Literature Report

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Abstract

Systemic event prediction by an aggregate early warning system: An application to the Czech Republic

- Economic Systems---2015---Diana Zigraiova,Petr Jakubík

This work develops an early warning framework for assessing systemic risks and predicting systemic events over a short horizon of six quarters and a long horizon of 12 quarters on a panel of 14 countries, both advanced and developing. First, we build a financial stress index to identify the starting dates of systemic financial crises for each country in the panel. Second, early warning indicators for the assessment and prediction of systemic risk are selected in a two-step approach; we find relevant prediction horizons for each indicator by a univariate logit model followed by the application of Bayesian model averaging to identify the most useful indicators. Finally, we observe the performance of the constructed EWS over both horizons on the Czech data and find that the model over the long horizon outperforms the EWS over the short horizon. For both horizons, out-of-sample probability estimates do not deviate substantially from their in-sample estimates, indicating a good out-of-sample performance for the Czech Republic.

Assessing optimal credit growth for an emerging banking system

- Economic Systems---2015---Petr Jakubík,Bogdan-Gabriel Moinescu

The paper sets forth a novel way to estimate the optimal level of credit growth for an emerging banking system. Contrary to the traditional credit-to-GDP gap indicator, credit growth is considered to be optimal when it does not accelerate credit risk measured by loan loss provisions. We provide empirical support for modelling the provision charge ratio dynamic by the quadratic function of the credit growth deviation from its optimal level. The operational framework consists of a simplified financial satellite with two equations representing credit growth and change in the provision charge ratio. Our empirical results show that a 3 percent ($\pm$1pp margin) quarterly increase in credit to the private sector is, in nominal terms, optimal for financial stability and sustainable growth in Romania.

The dynamic relationship between stock, bond and foreign exchange markets

- Economic Systems---2015---Suleyman Kal,Ferhat Arslaner,Nuran Arslaner

This paper investigates whether the deviation of a currency from its fundamentally determined rate of return affects the relationship between interest rates and stock market yields. A time-varying transition probability, the Markov-switching vector autoregressive (MS-VAR) model, is utilized for this purpose. Wald and likelihood ratio tests are computed and used as model adequacy measures. In order to analyze the link between the variables, impulse–response functions are employed. A sticky price exchange rate model is used to show the fundamentally determined rate of return of currencies. States are defined as either overvalued or undervalued, depending on the position of the observed exchange rate compared to its fundamentally determined rate. The model is applied to four major currencies: the Australian Dollar, the Canadian Dollar, the Japanese Yen, and the British Pound. Transition between the states is linked to the risk-adjusted excess return (the Sharpe ratio) of the debt and equity markets of the respective currencies in order to understand whether over- and undervaluation is connected to the returns in these markets. The results provide evidence that the relationship between economic fundamentals and nominal exchange rates are subject to change depending on the over- or undervaluation of the currencies relative to their fundamentally determined rate of return. An extension of this result shows that the Sharpe ratios of debt and equity investments in the currencies influence the evolution of the transitional dynamics of the exchange rates' deviation from their fundamental values.

Knowledge externalities and demand pull: The European evidence

- Economic Systems---2015---Cristiano Antonelli,Agnieszka Gehringer

This paper elaborates the microeconomic foundations of the demand pull hypothesis stressing the role of vertical knowledge externalities stemming from user–producer knowledge interactions that parallel vertical transactions. The paper articulates and tests the hypothesis that such competent demand is actually able to pull technological change only when it is expressed by advanced users, able to provide relevant knowledge externalities to their customers. Using input output tables we test empirically this hypothesis for 15 European countries in the years 1995–2007. The evidence confirms that the increase in productivity of the upstream sectors is positively influenced by the sector-level derived demand, according to the upstream rates of introduction of innovations and to the intensity of the user–producer interactions. The policy implications of the analysis enable to elaborate and implement the notion of a 'competent' public demand.

The transmission of foreign shocks to South Eastern European economies: A Bayesian VAR approach

- Economic Systems---2015---Goran Petrevski,Peter Exterkate,Dragan Tevdovski,Jane Bogoev

The paper analyses the macroeconomic effects of foreign shocks in three South-East European (SEE) economies: Croatia, Macedonia and Bulgaria. In this regard, we investigate the transmission of several eurozone shocks (output gap, money market rates and inflation) on various macroeconomic variables in the aforementioned countries (output, inflation, money market rates and budget deficits). We trace the effects of foreign shocks on the basis of impulse response functions obtained from the Bayesian Vector Auto Regressions (VARs) separately for each country. The main findings from our study are: first, economic expansion in the eurozone has strong output and inflation effects on SEE economies, implying some degree of synchronization of business cycles; second, eurozone inflation is instantly and to a great extent transmitted to domestic inflation, suggesting that inflation in the SEE economies is mostly driven by foreign inflation; third, domestic money market rates are not closely linked with eurozone money markets; fourth, monetary policy in the SEE countries does not seem to be responsive to eurozone inflation shocks; and fifth, the fiscal authorities attempt to offset the spillover effects from both economic expansion and monetary tightening in the eurozone.

News on inflation and the epidemiology of inflation expectations in China

- Economic Systems---2015---Chengyao Lei,Zhe Lu,Chengsi Zhang

Inflation expectations are important elements in monetary policy analysis. This paper examines how inflation expectations of Chinese consumers and professional forecasters are affected by media sentiments based on the epidemiological foundations of the sticky information model. Rather than assuming professional forecasts are identical to newspaper forecasts, we assume news media are a common source for the transmission of typical people's inflation expectations. We collect media data from 30 leading newspapers and magazines in China and code news reports into three types of inflation: rising, falling, and unchanged. More importantly, we categorize the media pool into comprehensive, economic, and politically oriented media sources. We find a fundamental connection between news media and inflation expectations. However, there are significantly different impacts of news reports in different media sources on expectations. The difference is mainly concentrated in politically oriented media sources, and may be a reflection of China's unique media administration system.

Sources of asymmetric shocks: The exchange rate or other culprits?

- Economic Systems---2015---Michal Skořepa,Lubos Komarek

We analyze and quantify the determinants of medium-term real exchange rate (RER) changes. First, we discuss the sources of asymmetric shocks causing exchange rate variability and the role of the RER as a shock absorber or generator. Secondly, we use data for 21 advanced and late transition economies to gauge the extent to which medium-term bilateral real exchange rate variability can be explained by various fundamental factors. Using Bayesian model averaging, we find that out of 22 factors under consideration, four types of dissimilarities within a given pair of economies are likely to be included in the true model: dissimilarities as regards (i) financial development, (ii) per capita income growth, (iii) central bank autonomy, and (iv) the structure of the economy. A regression based on these four factors indicates that they explain about 96 percent of the sample average level of three year RER variability. In the logic of our approach, the remaining part of the total variability represents an upper estimate of the influence of the foreign exchange market itself. For our sample, the contribution of the real exchange rate itself to asymmetric shocks therefore appears to be very low.

Macroeconomic shocks and fluctuations in African economies

- Economic Systems---2015---Mutiu Gbade Rasaki,Christopher Malikane

We estimate a monetary DSGE model to examine the role of macroeconomic shocks in generating fluctuations in ten African countries. The model is estimated with the Bayesian technique using twelve macroeconomic variables. The findings indicate that both the internal and external shocks significantly influence output fluctuations in African economies. Over a four quarter horizon, internal shocks are dominant and over eight to sixteen quarter horizons, external shocks are dominant. Among the external shocks, external debt, exchange rate, foreign interest rate and commodity price shocks account for a large part of output variations in African economies. Money supply and productivity shocks are the most important internal shocks contributing to output fluctuations in African countries.

Position limit for the CSI 300 stock index futures market

- Economic Systems---2015---Lijian Wei,Wei Zhang,Xiong Xiong,Lei Shi

The aim of this study was to find the optimal position limit for the Chinese stock index (CSI) 300 futures market. A low position limit helps to prevent price manipulations in the spot market, and thus keeps the magnitude of instantaneous price changes within the tolerance range of policymakers. However, setting a position limit that is too low may also have negative effects on market quality. We propose an artificial limit order market with heterogeneous interacting agents to examine the impact of different levels of position limits on market quality, measured as liquidity, return volatility, efficiency of information dissemination, and trading welfare. The simulation model is based on realistic trading mechanisms, investor structure, and order submission behavior observed in the CSI 300 futures market.

Misvaluation comovement, market efficiency and the cross-section of stock returns: Evidence from China

- Economic Systems---2015---Yan Luo,Jinjuan Ren,Yizhi Wang

In this study, we examine the relation between stock misvaluation and expected returns in China's A-share market. We measure individual stocks' misvaluation based on their pricing deviation from fundamental values, following Rhodes-Kropf et al. (2005. J. Finan. Econ. 77 (3), 561) and Chang et al. (2013. J. Bank. Finance, forthcoming), and find that the measure has strong and robust return predictive power in the Chinese market. We further form a misvaluation factor and find that misvaluation comovement and systematic misvaluation exist in the Chinese market. A comparison of our results with those of Chang et al. (2013. J. Bank. Finance, forthcoming) reveals that the misvaluation effect is much stronger in the Chinese market than in the U.S market. This evidence is consistent with the notion that the Chinese market is much less efficient than the U.S. market. Finally, we show that the return predictive power of misvaluation has weakened since China launched its split-share structure reform in 2005, which could result from the fact that the reform helps to promote market efficiency.

Optimal rebalance rules for the constant proportion portfolio insurance strategy – Evidence from China

- Economic Systems---2015---Tao Zhang,Hongfeng Zhou,Larry Li,Feng Gu

The constant proportion portfolio insurance (CPPI) strategy is one of the most popular asset allocation strategies employed by guaranteed-return financial products investors. Rebalance disciplines play an important role in determining the CPPI performance in practice. This paper examines whether the selection of rebalance rules affects CPPI strategy performance in the context of Chinese equity markets and, if so, in what pattern, and whether an optimal parameter of rebalance exists. We find that, (1) the three alternative rebalance disciplines – time discipline, market move discipline and lag discipline – are indifferent in affecting the performance of CPPI strategy; (2) in terms of optimal parameters of each rebalance rule, the optimal rebalancing period for the time discipline is 3 trading days, the optimal trading threshold of the market move discipline 4%, and the optimal lag factor of the lag discipline 6%. These optimal parameters are not influenced by the length of investment.

Stock holdings over the life cycle: Who hesitates to join the market?

- Economic Systems---2015---Linwan Zhang,Weixing Wu,Ying Wei,Rulu Pan

In this paper, we study the empirical relationship between age and individual wealth held in stocks, focusing on the heterogeneity of risk-taking over the life cycle in the population. We use micro-data and nonparametric quantile regression to argue that there is a pronounced life cycle pattern of risk-taking for households, which is conditional upon ownership. Specifically, we show that the fraction of stock investment decreases to bottom significantly in midlife and increases afterwards, contradicting the popular evidence claiming a hump-shaped pattern. The pressure of large financial obligations during middle age may be the reason for the crowding out of stock market risk-taking and could induce low capital returns for households.

Economic policy uncertainty and capital structure choice: Evidence from China

- Economic Systems---2015---Guangli Zhang,Jianlei Han,Zheyao Pan,Haozhi Huang

This paper studies how economic policy uncertainty affects corporate capital structure for Chinese listed firms from 2003 to 2013. We show that as the degree of economic policy uncertainty increases, firms tend to lower their leverage ratios. However, firms that are from regions with lower degrees of marketization, are state-owned or have prior bank-firm relationships mitigate the negative effect of policy uncertainty. Moreover, we provide consistent evidence that this negative effect is sourced from the deterioration of the external financing environment. We also find that firms adjust their financing structures by using more trade credit when economic policy uncertainty increases. Our results are robust to sample selection, data frequency, model specification and endogeneity.

Investor heterogeneity and commonality in stock return and liquidity

- Economic Systems---2015---Deng Pan,Jing Shi,Fei Wu,Bohui Zhang

This paper examines how the trading activities of different investor types are related to common return and liquidity movements. Using a unique dataset, we decompose the daily return and liquidity of individual stocks into price impact components attributable to trades of institutional investors and retail investors. We then investigate the variation of each component relative to market-wide return and liquidity. We show that institutional trades contribute more than retail trades to liquidity commonality. However, retail trades contribute more strongly to return co-movement. The incremental contribution of retail trades to the covariability of stock returns is more pronounced for firms with high information asymmetry.

An analysis of dependence between Central and Eastern European stock markets

- Economic Systems---2015---Juan Reboredo,Aviral Tiwari,Claudiu Albulescu

We examine the dependence structure between four Central and Eastern European (CEE) stock markets (Czech Republic, Hungary, Poland and Romania) using static and dynamic copula functions with different forms of tail dependence. We find evidence of positive dependence between all CEE stock markets, although this dependence is stronger between the Hungarian, Czech and Polish markets than between these markets and the Romanian market. We also find evidence of symmetric tail dependence, although not for the Hungarian and Czech markets. The dependence is time-varying and intensified after the onset of the recent global financial crisis. These results confirm that CEE stock markets are gradually coupling, a fact that has risk management implications for policymakers and investors.

Nonprofit organizations, institutional economics, and systems thinking

- Economic Systems---2015---Vladislav Valentinov,Stefan Hielscher,Ingo Pies

The present paper applies the logic of John Kenneth Gailbraith's institutional economics analysis of corporate power to inquiring into the societal role of the nonprofit sector. Building on Galbraith's insight that corporations cause subtle but pervasive societal imbalances, the paper locates the role of nonprofit organizations in compensating for these imbalances, thus showing corporations and nonprofit organizations to be mutually complementary rather than antagonistic actors. This argument is supported by Niklas Luhmann's vision of the precarious relationship between the complexity and sustainability of social systems as well as by Kenneth Boulding's analysis of the farmer and labor movement. Luhmann's and Boulding's perspectives show profit-seeking corporations to be social systems developing high technological complexity at the cost of sacrificing their societal sustainability, while the improvement of the latter constitutes the rationale of many nonprofit organizations. The same systems-theoretic logic suggests, however, that nonprofit organizations may tend to underestimate the technological complexity of implementing their mission-related activities, thereby undermining their own effectiveness.

Bank competition, concentration and financial stability in the Turkish banking industry

- Economic Systems---2015---Saadet Kasman,Adnan Kasman

This paper analyzes the impact of competition and concentration on bank stability in the Turkish banking industry over the period 2002–2012. The Boone indicator and the efficiency-adjusted Lerner index are used as proxies for competition, while the non-performing loans (NPL) ratio and Z-scores are used as proxies for bank stability. The main results indicate that competition is negatively related to the NPL ratio but positively related to the Z-score. The results further indicate that greater concentration has a positive impact on the NPL and a negative impact on the Z-score. We also use a quadratic term of the competition measures to capture a possible non-linear relationship between competition and stability. The results show that the coefficient of the quadratic term is negative for the NPL model and positive for the Z-score model. Overall, our findings provide support for the competition-fragility view.

Consumer credit on American Indian reservations

- Economic Systems---2015---Valentina Dimitrova-Grajzl,Peter Grajzl,A. Joseph Guse,Richard M. Todd

This paper provides the first encompassing quantitative picture of consumer credit in Indian Country. Drawing on a unique large-scale consumer credit database, we find that Equifax Risk Scores and the use of certain forms of credit, especially mortgages, are low on reservations. However, usage of other forms of credit on reservations is not always low. Moreover, the gaps in credit usage on versus off reservations differ significantly across states and can change notably over time. Among predictors of consumer credit outcomes, the percentage of American Indian residents is robustly negatively associated with favorable credit outcomes. Furthermore, once controlling for racial composition, the effect of an area's location vis-à-vis a reservation often becomes statistically insignificant. Other socio-economic variables are generally poor predictors of credit outcomes on reservations. State jurisdiction over legal matters is, at least on average, associated with favorable credit outcomes on reservations.

Cost efficiency of the banking industry and unilateral euroisation: A stochastic frontier approach in Serbia and Montenegro

- Economic Systems---2015---Alexandre Sokic

This paper aims at investigating the differences in cost efficiency of the banking industry in Serbia and Montenegro over the period 2005–2012. These two countries operated under a common monetary regime until 1999 and followed two different monetary regimes thereafter: unilateral euroisation in Montenegro and monetary independence in Serbia. A stochastic frontier approach incorporating bank-specific and country-related variables is used to analyze cost efficiency in the banking sectors of Serbia and Montenegro. The analysis shows that a bank operating at given conditions in terms of ownership, market and other specific characteristics presents significantly higher cost efficiency if it operates in Montenegro rather than in Serbia. We argue that this result may relate to the choice of unilateral euroisation made by Montenegro. It is also shown that foreign-owned banks, higher capitalized banks and banks with lower non-performing loans operate at higher cost efficiency.

The drivers of income mobility in Europe

- Economic Systems---2015---David Aristei,Cristiano Perugini

In this paper we study short-term income mobility in European countries over the years preceding the outburst of the global crisis. Income mobility plays a crucial role in shaping distributive patterns and is closely related to the capacity of a socio-economic system to provide equality of opportunities and the removal of social impediments. In this study we exploit the longitudinal structure of the EU-SILC database to provide a comprehensive overview of intragenerational mobility from 2004 to 2006 across 25 European countries, classified into six capitalistic models. After having descriptively analysed heterogeneity in income dynamics by means of alternative measures, we identify the microeconomic drivers of household income mobility, focusing on the role of demographic, economic and job characteristics. The outcomes reveal that the levels and determinants of short-term mobility differ remarkably in the various institutional models across Europe, particularly regarding household composition, demographic attributes, education levels and job positions.

Empirical evidence of conditional asset pricing in the Indian stock market

- Economic Systems---2015---Sudipta Das

Studies of various alternative empirical asset pricing models have mostly concentrated on developed markets. However, despite the importance of this issue, surprisingly little is known about how different asset pricing models behave in emerging capital markets. The purpose of this paper is to determine the suitability of conditional compared to unconditional versions namely, the capital asset pricing model and the Fama-French three-factor model for the Indian stock market. The key distinction between the present empirical tests and previous tests is the application of the Kalman filter method for dynamic beta estimation in the Indian market. The findings indicate that the cross-sectional variation in expected returns is driven by mainly two firm characteristics size and book-to-market ratio.Unlike the unconditional model, the market beta is able to capture the variation of expected return in conditional model. The results imply that information has a role and investors use the prior belief and macroeconomic variables as predictive variables to determine the cost of capital. These results are supported by some recent findings that Fama-French three-factor model is the only multifactor model that consistently sources three different types of risk included in the list of anomalies.

Credit default swaps and sovereign debt markets

- Economic Systems---2015---M. Kabir Hassan,Geoffrey M. Ngene,Jung-Suk Yu

This study investigates the link between the price discovery dynamics in sovereign credit default swaps (CDS) and bond markets and the degree of financial integration of emerging markets. Using CDS and sovereign bond spreads, the price discovery mechanism was tested using a vector error correction model. Financial integration is measured using news-based methods. We find that sovereign CDS and bond markets are co-integrated. In five out of seven sovereigns (71%), the bond market leads in price discovery by adjusting to new information regarding credit risk before CDS. In 29% of times, CDS markets are the source of price discovery. We also find a positive correlation of 0.67 between the degree of financial integration and the bond market information share. The evidence suggests that changes in sovereign credit risk and bond yields are significantly influenced by common external (global) factors, while country-specific factors play an insignificant role.

Similarity of emerging market returns under changing market conditions: Markets in the ASEAN-4, Latin America, Middle East, and BRICs

- Economic Systems---2015---Štefan Lyócsa,Eduard Baumohl

We studied the risk-return distances of 18 emerging stock markets in the period from January 2000 to December 2013. Distances are linked to volatility and time-varying correlations estimated in standard and asymmetric DCC models. Our results revealed a positive relationship between risk-return distances and volatility, which means that during more volatile periods, the risk-return characteristics in emerging markets exhibit lower similarity to the characteristics found in developed markets. This result seems to be in sharp contrast to most empirical studies using correlations. Within the portfolio framework, our results suggest that diversification into emerging stock markets may still provide desirable benefits to international investors.

