But a sizable minority of studies that I examine obtain large values. Hence, there is no clear consensus on this point. In fact, a simple average of Hicks elasticities across all the studies I examine is 0.31. Several simulation studies have shown that such a value is large enough to generate large efficiency costs of income taxation. For males, I conclude that two factors drive many of the differences in results across studies. One factor is use of direct versus ratio wage measures, with studies that use the former tending to find larger elasticities. Another factor is the failure of most studies to account for human capital returns to work experience. I argue that this may lead to downward bias in elasticity estimates. In a model that includes human capital, I show how even modest elasticities—as conventionally measured—can be consistent with large efficiency costs of taxation. For women, in contrast, it is fair to say that most studies find large labor supply elasticities, especially on the participation margin. In particular, I find that estimates of "long-run" labor supply elasticities—by which I mean estimates that allow for dynamic effects of wages on fertility, marriage, education and work experience—are generally quite large. ( JEL D91, J13, J16, J22, J31, H24)

### **The Fundamental Institutions of China's Reforms and Development**

- Journal of Economic Literature---2011---Chenggang Xu

China's economic reforms have resulted in spectacular growth and poverty reduction. However, China's institutions look ill-suited to achieve such a result, and they indeed suffer from serious shortcomings. To solve the

"China puzzle," this paper analyzes China's institution—a regionally decentralized authoritarian system. The central government has control over personnel, whereas subnational governments run the bulk of the economy; and they initiate, negotiate, implement, divert, and resist reforms, policies, rules, and laws. China's reform trajectories have been shaped by regional decentralization. Spectacular performance on the one hand and grave problems on the other hand are all determined by this governance structure. (JEL O17, O18, O43, P21, P25, P26)

### **Economic Liberalization and Indian Economic Growth: What's the Evidence?**

- Journal of Economic Literature---2011---Ashok Kotwal, Bharat Ramaswami, Wilima Wadhwa

India's growth and poverty performance over the last three decades has been a subject of great curiosity. Unlike the East Asian countries, India's growth spurt is not associated with exceptionally high domestic savings or foreign capital inflows or manufacturing exports. So what triggered the change in the growth trajectory? Did the market liberalization policies of the 1990s help? How have the initial conditions shaped the process? And how has the "Indian model" impinged on India's central problem of mass poverty? This paper surveys the literature and offers its own assessment of the drivers of change. (JEL I32, O13, O14, O15, O21, O47)

### **European Integration at the Crossroads: A Review Essay on the 50th Anniversary of Bela Balassa's Theory of Economic Integration**

- Journal of Economic Literature---2011---Andre Sapir

Bela Balassa's Theory of Economic Integration, published fifty years ago, is a remarkable, yet little known book. This essay reviews developments in the economic literature and in the process of European integration since the book's publication, showing that it was incredibly prescient. It anticipated by more than twenty years the modern literature on economic integration

that emphasizes scale economies, imperfect competition, and economic geography. It also predicted that monetary union cannot function properly without political unification, a condition well illustrated by the recent euro-debt crisis that is likely to be a watershed in the history of European integration. (JEL B31, F15, F36, G01)

### **The Historical Fertility Transition: A Guide for Economists**

- Journal of Economic Literature---2011---Timothy Guinnane

The historical fertility transition is the process by which much of Europe and North America went from high to low fertility in the nineteenth and early twentieth centuries. This transformation is central to recent accounts of long-run economic growth. Prior to the transition, women bore as many as eight children each, and the elasticity of fertility with respect to incomes was positive. Today, many women have no children at all, and the elasticity of fertility with respect to incomes is zero or even negative. This paper discusses the large literature on the historical fertility transition, focusing on what we do and do not know about the process. I stress some possible misunderstanding of the demographic literature, and discuss an agenda for future work. (JEL I12, J13, N30)

### **The Causal Effect of Parents' Schooling on Children's Schooling: A Comparison of Estimation Methods**

- Journal of Economic Literature---2011---Helena Holmlund,Mikael Lindahl,Erik Plug

We review the empirical literature that estimates the causal effect of parent's schooling on child's schooling, and conclude that estimates differ across studies. We then consider three explanations for why this is: (a) idiosyncratic differences in data sets, (b) differences in remaining biases between different identification strategies, and (c) differences across identification strategies in their ability to make out-of-sample predictions. We

conclude that discrepancies in past studies can be explained by violations of identifying assumptions. Our reading of past evidence, together with an application to Swedish register data, suggests that intergenerational schooling associations are largely driven by selection. Parental schooling constitutes a large part of the parental nurture effect, but as a whole does not play a large role. (JEL I21, J13)

### **Exchange Rate Regimes in the Modern Era: Fixed, Floating, and Flaky**

- Journal of Economic Literature---2011---Andrew Rose

This paper provides a selective survey of the incidence, causes, and consequences of a country's choice of its exchange rate regime. I begin with a critical review of Michael Klein and Jay C. Shambaugh's (2010) book *Exchange Rate Regimes in the Modern Era*, and then proceed to provide an alternative overview of what the economics profession knows and needs to know about exchange rate regimes. While a fixed exchange rate with capital mobility is a well-defined monetary regime, floating is not; thus, it is unclear whether it is theoretically sensible to compare countries across exchange rate regimes. This comparison is quite difficult to make empirically. It is often hard to figure out what the exchange rate regime of a country is in practice, since there are multiple conflicting regime classifications. More importantly, similar countries choose radically different exchange rate regimes without substantive consequences for macroeconomic outcomes like output growth and inflation. That is, the profession knows surprisingly little about either the causes or consequences of national choices of exchange rate regimes. But since the consequences of these choices are small, understanding their causes is of only academic interest. (JEL E52, F33)

### **Can Government Purchases Stimulate the Economy?**

- Journal of Economic Literature---2011---Valerie Ramey

This essay briefly reviews the state of knowledge about the government spending multiplier. Drawing on theoretical work, aggregate empirical estimates from the United States, as well as cross-locality estimates, I assess the likely range of multiplier values for the experiment most relevant to the stimulus package debate: a temporary, deficit-financed increase in government purchases. I conclude that the multiplier for this type of spending is probably between 0.8 and 1.5. (JEL E23, E62, H50)

## **An Empirical Analysis of the Revival of Fiscal Activism in the 2000s**

- Journal of Economic Literature---2011---John Taylor

An empirical review of the three fiscal stimulus packages of the 2000s shows that they had little if any direct impact on consumption or government purchases. Households largely saved the transfers and tax rebates. The federal government only increased purchases by a small amount. State and local governments saved their stimulus grants and shifted spending away from purchases to transfers. Counterfactual simulations show that the stimulus-induced decrease in state and local government purchases was larger than the increase in federal purchases. Simulations also show that a larger stimulus package with the same design as the 2009 stimulus would not have increased government purchases or consumption by a larger amount. These results raise doubts about the efficacy of such packages adding weight to similar assessments reached more than thirty years ago. (JEL E21, E23, E32, E62, H50)

## **On Measuring the Effects of Fiscal Policy in Recessions**

- Journal of Economic Literature---2011---Jonathan Parker

We do not have a good measure of the effects of fiscal policy in a recession because the methods that we use to estimate the effects of fiscal policy—both those using the observed outcomes following different policies in aggregate data and those studying counterfactuals

in fitted model economies—almost entirely ignore the state of the economy and estimate "the" government multiplier, which is presumably a weighted average of the one we care about—the multiplier in a recession—and one we care less about—the multiplier in an expansion. Notable exceptions to this general claim suggest this difference is potentially large. Our lack of knowledge stems significantly from the focus on linear dynamics: vector autoregressions and linearized (or close-to-linear) dynamic stochastic general equilibrium (DSGE) models. Our lack of knowledge also reflects a lack of data: deep recessions are few and nonlinearities hard to measure. The lack of statistical power in the estimation of nonlinear models using aggregate data can be addressed by exploiting estimates of partial-equilibrium responses in disaggregated data. Microeconomic estimates of the partial-equilibrium causal effects of a policy can discipline the causal channels inherent in any DSGE model of the general equilibrium effects of policy. Microeconomic studies can also provide measures of the dependence of the effects of a policy on the states of different agents, which is a key component of the dependence of the general-equilibrium effects of fiscal policy on the state of the economy. (JEL E12, E13, E32, E62, H50)