How useful is an Asian Currency Unit (ACU) index for surveillance in East Asia?

- Economic Systems---2015---Victor Pontines

An Asian Currency Unit (ACU) index is constructed using an alternative procedure which minimizes a basket or portfolio of assets expressed in terms of national currencies. Using this estimated ACU index and an ACU deviation indicator, the main finding of this study based on the current trajectory of East Asian currencies relative to this regional ACU benchmark is that there is a formation of two contrasting groups of countries in the region—one group of strong currencies and one group of weak currencies. We emphasize that this contrasting trajectory in East Asian intra-regional exchange rates implies disturbed competitive trading relationships in the region, which may result in wasteful beggar-thy-neighbor policies. As emphasized in other recent studies (e.g., Kawai and Takagi, 2012), the region needs a framework for exchange rate policy coordination that will promote intra-regional exchange rate stability. We suggest two important ways in which the region can capitalize on using an ACU index for surveillance purposes in the immediate term. One way is to assess "over- and undervaluation" of individual currencies from the regional ACU average. The other is to use it as a monitoring device for excessive flows of international capital within the region.

Are stock prices related to the political uncertainty index in OECD countries? Evidence from the bootstrap panel causality test

- Economic Systems---2015---Tsangyao Chang,Wen-Yi Chen,Rangan Gupta,Duc Khuong Nguyen

This study applies the bootstrap panel causality test proposed by Kónya (2006. Econ Modell 23, 978) to investigate the causal link between political uncertainty and stock prices for seven OECD countries over the monthly period of 2001.01 to 2013.04. This modeling approach allows us to examine both cross-sectional dependency and country-specific heterogeneity. Our empirical results indicate that not all the countries are alike and that the theoretical prediction that stock prices fall at the announcement of a policy change is not always supported. Specifically, we find evidence for the stock price leading hypothesis for Italy and Spain, while the political uncertainty leading hypothesis cannot be rejected for the United Kingdom and the United States. In addition, the neutrality hypothesis was supported in the remaining three countries (Canada, France and Germany), while no evidence for the feedback hypothesis was found.

The impact of fiscal positions on government bond yields in CEE countries

- Economic Systems---2015---Lena Malešević Perović

This paper investigates the influence of government debt and primary balance on long-term government bond yields in 10 Central and Eastern European (CEE) countries in the period 2000–2013. The results indicate that a one percentage point increase in the stock of government debt is associated with an increase in government bond yields of 2.7–4 basis points, while a one percentage point increase in the primary deficit to GDP ratio is associated with an increase in government bond yields of 12.9–24.3 basis points. We also find evidence of non-linearities in the debt-interest rate relationship, whereby the threshold after which the impact of debt turns from negative to positive is significantly lower than in advanced economies.

Taxation of natural resources and economic growth in Russia's regions

- Economic Systems---2015---Michael Alexeev,Andrey Chernyavskiy

We examine the impact of natural resources on economic growth in Russia's regions since the introduction of the mineral tax in 2002. Using novel measures of regional natural resource rents (mineral tax collections), we demonstrate that non-hydrocarbon wealth has had a slightly positive and hydrocarbon wealth has had no to a slightly negative effect on regional growth since 2002, although mineral-rich regions are richer than other regions. The absence of significant growth benefits to resource-endowed regions is at odds with the beneficial impact of natural resources, and particularly hydrocarbons, on the growth of the country as a whole. We discuss the reasons for this outcome and conclude that the central government was successful in taxing away incremental regional resource rents during 2002–2011, while preserving the pre-2002 regional rents.

Does revamping Japan's dual labor market matter?

- Economic Systems---2015---Chie Aoyagi,Giovanni Ganelli

This paper argues that Japan's excessive labor market duality can reduce Total Factor Productivity (TFP) due to a negative impact on non-regular workers' effort and on firms' incentives to train them. The paper then empirically studies the determinants of labor market duality. The main result of the paper is that the level of employment protection affects duality. In particular, a higher level of employment protection of regular workers increases duality, while a higher level of protection of temporary workers reduces it. On the basis of this result, the paper also discusses some reform options to address Japan's labor market duality.

PPP may hold better than you think: Smooth breaks and non-linear mean reversion in real effective exchange rates

- Economic Systems---2015---Ali Kutan,Su Zhou

This paper revisits some key topics in the literature on purchasing power parity (PPP). The study applies a set of newly developed unit root tests, which account for both nonlinearity and multiple smooth temporary breaks in series, to the real effective exchange rates (REERs) of 23 developed countries. The results suggest that PPP generally holds for various currency-based real rates. There is evidence in favor of linear stationarity in REERs for highly integrated economies. The REERs of most other countries tend to have nonlinear adjustment toward large long-swing type mean changes around constant equilibrium values.

Symposium: Youth labour market and the "Great Recession"

- Economic Systems---2015---Marcello Signorelli,Misbah Tanveer Choudhry

The financial crisis of 2007–2008, followed by the "Great Recession" and the additional sovereign debt crisis in some peripheral countries of the Eurozone, resulted in huge and persistent effects on European youth labour markets. Theoretical and empirical investigations on this topic are still scarce compared with the importance of the topic and the consequent economic, social and policy implications. This paper consists of a very short introduction to a symposium that contributes to filling that gap. A multifaceted picture emerges with major policy implications for the three levels of government (European, national and regional/local) in order to reduce youth unemployment and the NEET phenomenon.

The joint impact of labour policies and the "Great Recession" on unemployment in Europe

- Economic Systems---2015---Silvia Dal Bianco,Randolph Bruno,Marcello Signorelli

The paper consists of an empirical analysis of the separate as well as joint impacts on total and youth unemployment of indicators of labour market policies on the one hand, and the financial crisis associated with the "Great Recession" on the other. In particular, we investigate labour market data in the past two decades for the Enlarged Europe and adopt a variable accounting for the idiosyncratic severity shock of the crisis. This time-varying and country-specific crisis variable enables us to test empirically and in a novel way the joint impact of labour market policies and the economic crisis on labour market dynamics even when accounting for common macro shocks.

Young people living as couples: How women's labour supply is adapting to the crisis. Spain as a case study

- Economic Systems---2015---Tindara Addabbo,Paula Rodríguez-Modroño,Lina Gálvez-Muñoz

In this paper, we focus on the effects of the Great Recession on the decisions of young women regarding their labour supply. Considering the profound effect of the economic recession on the Spanish labour market, and in particular on the labour supply of young people, the focus of the empirical part of this paper is on Spain. Using EU-SILC 2007 and 2012 micro data for Spain, the labour supply models of women are estimated by age group, with a particular focus on the 20 to 29 and 30 to 39 age bands, in order to establish how young women living in couples exhibit different labour supply propensities according to their partner's labour market status. Correction is made for the non-random selection of women living in couples in the younger age groups. This first analytical step reveals a negative effect on the likelihood of forming a new household in the context of precarious employment conditions. Analytical results regarding the labour supply of women by age group confirmed a discouraging effect of young children on the labour supply of the youngest mothers, as well as a positive effect from being the owner of a house purchased under mortgage.

Youth labour market performances in the Russian and Italian regions

- Economic Systems---2015---Olga Demidova,Enrico Marelli,Marcello Signorelli

The focus of this paper is on youth unemployment in Italy and Russia: in both countries, youth unemployment rates (YURs) are higher than adult (or total) ones. Despite these general trends, there are significant regional differences in YURs and above-average YUR regions tend to cluster close to each other. Moreover, a distinction between "North" and "South" regions seems appropriate for both countries. The purpose of this study is to identify key determinants of YURs in the Russian and Italian regions, for the period 2000–2009. We also search for the existence of distance spatial effects. In particular, we estimate a modified Arellano–Bond model for the regional YUR, including some explanatory and control variables (e.g. regional GDP in PPP, regional population density, regional total unemployment rate), together with year dummies and North/South dummies. The use of distance matrixes enables important analysis to be conducted on the role played by spatial effects, which turn out to be significant. Also the negative impact of the 2008–2009 crisis is statistically confirmed (at least in the case of Italy). The relevant policy implications are highlighted in the conclusions.

Impact of the Great Recession on unemployed and NEET individuals' labour market transitions in Ireland

- Economic Systems---2015---Elish Kelly,Seamus McGuinness

The impact that the Great Recession has had on countries' labour markets has been well documented. In Ireland, the contraction in economic activity that took place resulted in the country's overall unemployment rate increasing from 4.6% in 2006 to 15% in 2012. The country's youth unemployment rate rose from 9.9% to 33% over the same time period, while the proportion of NEETs increased from 10.1% in 2006 to 18.7% in 2012. Policymakers are aware of the unemployment rates of young and prime-aged people as well as the NEETs rate. However, little is known about these groups' profiles, whether their profiles have changed since the recession and also their labour market transition patterns pre and post the Great Recession. Given the importance of this information in the design of effective activation measures to assist unemployed and NEET individuals, this paper examines each of these issues in turn. Overall, the study found for all three groups examined that the rate of transition to employment fell dramatically between 2006 and 2011. The analysis showed that the drop in the groups' transition rates was not due to changes in the underlying sub-group population structures but to changes in the external environment that resulted in the impact of possessing certain characteristics changing over the recession. For example, education and nationality have become more important in finding a job in Ireland over the course of the recession, while there has been a fall in the scarring impact of unemployment durations.

The effect of judicial independence on entrepreneurship in the US states

- Economic Systems---2015---John Dove

The relationship between institutional quality, entrepreneurship, and economic growth has been well documented within the literature. However, much less work has been done regarding judicial independence and how this affects, specifically, entrepreneurial activity. Therefore, this paper attempts to fill that gap by exploiting the differences in judicial independence that exist between the US states and empirically evaluating how this affects entrepreneurship. Overall, the results suggest that the method of selecting and retaining justices of both courts of last resort and intermediate appellate courts has a significant and direct effect on entrepreneurial activity, though the latter result is somewhat less robust. The presence of judicial nominating and retention commissions also has a significant and direct effect. Further, although somewhat weaker, the method of selecting the chief justice of a state court of last resort would also appear to have an impact on entrepreneurship. These results are robust to a number of specifications.

Tax enforcement, technology, and the informal sector

- Economic Systems---2015---Ceyhun Elgin,Mario Solis-Garcia

Theoretical models of the informal sector mostly assume—or end up with—a positive correlation between a measure of taxes and the size of the informal sector. However, some recent empirical studies associate higher taxes with a smaller informal sector size. In this paper, we build a theoretical framework—an extension to a two-sector growth model—which allows us to unravel the negative correlation between informal sector size and taxes. We find that (a) a higher degree of tax enforcement, (b) a higher productivity of formal sector households, and (c) a lower physical capital depreciation rate make for a negative relation between these variables. Our results suggest that enforcement and technological factors are likely candidates to account for this relationship.

Macroeconomic scenarios for the south Mediterranean countries: Evidence from general equilibrium model simulation results

- Economic Systems---2015---Leonidas Paroussos,Kostas Fragkiadakis,Ioannis Charalampidis,Stella Tsani,Pantelis Capros

The "Arab spring" aftermath calls for a closer look at the developments in the south Mediterranean countries. This paper develops and assesses alternative scenarios for the region up to the year 2030 with the employment of GEM-E3, a computable general equilibrium model. The scenarios quantify three alternative visions of the regional future which assume: (i) south Mediterranean-EU cooperation, (ii) south Mediterranean global opening and (iii) escalation of regional conflicts and failure to cooperate. The scenarios are compared to the baseline scenario, which assumes a continuation of the regional policies observed in the recent past. Assumptions on trade integration, infrastructure, population and governance developments are adopted in each scenario. Infrastructure upgrades and governance improvements within an EU cooperation context are found to benefit the region most. The findings have important policy implications indicating alternatives to be implemented.

From equilibrium to autopoiesis: A Luhmannian reading of Veblenian evolutionary economics

- Economic Systems---2015---Vladislav Valentinov

The paper reconstructs the Veblenian critique of the pecuniary economy from the perspective of Niklas Luhmann's theory of autopoietic social systems. Luhmann argued that social systems relieve people from the overwhelming civilizational complexity, but develop autopoietic properties hindering rational solutions to human problems. This argument allows seeing the pecuniary economy as an important complexity-reducing device, which, however, develops excessive autonomy from the embedding societal and ecological environment. For this reason, like other autopoietic systems, the economy has a high chance of becoming societally and ecologically unsustainable. While Veblen criticized the obsession of classical economics with equilibrium and the natural order, Luhmann urged to replace the notion of equilibrium with that of autopoiesis, which focuses attention on the sustainability problem. Accentuating this problem is shown to be the main evolutionary economics implication of Luhmann's work.

Contagion risk in the Czech financial system: A network analysis and simulation approach

- Economic Systems---2015---Václav Hausenblas,Ivana Kubicová,Jitka Lešanovská

This paper examines the potential for contagion within the Czech banking system via the channel of interbank exposures of domestic banks, enriched by a liquidity channel and an asset price channel, over the period March 2007 to June 2012. A computational model is used to assess the resilience of the Czech banking system to interbank contagion, taking into account the size and structure of interbank exposures as well as balance sheet and regulatory characteristics of individual banks in the network. The simulation results suggest that the potential for contagion due to credit losses on interbank exposures was rather limited. Even after the introduction of a liquidity condition into the simulations, the average contagion was below 3.8% of the remaining banking sector assets, with the exception of the period from December 2007 to September 2008. Activation of the asset price channel further increases the losses due to interbank contagion, showing that the liquidity of government bonds would be essential for the stability of Czech banks in stress situations. Finally, the simulation results for both idiosyncratic and multiple bank failure shocks suggest that the potential for contagion in the Czech banking system has decreased since the onset of the global financial crisis.

A nonlinear investigation of the twin deficits hypothesis over the business cycle: Evidence from Turkey

- Economic Systems---2015---Nazif Catik,Barış Gök,Utku Akseki

In this paper, we analyze the twin deficits hypothesis covering the period from 1994 to 2012 in Turkey. In contrast to previous studies on Turkey, the existence of twin deficits is investigated by regime-dependent impulse response functions and forecast error variance decompositions based on a multivariate two-regime threshold VAR (TVAR) model. Our results suggest that the dynamics between the current account and budget account variables are affected by macroeconomic activity: twin deficits are only the case in the upper regime, when the economy operates above its potential level. When the economy is in the lower regime, budget and trade deficits show divergent movements. The results are consistent with Kim and Roubini (2008), indicating that the divergence of fiscal balance and current account might be explained by the cyclical fluctuations of output.

EuroConference 2013 Symposium: International Conference on Business, Economics and Finance

- Economic Systems---2014---Mehmet Balcilar,Ali Kutan

2014

Influence of institutional investors' participation on flipping activity of Malaysian IPOs

- Economic Systems---2014---Norliza Che-Yahya,Ruzita Abdul-Rahim,Othman Yong

This paper examines the influence of institutional investors' participation on flipping activity of Malaysian IPOs. Measured as the percentage of trading volume on the first trading day against the total number of shares offered, flipping is the quickest way to gain huge profits from IPOs. However, excessive flipping activity has significant potential to create artificial downward pressure on the price of IPOs. One way to reduce such an adverse effect is by strategically allocating a larger proportion of new shares to institutional investors. This is because institutional investors are normally assumed to be long-term investors. As such, they are less likely to flip their allocated IPOs in the immediate aftermarket. The long-term investment argument is consistent with institutional investors' preference for a steady income stream in the form of dividends. Drawing upon this argument, the greater participation of institutional investors during an IPO is expected to be an effective strategy to control aggressive flipping activity. The Malaysian IPO market offers an excellent opportunity to examine this hypothesis because data regarding the allocation of new shares to institutional investors can be traced conveniently through a type of IPO referred to as "private placement". Based upon an examination of 248 IPOs listed on Bursa Malaysia between January 2000 and December 2012, this study finds a negative relationship between institutional investors' participation and flipping activity. This result lends strong support to the argument concerning the effectiveness of institutional investors' participation in controlling flipping activity in the Malaysian IPO market.

The influence of lock-up provisions on IPO initial returns: Evidence from an emerging market

- Economic Systems---2014---Rasidah Mohd Rashid,Ruzita Abdul-Rahim,Othman Yong,Rasidah Mohd-Rashid

A lock-up agreement ensures that major shareholders retain significant economic interest in the companies following the IPOs. Rationally, these insiders will not adhere to the lock-up agreement unless the benefits of doing so can more than offset the costs. Therefore, in an environment characterized by high information asymmetry, a lock-up agreement can serve as an effective mechanism to signal the risk or quality of firms. This article examines whether the lock-up ratio and lock-up period affect the initial returns, using a sample of 384 IPOs listed on Bursa Malaysia between 2000 and 2012. The results of the cross-sectional multiple regression show that the lock-up period is significantly positive in explaining IPO initial returns, but the lock-up ratio is not. The findings provide new insights for testing the signaling content of lock-up provisions, particularly in a setting characterized by high information asymmetry.

Financial constraints and corporate investments during the current financial and economic crisis: The credit crunch and investment decisions of Slovenian firms

- Economic Systems---2014---Matjaž Črnigoj,Miroslav Verbič

We investigate the effect of financial constraints on the investment decisions of Slovenian firms during the current financial and economic crisis. By estimating the error-correction model and the Euler-equation specification, we found that corporate investments were significantly affected by financial constraints during the crisis. The effect of financial constraints intensified in 2009 and alleviated slightly in 2010, although still being significantly more intense than before the crisis hit the economy. By estimating a switching regression model with unknown sample separation that enabled us to address the problem of judgemental sample separation, we were also able to estimate the error-correction model separately for financially constrained and financially unconstrained firms. The results indicate that financial constraints have a significant effect on both financially constrained and financially unconstrained firms, although corporate investments were more severely affected in financially constrained firms.

Factors of trade in Europe

- Economic Systems---2014---Jan Hanousek,Evžen Kočenda

We analyze how a set of determinants affect trade among European countries over the period 1992–2008. The factors encompass variables from the areas of geography, culture, institutions, infrastructure, and trade direction. Trade is analyzed for four types of goods: primary goods, parts and components, capital goods, and consumer goods. For each type of good we also distinguish its definition in terms of flows, intensive margin, and extensive margin. Methodologically, we first derive country-pair fixed effects over all possible pairs of export–import partners, and in the second stage we relate fixed effects with a set of influential factors. We show (i) the intuitive and varying effects of geographical, cultural, and institutional factors; (ii) the beneficial effects of soft and hard infrastructure; and (iii) the key importance of trade between old and new EU members.

Explaining the Czech interbank market risk premium

- Economic Systems---2014---Adam Gersl,Jitka Lešanovská

This paper focuses on the development of the interbank market risk premium in the Czech Republic during the global financial crisis. We explain the significant departure of interbank interest rates from the key monetary policy rate by a combination of different factors, including liquidity risk, counterparty risk, foreign influence, interbank relations, and strategic behavior. The results suggest a relevant role of market factors and some importance of counterparty risk.

Stock market co-movements: Islamic versus conventional equity indices with multi-timescales analysis

- Economic Systems---2014---Ginanjar Dewandaru,Syed Aun R. Rizvi,Rumi Masih,Mansur Masih,Syed Othman Alhabshi,Abul Mansur Mohammed Masih

This study examines market co-movements in Islamic and mainstream equity markets across different regions in order to discover contagion during 9 major crises and to measure integration between markets. Using wavelet decomposition to unveil the multi-horizon nature of co-movement, we find that the shocks were transmitted via excessive linkages, while the recent subprime crisis reveals fundamentals-based contagion. While Islamic markets show traces of reduced exposure to the recent crisis owing to low leverage effect, their less diversified portfolio nature increases vulnerability to other crises. We generally find incomplete market integration, with relatively higher fundamental integration for Islamic markets which may be attributable to their real sector allocation nature.

Determinants of credit to households: An approach using the life-cycle model

- Economic Systems---2014---Michał Rubaszek,Dobromił Serwa

This paper applies a life-cycle model with individual income uncertainty in order to investigate the determinants of credit to households. We show that the household credit to GDP ratio depends on the lending-deposit interest rate spread, individual income uncertainty, and individual income persistence. We subsequently provide empirical evidence for the prediction of a theoretical model on the basis of data from OECD and EU countries.