## **Illiquidity and All Its Friends**

- Journal of Economic Literature---2011---Jean Tirole

The recent crisis was characterized by massive illiquidity. This paper reviews what we know and don't know about illiquidity and all its friends: market freezes, fire sales, contagion, and ultimately insolvencies and bailouts. It first explains why liquidity cannot easily be apprehended through a single statistic, and asks whether liquidity should be regulated given that a capital adequacy requirement is already in place. The paper then analyzes market breakdowns due to either adverse selection or shortages of financial muscle, and explains why such breakdowns are endogenous to balance sheet choices and to information acquisition. It then looks at what economics can contribute to the debate on systemic risk and its containment. Finally,

the paper takes a macroeconomic perspective, discusses shortages of aggregate liquidity, and analyzes how market value accounting and capital adequacy should react to asset prices. It concludes with a topical form of liquidity provision, monetary bailouts and recapitalizations, and analyzes optimal combinations thereof; it stresses the need for macro-prudential policies. ( JEL E44, G01, G21, G28, G32, L51)

### **What Determines Productivity?**

- Journal of Economic Literature---2011---Chad Syverson

Economists have shown that large and persistent differences in productivity levels across businesses are ubiquitous. This finding has shaped research agendas in a number of fields, including (but not limited to) macroeconomics, industrial organization, labor, and trade. This paper surveys and evaluates recent empirical work addressing the question of why businesses differ in their measured productivity levels. The causes are manifold, and differ depending on the particular setting. They include elements sourced in production practices -- and therefore over which producers have some direct control, at least in theory -- as well as from producers' external operating environments. After evaluating the current state of knowledge, I lay out what I see are the major questions that research in the area should address going forward. (JEL D24, G31, L11, M10, O30, O47)

### **Natural Resources: Curse or Blessing?**

- Journal of Economic Literature---2011---Frederick (Rick) van der Ploeg

Are natural resources a "curse" or a "blessing"? The empirical evidence suggests that either outcome is possible. This paper surveys a variety of hypotheses and supporting evidence for why some countries benefit and others lose from the presence of natural resources. These include that a resource bonanza induces appreciation of the real exchange rate, deindustrialization, and bad growth prospects, and that these adverse effects are more severe in volatile countries with bad institutions

and lack of rule of law, corruption, presidential democracies, and underdeveloped financial systems. Another hypothesis is that a resource boom reinforces rent grabbing and civil conflict especially if institutions are bad, induces corruption especially in nondemocratic countries, and keeps in place bad policies. Finally, resource rich developing economies seem unable to successfully convert their depleting exhaustible resources into other productive assets. The survey also offers some welfare-based fiscal rules for harnessing resource windfalls in developed and developing economies. (JEL O47, Q32, Q33)

### **A World without Intellectual Property? A Review of Michele Boldrin and David Levine's Against Intellectual Monopoly**

- Journal of Economic Literature---2011---Richard Gilbert

In their recent book, *Against Intellectual Monopoly*, Michele Boldrin and David Levine conclude that patents and copyrights are not necessary to provide protection for either innovation or creative expression and should be eliminated. The authors note the many flaws of the U.S. system of intellectual property protection and argue that other means are available to appropriate the benefits of invention and creative expression. While the authors overlook important functions of intellectual property, they provide support for further reforms of intellectual property law. (JEL K11, O31, O34)

### **Top Incomes in the Long Run of History**

- Journal of Economic Literature---2011---Anthony Atkinson, Thomas Piketty, Emmanuel Saez

A recent literature has constructed top income shares time series over the long run for more than twenty countries using income tax statistics. Top incomes represent a small share of the population but a very significant share of total income and total taxes paid. Hence, aggregate economic growth per capita and Gini inequality indexes are sensitive to excluding or including top incomes. We discuss the estimation methods

and issues that arise when constructing top income share series, including income definition and comparability over time and across countries, tax avoidance, and tax evasion. We provide a summary of the key empirical findings. Most countries experience a dramatic drop in top income shares in the first part of the twentieth century in general due to shocks to top capital incomes during the wars and depression shocks. Top income shares do not recover in the immediate postwar decades. However, over the last thirty years, top income shares have increased substantially in English speaking countries and in India and China but not in continental European countries or Japan. This increase is due in part to an unprecedented surge in top wage incomes. As a result, wage income comprises a larger fraction of top incomes than in the past. Finally, we discuss the theoretical and empirical models that have been proposed to account for the facts and the main questions that remain open. (JEL D31, D63, H26, N30)

### **Frontiers of Real-Time Data Analysis**

- Journal of Economic Literature---2011---Dean Croushore

In the past ten years, researchers have explored the impact of data revisions in many different contexts. Researchers have examined the properties of data revisions, how structural modeling is affected by data revisions, how data revisions affect forecasting, the impact of data revisions on monetary policy analysis, and the use of real-time data in current analysis. This paper summarizes many of the questions for which real-time data analysis has provided answers. In addition, researchers and institutions have developed better real-time data sets around the world. Still, additional research is needed in key areas and research to date has uncovered even more fruitful areas worth exploring. (JEL C52, C53, C80, E01)

### **Thinking about the Firm: A Review of Daniel Spulber's The Theory of the Firm**

- Journal of Economic Literature---2011---Oliver Hart

In this review, I describe how economists have moved beyond the firm as a black box to incorporate incentives, internal organization, and firm boundaries. I then turn to the way that the theory of the firm is treated in Daniel Spulber's book *The Theory of the Firm: Microeconomics with Endogenous Entrepreneurs, Firms, Markets, and Organizations*. Spulber's goal is to explain why firms exist, how they are established, and what they contribute to the economy. To accomplish this, Spulber defines a firm to be a transaction institution whose objectives differ from those of its owners. For Spulber, this separation is the key difference between the firm and direct exchange between consumers. I raise questions about whether this is a useful basis for a theory of the firm. (JEL D21)

### **The Squam Lake Report: Commentary**

- Journal of Economic Literature---2011---Charles A. E. Goodhart

The idea of the Squam Lake Report was to bring together some fifteen leading U.S. financial economists to see what regulatory changes they could jointly agree and thereby influence policy discussions. Seeking to find a consensus, however, meant that many issues were not mentioned in the Report, e.g., structural limitations, Pigovian taxes, procyclicality, and boundary problems between banks and nonbanks. But what is presented is generally, though not invariably, admirable, and the book is beautifully written in good, easily accessible English. (JEL E44, E52, G01, G21, G28, L51)

### **Financial Regulation: Lessons from the Recent Financial Crises**

- Journal of Economic Literature---2011---Takeo Hoshi

The experiences of the financial crises in the United States recently and in Japan in the 1990s suggest two lessons for future financial regulations. First, the lack of an orderly resolution mechanism for large and complex financial institutions created serious problems.