Taxation and income shifting: Empirical evidence from a quasi-experiment in China

- Economic Systems---2014---Zhiyong An,Congyan Tan

China's new Corporate Income Tax Law was passed in March 2007 and took effect on January 1, 2008. It terminated the dual corporate income tax regime by removing the preferential tax treatments offered to foreign investment enterprises (FIEs) and unifying the corporate income tax regime for FIEs and Chinese domestic enterprises (DEs). This article uses a difference-in-differences approach to determine whether FIEs responded to the law by shifting income out of China. Employing the Chinese Industrial Enterprises Database from 2002 to 2008 to implement the analysis, we find that FIEs have responded to the law by shifting income out of China; the treatment effect for Hong Kong-Macau-Taiwan (HMT) investment enterprises is less negative than that for other FIEs, which implies that HMT investment enterprises might be less capable of shifting income across countries than other FIEs. The treatment effect by restricting the control group to State-Owned Enterprises (SOEs) is less negative than that by restricting the control group to Private-Owned Enterprises (POEs), which is consistent with the perception that SOEs might enjoy more favorable treatment from the Chinese government than POEs. All three findings are consistent with tax-induced income shifting, and hence we conclude that taxation plays an important role in income shifting activities.

Balance sheet effects and original sinners' risk premiums

- Economic Systems---2014---Marina Tkalec,Maruška Vizek,Miroslav Verbič

This paper describes an empirical model of country risk premiums and their determinants, relying on recent theories of balance sheet effects. We approach the latter by introducing a novel approach to country risk premiums that assumes that nominal exchange rates can move away from or towards equilibrium exchange rates, which allows exchange rate movements towards equilibrium to stimulate favourable competitiveness effects as opposed to adverse balance sheet effects. We investigate eight European emerging economies that suffer from "original sin" over the period 2001–2013, using the pooled mean group estimator of the dynamic panel error correction model. This methodology improves estimation efficiency and model performance, but also allows differentiation between long- and short-run country risk premium determinants. We find that, in the long run, country risk premiums increase in response to higher inflation and a higher total debt-to-GDP ratio, while they move in the opposite direction when the real GDP growth rate rises. Our results suggest that, in the short run, higher external debt service caused by exchange rate depreciation, i.e. the balance sheet effect, and market volatility tends to raise risk premiums, while higher international reserves and the federal funds rate tend to decrease them. Moreover, we show that the negative balance sheet effect is much stronger than the potentially favourable competitiveness effect, and that the rise in risk premiums is not due to the increase in the size of external debt, but to the larger debt burden represented by balance sheet effects.

How to foresee banking crises? A survey of the empirical literature

- Economic Systems---2014---Karlo Kauko

A survey of the empirical literature on early warning indicators of banking crises is presented. Descriptive analyses have been published for decades, but cross-national panel data analyses have only been performed since the late 1990s. More recently, the severity of the subprime-Lehman crisis has been compared across countries. Most findings corroborate the view that during a typical build-up phase, banks borrow internationally to finance domestic lending, boosting the current account deficit and causing a real estate bubble. Increasing debt and imbalances lead to a crisis. Both developing and developed countries have experienced these kinds of boom-bust cycles.

Monetary policy, exchange rates and labor unions in SEE and the CIS during the financial crisis

- Economic Systems---2014---Branimir Jovanovic,Marjan Petreski

The objective of this paper is to assess whether the levels of unionization and the rigidity of exchange rates represent a constraint for the monetary policy in South-Eastern Europe and the Commonwealth of Independent States, with a particular focus on the recent economic crisis. Toward that end, a New Keynesian model with price and wage rigidities is used. The results show that monetary policy responded counter-cyclically during the crisis only in countries with weak trade unions and in countries with flexible exchange rates, which indicates that fixed exchange rates and strong trade unions constrain monetary policy in countries in these regions. Also, the findings show that the main driver of price inflation in these countries is not economic activity, but wages, which are affected to a large extent by trade unions. Therefore, trade unions should be active partners in the decision-making processes in these countries.

Pollution and informal economy

- Economic Systems---2014---Ceyhun Elgin,Oguz Oztunali

In this study, we investigate the relationship between the size of the informal economy and the level of environmental pollution/energy use. To this end, we first use different indicators of environmental pollution along with a measure of energy use intensity in a panel dataset consisting of 152 countries over the period 1999–2009 and empirically examine the relationship between pollution and the shadow economy. The estimation results show that there is an inverse-U relationship between the size of the informal economy and environmental pollution, that is, small and large sizes of the informal economy are associated with lower environmental pollution and medium levels of informality are associated with higher levels of environmental pollution. Next, we build a two sector dynamic general equilibrium model to suggest an economic mechanism for this observation. Our model identifies two channels through which informality might affect environmental pollution: The scale effect, whereby a larger (smaller) informal economy size is associated with a lower (higher) level of environmental pollution, and the deregulation effect, whereby a larger (smaller) informal economy is associated with higher (lower) pollution levels. As these two effects work in opposite directions, the changing relative strength of one with respect to the informal sector size creates the inverted-U relationship between pollution indicators and informality.

Military versus non-military government spending and the shadow economy

- Economic Systems---2014---Rajeev Goel,James Saunoris

Using recent cross-national data, this research examines the determinants of the shadow economy, focusing on the relative effects of military and non-military government spending. Results show that, other things being the same, nations with larger military spending have smaller shadow economies, while the effect of non-military government spending is statistically insignificant. These findings stand up to various robustness checks.

Ceremonial science: The state of Russian economics seen through the lens of the work of ‘Doctor of Science’ candidates

- Economic Systems---2014---Alexander Libman,Joachim Zweynert

The paper investigates the current status of economic research in Russia using a previously unexplored dataset of Russian ‘Doctor of Science’ (Dr.Sc.) theses. The Dr.Sc. degree is a postdoctoral qualification necessary for career advancement at most Russian universities. By examining the Dr.Sc. theses, we are able to provide a systematic overview of ‘average’ scientific standards in Russia, particularly at mass universities, at which most administrators and bureaucrats are trained. We show that the level of integration into the international scientific community in Russian economics remains low. Moreover, we obtain a picture of mostly ‘ceremonial’ science. The researchers combine references to ‘classical’ research, formal methods, and practical application merely as an instrument for presenting the argument in a more ‘scientific’ way.

Economic and spatial determinants of interregional migration in Kazakhstan

- Economic Systems---2014---Alisher Aldashev,Barbara Dietz

In this paper we analyze economic and spatial determinants of interregional migration in Kazakhstan using quarterly panel data on region to region migration in 2008–2010. The main contribution of the paper relates to the ethnic divide in Kazakhstan, which is the home of a big ethnic Russian community, adding to the scarce literature on ethnic differences in migration patterns. Against this background we investigate whether the determinants of interregional mobility depend on ethnicity. In line with traditional economic theory we find that migration is determined by economic factors, first of all wage. As predicted by gravity arguments, mobility is larger between more populated regions and distance has a strong negative impact on migration, indicating high migration-related costs. Most likely caused by stronger family ties and kinship bonds, the deterring effect of distance is higher for ethnic Kazakhs.

The micro evolution of trade and turnover in Turkey under the global crisis

- Economic Systems---2014---Alessia Lo Turco,Daniela Maggioni

We provide evidence on the effects of the 2009 crisis on Turkish manufacturing. The exploration of firm and firm-product extensive and intensive margins confirms the prevalence of the latter in the fall of export sales and discloses the former's relevance in the dramatic import contraction. The analysis of firm and product heterogeneity reveals that productivity drove the negative evolution of the export intensive margin to such an extent that it significantly affected trade extensive margins and postponable goods were the most affected products. In addition, the foreign demand shock suffered by exporters propagated to their import demand. Interestingly, we show that the crisis hit produced exports less than the carry-along ones and that the domestic market cushioned the downturn effects especially for larger firms. This hints at the importance of domestic counter-cyclical policies.

Inflation aversion in transition countries: Empirical evidence from the Baltic States

- Economic Systems---2014---Michael Berlemann

In command economies, inflation is either absent or at least unrelated to supply and demand. However, when the economies in Eastern Europe started transforming into market economies, they suddenly experienced high and volatile inflation rates. Transformation countries are therefore interesting laboratories for studying individual inflation aversion. In this paper we study the level and determinants of individual inflation aversion in the three Baltic countries. Using data from 11 waves of the Eurobarometer survey, we find age, education and the macroeconomic situation to have significant effects on the likelihood to mention inflation among the most important problems facing the country. Moreover, we find the populations of all three Baltic countries to be significantly more inflation averse than the population of the United Kingdom, a western democracy with a long tradition as a market economy. We attribute this finding to the specific experiences of the Baltic populations with inflation.

The effect of housing and stock market wealth on consumption in emerging and developed countries

- Economic Systems---2014---Amina Ahec Šonje,Anita Čeh Časni,Maruška Vizek

This study examines the long- and short-run relationship between private consumption, housing wealth, stock market wealth and income. In order to asses this relationship empirically, we use pooled mean group estimators of dynamic heterogeneous panel data on a sample of 30 developed and emerging economies. The sample countries are segmented into three separate panels: a developed bank-based panel, a developed market-based panel, and an emerging bank-based panel. Empirical estimates support the existence of long- and short-run stock market wealth effects in both groups of developed countries, with the effect being particularly strong in the developed market-based countries. A moderate long-run housing wealth effect is confirmed only for the developed bank-based countries, while a very strong short-run housing wealth effect is present in the developed market-based countries. As far as the emerging countries are concerned, the evidence is somewhat inconclusive, but it does seem to suggest that both wealth effects are effective in the long run, with housing wealth being more dominant.

Direct and indirect oil shocks and their impacts upon energy related stocks

- Economic Systems---2014---David Broadstock,Rui Wang,Dayong Zhang

We attempt to consolidate (at least in part) the vast literature on oil shocks and stock returns by decomposing the influence of oil shocks into two channels of effect: ‘direct’ and ‘indirect’. Using a simple empirical asset pricing model, it is shown that oil shocks can affect stocks not only directly, but also indirectly through general market risk (which is shown to be due in part to oil shocks), or put another way that additional oil price risk exposure is embedded in the traditional market beta. As far as is known this is the first paper explicitly quantifying both effects together. By doing so we offer a more complete picture of when and how oil shocks impact stock returns, thus allowing investors to make more informed responses to oil shocks. The results are illustrated using daily data from all (active) listed energy related stock portfolios in the Asia Pacific Region, and are robust to structural instability and the specification of oil shock used.

Intra-market sovereign linkages of key Latin American markets

- Economic Systems---2014---Kannan Thuraisamy

This paper tests the intra-market dynamics in a regional setting using country-specific international bonds differentiated only by maturity within individual markets in the Latin American region. We use the 2001 Argentine default as a natural experiment in this study to examine how intra-market dynamics evolved in the presence of a credit event in the region. This paper argues that emerging market instruments have a stronger tendency to tie up with instruments within markets rather than across markets as found in the literature. The long-run equilibrium relationships tend to be stronger across instruments within each market and generate economically insignificant portfolio adjustment weights. Strong interaction across instruments within markets in terms of first order dependencies has important implications for market participants, practitioners and policymakers.

Equity market contagion during the global financial crisis: Evidence from the world's eight largest economies

- Economic Systems---2014---Mardi Dungey,Dinesh Gajurel

The global financial crisis (2007–2009) saw sharp declines in stock markets around the world, affecting both advanced and emerging markets. In this paper we test for the existence of equity market contagion originating from the US to advanced and emerging markets during the crisis period. Using a latent factor model, we provide strong evidence of contagion effects in both advanced and emerging equity markets. In the aggregate equity market indices, contagion from the US explains a large portion of the variance in stock returns in both advanced and emerging markets. However, in the financial sector indices we find less evidence of contagion than in the aggregate indices, and this is particularly the case for the advanced markets. The results suggest that contagion effects are not strongly related to high levels of global integration.

Sectoral and industrial performance during a stock market crisis

- Economic Systems---2014---Kumari Ranjeeni

This paper investigates the impact of the news announcement of the Lehman Brothers’ (LBs) bankruptcy on the performance of the New York Stock Exchange (NYSE) sectors and financial industries. Based on descriptive index level results, Bartram and Bodnar (2009) conclude that the reaction of all sectors and industries was homogeneous during the LBs’ bankruptcy and equity investors could not benefit from diversification. Motivated by Narayan and Sharma's (2011) findings on firm and sector heterogeneity, this paper employs an event study approach to further examine the sectoral and industrial performance during the bankruptcy period. Daily data for a total of 481 firms is examined. The main contribution of this paper is that it provides evidence that sectors behave heterogeneously during a stock market crisis and the significant adverse impact from the LBs’ bankruptcy is discriminatory toward the financial sector and the diversified financial industry, which were most exposed to LBs. This paper proposes for investors to short sell those sector's or industry's securities that are anticipated to be the most significantly adversely affected from a particular negative news announcement.

Least squares learning and the US Treasury bill rate

- Economic Systems---2014---Sagarika Mishra,Sandip Dhole

Understanding how agents formulate their expectations about Fed behavior is important for market participants because they can potentially use this information to make more accurate estimates of stock and bond prices. Although it is commonly assumed that agents learn over time, there is scant empirical evidence in support of this assumption. Thus, in this paper we test if the forecast of the three month T-bill rate in the Survey of Professional Forecasters (SPF) is consistent with least squares learning when there are discrete shifts in monetary policy. We first derive the mean, variance and autocovariances of the forecast errors from a recursive least squares learning algorithm when there are breaks in the structure of the model. We then apply the Bai and Perron (1998) test for structural change to a forecasting model for the three month T-bill rate in order to identify changes in monetary policy. Having identified the policy regimes, we then estimate the implied biases in the interest rate forecasts within each regime. We find that when the forecast errors from the SPF are corrected for the biases due to shifts in policy, the forecasts are consistent with least squares learning.

An analysis of firm and market volatility

- Economic Systems---2014---Susan Sharma,Paresh Narayan,Xinwei Zheng

In this paper, using time series data for the period 2 January 1998 to 31 December 2008 for 560 firms listed on the NYSE, we examine whether firm volatility is related to market volatility. The main contribution of this paper is that we develop an analytical framework motivating the firm-market volatility relationship. We present three new findings on volatility. First, we discover significant evidence of common volatility; for 12 out of 14 sectors, market volatility has a statistically significant effect on firm volatility for at least 50 percent of firms. Second, we discover significant evidence of size effects: for small-sized firms, there is weak evidence of commonality in volatility, while for large-sized firms there is high evidence (for as much as 75 percent of firms) of commonality in volatility. Third, we find that market volatility predicts firm volatility for firms belonging to five of the 14 sectors.

Different institutional behavior in different economic systems: Theory and evidence on diverging systems worldwide

- Economic Systems---2014---Solomon I. Cohen

The paper reviews and criticizes the past and current state of comparative studies of economic systems (CSES) for the lack of an analytical framework to back them. An analytical framework is formulated that allows for a changing distribution and interaction of agents along the subsystems, each of which is characterized by distinct and intrinsic institutional rules. The framework studies the convergence of agents and institutions toward the dominant subsystem and behavioral type. The focus is on three subsystems – household, firm and state settings – and the intrinsic behavioral types that are associated with these, namely social sharing, profit maximization, and rent acquisition, respectively. A fourth prototype is proposed.

Exchange rate volatility and Spanish-American commodity trade flows

- Economic Systems---2014---Mohsen Bahmani-Oskooee,Hanafiah Harvey,Scott Hegerty

A number of recent studies have tested the impact of exchange rate volatility on trade flows, particularly for individual commodities, for various country pairs. These have found that risk can increase as well as decrease trade, but that oftentimes industries are not affected. This study examines trade between the United

States and Spain over the period from 1962 to 2009, for 131 U.S. export industries and 88 import industries. We find that exchange rate volatility has short-run and long-run effects in only a fraction of the cases, but that exports respond more to increased uncertainty than imports do. In all, only 35 of the 74 U.S. export industries are affected (11 positive, 24 negative), whilst only three out of 37 import industries have positive coefficients and 11 have negative ones. We find no evidence that durable or nondurable goods are more likely to respond to volatility, whilst small industries or specialized goods might show more of a positive response.

Non-parametric and semi-parametric asset pricing: An application to the Colombian stock exchange

- Economic Systems---2014---Jose Gomez-Gonzalez,Elioth Mirsha Sanabria-Buenaventura

We estimate non-parametrical one-factor and three-factor international Capital Asset Pricing Models (CAPM) and find strong evidence for rejecting the linear CAPM specification. Furthermore, we find inconsistent linear betas for a series of stocks in the Colombian stock exchange (BVC), supporting the hypothesis of better and consistent fit of non-parametrical versions of the CAPM.

The relationship between trade, FDI and economic growth in Tunisia: An application of the autoregressive distributed lag model

- Economic Systems---2014---Mounir Belloumi

The relationship between foreign direct investment (FDI), trade openness and economic growth in host countries remains one of the most important issues in the economic literature and met with renewed interest in recent years mainly for countries suffering from unemployment problems and lack of technological progress. This paper examines this issue for Tunisia by applying the bounds testing (ARDL) approach to cointegration for the period from 1970 to 2008. The bounds tests suggest that the variables of interest are bound together in the long run when foreign direct investment is the dependent variable. The associated equilibrium correction is also significant, confirming the existence of a long-run relationship. The results also indicate that there is no significant Granger causality from FDI to economic growth, from economic growth to FDI, from trade to economic growth and from economic growth to trade in the short run. Even though there is a widespread belief that FDI can generate positive spillover externalities for the host country, our empirical results fail to confirm this belief for the case of Tunisia. They go against the generally accepted idea considering the positive impact of FDI on economic growth to be automatic. The results found for Tunisia can be generalized and compared to other developing countries which share a common experience in attracting FDI and trade liberalization.

Measures to tame credit growth: Are they effective?

- Economic Systems---2014---Adam Gersl,Martina Jasova

This paper focuses on policy measures taken to curb bank credit growth in the private sector in the pre-crisis period 2003–2007. Our analysis is based on an original survey conducted in 2010 on eleven central banks in Central and Eastern Europe (CEE). The findings reveal substantial policy intervention: a total of 82 measures were implemented in CEE during the period considered. The paper presents a panel data analysis of the effectiveness of the policy measures adopted in the region. The overall results indicate that certain measures – particularly asset classification and provisioning rules and loan eligibility criteria – might have been effective in taming bank credit growth, especially if applied in the context of more general policy measures featuring a combination of various instruments. However, in countries in which the authorities managed to somewhat decrease the flows of bank credit into the economy, the measures were often circumvented via direct, cross-border credit from foreign banks and credit provided by domestic, non-bank financial companies.

Demand and supply drivers of foreign currency loans in CEECs: A meta-analysis

- Economic Systems---2014---Jesus Crespo Cuaresma,Jarko Fidrmuc,Mariya Hake

We present a meta-analysis of the determinants of foreign currency loans in Central and Eastern Europe. We base our inferences on the results of 21 studies that provide around 800 estimated coefficients for seven determinants of foreign currency loan demand. Our results indicate that, on average, supply factors (foreign currency deposits and the minimum variance portfolio ratio) appear to play a more significant role than demand factors (interest rate differentials) of foreign currency loans. Moreover, we show that the estimates reported in the literature tend to be influenced by selected study characteristics such as the econometric methodology and their regional focus.

The interest rate spreads in the Czech Republic: Different loans, different determinants?

- Economic Systems---2014---Christa Hainz,Roman Horvath,Michal Hlaváček

We analyze the determinants of interest rate spreads of different loan categories in the Czech Republic during 2004–2011. We employ a detailed bank supervisory dataset that allows us to construct the actual spreads for four loan categories, namely small and large corporate loans, consumer loans and mortgages, on a monthly basis. Our regression analysis shows that bank and macroeconomic characteristics matter more for setting the spreads for small corporate loans and mortgages rather than for large corporate loans and consumer loans. Interest rate risk determines the spreads for all loan categories. The global financial crisis has, to a certain extent, increased the responsiveness of spreads to interest rate risk and liquidity risk.