Second, it is important to distinguish between individual financial institutions' health and stability of the whole financial system. Policy recommendations in the Squam Lake Report address these issues well. The Dodd-Frank Act could provide an effective regulatory framework to implement these recommendations, but the success depends on the details of the regulations that have not been specified. (JEL E44, E52, G01, G21, G28, L51)

### **Designing Climate Mitigation Policy**

- Journal of Economic Literature---2010---Joseph Aldy, Alan J. Krupnick, Richard Newell, Ian Parry, William Pizer

This paper provides (for the nonspecialist) a highly streamlined discussion of the main issues, and controversies, in the design of climate mitigation policy. The first part of the paper discusses how much action to reduce greenhouse gas emissions at the global level is efficient under both the cost-effectiveness and welfare-maximizing paradigms. We then discuss various issues in the implementation of domestic emissions control policy, instrument choice, and incentives for technological innovation. Finally, we discuss alternative policy architectures at the international level. (JEL Q54, Q58)

### **Quality Disclosure and Certification: Theory and Practice**

- Journal of Economic Literature---2010---David Dranove, Ginger Zhe Jin

This essay reviews the theoretical and empirical literature on quality disclosure and certification. After comparing quality disclosure with other quality assurance mechanisms and describing a brief history of quality disclosure, we address two sets of theoretical issues. First, why don't sellers voluntarily disclose through a process of "unraveling" and, given the lack of unraveling, is it desirable to mandate seller disclosure? Second, when we rely on certifiers to act as the intermediary of quality disclosure, do certifiers necessarily

report unbiased and accurate information? We further review empirical evidence on these issues, with a particular focus on healthcare, education, and finance. The empirical review covers quality measurement, the effect of third-party disclosure on consumer choice and seller behavior, as well as the economics of certifiers. (JEL D18, K32, L15, M31)

### **Efficiency and Redistribution: An Evaluative Review of Louis Kaplow's The Theory of Taxation and Public Economics**

- Journal of Economic Literature---2010---Robin Boadway

Louis Kaplow proposes a two-step methodology for normative policy analysis and illustrates it using various policy reforms. The first step is to identify efficiency gains when hypothetical lump-sum taxes can undo redistributive consequences. The second step evaluates the redistributive effects using a strictly welfaristic social welfare function. I critically review the foundations for Kaplow's procedure and its reliance on strict welfarism. I argue that basing efficiency gains on hypothetical lump-sum tax adjustment can lead to social welfare reducing policies if such tax adjustments are not carried out. I also indicate some conceptual problems with translating welfarism into policy evaluation when individuals have different utility function, and review one promising alternative approach. (JEL H20, H41, H50)

### **Does Network Theory Connect to the Rest of Us? A Review of Matthew O. Jackson's Social and Economic Networks**

- Journal of Economic Literature---2010---James Rauch

The ubiquity of networks in our social lives has long been recognized, and their importance in our economic lives is increasingly recognized as well. Yet the literature synthesized in Matthew O. Jackson's Social and Economic Networks, which covers the theory of how networks form, decay, and shape behavior at a general level, has had little influence on either applied theory

or empirical work in this area. This is partly because of limitations of network theory as it has evolved in this literature. After describing the network theory presented in the book, I discuss these limitations and make some tentative suggestions as to how they might be overcome. (JEL D85, L14, Z13)

### **Why Isn't Mexico Rich?**

- Journal of Economic Literature---2010---Gordon Hanson

Over the last three decades, Mexico has aggressively reformed its economy, opening to foreign trade and investment, achieving fiscal discipline, and privatizing state owned enterprises. Despite these efforts, the country's economic growth has been lackluster, trailing that of many other developing nations. In this paper, I review arguments for why Mexico hasn't sustained higher rates of economic growth. The most prominent suggest that some combination of poorly functioning credit markets, distortions in the supply of nontraded inputs, and perverse incentives for informality creates a drag on productivity growth. These are factors internal to Mexico. One possible external factor is that the country has the bad luck of exporting goods that China sells, rather than goods that China buys. I assess evidence from recent literature on these arguments and suggest directions for future research. (JEL E23, E65, F14, O10, O20, O47)