Bank valuation in new EU member countries

- Economic Systems---2014---Yiwei Fang,Iftekhar Hasan,Katherin Marton,Maya Waisman

This paper studies the role of institutional reforms in affecting bank valuation in new European Union (EU) member countries. It takes advantage of the dynamic nature of institutional reforms in transition economies and explores the causal effects of those reforms on banks’ Tobin’s Q over the period of 1997–2008. Using a difference-in-difference approach, the paper shows that Tobin’s Q increases substantially after these countries reform their legal institutions and liberalize banking. However, it decreases after stock market reforms. After further examination of the interactive relationships between different reforms and bank valuation, it is observed that when the banking reform is well implemented, legal reform can have a stronger impact on banks’ Tobin’s Q. On the other hand, banking reform and security market reform has a substitutive relationship. The analysis also suggests that foreign ownership, market power, and asset diversification significantly affect Tobin’s Q. These results are robust even after simultaneously controlling for equity risk.

The impact of macro news and central bank communication on emerging European forex markets

- Economic Systems---2014---Balázs Égert,Evžen Kočenda

We employ a two-stage empirical strategy to analyze the impact of macroeconomic news and central bank communication on the exchange rates of three Central and Eastern European (CEE) currencies against the euro. First we estimate the nominal equilibrium exchange rate based on a monetary model. Second, we employ a high-frequency GARCH model to estimate the effects of the news and communication along with the estimated exchange rate misalignment on the exchange rate as well as its volatility. The analysis is performed during the pre-crisis (2004–2007) and crisis (2008–2009) periods. CEE currencies react to macroeconomic news during both periods in an intuitive manner that corresponds to exchange rate-related theories. However, the responsiveness of the currencies to central bank verbal interventions becomes important only during the crisis period.

Look before you leap: Why politicians may have a point to be hesitant about the gains from trade

- Economic Systems---2014---Erich Gundlach,Albert de Vaal

Economists emphasize the welfare gains of unrestricted trade, but politicians worry about the income distribution effects of increased competition. We show that the welfare gains of a trade shock become ambiguous if inaccurate information hinders optimal income redistribution with distortionary policy instruments. To be sure about the net welfare outcome of a compensated trade shock, the government must know the size of the trade shock and the corresponding size of the policy instrument that is needed to generate a balanced budget. If this is not the case, politicians may have a point when being hesitant about the gains from trade.

Long-run and short-run determinants of sovereign bond yields in advanced economies

- Economic Systems---2014---Tigran Poghosyan

We analyze determinants of sovereign bond yields in 22 advanced economies over the 1980–2010 period using panel cointegration techniques. The application of the cointegration methodology allows distinguishing between long-run (debt-to-GDP ratio, potential growth) and short-run (inflation, short-term interest rates, etc.) determinants of sovereign borrowing costs. We find that in the long run, government bond yields increase by about 2 basis points in response to a 1 percentage point increase in government debt-to-GDP ratio and by about 45 basis points in response to a 1 percentage point increase in the potential growth rate. In the short run, sovereign bond yields deviate from the level determined by the long-run fundamentals, but about half of the deviation adjusts in one year. When considering the impact of the global financial crisis on sovereign borrowing costs in euro area countries, the estimations suggest that spreads against Germany in some European periphery countries exceeded the level determined by fundamentals in the aftermath of the crisis, while some North European countries have benefited from “safe-haven” flows.

Determinants of total factor productivity in former Soviet Union economies: A stochastic frontier approach

- Economic Systems---2014---Annageldy Arazmuradov,Gianmaria Martini,Davide Scotti

This paper investigates the process of GDP generation in former Soviet Union (FSU) economies to provide an understanding of the impact of technology channels on countries’ efficiency. We apply a stochastic frontier approach to 15 FSU economies over the period 1995–2008 and find that FDI and human capital improve countries’ technical efficiency. Furthermore, we show that these factors also have a positive impact on total factor productivity (TFP), which, in turn, improves real GDP growth. Hence, our results suggest that FSU countries should promote public policies that provide incentives to attract foreign investment and enhance domestic education in order to improve their economic growth. Additionally, our empirical evidence argues against the resource curse hypothesis. We also show, by computing efficiency change and technological change indices at the country level, that FSU economies benefit more from exploiting technological progress than from catching up to the best practice frontier.

Income convergence prospects in Europe: Assessing the role of human capital dynamics

- Economic Systems---2013---Jesus Crespo Cuaresma,Miroslava Havettová,Martin Lábaj

We employ income projection models based on human capital dynamics in order to assess quantitatively the role that educational improvements are expected to play as a driver of future income convergence in Europe. We concentrate on income convergence dynamics between emerging economies in Central and Eastern Europe and Western European countries during the next 50 years. Our results indicate that improvements in human capital contribute significantly to the income convergence potential of European emerging economies. Using realistic scenarios, we quantify the effect that future human capital investment paths are expected to have in terms of speeding up the income convergence process in the region. The income projection exercise shows that the returns to education in terms of income convergence in Europe could be sizeable, although it may take relatively long for the poorer economies of the region to rip the growth benefits.

Institutional quality and environmental pollution: MENA countries versus the rest of the world

- Economic Systems---2013---Rajeev Goel,Risto Herrala,Ummad Mazhar

Using data for over 100 nations over the years 2004–2007, this study examines the effect, of institutional quality on environmental pollution, focusing primarily on influences of corruption, and the shadow economy, and paying special attention to MENA countries. Controlling for a, number of factors, results show that both more corrupt nations and nations with large shadow sectors have qualitatively and quantitatively similar effects in yielding fewer (recorded) emissions; however, MENA nations have higher pollution rates. Policy implications are noted.

The effects of foreign exchange and monetary policies in Russia

- Economic Systems---2013---Shigeki Ono

This paper examines the effects of Russian foreign exchange and monetary policies under conditions of abundant natural resources during the period 1999–2011 using structural VAR models. The results suggest that monetary policy shocks, which are identified as money supply disturbances, have a persistent effect on real output, and more than half of the volatility in real output can be explained by changes in the money supply. Furthermore, the analysis reveals that stock prices are a more significant transmission channel of monetary policy than bank loans.

How I learned to stop worrying and love the crisis

- Economic Systems---2013---Jan Fidrmuc,Ariane Tichit

We investigate the effects of economic crises on the subsequent economic, performance, economic reform, democratization and institutional change. Our analysis is based on a sample of post-communist countries, most of which experienced severe economic, crises during the 1990s. We find that the severity of crisis has a positive impact on the subsequent pace of economic reform, economic growth and, with a delay, on investment and institutional change. Episodes of high inflation, moreover, translate into lower subsequent inflation. Crises thus serve as catalysts of reform and institutional change and lead to better long-term economic performance.

Estimating the effects of democratization in African countries: A simultaneous equations approach

- Economic Systems---2013---Alan Green

This paper analyzes impacts of democratization in Africa, including effects of improved, property rights on economic growth and of greater political participation on civil violence. Democracy is endogenous to economic growth and other outcomes, which hampers most, empirical analysis. This paper uses a minimum distance simultaneous equations estimation to, account for all endogenous variables while including time and country fixed effects. The method yields a test of fit of the model, which is strong. Results indicate a positive significant effect of property rights institutions on economic growth in the presence of time and country fixed effects. Estimates also show a negative significant effect of political participation on civil violence and, strong effects of aid per capita on both economic growth and civil violence.

Does economic globalization affect the level and volatility of labor demand by skill? New insights from the Tunisian manufacturing industries

- Economic Systems---2013---Ousama Ben Salha

The central aim of this paper is to assess the effects of economic globalization on the level and volatility of labor demand for different skill groups in Tunisia.

Using a panel dataset covering six manufacturing industries between 1983 and 2009, three main findings are reported. First, exports and imports exert a positive impact only on the semi-skilled and skilled labor demand while foreign direct investment flows increase the demand for semi-skilled and unskilled workers. Second, the regional analysis suggests that exports to the European Union boost the demand for the semi-skilled and skilled labor. Imports from the rest of the world exert similar effects on the demand for these two categories of workers. It emerges also that imports from the European Union lead to a higher demand for skilled labor, which gives support to the validity of the skill-enhancing trade hypothesis in Tunisian industries. Finally, our findings suggest that both exports and imports rise the employment volatility associated with skilled workers. On the other hand, there is a weak evidence of increased employment volatility as a result of foreign direct investment flows.

Central bank transparency and financial market expectations: The case of emerging markets

- Economic Systems---2013---Matthias Neuenkirch

In this paper, we study how central bank transparency influences the formation of money market expectations in emerging markets. The sample covers 25 countries for the period from January 1998 to December 2009. We find, first, that transparency reduces the bias (the difference between the money market rate and the weighted expected target rate over the contract period) in money market expectations. The effect is larger for countries with no exchange rate peg and countries with low income. Second, an intermediate level of transparency is found to have the most favorable influence on money market expectations: neither complete secrecy nor complete transparency is optimal. Finally, all subcategories of the Eijffinger and Geraats (2006) index lead to a smaller bias in expectations, with political transparency having the largest effect.

Institutions and economic development: A Granger causality analysis of panel data evidence

- Economic Systems---2013---Siong Hook Law,Thong Cheen Lim,Normaz Wana Ismail

This study examines the causal relationship between institutions and economic development using a panel Granger causality test. The study incorporates two institutional datasets, the International Country Risk Guide (ICRG) and World Governance Indicators (WGI). The empirical results based on 60 countries show that there is a bi-directional causality between institutions and economic development. The findings also suggest that causality patterns between institutions and economic performance vary at different stages of income level. Better institutional quality fosters economic development in higher income countries, whereas economic development tends to enhance institutional quality in lower income countries.

Stability or restructuring? Macroeconomic dynamics under soft budget constraint problems

- Economic Systems---2013---Kenta Toyofuku

In this paper, we examine how a decrease in firms’ productivity or the degree of financial market imperfection affects macroeconomic dynamics when the bank has an incentive to misallocate its credit. We develop a model that incorporates a soft budget constraint into a simplified version of Kiyotaki and Moore (1997) environment and show that soft budget constraint problems may arise if the economy becomes less productive or the financial market is less developed. Because of this shift in firms’ productivity, not only do more bad projects survive, but profitable new entrants are crowded out, so that, as in transition economies and Japan in the 1990s, the recession is not only prolonged, but also becomes more severe in the long term.

The shadow economy beyond European public governance

- Economic Systems---2013---Claudio Quintano,Paolo Mazzocchi

The purpose of this paper is to try to analyze the Shadow Economy (SE) and its determinants by means of the Structural Equation Model (SEM)-Partial Least Squares (PLS). The overall topic of the SEM-PLS approach is controversially debated in the literature. In the past decades, the focus on the SE has increased and the range in the estimated size of this phenomenon is very divergent. By examining the effects of a set of indicators, economic theory often emphasizes the need for lower taxes and less regulation, but many other factors, such as administrative quality, are frequently neglected. Policy implications are discussed. Estimates for the SE as a percentage of GDP can be calculated and European countries are clustered according to the obtained results.

The distribution of income between labor and capital is not stable: But why is that so and why does it matter?

- Economic Systems---2013---Josef Brada

I review the literature on labor's share of national income in developed and developing countries. These shares have varied systematically over the post-World War II period, rising until the late 1970s and then falling until now. Explanations for the decline in labor's share include technical progress, globalization and a decline in labor's bargaining power, but none of these explanations can account for both the rise and the decline of labor shares over time and for the similar pattern in developed and developing countries. However, movements in oil prices can account for these movements if energy is included in the production function. Such an explanation has broad implications for income distribution, energy conservation and for the modern theory of growth.

Institutions, social capability, and economic growth

- Economic Systems---2013---Louis Putterman

I discuss correlations between the historical growth of social capabilities and patterns of economic growth across world regions since the industrial revolution and especially in recent decades. Based on this analysis, I argue that the apparent relationship between institutions and economic growth results in part because better institutional performance goes hand in hand with more advanced social capabilities.

The evolving pattern of the wage–labor productivity nexus in China: Evidence from manufacturing firm-level data

- Economic Systems---2013---Jun Zhang,Xiaofeng Liu

By employing a large dataset of nation-wide state-owned and non-state-owned manufacturing enterprises in the period 1998–2007, this paper analyzes the evolving pattern of the correlation and spread between wages and labor productivity in China's manufacturing sector and its influence factors. We find that although a significant positive correlation between wages and labor productivity in manufacturing firms exists, this positive nexus has become weak and loose. We also find that, since the 1990s, the labor productivity of Chinese manufacturing enterprises has gained a much greater growth rate than that of the wage level, and therefore the spread between wages and labor productivity has been widening over time. A variety of factors that have influenced the wage–labor productivity nexus of Chinese manufacturing enterprises are identified and discussed with regression models.

What is the potential impact of a taxation system reform on carbon abatement and industrial growth in China?

- Economic Systems---2013---Shiyi Chen

Economists have long argued that market-based environmental policy such as an environmental tax is beneficial to abate pollution emissions. This study aims at investigating the impact of carbon tax levy on carbon dioxide (CO2) abatement and industrial growth in China. To this end, the marginal abatement cost (MAC) of industrial CO2 emissions is estimated as the benchmark of setting the carbon tax rate by using the directional distance function (DDF). This paper employs the polynomial dynamic panel model to forecast the impact of carbon tax levy on target variables such as sectoral value-added and CO2 intensity. The results reveal that the levy of a CO2 tax has a negative impact on industrial output only in the short term. In the long term, the impact of CO2 tax levy on output will become positive. The levy of a CO2 tax is always beneficial to reduce CO2 intensity. Corresponding policy suggestions for an environmental taxation system reform are given in the concluding section.

Dissecting the German export miracle: Plant-level evidence

- Economic Systems---2013---Daniel Etzel,Andreas Hauptmann,Hans-Joerg Schmerer

Wage moderation in Germany is often cited as a major cause of its recent export success. We construct competitiveness measures at both industry and plant level using OECD STAN data in order to confront this hypothesis with empirical evidence. Our results show that plants' export intensity is positively correlated with German competitiveness. Exploiting a plant-level competitiveness measure, we use a corner solution model that enables us to decompose the total effect into its component effects at the intensive and extensive margins. Our results indicate a positive and significant effect of competitiveness at both margins, but this turns out to be insignificant before the introduction of the Euro. A one standard deviation increase in a plant's competitiveness (about 70%) is associated with a 2% higher probability to become an exporter. At the intensive margin, the same increase in competitiveness leads to a 0.49 percentage point increase in export intensity.

Do natural resources define convergence clubs? Empirical evidence from the Kazakh regions

- Economic Systems---2013---Daniel Frey,Miriam Frey,Carmen Wieslhuber

This paper deals with the hypothesis that natural resources are important in forming convergence clubs. We check this hypothesis by applying a dependence and an endowment measure of natural resource abundance and a regression tree analysis. The results indicate that for the Kazakh regions natural resources do indeed play an important role in forming convergence clubs. It is further shown that natural resource endowment rather than resource dependence determines initial conditions and thereby convergence clubs.

The effect of World Bank trade adjustment assistance on trade and growth, 1987–2004: Is the glass half full or half empty?

- Economic Systems---2013---Yothin Jinjarak,Gonzalo Salinas,Yvonne M. Tsikata

This paper studies the association between trade reform, growth, and trade adjustment assistance in a sample of developing countries that underwent trade reforms during 1987–2004. Our analysis explicitly differentiates between a group of countries that received trade adjustment loans from the World Bank and a non-recipient group. The results suggest that trade adjustment assistance is positively associated with economic growth after trade reform in the medium to long run. In comparison to a pre-reform period and to the non-recipient group, the recipient countries registered 0.2 percent higher growth of real GDP per capita, 5.0 percent higher import growth, and 2.5 percent higher export growth over a period of three to five years after trade reform.

Weber, Marx, and work values: Evidence from transition economies

- Economic Systems---2013---Susan Linz,Yu-Wei Chu

Are work values a cause (Weber) or consequence (Marx) of the economic environment? The collapse of the Soviet Union at the end of 1991 provides a unique opportunity to investigate this link. Using data collected from an employee survey conducted in over 340 workplaces in Armenia, Azerbaijan and Russia, we investigate generational differences in adherence to the Protestant work ethic (PWE). Our results indicate that Marx was 'right' about the link between work values and economic environment. That is, despite economic and cultural differences emerging during the transformation process, in all three countries, participating workers born after 1981 adhere more strongly to PWE than workers born before 1977. Moreover, the estimate magnitudes are very similar across these economically and culturally diverse countries. More generally, PWE adherence is stronger among participating workers with an internal locus of control and among supervisors. PWE adherence also tends to be stronger among participants with high relative earnings, as well as among those working in organizations that reward hard work with the chance to develop new skills or learn new things.

Sharing risk within and across countries: the role of labor market institutions

- Economic Systems---2013---Anna Lo Prete

This paper studies the effect of labor market institutions on within- and cross-country risk sharing, using a model of international trade in risky assets modified to include a subset of agents, labor-owners who do not access financial markets, and employment security provisions. Labor market, institutions, by promoting within-country risk-shifting arrangements between agents with or without, access to financial markets, reduce the fluctuations of non-tradable labor incomes and amplify the, fluctuations of capital incomes. Capital flows become more volatile across countries, and if the, configuration of labor markets differs across countries, capital-owners bear the burden of systematic, undiversifiable world aggregate uncertainty.

Remittances and economic growth: A study of Guyana

- Economic Systems---2013---Ronald Kumar

Using an augmented Solow framework and an ARDL bounds test for cointegration, we explore the short- and long-run effects of remittances, aid and financial deepening on growth in Guyana using annual data for the period 1982–2010. The results show that remittances have a positive and significant effect both in the short and the long run. Aid has a negative effect in the long run and financial deepening is not statistically significant. The Granger-causality test reveals that capital stock, aid and financial deepening cause remittances inflow in Guyana.

Exploring tax evasion in the context of political uncertainty

- Economic Systems---2013---Barbara Katz,Joel Owen

We present a model of agents facing the uncertainty of two future forms of government who are able to insure against this uncertainty by hiding funds from taxation. In order to choose whether or not to hide funds from taxation, agents need to know policy choices that each government would make should it come to power. But each government, before it could make its decision, would need to know the choices of the agents who would, for example, produce tax revenues. This informational tension is resolved endogenously. We derive the resulting level of tax evasion in society and the optimal choices made by the potential governments. We examine how changes in governmental structure would affect the level of tax evasion, and how that, in turn, would affect a particular form of capital flight.

Capital mobility in the Caucasus

- Economic Systems---2013---Rustam Jamilov

This paper examines the degree of capital mobility in the countries of the Caucasus. I estimate a simple model developed in the seminal paper by Feldstein and Horioka (1980). I construct a panel of 6 countries of the Caucasus – Armenia, Azerbaijan, Georgia, Kazakhstan, Russia, and Turkey – and employ a panel cointegration approach. To that end, I make use of the Dynamic OLS (DOLS), Fully Modified OLS (FMOLS), and Pooled Mean Group (PMG) techniques for heterogeneous panels. Preliminary cross-dependency tests reject the presence of cross-sectional dependence. Panel unit root and cointegration tests confirm that investment and saving are non-stationary and cointegrated. The estimated long-run saving retention ratios using DOLS, FMOLS, and PMG are 0.90, 0.73, and 0.83, respectively. These results suggest that capital mobility in the Caucasus is very low. I put these findings in an international context and confirm that the Caucasus is considerably financially restrained compared to other regions. I also look at the country ratings of the Index of Economic Freedom (IEF) and find that my results work well in predicting the IEF rank. Finally, I discuss some implications for the region's policy-relevant issues such as financial integration, human capital mobility, cross-border trading, fiscal and monetary policy, solvency management, responsive consumption smoothing, and recession resistance.