### **Why Have Economic Reforms in Mexico Not Generated Growth?**

- Journal of Economic Literature---2010---Timothy Kehoe, Kim Ruhl

Following its opening to trade and foreign investment in the mid-1980s, Mexico's economic growth has been modest at best, particularly in comparison with that of China. Comparing these countries and reviewing the literature, we conclude that the relation between openness and growth is not a simple one. Using standard trade theory, we find that Mexico has gained from trade, and by some measures, more so than China. We sketch out a theory in which developing countries can

grow faster than the United States by reforming. As a country becomes richer, this sort of catch-up becomes more difficult. Absent continuing reforms, Chinese growth is likely to slow down sharply, perhaps leaving China at a level less than Mexico's real GDP per working-age person. (JEL E23, E65, F14, O10, O20, O47)

### **The Macroeconomic Costs and Benefits of the EMU and Other Monetary Unions: An Overview of Recent Research**

- Journal of Economic Literature---2010---Roel Beetsma, Massimo Giuliodori

This article provides an overview of recent research into the macroeconomic costs and benefits of monetary unification. We are primarily interested in Europe's monetary union. Given that unification entails the loss of a policy instrument, its potential benefits have to be found elsewhere. Unification may serve as a vehicle for beneficial institutional changes. In particular, it may be a route toward an independent monetary policy, which alleviates the scope for political pressure to relax monetary policy. Unification also eliminates harmful monetary policy spillovers and competitive devaluations. We explore how disagreement between the monetary and fiscal authorities about their policy objectives can lead to extreme macroeconomic outcomes. Further, we pay considerable attention to the desirability (or not) of fiscal constraints and fiscal coordination in a monetary union. Monetary commitment and fiscal free riding play a key role in this regard. Similar free-riding issues also feature prominently in the analysis of how unification influences structural reforms. We end with a brief discussion of monetary unification outside Europe. The cost-benefit trade-off of unification may differ substantially between industrialized and less-developed countries, where differences in fiscal needs and, hence, the reliance on seigniorage revenues may dominate the scope for unification.

### **Services Trade and Policy**

- Journal of Economic Literature---2010---Joseph Francois, Bernard Hoekman

A substantial body of research has taken shape on trade in services since the mid-1980s. Much of this is inspired by the WTO and regional trade agreements. However, an increasing number of papers focus on the impacts of unilateral services sector liberalization. The literature touches on important linkages between trade and FDI in services and the general pattern of productivity growth and economic development. This paper surveys the literature on services trade, focusing on contributions that investigate the determinants of international trade and investment in services, the potential gains from greater trade, and efforts to cooperate to achieve such liberalization through trade agreements. There is increasing evidence that services liberalization is a major potential source of gains in economic performance, including productivity in manufacturing and the coordination of activities both between and within firms. The performance of service sectors, and thus services policies, may also be an important determinant of trade volumes, the distributional effects of trade, and overall patterns of economic growth and development. At the same time, services trade is also a source of increasing political unease about the impacts of globalization on labor markets, linked to worries about offshoring and the potential pressure this places on wages in high income countries.

### **Consumption and Saving: Models of Intertemporal Allocation and Their Implications for Public Policy**

- Journal of Economic Literature---2010---Orazio Attanasio, Guglielmo Weber

This paper provides a critical survey of the large literature on the life cycle model of consumption, both from an empirical and a theoretical point of view. It discusses several approaches that have been taken in the literature to bring the model to the data, their empirical successes, and their failures. Finally, the paper reviews a number of changes to the standard life cycle model that could help solve the remaining empirical puzzles.

### **A Review of Douglass C. North, John Joseph Wallis, and Barry R. Weingast's Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History**

- Journal of Economic Literature---2010---Robert Bates

In *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*, Douglass C. North, John Joseph Wallis, and Barry R. Weingast probe the organizational foundations of development. Outlining the properties of the "natural" and "open entry" societies, they highlight as well the conditions under which societies can move from one to the other, thereby achieving political order and economic prosperity.