Equity aspects of VAT in emerging European countries: A case study of Serbia

- Economic Systems---2013---Milojko Arsić,Nikola Altiparmakov

A belief that consumption taxation is inherently inequitable has been entrenched in a significant portion of the general public and was supported by early empirical evidence that suggested a highly regressive annual VAT incidence. However, it has been shown that much of the estimated annual VAT regressivity is due to the income under-reporting bias inherent in sample surveys. This bias is particularly important in emerging European countries due to a high shadow economy and the evasion of direct income taxes, which suggests household expenditures as a more meaningful indicator of well-being than registered income. Furthermore, theoretical considerations favor the lifetime incidence approach, whereby VAT is estimated to be proportional or mildly progressive. A micro-simulation analysis of the Serbian expenditure survey data yields incidence estimates in line with the existing literature from other countries. We show that a significant presence of own-source (small) farming production of food in many emerging European countries, including Serbia, presents an important progressivity-enhancing buffer compared to the VAT incidence in developed European countries. We conclude that the common beliefs of inherently inequitable VAT taxation are vastly overstated and poorly founded in the economic reality of emerging European countries such as Serbia, where VAT can be most adequately described as being mildly progressive.

How effective is monetary transmission in low-income countries? A survey of the empirical evidence

- Economic Systems---2013---Prachi Mishra,Peter Montiel

This paper surveys the evidence on the effectiveness of monetary transmission in low-income countries. It is hard to come away from this review with much confidence in the strength of monetary transmission in such countries. We distinguish between the "facts on the ground" and "methodological deficiencies" interpretations of the absence of evidence for strong monetary transmission. We suspect that "facts on the ground" are an important part of the story. If this conjecture is correct, the stabilization challenge in developing countries is acute indeed, and identifying the means of enhancing the effectiveness of monetary policy in such countries is an important challenge.

Fiscal impact of privatization revisited: The role of tax revenues in transition economies

- Economic Systems---2013---Ernesto Crivelli

In contrast to earlier literature, this paper finds empirical evidence that privatization has deteriorated fiscal balances in transition economies. The investigation focuses on the role of tax revenues in explaining the fiscal impact of privatization, as it appears that tax revenue in many transition countries remained lackluster even after the adoption of several tax reforms in the last two decades, and no formal econometric assessment has been conducted of the extent to which privatization has affected tax revenues. Using panel data for 29 Eastern European and former Soviet Union countries, the analysis finds robust signs of a strong negative impact of privatization on different tax revenue sources. The paper also provides some empirical evidence favoring the early adoption of value-added taxes that appear to have contributed to government revenue recovery.

An empirical analysis of the nexus between external balance and government budget balance: The case of the GIIPS countries

- Economic Systems---2013---Bernardina Algieri

The present study investigates the causality relationship between the external (trade and current account) balance and government budget balance for five countries of the euro area's Mezzogiorno, namely Greece, Ireland, Italy, Portugal, and Spain. These countries, due to their weak economic and financial performances, have been labelled the GIIPS group. The analysis is implemented using two methodologies: the traditional Granger test and the approach developed by Toda–Yamamoto. The results reveal homogeneity in using both approaches and give support to the Ricardian theory, according to which there is no clear nexus between budget-current account balances and budget-trade balances. This implies that fiscal austerity could help the five peripheral countries to conform to the budget deficit criteria as established by the Stability and Growth Pact, but would not be effective in restraining external deficits.

Resource concentration, institutional quality and the natural resource curse

- Economic Systems---2013---Yessengali Oskenbayev,Mesut Yilmaz,Kanat Abdulla

Employing panel data from 14 regions in Kazakhstan, this investigation aims to discover the effect of energy (point-source) and agricultural (diffuse) resource abundance on economic growth through institutional quality. A fixed effects panel data model and Roger's standard errors model are used to consider the possible endogeneity problem. Kazakhstan has two major export products, oil (point-source) and wheat (diffuse), and in theory these two products have different impacts on growth. Auty (1997), Woolcock et al. (2001) and Isham et al. (2005) found that it is the composition of resources, rather than any kind of natural resource, which is problematic for economic growth. The novelty of this research is that the natural resource endowments are considered as a nonlinear function of institutional quality. In contrast to others, we observe that it is not the type of natural resources that breeds economic failure, but rather their "overabundant" or excess production that is often associated with rent-seeking activities.

Economic integration and government revenue from financial repression

- Economic Systems---2013---Yothin Jinjarak

We study a relationship between economic openness via financial and trade integration and government revenue from financial repression. An implicit budgetary saving, the financial repression revenue, as measured by the stock of government domestic debt multiplied by the difference between effective foreign and domestic interest rate, has declined significantly from the 1980s into the 2000s across the upper-income, the middle-income, and the low-income developing countries. While we find that both the financial and trade openness have a negative association with the financial repression revenue in the panel of countries, the effect of financial openness is stronger and the empirical correlations depend on the quality of governmental and budgetary management.

Public–private sector wage differentials and the business cycle

- Economic Systems---2013---Terhi Maczulskij

This paper uses microeconomic data for the period from 1990 to 2004 to examine the relationship between public–private sector wage differentials and labour market conditions in Finland. The results show that the public sector wage premium is strongly counter-cyclical. On average, a 10 percent increase in the local unemployment rate increases the public–private sector wage gap by one percent. Separate analyses by government sector and quantiles of the distribution of wages reveal that it is local government workers and those working at lower skill levels who benefit more from increasing unemployment rate. The paper also exploits the longitudinal structure of the data to examine whether the results are constant over time. These results indicate that the cyclical pattern primarily emerges in years with deteriorated labour markets.

The exchange rate pass-through in the new EU member states

- Economic Systems---2013---Ramona Jimborean

This paper aims to complete our understanding of the relationship between changes in nominal effective exchange rates and prices in the new EU member states. I investigate the exchange rate pass-through to import, producer and consumer prices for ten Central and Eastern European countries with quarterly data from January 1996 to December 2011. In a first step, the pass-through estimates are derived from a dynamic panel data model through the generalized method of moments. A statistically significant exchange rate pass-through to consumer, producer and import prices is found, both in the short and long run. In a second step, I proceed to an individual analysis, country by country, and find support for an increased heterogeneity in the exchange rate pass-through estimates. In a third step, I assess the drivers of the estimated exchange rate pass-through coefficients and find support for a significant impact of exchange rate volatility, inflation volatility, import dependence, and the output gap, as well as the global outlook.

Modeling institutional evolution

- Economic Systems---2013---Bilin Neyapti

This paper proposes a formal framework to analyze the process of institutional evolution in relation with economic progress. Institutions have both formal (F) and informal (N) aspects that may exhibit varying processes of change. N is hypothesized to evolve with the level of capital stock, as in learning by doing, whereas F is chosen optimally by a government that maximizes output subject to social and political costs. F and N together define the production technology and affect the income level. Consistent with evidence, simulations of the model's solution reveal that optimum F exhibits a punctuated pattern.

Measuring the interconnectedness of financial institutions

- Economic Systems---2013---Ramaprasad Bhar,Biljana Nikolova

This paper uses sophisticated empirical methodology to measure the interconnectedness of financial institutions in five developed economies – France, Germany, Japan, UK and USA – for the period January 2000 to November 2009. The study goes beyond the conventional use of first and second moments of returns and uses the timevarying equity price of risk methodology to measure the level of convergence of the financial sectors in the countries of interest. More specifically, Kalman filter convergence tests are applied to the weekly equity price of risk data to measure the interconnectedness between these countries' and the US finance sectors. Results indicate the presence of short-term timevarying interconnectedness of the finance sectors of France, Germany and the UK with that of the US and steady-state longer term interconnectedness only between Germany and the US. Short-term and long-term steady-state interconnectedness between Japan and the US is not evident. We conclude that going forward in an environment of increased interconnectedness of international financial markets, a coordinated global financial regulatory policy with discretionary allocation of resources and execution strategy at a national level is the preferred regulatory structure to ensure sound operations of international financial systems.

The transition from dual-track pricing to a market system: Winners and losers

- Economic Systems---2013---John Bennett,Huw Dixon,Helen X.Y. Hu

We formulate a microeconomic model of the dual-track price system for households and use it to analyze 'transitional policy' reforms, i.e., a rise in the plan-track price and a reduction in the plan-track quantity. Each of these reforms has a negative effect on the market price, but a positive effect on the weighted average price (CPI). Under fairly mild assumptions, if households are heterogeneous and resale of goods can occur, transitional policy reform creates losers (state employees) as well as winners (non-state employees). Thus, although the transition from central planning to DTP potentially occurs with no losers, further reform is painful for some.

Structural breaks in public finances in Central and Eastern European countries

- Economic Systems---2013---Astrid Ayala,Szabolcs Blazsek

This article studies the evolution of quarterly government Total Deficit (TD) to Gross Domestic Product (GDP) and debt to GDP ratios of seven Central and Eastern European member states (CEEC-7) of the European Union over the period 2000 Q1 to 2011 Q2. Alternative unit root tests are applied to identify the number and date(s) of structural break(s) in the fiscal ratios. The breakpoint date(s) are estimated endogenously. The best performing unit root test is determined by the adjusted R-squared metric. The level and trend of fiscal ratios are estimated by using breaking trend regression models. Unit root tests performed for the period 2000 Q1 to 2007 Q4 identify the number and date(s) of structural break(s) in fiscal variables before the global economic crisis. Unit root tests and breaking trend regressions are estimated for total Eurozone TD to GDP and debt to GDP to compare the evolution of total Eurozone fiscal ratios with those of each CEEC-7.

Persistence and non-linearity in US unemployment: A regime-switching approach

- Economic Systems---2013---Emrah Çevik,Sel Dibooglu

This article examines persistence and nonlinearity in the US unemployment rate in the post-war period by using a regime-switching unit root test. The empirical results indicate that a regime-switching unit root test outperforms conventional unit root tests and describes unemployment behavior better over the business cycle in the sample. While shocks to US unemployment dissipate in expansions, shocks to the unemployment rate seem to be persistent in recessions, supporting the hysteresis hypothesis. This is consistent with the usual explanation of hysteresis that workers may lose valuable job skills in protracted recessions.

Transparency and inflation: What is the effect on the Brazilian economy?

- Economic Systems---2013---Helder de Mendonça,Karine Alves de Siqueira Galveas

This paper presents empirical evidence concerning the effect of central bank transparency on inflation considering the Brazilian case after the adoption of inflation targeting. Two indices for measuring transparency, based on forward-looking and backwardlooking views, are developed. Furthermore, empirical evidence is divided into three steps: (i) analysis of simple correlation through scatterplot diagrams; (ii) use of VAR models; and (iii) estimation of different specifications of the Phillips curve using OLS and GMM based on the structural model used by the Central Bank of Brazil (CBB). The findings allow one to conjecture that inflation expectations are well coordinated by the CBB. In short, the transparency of information by the CBB is a very important tool for guiding public expectations and thus contributes to maintain inflation under control.

International stock market integration: Central and South Eastern Europe compared

- Economic Systems---2013---Roman Horvath,Dragan Petrovski

We examine the international stock market comovements between Western Europe vis-à-vis Central (Czech Republic, Hungary and Poland) and South Eastern Europe (Croatia, Macedonia and Serbia) using multivariate GARCH models in the period 2006–2011. Comparing these two groups, we find that the degree of comovements is much higher for Central Europe. The correlation of South Eastern European stock markets with developed markets is essentially zero. An exemption to this regularity is Croatia, with its stock market displaying a greater degree of integration toward Western Europe recently, but still below the levels typical for Central Europe. All stock markets fall strongly at the beginning of the global financial crisis and we do not find that the crisis altered the degree of stock market integration between these groups of countries.

Financial intermediation costs in low income countries: The role of regulatory, institutional, and macroeconomic factors

- Economic Systems---2013---Tigran Poghosyan

We analyze factors driving persistently higher financial intermediation costs in low-income countries (LICs) relative to emerging market (EM) country comparators. Using the net interest margin as a proxy for financial intermediation costs at the bank level, we find that within LICs a substantial part of the variation in interest margins can be explained by bank-specific factors: margins tend to increase with higher riskiness of credit portfolio, lower bank capitalization (or lower risk aversion), and smaller bank size. Overall, we find that concentrated market structures and lack of competition in LICs banking systems and institutional weaknesses constitute the key impediments preventing financial intermediation costs from declining. Our results provide strong evidence that policies aimed at fostering banking competition and strengthening institutional frameworks can reduce intermediation costs in LICs.

Internet usage and the shadow economy: Evidence from panel data

- Economic Systems---2013---Ceyhun Elgin

The enormous spread of the internet in the last 20 years has been having various economic consequences. In this paper I ask whether the spread of the internet aided or abetted the shadow economy. To this end, using a panel data of 152 countries over 9 years from 1999 to 2007, I examine the empirical relationship between the degree of internet usage and the size of the shadow economy. Panel and cross-section estimation results indicate that the association between internet usage and shadow economy size strongly interacts with GDP per-capita. I also suggest and then empirically test an economic mechanism to account for this observation.

A survey on time-varying parameter Taylor rule: A model modified with interest rate pass-through

- Economic Systems---2013---Ebru Yüksel,Kivilcim Metin-Ozcan,Ozan Hatipoglu,Kivilcim Metin Özcan

Today, the prime aim of central banking is to achieve price stability and, to a lesser extent, output stability. To this end, central banks use various monetary policy rules. This paper intends to provide a broad survey of the literature on Taylor-type monetary policy rules with a time-varying parameter (TVP) specification. To include the TVP feature, some modification is made in the monetary transmission mechanism of Taylor-type monetary policy models to account for the changing risk preference of individuals. In line with this approach, we introduce an interest rate pass-through specification of the monetary transmission process in a general equilibrium model to account for the varying perceptions of risk by individuals. We include an application for Turkey and estimate the time-variable parameters of the model by employing a structural extended Kalman filter (EKF). The results indicate that the EKF performs better than the standard Kalman filter in estimating the reaction function of the central bank.

Firm efficiency: Domestic owners, coalitions, and FDI

- Economic Systems---2012---Jan Hanousek,Evžen Kočenda,Michal Mašika

In this paper we analyze the evolution of firm efficiency in the Czech Republic. Using a large panel of more than 190,000 Czech firm/years we study whether firms fully utilize their resources, how firm efficiency evolves over time, and how firm efficiency is determined by ownership structure. We employ a panel version of a stochastic production frontier model for the period

1996–2007 with time-varying efficiency. We differentiate among various degrees of ownership concentration and domestic or foreign origin. In a two-stage set-up we first estimate the degree of firm inefficiency and then the effect of ownership structure on the distance from the efficiency frontier. Our results support the hypothesis that concentrated ownership is positively related to efficiency. FDI has beneficial effects at the microeconomic level. However, we show that a simple majority is not necessarily the best structure to improve efficiency. We further analyze the effects of ownership coalitions and shed light on many other subtleties of how ownership and the specific industry affect firm efficiency.

Spatial inequality and household poverty in Ghana

- Economic Systems---2012---Samuel Annim,Simon Mariwah,Joshua Sebu

The study analyses district-level consumption inequality in Ghana, explores the relative contribution of within- and between-district inequalities to national inequality and examines the relationship between household poverty and inequality. The last three rounds of the Ghana Living Standard Survey are used. We observe that the contribution of within-district inequality to national inequality is higher than inequality between districts. Also, district-level consumption inequality shows a significant effect on household poverty, but with varying signs. We surmise that the variation in signs is as a result of the state of economic activity and factors that affect both poverty and inequality.

Money market pressure in emerging economies: International contagion versus domestic determinants

- Economic Systems---2012---Scott Hegerty

Recent market turmoil has again raised the threat of banking crises worldwide. Might these crises be contagious internationally, or are fundamentals more likely to be responsible? This study creates monthly indices of "money market pressure" (MMP) for 20 emerging markets from 2002 to 2010, before using Vector Autoregressive (VAR) methods to test for various spillovers among money and foreign exchange markets. We find that MMP Granger-causes exchange market pressure (EMP) in most countries, but that causality does not run the other direction. Secondly, MMP seems to be more contagious in Southeast Asia than in Latin America or among large emerging markets globally, and the most financially open economies are most susceptible to "direct" spillovers that do not operate through exchange markets. Finally, when examining domestic influences in large emerging markets, output drops are most likely to increase MMP.

Firms, public good provision and institutional uncertainty: Evidence from Russia

- Economic Systems---2012---Simo Leppänen,Mikael Linden,Laura Solanko

Enterprises in post-socialist and transition economies often participate in providing infrastructure and social services to the surrounding community which in the Russian legal setting should be local authorities' responsibility. We propose that this bundling of social and infrastructure goods provision with firm's core operations is a fully rational choice in an uncertain institutional environment. A unique survey data suggest that this manifests itself through more reliable infrastructure, stronger employee attachment to the firm and, most interestingly, through better relations with the authorities. Relationship with authorities is a two-way game where the firm gains from the arrangement but on the other faces sanctions if it decided to depart from it. Firm's participation in the arrangement is clearly enhanced by inherited fixed capital assets from the Soviet era.

Analyzing China's productivity growth: Evidence from manufacturing industries

- Economic Systems---2012---Tung Liu,Kui Li

This article examines the growth attributes of manufacturing industries in China for the sample period of 1999–2007. The output growth of manufacturing industries classified under four groups and four regions is decomposed into four components of input growth, scale effect, technical progress, and technical efficiency change. A stochastic frontier model is applied to the translog production function to estimate technical efficiency. Despite the conventional argument that input growth and technical progress are important factors to output growth, the empirical findings show a significant scale effect but a weak technical efficiency change. The contribution to growth from labor has been replaced by human and physical capitals. Structural transformation in the industrial sector is evident, so as regional imbalances.

Multifactor explanations of returns on the Warsaw Stock Exchange in light of the ICAPM

- Economic Systems---2012---Stanisław Urbański

This paper presents possibilities for the pricing of stocks listed on the Warsaw Stock Exchange in light of the ICAPM. The pricing test period (1996–2010) is divided into two sub-periods: 1996–2005 (the years preceding Poland's accession to the EU) and 2005–2010 (the years of Poland's membership in the EU). The algorithm for the description of returns combines previous research by Fama and French with the author's own considerations. The proposed model factors are defined based on Fama and French (1993, 1995, 1996). Consideration of local pricing boundary conditions of the Polish market and modification of the Fama–French model allow one to determine changes to components of systematic risk and risk premium. Based on the proposed procedure, the results offer additional investment recommendations apart from the Fama–French model. The distributions of systematic risk components are similar in the two tested periods; however, the values of risk premium components changed during Poland's membership in the EU. Using the Fama–French model and the proposed modification, this research leads to a number of conclusions that may be useful for investors and portfolio managers.

Interest rate pass-through in South East Europe: An empirical analysis

- Economic Systems---2012---Goran Petrevski,Jane Bogoev

This paper investigates the effectiveness of the interest rate channel in three small open economies with rigid exchange rate regimes in South East Europe – Bulgaria, Croatia and Macedonia – during the period 2000–2010. Specifically, we examine the size and speed of adjustment of bank lending rates to the changes in money market rates by employing various cointegration methods. In addition, we assess the stability of interest rate passthrough during the transition period, including the recent economic crisis. The results reveal the existence of a cointegrating relationship among some of the interest rates. We find that the long-run pass-through is far from complete with the exception of Macedonia. The shortrun adjustment of lending rates is also low and sluggish, implying that the domestic monetary policy may have a limited impact on the interest rate channel. Finally, the econometric investigation provides mixed evidence on the stability of the interest rate pass-through. Therefore, the overall findings of the paper support the view that in small open economies with rigid exchange rates the effectiveness of domestic monetary policy through the interest rate channel is quite limited.

Monetary policy in a small open economy with fixed exchange rate: The case of Macedonia

- Economic Systems---2012---Branimir Jovanovic,Marjan Petreski

This paper empirically applies the New Keynesian model for monetary policy analysis in a small open economy with a fixed exchange rate. Official reserves are included in the interest rate rule to account for the constraint that these impose on monetary policy when the exchange rate is fixed. Also, the foreign interest rate is included in order to reflect the necessity of following the foreign monetary policy. The model is applied to Macedonian data from the period 1997 to 2011. In general, results indicate that monetary policy has been focused on domestic objectives during this period, despite the fixed currency. In addition, there seem to have been significant differences in the conduct of the monetary policy in the first and second half of this period. The response to inflation has been more aggressive in the earlier period, at a time when reserves appear less important, while the output gap is found to be important only in the latter period, possibly due to the stronger monetary policy transmission. Finally, results indicate that the monetary policy has likely moved from adaptive in the first period to rational in the second period.

Adoption of inflation targeting and tax revenue performance in emerging market economies: An empirical investigation

- Economic Systems---2012---Yannick Lucotte

This paper investigates whether the adoption of inflation targeting (IT), by strengthening central bank independence and maintaining inflation at low levels, has encouraged the governments of emerging economies to improve the collection of domestic tax revenue in order to recoup the loss of seigniorage revenue. Using the propensity score matching methodology, a microeconometric methodology recently used in macroeconomics, we evaluate the 'treatment effect' of IT on fiscal mobilization in emerging countries that have adopted this monetary policy framework. Our empirical analysis, conducted on a sample of 59 countries (19 IT and 40 non-IT countries) for the period from 1980 to 2009, shows that on average IT adoption has had a large and significant positive effect on public revenue collection. Our results are confirmed by extensive robustness tests.

Martingale difference hypothesis and financial crisis: Empirical evidence from European emerging foreign exchange markets

- Economic Systems---2012---Dorina Lazăr,Alexandru Todea,Diana Filip

This study investigates the effects of the recent global crisis on the relative efficiency of six CEE currency markets, using the generalized spectral test of Escanciano and Velasco (2006) in a rolling window approach. The empirical results show that the global crisis adversely affected the efficiency of most CEE currency markets, with the Turkish lira being hit the hardest, followed by the Russian ruble, Czech koruna, Romanian leu, Polish zloty and Hungarian forint. In the first stage of the crisis, covering the second half of 2008 and the first months of 2009, all foreign exchange markets experienced periods of inefficiency. In the second stage of the crisis, the Hungarian, Polish and Romanian foreign markets recovered market efficiency quickly, while Russia, Turkey and the Czech Republic continue to register a low degree of efficiency.

Demographic transition, education and economic growth in Tunisia

- Economic Systems---2012---Olfa Frini,Christophe Muller

This paper provides empirical evidence supporting the interaction between fertility, education and economic growth through the underlying mechanism behind that correlation in accordance with Becker's theory. In consistency with the theory, the key explanatory variables in Tunisia's fertility model are real GDP per capita, infant mortality, contraceptive use ratio, and education. As opposed to most empirical works, the present study takes into consideration three educational levels, i.e., primary, secondary and higher. Also unlike most empirical research, this study attempts to analyse the impact of fertility transition on education and economic growth. To deal with too little or incomplete data, time series data for Tunisia are computed over 45 years. A multivariate cointegration analysis is carried out and shows that a long-term triangular relationship exists. A short dynamic run analysis based on the vector correction error model displays results in coherence with and close to those of the long term. Among our key results, education is found to trigger fertility transition both in the short and long run. In addition, education has relatively fostered economic growth but hardly boosted it through its dynamic interaction with fertility. Furthermore, the variance decomposition and the impulse function show that the fertility transition has produced a feedback effect on both education and economic growth.

Monetary policy and stock prices in small open economies: Empirical evidence for the new EU member states

- Economic Systems---2012---Mara Pirovano

This study presents evidence on the effect of domestic and Euro Area monetary policy on stock prices in four new EU member states of Central Europe and the main determinants of stock price volatility, estimating structural vector autoregressive models identified with short-run restrictions. We find that stock prices in the considered new EU member states are more sensitive to changes in the Euro Area interest rate than to the domestic one. Moreover, the bulk of stock price volatility in these countries is due to shocks related to exchange rate and Euro Area monetary policy. Overall, we find that local stock markets are more sensitive to external shocks than to domestic ones.

Early warning systems for currency crises: The Turkish case

- Economic Systems---2012---Ali Ari

Different severe financial crises episodes occurred in the Turkish economy in the last two decades. These crises led to severe economic and social consequences for Turkey in terms of increasing interest rates, large reserves losses, considerable currency depreciations, high output losses and high unemployment rates. This paper aims to illustrate the essential determinants of these crises by developing a multivariate logit model which estimates the predictive ability of sixteen economic and financial indicators in a sample that covers the period from January 1990 to December 2008. The empirical findings show that the Turkish crises are mainly due to excessive fiscal deficits, high money supply growths, sharp rises in short-term external debt, growing riskiness of the banking system (in particular currency and liquidity mismatches), and external adverse shocks.

Theory of social transformation, political transition and economic growth

- Economic Systems---2012---Said Boakye

In this paper, I develop a model of sociopolitical transition that links the sociopolitical transformational process of countries to the dynamic process of output per capita and economic growth. Social polarization breeds discriminatory practices regarding government redistribution. This brings about inefficient allocation of resources away from production to political power struggle, leading to poor economic outcomes. However, the model shows that social integrative processes may correct this inefficiency over time depending on the degree of social fractionalization, the level of social distance between the groups, the level of production technology, etc. Even though the model predicts long-run convergence of growth rates and output per capita across countries, it shows possible prolonged divergence of these economic variables.

Understanding Russian regions' economic performance during periods of decline and growth—An extreme bound analysis approach

- Economic Systems---2012---Rudiger Ahrend

This article uses "extreme-bound"-type analysis to revisit the determinants behind the widely differing economic growth in Russian regions prior to the recent global financial crisis. Using data of regional growth in 1995–2006 for 77 Russian regions, it examines the growth drivers for the phase of economic decline up to 1998 and for the period of strong growth afterwards separately. Looking at forty variables considered to be potentially related to growth, it determines, for each of the two periods, the ones robustly associated with Russian economic performance. Among the variables considered are proxies of politico-institutional features, indicators of economic reform, and measurements of both economic and non-economic initial conditions. The main findings are as follows: during the period of economic decline up to 1998, differences in Russian regional growth were almost entirely driven by initial conditions, with resource and human capital endowments, industrial structure, and geographical location playing the dominant roles. However, after the 1998 crisis, the importance of initial conditions declined and was basically reduced to fuel production, advantageous geographical location, and population structure. There is also some evidence that more reform-oriented policies and better regional leadership made a difference. These results could be seen as pointing to determinants of economic performance in periods of actual economic decline being different from those in normal times of economic growth.

Cognitive skill and technology diffusion: An empirical test

- Economic Systems---2012---Garett Jones

Cognitive skills are robustly associated with good national economic performance. How much of this is due to high-skill countries doing a better job of absorbing total factor productivity from the world's technology leader? Following Benhabib and Spiegel (Handbook of Economic Growth, 2005), who estimated the Nelson–Phelps technology diffusion model, I use the database of IQ tests assembled by Lynn and Vanhanen (2002, 2006) and find a robust relationship between national average IQ and total factor productivity growth. Controlling for IQ, years of education is of modest statistical significance. If IQ gaps between countries persist and model parameters remain stable, TFP levels are forecasted to sharply diverge, creating a "twin peaks" result. After controlling for IQ, few other growth variables are statistically significant.

Is the causal nexus of energy utilization and economic growth asymmetric in the US?

- Economic Systems---2012---Abdulnasser Hatemi-J,Gazi Uddin

This paper re-examines the causal nexus of energy utilization and GDP per capita in the US. The novelty of the paper is to allow for asymmetry in causality by using a new test introduced by Hatemi-J (forthcoming). A bootstrap procedure is used with leveraged corrections that perform more accurately when the statistical assumptions for validity of asymptotic distributions are not fulfilled. This is especially the case for sample sizes as in the current paper. The estimation results reveal strongly that a negative energy consumption shock will cause a negative shock in the output per capita. That is, if the energy utilization per capita decreases then the output per capita will also decrease. Surprisingly, such a causal impact for positive shocks is not found. These empirical results might indicate that there is an optimal quantity of energy in the US that needs to be consumed as otherwise the economic growth will suffer. However, the consumption of energy beyond that optimal quantity will not necessarily result in an enhanced rate of economic growth.

Agriculture and development: A brief review of the literature

- Economic Systems---2012---Jean-Jacques Dethier,Alexandra Effenberger

After 20 years of neglect by international donors, agriculture is now again in the headlines because high food prices are increasing food insecurity and poverty. In the coming years, it will be essential to increase food productivity and production in developing countries, especially in Sub-Saharan Africa and with smallholders. This, however, requires finding viable solutions to a number of complex technical, institutional, and policy issues, including land markets, research on seeds and inputs, agricultural extension, credit, rural infrastructure, connection to markets, rural non-farm employment, trade policy and food price stabilization. This paper reviews what the economic literature has to say on these topics. It discusses in turn the role played by agriculture in the development process and the interactions between agriculture and other economic sectors, the determinants of the Green Revolution and the foundations of agricultural growth, issues of income diversification by farmers, approaches to rural development, and issues of international trade policy and food security, which have been at the root of the crisis in agricultural commodity volatility in recent years.

Wage inequality and the labor market impact of economic transformation: Croatia, 1970–2008

- Economic Systems---2012---Saul Hoffman,Ivo Bićanić,Oriana Vukoja

In this paper, we examine wage inequality and wage differentials in Croatia from 1970 to 2008 using two long aggregate time series on the distribution of income. We focus especially on changing income inequality related to educational and vocational attainment, changing income inequality within those groups, and how these two components of inequality were affected by the economic transformation from socialism to capitalism. We find that income inequality between groups rose moderately post-transformation, while overall inequality increased more sharply. This finding is consistent with a growing importance of individual rather than group productivity in labor market compensation, a change broadly consistent with the economic transformation of the Croatian labor market.

Formulation of public debt management strategies: An empirical study of possible drivers

- Economic Systems---2012---Martin Melecký

A well-designed public debt management strategy can help countries reduce their borrowing cost, contain financial risks and develop their domestic markets. Using survey data on debt management strategies, this paper studies whether the probability that a country has a formal debt management strategy, publishes the strategy document, and uses quantitative benchmarks to formulate its debt management strategy is affected by democratic accountability, institutional quality, past debt crises/defaults, official development assistance, and participation in debt management programs. We find that countries located in Latin America and the Caribbean are less likely to have developed a debt management strategy and, if they have, are less likely to publish it. In contrast, countries located in the Middle East and North Africa are less likely to use quantitative benchmarks in the formulation of their debt management strategies. A country is more likely to have developed a debt management strategy if it has the experience of a past debt crisis, but not of repeated debt crises. Institutional quality and democratic accountability could significantly contribute to the emergence of more transparent and accountable debt management strategies in developing countries. IFIs' technical assistance on public debt management could be enhanced by IFIs conducting their own, prior diagnostic reviews.

Is monetary policy in the new EU member states asymmetric?

- Economic Systems---2012---Bořek Vašíček

Estimated Taylor rules have become popular as a description of monetary policy conduct. There are numerous reasons why real monetary policy can be asymmetric and estimated Taylor rules nonlinear. This paper tests whether monetary policy can be described as asymmetric in three new European Union (EU) members (the Czech Republic, Hungary, and Poland) which apply an inflation targeting regime. Two different empirical frameworks are used: (i) Generalized Method of Moments (GMM) estimation of models that allow discrimination between sources of potential policy asymmetry but are conditioned by specific underlying relations, and (ii) a flexible framework of sample splitting where nonlinearity enters via a threshold variable and monetary policy is allowed to switch between regimes. We find generally little evidence for asymmetric policy driven by nonlinearities in economic systems, some evidence for asymmetric preferences, and some interesting evidence on policy switches driven by the intensity of financial distress in the economy.

Efficiency, productivity and technology comparison for farms in Central and Western Europe: The case of field crop and dairy farming in Hungary and France

- Economic Systems---2012---Laure Latruffe,József Fogarasi,Yann Desjeux

This paper investigates the differences in technical efficiency and productivity change, and the technology gaps, between French and Hungarian farms in the dairy and cereal, oilseed and protein crops (COP) sectors during the period 2001–2007. The analyses were performed with national Farm Accountancy Data Network (FADN) data and the Data Envelopment Analysis (DEA) approach under each country's respective frontier and under a metafrontier.

Macroeconomic uncertainty and bank lending: The case of Ukraine

- Economic Systems---2012---Oleksandr Talavera,Andriy Tsapin,Oleksandr Zholud

This study investigates the link between bank lending behavior and country-level instability. Our dynamic model of bank's profit maximization predicts a non-monotonic relationship between bank lending and macroeconomic uncertainty. We test this proposition using a panel of Ukrainian banks over the 2003Q2–2008Q2 period. The estimates indicate that banks decrease their lending ratio in times of substantial economic volatility, which could be explained by higher risk aversion of bank managers. Additionally, small and least profitable banks are less likely to be affected by changes in the macroeconomic environment compared to their large and most profitable peers. This outcome is robust with respect to the different measurements of macroeconomic uncertainty.

The quality of credit ratings: A two-sided market perspective

- Economic Systems---2012---Jorge Ponce

This paper presents a formal model of a credit rating agency. I study the consequences of the transition from an "investor-pays" model to an "issuer-pays" model on the quality standard of credit ratings chosen by the agency. I find that such a transition is likely to generate a degradation of the quality standard, which may fall below the socially efficient level. Finally, I discuss empirical implications and several reform proposals to the business model of credit rating agencies.

Monetary policy, asset prices and consumption in China

- Economic Systems---2012---Tuuli Koivu

This paper studies the wealth channel in China. Although the wealth channel has been found to be functioning in many advanced countries, its existence is yet to be explored in most emerging economies, also in China. In order to illuminate dynamics between monetary policy, asset prices and consumption, we use the structural vector autoregression method. The findings support the view that a loosening of China's monetary policy does indeed lead to higher asset prices. Furthermore, a positive shock to residential prices increases household consumption, while the role of stock prices seems to be small from the households' point of view. Finally, we test the existence of the wealth channel more formally to find out whether those changes in asset prices that are caused by monetary policy are significant enough to increase consumption. In summary, the wealth channel remains weak but there are some signs of it via residential prices. The results are not that different from those attained for the advanced economies, where the size of the wealth channel has been found to be limited.

Exchange rate volatility and domestic consumption: Evidence from Japan

- Economic Systems---2012---Mohsen Bahmani-Oskooee,Dan Xi

In 1952, Alexander provided an argument that since inflationary effects of depreciation could shift income from workers to producers it could lead to a decline in aggregate domestic consumption. This was based on the assumption that wages do not adjust fully to inflation and labor has a high MPC relative to that of the producers. In this paper, we argue that in addition to the exchange rate itself, exchange rate uncertainty could also affect domestic consumption. We demonstrate our conjecture by using quarterly data from Japan and a bounds testing approach that distinguishes the short run from the long run.

Inequality and reforms in transition countries

- Economic Systems---2012---David Aristei,Cristiano Perugini

Distributional patterns evolved quite differently and stabilized at diversified levels across the Central–Eastern European and former Soviet Union countries which underwent transition. In this paper we provide an overview of income inequality dynamics for 22 transition countries from 1989 to 2008 and of the explanations and interpretations proposed by the main literature. We then highlight that while the effects of different transition approaches on output dynamics and other macroeconomic aggregates have been largely analysed, scarce attention has been devoted so far to their impact on distributive patterns. However, this kind of analysis might usefully contribute to complete the complex picture of the many social, economic and structural factors affected by transition and provide useful policy insights for those countries still experiencing deep institutional change.

Has transition improved well-being?

- Economic Systems---2012---Carola Gruen,Stephan Klasen

In this paper we examine trends in economic well-being in transition countries from 1988 to 2008 to determine whether the populations of transition countries are better off today than prior to the transition process. To do this, we examine economic performance, inequality-adjusted well-being measures, subjective well-being measures, and non-income dimensions of well-being. While for many of the transition countries some indicators of well-being show improvements compared to the pre-transition period, the sharp rise in inequality and low levels of social indicators and subjective well-being suggest that well-being in many countries is similar to, or even below, the levels experienced prior to transition. The only indicators which have shown consistent improvements are measures of political and civil liberties.

Relative deprivation, reference groups and the assessment of standard of living

- Economic Systems---2012---Jacques Silber,Paolo Verme

This paper proposes two new indices of relative deprivation, derived from an extension of the concept of generalized Gini to the measurement of distributional change. Population- and income-weighted relative deprivation indices are then defined and, using panel data from the Consortium of Household Panels for European Socio-Economic Research (CHER), we check which of the various ways of defining individual deprivation best fits the answers given by individuals on the degree of their satisfaction with income. We find that the deprivation indices proposed are consistently and negatively correlated with income satisfaction as reported by respondents, that income weighted measures fit better than population weighted measures and that this fit improves with countries that experienced deep institutional changes such as the transitional economies of Eastern Europe.

Income mobility in Russia (2000–2005)

- Economic Systems---2012---Anna Lukiyanova,Aleksey Oshchepkov

Using the data from the Russian Longitudinal Monitoring Survey (RLMS), this paper investigates income mobility in Russia during the period of rapid economic growth (2000–2005). Employing a broad set of mobility indices, we show that there is much mobility in household incomes from one year to the next and over longer periods in Russia. Both relative and absolute mobility in Russia are significantly higher than in Western countries. We demonstrate that income growth in Russia was strongly pro-poor in 2000–2005. Incomes of the relatively poor were growing faster than incomes of the relatively rich. However, this inequality-reducing effect was almost exactly offset by changes in the relative positions of individuals and the overall reduction in cross-sectional inequality was merely modest.

Men's wage inequality in Serbia's transition

- Economic Systems---2012---Milica Kecmanovic

Wage inequality is considered to have been quite compressed in socialist economies. In this paper I analyse how men's wage inequality has changed during the period of transition to a market economy in Serbia, a country which has experienced a particularly dramatic transition. Changes in the distribution of earnings are examined using the Lemieux (2002) decomposition methodology and five annual Labour Force Surveys (2001–2005). I find that the change in wage inequality is mostly driven by changes in wage premiums, while the effect of changes in the composition of the labour force is very small. Isolating the effect of the emerging private sector reveals that changes in the private sector size and wage premium account for an average 25 per cent of the changes in inequality during this period. Moreover, the minimum wage is found to exert a dampening effect on wage inequality.

Heterogeneity in bank pricing policies: The Czech evidence

- Economic Systems---2012---Roman Horvath,Anca Pruteanu-Podpiera

We estimate the pass-through from market interest rates to bank interest rates using heterogeneous panel cointegration techniques to address heterogeneity at the bank level in the Czech Republic. The results indicate heterogeneity in bank pricing in the short, but not in the long term. Mortgage rates and firm rates typically adjust to money market changes, but often less than fully in the long run. Large corporate loans have a smaller mark-up than small loans. Consumer rates have a high mark-up and do not exhibit a cointegration relationship with money market rates even in the long run. Next, we examine how bank characteristics determine the nature of interest rate pass-through in a cross-section of Czech banks. We find evidence for relationship lending, as banks with a stable pool of deposits smooth interest rates and require a higher spread as compensation. Large banks are not found to price their products less competitively. Greater credit risk increases vulnerability to money market shocks.

Are systems of innovation in Eastern Europe efficient?

- Economic Systems---2012---Victoria Kravtsova,Slavo Radosevic

This paper explores the determinants of productivity in the countries of Eastern Europe (EE) through the perspective of ‘narrow’ and ‘broad’ national systems of innovation (NSI). Based on panel econometrics, it examines the extent to which systems in EE could be considered ‘(in)efficient’. Our results suggest that the EE countries have lower levels of productivity than might be expected given their research and development (R&D), innovation and production capabilities. The inefficiencies of ‘broad’ NSI are compounded by the inefficiencies of ‘narrow’ NSI in terms of generating numbers of science and technology publications and resident patents relative to R&D employment compared to the rest of the world. Our results point to an important distinction between technology and production capability as the drivers of productivity improvements and provide some policy implications.