### **Regression Discontinuity Designs in Economics**

- Journal of Economic Literature---2010---David S. Lee, Thomas Lemieux

This paper provides an introduction and "user guide" to Regression Discontinuity (RD) designs for empirical researchers. It presents the basic theory behind the research design, details when RD is likely to be valid or invalid given economic incentives, explains why it is considered a "quasi-experimental" design, and summarizes different ways (with their advantages and disadvantages) of estimating RD designs and the limitations of interpreting these estimates. Concepts are discussed using examples drawn from the growing body of empirical research using RD. ( JEL C21, C31)

### **Building Bridges between Structural and Program Evaluation Approaches to Evaluating Policy**

- Journal of Economic Literature---2010---James Heckman

This paper compares the structural approach to economic policy analysis with the program evaluation approach. It offers a third way to do policy analysis that combines the best features of both approaches. I



illustrate the value of this alternative approach by making the implicit economics of LATE explicit, thereby extending the interpretability and range of policy questions that LATE can answer. (JEL C21, E61)

### **Better LATE Than Nothing: Some Comments on Deaton (2009) and Heckman and Urzua (2009)**

- Journal of Economic Literature---2010---Guido Imbens

Two recent papers, Deaton (2009) and Heckman and Urzua (2009), argue against what they see as an excessive and inappropriate use of experimental and quasi-experimental methods in empirical work in economics in the last decade. They specifically question the increased use of instrumental variables and natural experiments in labor economics and of randomized experiments in development economics. In these comments, I will make the case that this move toward shoring up the internal validity of estimates, and toward clarifying the description of the population these estimates are relevant for, has been important and beneficial in increasing the credibility of empirical work in economics. I also address some other concerns raised by the Deaton and Heckman-Urzua papers. (JEL C21, C31)

### **Instruments, Randomization, and Learning about Development**

- Journal of Economic Literature---2010---Angus Deaton

There is currently much debate about the effectiveness of foreign aid and about what kind of projects can engender economic development. There is skepticism about the ability of econometric analysis to resolve these issues or of development agencies to learn from their own experience. In response, there is increasing use in development economics of randomized controlled trials (RCTs) to accumulate credible knowledge of what works, without overreliance on questionable theory or statistical methods. When RCTs are not possible, the proponents of these methods advocate quasi-randomization through instrumental variable (IV) techniques or natural experiments. I argue

that many of these applications are unlikely to recover quantities that are useful for policy or understanding: two key issues are the misunderstanding of exogeneity and the handling of heterogeneity. I illustrate from the literature on aid and growth. Actual randomization faces similar problems as does quasi-randomization, notwithstanding rhetoric to the contrary. I argue that experiments have no special ability to produce more credible knowledge than other methods, and that actual experiments are frequently subject to practical problems that undermine any claims to statistical or epistemic superiority. I illustrate using prominent experiments in development and elsewhere. As with IV methods, RCT-based evaluation of projects, without guidance from an understanding of underlying mechanisms, is unlikely to lead to scientific progress in the understanding of economic development. I welcome recent trends in development experimentation away from the evaluation of projects and toward the evaluation of theoretical mechanisms. (JEL C21, F35, O19)

### **Civil War**

- Journal of Economic Literature---2010---Christopher Blattman, Edward Miguel

Most nations have experienced an internal armed conflict since 1960. Yet while civil war is central to many nations' development, it has stood at the periphery of economics research and teaching. The past decade has witnessed a long overdue explosion of research into war's causes and consequences. We summarize progress, identify weaknesses, and chart a path forward. Why war? Existing theory is provocative but incomplete, omitting advances in behavioral economics and making little progress in key areas, like why armed groups form and cohere, or how more than two armed sides compete. Empirical work finds that low per capita incomes and slow economic growth are both robustly linked to civil war. Yet there is little consensus on the most effective policies to avert conflicts or promote postwar recovery. Cross-country analysis of war will benefit from more attention to causal identification and stronger links to theory. We argue that micro-level analysis and case studies are also crucial to decipher

war's causes, conduct, and consequences. We bring a growth theoretic approach to the study of conflict consequences to highlight areas for research, most of all the study of war's impact on institutions. We conclude with a plea for new and better data. ( JEL D72, D74, O17)