Income inequality in the U.S.: The Kuznets hypothesis revisited

- Economic Systems---2012---Andre Mollick

Using annual data from 1919 to 2002, the structural transformation hypothesis proposed by Simon Kuznets helps explain the U-shape of U.S. top 1% or 0.01% income share distributions. Flexible autoregressive lag representations are employed and generalized methods of moments reinforce our results. First, as the employment share in goods producing activities falls, income inequality increases in the long run. Second, federal top taxation has only shortterm negative impacts. Third, these major results hold to business cycle controls (linear time trend and real output fluctuations) and to robustness checks of structural changes documented for the U.S. economy around the late 1970s.

Analysis of an unannounced foreign exchange regime change

- Economic Systems---2012---Tarron Khemraj,Sukrishnalall Pasha

Starting in 2004 the Guyanese foreign exchange rate has been remarkably stable relative to earlier periods. This paper explores the reasons for the stability of the rate. First, the degree of concentration in the foreign exchange market has increased, thus making the task of moral suasion relatively straightforward once this policy tool comes to bear on the dominant trader(s). Second, long-term or non-volatile capital inflows make the exchange rate less susceptible to sudden reversal. Third, commercial banks, the dominant foreign exchange traders, have large outlays of assets in domestic currency, thus their desire for exchange rate stability. The econometric exercise is consistent with the notion that trader market power has contributed to lower volatility in the G$/US exchange rate. The paper also presents a model that analyzes monetary policy effects in the presence of a mark-up or threshold interest rate.

Revisiting the objectives of worker-managed firms: An empirical assessment

- Economic Systems---2012---Gabriel Burdín,Andrés Dean

This paper provides new evidence on the objectives pursued by worker-managed firms (WMFs). The basic neoclassical model assumes that WMFs maximizes net income per member instead of total profits (Ward, 1958). Even though it has been largely criticized, the Ward model has dominated the self-management literature. Alternative models suggest that WMFs are not only concerned about income per worker but also about the level of employment. However, the empirical content of these competing theoretical models has been rarely analyzed. This paper contributes to fill this gap by estimating the parameters of a generic welfare function, following the methodology proposed by Craig and Pencavel (1993). These parameters determine the relative importance that a WMF places on income per worker vis-a-vis the level of employment. Estimates are based on a long micro-panel of Uruguayan firms covering the entire population of Uruguayan worker-managed firm and conventional firms in 31 3-digit sectors over the period April 1996-December 2005. Following a strictly neoclassical framework, but simply allowing a more general specification of the WMF goals, we show that the assumption of the basic neoclassical model of the WMF is misleading. Our results support the view that WMFs are concerned with both employment and income per worker.

The natural resource curse and economic transition

- Economic Systems---2011---Michael Alexeev,Robert Conrad

Using cross-country regressions, we examine the relationship between “point-source” resource abundance and economic growth, quality of institutions, investment in human and physical capital, and social welfare (life expectancy and infant mortality) for all countries and for the economies in transition. Contrary to most literature, we find little evidence of a natural resource curse for all countries. Only the “voice and accountability” measure of institutional quality is negatively and significantly affected by oil wealth. In the economies in transition, there is some evidence that natural resource wealth is associated with lower primary school enrollment and life expectancy and higher infant mortality compared to other resource rich countries. Compared to other economies in transition, however, natural resource abundant transitional economies are not significantly worse off with respect to our indicators.

Crises, portfolio flows, and foreign direct investment: An application to Turkey

- Economic Systems---2011---Merih Uctum,Remzi Uctum

We analyze how financial and economic crises affect the relation between the components of capital flows and their determinants in an emerging economy. Our results suggest that the composition of capital flows matters, crises can explain the volatility of portfolio flows and foreign direct investment, and modeling them as endogenous breakpoints improves the results considerably. By using data from the Turkish economy, we estimate these breakpoints together with the parameters of the model and find that they correspond to international and domestic crises that hit the country. Although both components are affected by similar crises, direct investment reacts strongly to the domestic crisis, while portfolios flows are more sensitive to global financial conditions. Breaks also have an effect on the significance and sign of determinants of each type of international investment. Evidence indicates changes in all coefficients in both investment types and suggests that analyses assuming parameter constancy lead to misleading results if they ignore the influence of endogenous breaks.

Determinants of bank interest margins in Russia: Does bank ownership matter?

- Economic Systems---2011---Zuzana Fungáčová,Tigran Poghosyan

This paper analyzes interest margin determinants in the Russian banking sector with a particular emphasis on the bank ownership structure. Using unique bank-level data covering Russia's entire banking sector for the 1999–2007 period, we find that the impact of a number of commonly used determinants such as market structure, credit risk, liquidity risk and size of operations differs across state-controlled, domestic-private and foreign-owned banks. At the same time, the influence of operational costs and risk aversion is homogeneous across ownership groups. The results overall suggest that the form of bank ownership needs to be considered when analyzing interest margin determinants.

The effect of raising deposit insurance coverage in times of financial crisis – Evidence from Croatian microdata

- Economic Systems---2011---Nora Prean,Helmut Stix

Typically, depositors in transition countries react very sensitively to the safety of deposits. Faced with rising deposit outflows in October 2008, many transition countries were forced to extend the limits of deposit insurance coverage. Has this calmed private agents? Or has it caused more uncertainty? We analyze these questions by employing household survey data for Croatia from exactly the time deposit insurance was extended. First, we provide evidence how the financial crisis has affected trust in banks and trust in the local currency. Then, we show that the increase in deposit insurance coverage had an immediate and positive impact on how people perceived the safety of deposits and the credibility of the local currency. Therefore, our results suggest that this policy measure helped to prevent a more serious and dangerous meltdown of deposits and a further shift towards foreign currency denominated assets. However, despite this effect the perceived safety of deposits remained lower than it was before the financial crisis. We also consider this finding to be of relevance for other countries of Central, Eastern and Southeastern Europe.

Foreign and domestic growth drivers in Eastern Europe

- Economic Systems---2011---Enzo Weber

This paper analyses the growth effects of capital formation, exports and FDI as major, drivers of economic development in Eastern Europe. The fundamental innovations are, identified by empirically and theoretically motivated short- and long-run restrictions in, structural cointegrated vector autoregressions. Impulse responses and variance, decompositions reveal quite different growth effects in various Eastern European countries. Generally, a strong reliance on exports goes along with higher GDP, and FDI bears, substantial potential for fostering economic growth. It is shown that the recent worldwide, recession clearly hit Eastern Europe through the export channel, whereas the recovery is, mainly supported by positive demand shocks.

Does money help predict inflation? An empirical assessment for Central Europe

- Economic Systems---2011---Roman Horvath,Lubos Komarek,Filip Rozsypal

This paper investigates the predictive ability of money for future inflation in the Czech Republic, Hungary, Poland and Slovakia. We construct monetary indicators similar to those the European Central Bank regularly uses for monetary analysis. We find in-sample evidence that money matters for future inflation at the policy horizons that central banks typically focus on, but our pseudo out-of-sample forecasting exercise shows that money does not in general improve the inflation forecasts vis-à-vis some benchmark models such as the autoregressive process. Since at least some models containing money improve the inflation forecasts in certain periods, we argue that money still serves as a useful cross-check for monetary policy analysis.

Market access and the other determinants of North–South manufacturing location choice: An application to the Euro-Mediterranean area

- Economic Systems---2011---Corinne Bagoulla,Nicolas Peridy

This paper examines the impact of market and supply accessibility on the geographic distribution of manufacturing sectors in the Euro-Mediterranean area. The evolution of market and supplier access in the area is first investigated. Then, market and supplier access, production cost and regional integration are focused on as the main determinants of industrial location. A deeper regional integration agreements can act as an important dispersion force, driving the location of manufacturing in new member states and Mediterranean countries.

Slowdown of credit flows in Jordan in the wake of the global financial crisis: Supply or demand driven?

- Economic Systems---2011---Tigran Poghosyan

This paper estimates a disequilibrium model of credit supply and demand to evaluate the relative role of these factors in the slowdown of credit flows in the Jordanian economy in the wake of the global financial crisis. The empirical analysis suggests that the credit stagnation is mainly driven by the restricted credit supply amid tighter monetary policy conditions in Jordan relative to the United States, as evidenced by the widened interest differential between the Central Bank of Jordan (CBJ) re-discount and the U.S. Federal Reserve funds rates. Although it appears that demand side factors related to the slowdown of economic activity have also had an impact, their role has been relatively modest. The estimation results imply that economic policies targeted towards stimulating the supply of credit are likely to be a more effective tool for expanding credit flows relative to demand stimulating policies.

Determinants of European stock market integration

- Economic Systems---2011---David Büttner,Bernd Hayo

We analyse the determinants of stock market integration among EU member states for the period 1999–2007. First, we apply bivariate DCC-MGARCH models to extract dynamic conditional correlations between European stock markets, which are then explained by interest rate spreads, exchange rate risk, market capitalisation, and business cycle synchronisation in a pooled OLS model. By grouping the countries into euro area countries, "old" EU member states outside the euro area, and new EU member states, we also evaluate the impact of euro introduction and the European unification process on stock market integration. We find a significant trend toward more stock market integration, which is enhanced by the size of relative and absolute market capitalisation and hindered by foreign exchange risk between old member states and the euro area. Interest rate spreads and business cycle synchronisation are also significant factors in explaining equity market integration.

How institutions affect export quality

- Economic Systems---2011---Hasan Faruq

We examine the relationship between a country's institutional environment and the quality of its exports. Institutional factors such as widespread corruption, inefficient bureaucracy, and high risk of expropriation of private property by government can create uncertainty among producers and discourage them from investing and innovating over the long term. This can limit the ability of producers to improve the quality of their exports in the future. We find some evidence that a better institutional environment (i.e. lower corruption, more efficient bureaucracy and more secure property rights) is associated with better export quality. After accounting for potential endogeneity between institutional and economic variables, we conclude that better institutions lead to improvements in export quality. Among the institutional factors considered in this article, corruption appears to be most robustly associated with export quality. These results have important implications for policymakers.

Direct and indirect effects of FDI in emerging European markets: A survey and meta-analysis

- Economic Systems---2011---Jan Hanousek,Evžen Kočenda,Mathilde Maurel

We review a large body of literature dealing with the effects of Foreign Direct Investment (FDI) on economies during their transformation from a command economic system toward a market system. We report the results of a meta-analysis based on the literature on externalities from FDI. The studies on emerging European markets covered in our survey report direct and indirect FDI effects weakening over time, similarly as in other FDI destination countries. This is imputable to a publication bias that is detected and to the fact that more sophisticated methods and more controls can be used once a sufficient time span is available. Panel studies are likely to find relatively lower spillover effects. The choice of the research design (definition of firm performance and foreign firm presence) matters. More specific to the sampled studies is the role played by forward and backward spillovers which dominate other channels in driving FDI externalities.

Financial reforms and money demand: Evidence from 20 developing countries

- Economic Systems---2011---Saten Kumar

The effects of financial reforms on money demand (M1) are analysed with estimates for two sets of sub-samples and two break dates for twenty developing Asian and African countries. In all cases, the magnitude of income elasticity does not change significantly when compared with sub-samples and whole sample periods. Using CUSUM and CUSUMSQ tests, we find that the demand for money functions in our selected countries are temporally stable and therefore the respective monetary authorities may target money supply as the conduct of monetary policy.

Brain drain and institutions of governance: Educational attainment of immigrants to the US 1988-1998

- Economic Systems---2011---James Bang,Aniruddha Mitra

We investigate the impact of home country institutions on the skill level of immigrants to the United States over 1988-1998. Specifically, we explore the hypothesis that institutions are multidimensional and that the different dimensions have conflicting impacts on the migration of skilled labor. Using an exploratory factor analysis on fifteen institutional variables, we identify the following dimensions of institutional character: credibility, transparency, democracy, and the security of civil society. We find that credibility and transparency increase the magnitude of brain drain, security reduces it, and democracy has no significant impact.

S-curve dynamics of trade between Sweden and her trading partners

- Economic Systems---2011---Mohsen Bahmani-Oskooee,Artatrana Ratha

The S-curve sums up the dynamic relationship between terms of trade and trade balance. This pattern has received weak support in some developed and less developed countries when aggregate trade data are used. Empirical regularities based on aggregate trade data can be biased since aggregation can potentially suppress some of the patterns observed in trade at the bilateral level. This paper overcomes this problem by employing bilateral trade data from Sweden and finds that the S-curve is invariant to this level of disaggregation. Indeed, Sweden has a bilateral S-curve with 12 out of 17 cases examined for the 1980Q1-2005Q1 period.

Import elasticities and the external constraint in Mexico

- Economic Systems---2011---Carlos A. Ibarra

The paper estimates and analyzes an equation for intermediate imports in Mexico during the 1988-2006 post-liberalization period. While some results are obtained from Johansen's VECM model, most of the analysis is carried out within an Error-Correction ARDL framework, following the bounds testing approach of Pesaran et al. (2001). Besides showing that an aggregate equation for intermediate imports can be satisfactorily estimated, the paper focuses on two specific results. First, exports have a very significant effect on imports, and failure to control for this effect (as in most previous studies) can yield misleading results, like an over-estimation of the output elasticity of imports. Second, the response of imports to variations in the real exchange rate has fallen over time, presumably because of the rising share of maquila in Mexico's export basket and the increasing "vertical specialization" of non-maquila export production. Some implications of the estimation results are briefly discussed, making reference to the possible external constraint on Mexico's economic growth.

Off-farm labor supply and labor markets in rapidly changing circumstances: Bulgaria during transition

- Economic Systems---2011---Sumon Bhaumik,Ralitza Dimova,Jeffrey Nugent

This study examines off-farm labor supply in the rapidly changing conditions of Bulgaria during the 1990s. In doing so, we make use of three different waves of the Bulgarian Integrated Household Survey, each reflecting remarkably different environmental conditions. The results suggest that standard theories of off-farm labor supply provide little guidance in situations characterized by chronic excess supply in the off-farm labor market and/or rapidly changing circumstances. In particular, the results show (1) that off-farm employment throughout the transition was predominantly determined by demand rather than by supply, and (2) that the magnitude and statistical significance of the various determinants are very sensitive to changing environmental conditions. As such, the results can be extremely relevant for both theory and policy for the many countries which may still need to go through privatization and painful restructuring as a result of financial crises and globalization.

P-star in times of crisis - Forecasting inflation for the euro area

- Economic Systems---2011---Robert Czudaj

In this paper we present three empirically testable versions of the common p-star model and evaluate their forecasting performance using conventional techniques. We try to answer the question if the p-star approach is preferable to achieve a reliable short-run inflation forecast and with regard to the latter we incur the need for a stable demand for money function. Our findings indicate the recurrence of the relevance of the monetary pillar of the ECB's two-pillar framework. In addition, we check for the effects of the current financial and economic crisis that started in 2007 on the forecasting performance, using two sub-sample periods, one excluding and one including the latter, and analyze the impact of the applied filter technique to compute the required equilibrium values.

The number of banking relationships and the business cycle: New evidence from Colombia

- Economic Systems---2011---Jose Gomez-Gonzalez,Nidia Reyes

We study the determinants of multiple bank-firm relationships using a uniquely rich data set comprised of information on individual loans of a large number of firms in Colombia. We control for firm-specific variables and find that the business cycle exerts important influence on the number of bank relationships sustained by firms. Our evidence suggests that the number of bank relationships is counter-cyclical, decreasing during macroeconomic expansions and increasing during contractions. However, this effect is stronger for large firms which have more access to alternative sources of funding.

Exchange rate regime choice and currency crises

- Economic Systems---2011---Ahmet Asici

Exchange rate regime choice is not exogenous, but it depends on the structural, political and financial features of countries. However, it is often the case that the regime actually pursued and the one that is imposed by country features do not match one to one. The existing empirical crisis models do not take fully into account the regime in which the crisis unfolded. The aim of this paper is to incorporate the appropriateness of the regime choice into the standard currency crisis model. The results show that the odds of crisis increase significantly in countries which have chosen regimes inconsistently.

B.E. Gup, Editor, Corporate Governance in Banking, Edward Elgar, Cheltenham/Northampton (2007) 320 pp., Â£ 69.95, ISBN: 978-1-84542-940-9

- Economic Systems---2011---Andreas Horsch

2011

Josh Lerner, Boulevard of Broken Dreams. Why Public Efforts to Boost Entrepreneurship and Venture Capital Have Failed - and What to Do About It, Princeton University Press, Princeton, N.J. (2009) ISBN 978-06-911-4219-7 248pp., $ 27.95, [euro]20.95

- Economic Systems---2011---Michael Fritsch

2011

Surveying transitional experience and subjective well-being: Income, work, family

- Economic Systems---2011---Ekaterina Selezneva,Ekaterina Skoglund

This paper reviews subjective well-being studies on income, work and family life with particular attention to transition countries. The main differences in conclusions for two types of economic systems seem to be the result of uncertainty and fast changing conditions and their effect on the perception of subjective economic conditions and on expectations formation. The terms 'happiness' and 'life satisfaction' should be distinguished when evaluating the success of socio-economic policies or of a transformation period as well as when predicting the reaction of economic systems to shocks/crisis. A short summary for more than 70 studies involving subjective well-being and attitudes indicators on data from the economies in transition is included.

Legal institutions and high-growth aspiration entrepreneurship

- Economic Systems---2011---Michael Troilo

Entrepreneurship is crucial for economic growth, yet comparatively little research has examined the relationship between institutions and new firm formation. I test the impact of property rights institutions and contracting institutions on high-growth-aspiration (HGA) entrants using the Global Entrepreneurship Monitor (GEM) survey data for 2000-2005. I find that property rights are more significant for profound market expansion and rule of law is more significant for high job growth. The number of procedures to enforce a contract, the number of procedures to start a business, and the number of days to start a business are negatively correlated with all types of HGA entrepreneurship. A common law legal system is negatively correlated with entrepreneurship combining high job growth and market expansion. These findings add nuance to prior studies that tout the importance of property rights and rule of law for entrepreneurship.

Further evidence on finance-growth causality: A panel data analysis

- Economic Systems---2011---Chrysost Bangaké,Jude Eggoh

This paper reassesses the causal relationship between financial development and economic growth. Using recently developed panel methods on a data set of 71 developed and developing countries over the period 1960-2004, our study confirms previous results of a bidirectional causality between finance and growth. In addition, we show significant differences among country groups when considering both long-run and short-run causality. While in low and middle income countries there is no supportive evidence of short-run causality between financial development and economic growth, in high income countries economic growth significantly affects financial development.

Relative deprivation, relative satisfaction, and attitudes towards immigrants: Evidence from Ukraine

- Economic Systems---2011---Mariya Aleksynska

This paper applies the concept of relative deprivation/satisfaction to studying the formation of attitudes towards immigrants. It finds that the feeling of group relative deprivation, as opposed to individual relative deprivation or satisfaction, adversely affects the attitudes of native-born, even when its potential endogeneity is taken into account. Furthermore, relative deprivation matters only for native-born who subjectively underestimate their well-being, but not for those who overestimate it. When considering other forms of native-born individuals' perceived disadvantage, such as in terms of employment, access to education or medical facilities, there is weak evidence that only a perceived disadvantage in obtaining medical aid negatively affects attitudes.

Catching-up and inflation in Europe: Balassa-Samuelson, Engel's Law and other culprits

- Economic Systems---2011---Balázs Égert

This study analyses the impact of economic catching-up on annual inflation rates in the European Union with a special focus on the new member countries of Central and Eastern Europe. Using an array of estimation methods, we show that the Balassa-Samuelson effect is not an important driver of inflation rates. By contrast, we find that the initial price level and regulated prices strongly affect inflation outcomes in a nonlinear manner and that the extension of Engel's Law may hold during periods of very fast growth. We interpret these results as a sign that price level convergence comes from goods, market and non-market service prices. Furthermore, we find that the Phillips curve flattens with a decline in the inflation rate, that inflation is more persistent and that commodity prices have a stronger effect on inflation in a higher inflation environment.