### **The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey**

- Journal of Economic Literature---2010---Renee Adams,Benjamin Hermalin,Michael Weisbach

This paper is a survey of the literature on boards of directors, with an emphasis on research done subsequent to the Benjamin E. Hermalin and Michael S. Weisbach (2003) survey. The two questions most asked about boards are what determines their makeup and what determines their actions? These questions are fundamentally intertwined, which complicates the study of boards because makeup and actions are jointly endogenous. A focus of this survey is how the literature, theoretical as well as empirical, deals -- or on occasions fails to deal -- with this complication. We suggest that many studies of boards can best be interpreted as joint statements about both the director-selection process and the effect of board composition on board actions and firm performance. (JEL G34, L25)

### **A Review of Scott E. Page's The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies**

- Journal of Economic Literature---2010---Yannis Ioannides

This assessment of Scott Page's *The Difference* (Princeton University Press, 2007) emphasizes the depth and breadth of the book's coverage and arguments and checks them against existing empirical evidence, when available. It argues that the book navigates artfully between being a "manifesto" for diversity and rigorous science writing while at the same time marketing economic science in new ways. The review welcomes

the book's popularization of richer aspects of everyday decision making, individual and collective, and its making an excellent case for the social significance of abstract economic theorizing, especially about problem solving. It praises the book's lively interpretations of statistical tools of decision making by means of enticing narratives. The book's rhetoric urges us to move beyond accepting diversity as a matter of taste, or even because of its beneficial effects on the "production function," and ultimately adopts its powerful logic. It speculates that the book's true impact will likely come after thorough empirical research. In empirical endeavors, issues of definition, especially of identity and of measurement, and evaluation of policies that would enhance diversity would be decisive. In democratic societies, policies may pose new dilemmas as they benefit from public interest in overcoming the accumulation of past disadvantages. (JEL D23, Z13)

### **How Central Should the Central Bank Be?**

- Journal of Economic Literature---2010---Alan Blinder

The nature and scope of the Federal Reserve's authority and the structure of its decision making are now "on the table" to an extent that has not been seen since 1935, and the Fed's vaunted independence is under some attack. This essay asks what the Federal Reserve should -- and shouldn't -- do, leaning heavily on the concept of economies of scope. In particular, I conclude that the central bank should monitor and regulate systemic risk because preserving financial stability is (a) closely aligned with the standard objectives of monetary policy and (b) likely to require lender of last resort powers. I also conclude that the Fed should supervise large financial institutions because that function is so closely to regulating systemic risk. However, several other functions now performed by the Fed could easily be done elsewhere. ( JEL E52, E58, G21, G28)

### **What Powers for the Federal Reserve?**

- Journal of Economic Literature---2010---Martin Feldstein

In this essay, I explain my reasons for the following policy recommendations: (1) The Fed should continue to manage monetary policy as it has in the past, should act as the nation's lender of last resort, should fully supervise the large bank holding companies and their subsidiary banks, and should be given resolution authority over the institutions that it supervises. (2) While a council of supervisors and regulators can play a useful role in dealing with macro prudential risks, it should not replace the central role of the Federal Reserve. (3) The virtually unlimited lending powers that the Fed has recently exercised in creating credit and helping individual institutions should be restricted in duration and subjected to formal Treasury approval backed by Congressional preauthorization of funds. (4) The Fed's capital rules for commercial banks need to be strengthened by replacing the existing risk-based capital approach with a broader definition of risk and the introduction of contingent capital. (5) Subjecting mortgage lending to a broader range of Federal Reserve regulations and allowing the Fed to deal with nonbank creators of mortgage products would be better than the creation of a new consumer financial protection organization. (JEL E52, E58, G21, G28)