How corruption affects bank lending in Russia

- Economic Systems---2011---Laurent Weill

The aim of this study is to investigate the impact of corruption on bank lending in Russia. This issue is of major interest in order to understand the causes of financial underdevelopment and the effects of corruption in Russia. We use regional measures of corruption and bank-level data to perform this investigation. Our main estimations show that corruption hampers bank lending in Russia. We investigate whether this negative role of corruption is influenced by the degree of bank risk aversion, but find no effect. The detrimental effect of corruption is only observed for loans to households and firms, in opposition to loans to government. Additional controls confirm the detrimental impact of corruption on bank lending. Therefore, our results provide motivations to fight corruption to favor bank lending in Russia.

Does aging influence structural change? Evidence from panel data

- Economic Systems---2011---Boriss Siliverstovs,Konstantin Kholodilin,Ulrich Thiessen

Our study represents a first attempt to single out the effects of aging on the entire structure of the economy that is approximated by employment shares in different sectors. We find that even after controlling for the effects of other relevant factors - e.g., income per capita, share of trade in GDP, government consumption share in GDP, population size - aging does have a statistically significant differentiated impact on the employment shares. In particular, we find that an increase in aging exerts a statistically significant adverse effect on the employment shares in agriculture, manufacturing, construction, and mining and quarrying industries. At the same time, an increasing share of the elderly (decreasing share of the youth) in society positively affects employment shares in community, social, and personal services as well as in the financial sector.

The effect of nominal exchange rate volatility on real macroeconomic performance in the CEE countries

- Economic Systems---2011---Olga Arratibel,Davide Furceri,Reiner Martin,Aleksandra Zdzienicka

This paper analyzes the relation between nominal exchange rate volatility and several macroeconomic variables, namely real output growth, excess credit, foreign direct investment (FDI) and the current account balance, in the Central and Eastern European EU member states. Using panel estimations for the period between 1995 and 2008, we find that lower exchange rate volatility is associated with higher growth, higher stocks of FDI, higher current account deficits, and higher excess credit. At the same time, the recent evidence seems to suggest that following the global financial crisis, "hard peg" countries may have experienced a more severe adjustment process than "floaters". The results are economically and statistically significant and robust.

Breeding one's own sub-prime crisis: The labour market effects on financial system stability

- Economic Systems---2011---Tomasz Daras,Joanna Tyrowicz

Crisis may spread through economy via the propagating mechanisms of the labour market - households becoming delinquent due to an initial unemployment shock may be unable to continue servicing obligations versus the financial system. With large debts - e.g. mortgages - such defaults pose a threat to financial system stability. In this paper we use the Polish household budget surveys to simulate the impact of changes in the labour market status of household members on the ability of the household to service its mortgage payments. The simulation results are subsequently aggregated to facilitate a macro-level interpretation of the findings. We simulate various scenarios of labour market deterioration. Finally, we also introduce a policy instrument into the simulations providing, in a fiscally neutral manner, additional stability to the financial system. Based on robustness checks, the findings seem to be reliable. The results suggest that even with shares of debtors among consumers as low as in Poland, the propagation mechanism may indeed result in a considerable threat, while the fiscally neutral instrument is effective and well-suited to be addressed in providing additional stability to the financial system.

Studying international trade based on micro and disaggregated macro data

- Economic Systems---2011---Richard Frensch

This special issue includes eight papers on a range of topics related to the study of the variety and quality of trade in development and transition based on micro and disaggregated macro data. The authors discuss country and country-group specific trade patterns on firm and/or product level, and address problems of measuring quality in trade. They relate trade variety to growth, Balassa-Samuelson effects, and corruption, and trace variations in variety to trade barriers.

Firms and products in international trade: Evidence from Hungary

- Economic Systems---2011---Gábor Békés,Balazs Murakozy,Péter Harasztosi

This paper provides a detailed description of Hungarian trade data and key patterns drawn at the firm and product level. In the Bernard et al. (2007) tradition, statistics describe the prevalence of trading activity, typology of firms by internationalisation, and concentration of trade volume within and across sectors both for exports and imports. There are several similarities as well as differences to key US and EU findings. Trade concentration in Hungary is slightly higher than in most European countries and foreign ownership and the role of foreign firms in trade is higher. Furthermore, firm heterogeneity is also studied in terms of traded products as well as partner countries. While the share of single-product exporters is similar to the US, there are certainly fewer Hungarian single-country exporters. With some transition-related differences, we find Hungarian trade activity to broadly match most open economy evidence. Throughout the paper, we use the IEHAS-CEFiG Hungary dataset, an almost universal panel of balance sheet information (1992-2006) merged with firm-product-country level customs data (1992-2003) taken until the 2004 EU accession.

Export differentiation in transition economies

- Economic Systems---2011---Tibor Besedes

I investigate changes in the structure of trade of seventeen transition economies between 1996 and 2006, focusing on differences across three types of products - homogeneous goods, reference priced goods, and differentiated products. I examine shares of exports of each type of good, intensive and extensive margins, and the hazard of exporting. While there are cross-country differences in the distribution of export shares and in intensive and extensive margins, the largest differences exist in the hazard of exporting. There are significant differences in the hazard both across countries and time.

Export specialization and economic growth around the world

- Economic Systems---2011---Jim Lee

This paper empirically investigates the extent to which technological characteristics in exports affect the patterns of trade-led economic growth across countries. Data of the Balassa index, which captures a country's revealed comparative advantage, are obtained for industries classified by technological intensity. Regression results based on a sample of 71 countries since 1970 suggest that economies have tended to grow more rapidly when they have increasingly specialized in exporting high-technology as opposed to traditional or low-technology goods. The findings are robust to the presence of various control variables as well as the consideration of parameter heterogeneity and in the endogeneity of export structures.

Export discoveries, diversification and barriers to entry

- Economic Systems---2011---Bailey Klinger,Daniel Lederman

The literature on the relationship between economic diversification and development established that diversification rises with development up to a point. Some have argued that market failures reduce private investments that are necessary to find out whether a new product can be exported profitably, thus implying that the threat of entry can reduce export discoveries and consequently hamper diversification. In parallel, the trade literature on the "extensive margin" of trade has focused on the role of fixed costs of exporting, which affects the number and types of firms that enter into exporting activities. This article presents data suggesting that export diversification and export discoveries are correlated over the course of development, and it provides an empirical test of market failures that might deter export discoveries. The findings suggest that the threat of entry by imitators reduces the number of export discoveries within countries and industries for a given rate of growth of non-discovery exports. However, this market-failure effect is less pronounced when allowing for inter-industry spillovers, whereby export discoveries in one industry lead to discoveries in another industry. The policy implication is that barriers to entry should not be used to protect innovators from the threat of imitation, but governments could consider interventions that directly focus on stimulating export discoveries.

The impact of Preferential Trade Agreements on the margins of international trade

- Economic Systems---2011---Neil Foster-McGregor,Johannes Poeschl,Robert Stehrer,Johannes Pöschl

In this paper we consider the trade creating effects of Preferential Trade Agreements (PTAs) for a large sample of countries within the period 1962-2000. The paper builds upon existing literature by examining whether any significant effects of PTAs occur through a change in the variety of exports (the extensive margin) or through a change in the volume of existing products (the intensive margin). To address this issue we employ the commonly used gravity equation as well as a matching approach to deal with potential self-selection problems. Our results indicate that exports respond positively to the formation of a PTA between countries, and that much of this increase in exports occurs along the extensive margin. We also show that the extensive margin responds more strongly to the formation of a PTA in larger exporters and for larger country pairs.

Can we identify Balassa-Samuelson effects with measures of product variety?

- Economic Systems---2011---Richard Frensch,Achim Schmillen

The Balassa-Samuelson hypothesis - i.e. that real exchange rates between each pair of countries increase with the tradables sector productivities ratio between these countries, and decrease with their non-tradables sector productivities ratio - has been one of the most prominent frameworks in open economy macroeconomics for more than 40 years. However, empirical studies have often been unable to confirm it. We argue that this might at least in part be due to measurement errors leading to downward-biased estimates. We test the Balassa-Samuelson hypothesis with innovative trade-based variety measures to differentiate between tradables and non-tradables sector productivities that do not suffer from such errors-in-variables. Using a pairwise regression approach, we find stable and very robust Balassa-Samuelson effects over all our specifications.

Exports and cross-national corruption: A disaggregated examination

- Economic Systems---2011---Rajeev Goel,Iikka Korhonen

This paper empirically examines the relation between categories of exports and corruption across countries. Aggregate exports and agricultural exports tend to decrease corruption, while fuel exports increase corruption. The influence of agricultural exports in more pronounced in more corrupt nations, while fuel exports contribute to corruption in least corrupt nations. Manufacturing and ore exports, on the other hand, generally fail to show significant impacts on corruption. Our findings demonstrate that the resource curse is sensitive to prevailing corruption levels, and this finding is novel in the literature. Consistent with the extant literature, corruption decreases with income, and (at some corruption levels) as political freedom increases, and with larger government size. The findings are fairly robust to an alternate corruption measure.

Measuring quality in international trade

- Economic Systems---2011---Chi-Hung "Charles" Liao

Product quality plays a vital role in international trade flows, but the measurement of quality remains to be a challenge because true quality is usually unobserved in trade data. In this study, we propose a straightforward measurement of quality--the weighted-income index--and compare it with the unit-value proxy in a microeconomic model with quality choice. Then we compare the two measurements in the automobile industry. The empirical result shows that the weighted-income quality index performs better than the unit-value quality proxy in ranking true quality.

Capital inflows: Macroeconomic implications and policy responses

- Economic Systems---2010---Roberto Cardarelli,Selim Elekdag,Ayhan Kose

This paper examines the macroeconomic implications of and policy responses to surges in private capital inflows across a large group of emerging and advanced economies. In particular, we identify 109 episodes of large net private capital inflows to 52 countries over 1987-2007. Episodes of large capital inflows are often associated with real exchange rate appreciations and deteriorating current account balances. More importantly, such episodes tend to be accompanied by an acceleration of GDP growth, but afterwards growth has often dropped significantly. A comprehensive assessment of various policy responses to the large inflow episodes leads to three major conclusions. First, keeping public expenditure growth steady during episodes can help limit real currency appreciation and foster better growth outcomes in their aftermath. Second, resisting nominal exchange rate appreciation through sterilized intervention is likely to be ineffective when the influx of capital is persistent. Third, tightening capital controls has not in general been associated with better outcomes.

Perceptions of economic insecurity: Evidence from Russia

- Economic Systems---2010---Susan Linz,Anastasia Semykina

Economic insecurity is an inherent characteristic of the transition from a planned economy to a market-oriented economy and workers' assessments of their economic insecurity have direct consequences not only for their happiness/well-being, but also on consumption and saving behavior. This study utilizes data from the nationally representative Russian Longitudinal Monitoring Survey to study perceptions of economic insecurity among workers in both rural and urban settlements. Analyzing three measures of perceived economic insecurity, we find that perceptions of insecurity were higher when economic conditions were deteriorating (1995-1998), and lower when economic conditions had stabilized (2000-2004). While perceived insecurity varies substantially by worker characteristics-those with less education, women, and unskilled and semi-skilled manual workers feel most vulnerable-, differences in observed characteristics explain a relatively small part of the ruralurban perceptions gap; other factors, such as different rates of economic recovery in rural and urban locales are also important. Individual well-being and household consumption tend to be lower when concerns about economic insecurity are present.

An empirical analysis of international labour migration in the Philippines

- Economic Systems---2010---Frank Agbola,Angelito B. Acupan

This study empirically investigates the impact of economic, demographic, and political factors on the size of emigration from the Philippines. In 2007, overseas workers from the Philippines sent remittances in excess of US$14 billion annually to their families back home. Although these remittances are an important source of foreign exchange and play an important role in economic development, the determinants of emigration in the Philippines are not well established. A simple unrestricted error correction model of migration was specified and estimated using data spanning the period 1975-2005. Results indicate that the level of unemployment, adult literacy and population density are the key determinants of emigration in the Philippines. The result also indicates that government instability impacts negatively on emigration in the Philippines. The policy implications of the results are discussed.

Can educational expansion improve income inequality? Evidences from the CHNS 1997 and 2006 data

- Economic Systems---2010---Guangjie Ning

Rapid education expansion and rising income inequality are two striking phenomena occurring in China during the transitional period. Using the China Health and Nutrition Survey (CHNS) data collected in 1997 and 2006, this paper studies how education affects individual earnings during the transitional process. We find that education accounts for only a small fraction of the personal earnings and income gap between different groups. We analyze the underlying mechanism of the impact of education on earning. More educated people tend to enter state-owned sectors, have a low probability of changing jobs in the labor market and work less time; all of these will have a pronounced impact on earning and income inequality. Quantile regression analysis shows that the low-income group's education return rate is lower, which helps little in narrowing the income gap. We decompose the earning gap into four factors: population effect, price effect, labor choice effect and unobservable effect. In explaining the earning gap in China, the price effect is more important than the population effect. The labor choice effect is also significant. We conclude that increasing educational expenditure with no complementary measures such as reforming the education system and establishing a competitive labor market helps less in reducing income inequality.

Potential impacts of the devaluation of Nepalese currency: A general equilibrium approach

- Economic Systems---2010---Sanjaya Acharya

This paper measures the potential impacts of the devaluation of domestic currency of the small, developing, landlocked and transition South Asian economy of Nepal, which is lagging behind in policy studies. The impacts on growth, distribution, price changes in factor and product markets, and on selected macroeconomic features are measured. Using a computable general equilibrium model applied to social accounting matrix data, we conclude that devaluation is expansionary but mostly benefits the rich, thus leading to a more uneven income distribution. In general, the expansion of economic activities occurs in agricultural and industrial sectors, whereas services activities contract. However, when the rate of devaluation is high, the agricultural sector also starts contracting. To this typical developing economy, devaluation causes an improvement in saving investment and export/import ratios, whereas the budget deficit widens.

The competing risks of acquiring and being acquired: Evidence from Colombia's financial sector

- Economic Systems---2010---Andres Garcia-Suaza,Jose Gomez-Gonzalez

This paper studies the determinants of the probability of participating in a process of merging or acquisition for financial institutions in Colombia. We use survival analysis techniques and competing risks models to estimate the probability of participating in such processes as an acquiring or acquired firm. Using an especially rich database containing financial information of Colombian banks for the period 1990-2007, we find that both macroeconomic and microeconomic variables are important determinants of this probability. However, there are differential effects for the acquiring firm and the acquired firm. Particularly, while firm size and solvency are significant determinants of the probability of being an acquiring firm, efficiency is an important determinant of the probability of being acquired. Also, the concentration index, which plays no role for acquiring firms, plays an important role in the probability of being acquired.

From inflation to exchange rate targeting: Estimating the stabilization effects for a small open economy

- Economic Systems---2010---Ales Melecky,Martin Melecký

This paper attempts to estimate possible losses in macroeconomic stabilization due to a move from inflation to exchange rate targeting on the example of the Czech Republic. The authors use an estimated New Keynesian policy model, typical inflation and exchange rate targeting rules, and representative central bank loss functions to carry out these estimations. The authors find that for the Czech Republic, moving from the historically applied inflation targeting to optimized exchange rate targeting should not involve any significant losses in macroeconomic stabilization. However, the Czech National Bank could improve its stabilization outcomes while remaining an inflation targeter. This requires the Czech National Bank to respond more strongly to increasing expected future inflation and to be less concerned about an opening output gap when adjusting its policy rate. Moving then from such optimized inflation targeting to optimized exchange rate targeting can result in significant losses in economic stabilization in the magnitude of 0.4-2% points of GDP growth.

Economic freedom as driver of growth in transition

- Economic Systems---2010---Jenni Pääkkönen

This paper reviews the political economy of economic growth in post-communist economies making the transition to free markets, focusing on the role of economic policy and institutions. We test the hypothesis that better institutions, measured in terms of economic freedom, contribute to growth. To begin with, the empirical results from the cross-section of transition economies confirm this hypothesis. Yet the question is deeper than that since there is an interactive effect between economic freedom and investment. The paper concludes that non-linearities are present in the growth model.

Individual investors surpass their reputation: Trading behaviour on the Polish futures market

- Economic Systems---2010---Martin T. Bohl,Christiane Goodfellow,Jedrzej Bialkowski

This paper examines individual investors' trading behaviour by testing the presence of Monday and January anomalies on the Polish futures market, where individuals are the predominant trader type. Both anomalies are well established in the literature, and they are at least partially attributed to individual investors' trading activities. We conduct an intraday analysis of trading volume, open interest, returns, and return volatility on the futures market in Poland and find the contribution of individuals to market anomalies to be grossly overstated. Hence, individual investors' trading on the Polish futures market surpasses the prediction by the majority of investigations for mature stock markets.

Symposium: China and India in the world market

- Economic Systems---2010---Jens Hölscher,Marcello Signorelli

2010

China and India in the global economy

- Economic Systems---2010---Jens Hölscher,Enrico Marelli,Marcello Signorelli

The purpose of this overview paper is to present the economic growth in China and India over the last three decades with a specific focus on the integration of these countries into the global economy. In the first part, we briefly review the long-run process of growth and institutional change, emphasizing the reforms leading to the "opening" of the two economies. Then, we focus on key structural features and compare the recent development processes of the two countries. At the end, there are some hints about certain persisting imbalances and the sustainability of the growth processes.

Demographic transition and economic growth in China, India and Pakistan

- Economic Systems---2010---Misbah T. Choudhry,J.Paul Elhorst

The authors of this paper adopt a Solow-Swan model extended to include demographic variables to analyze the overall effect of demographic transition on economic growth. The results, based on data from seventy countries over the period 1961-2003, reveal that GDP per capita growth is positively related to the growth differential between the working-age population and the total population, and negatively related to child and old-age dependency ratios. Based on these results, they find that population dynamics explain 46 percent of economic growth in per capita GDP in China over the period 1961-2003, 39 percent in India, and 25 percent in Pakistan. Furthermore, population dynamics are expected to have a positive effect on economic growth in India and Pakistan over the period 2005-2050, and a negative effect in China.

Intra-provincial inequalities and economic growth in China

- Economic Systems---2010---Joanna Gravier-Rymaszewska,Joanna Tyrowicz,Jacek Kochanowicz

This paper approaches the problem of inequalities in China. It is specifically focused on analyzing the effects of intra-provincial disparities on the development of the 28 mainland provinces in China. Intra-provincial inequalities, as measured by the Theil index, seem positively related to growth, albeit the results are only convincing for the coastal provinces. A case-by-case analysis, however, suggests highly diversified patterns, including linear or an inverted U-shape for the fastest growing coastal provinces and virtually no relationship for the majority of regions. The results corroborate some questions raised earlier about actual policy-making standards in China.

Renminbi's misalignment: A meta-analysis

- Economic Systems---2010---Yannick Bineau

This paper presents the results of a meta-regression analysis of empirical estimates of renminbi misalignments. Seventeen articles and 130 observations dealing with empirical estimates of the misalignment of Chinese currency are collected. This meta-analysis shows that real exchange rate measures and econometric methodologies have a significant negative impact, whereas data characteristics, dissemination procedures and the underlying theoretical exchange rate models all have significant positive impacts on measures of the misalignment of the Chinese yuan. However, this research shows that empirical methodology induces larger values on the supposed misalignment of Chinese currency than the theoretical model of the real equilibrium exchange rate. Therefore, just one empirical estimate is not sufficient for a full understanding of the misalignment of the renminbi. Instead, a correct evaluation of renminbi misalignment should combine all the theoretical models of real equilibrium exchange rates with various econometric methods.

MNEs, technological efforts and channels of export spillover: An analysis of Indian manufacturing industries

- Economic Systems---2010---Chiara Franco,Subash Sasidharan

The present study provides some empirical evidence for the export spillover effect examining the case of an emerging market economy, namely India, using firm level data for the period 1994-2006. We disentangle different spillover channels, namely the demonstration effect, the imitation effect (R&D spillover) and a proxy to measure spillover effects coming from higher MNEs' skills. We also account for the heterogeneous technological behaviour of local firms considering how in-house R&D efforts and disembodied technological imports may affect the exporting performance. Our findings show how export spillover effects are mainly mediated by an imitation effect, contrary to the case of other emerging market economies like China, where a demonstration effect is evident. We also recognise that both the decision to export and export intensity are influenced most of all by the technological activities of local firms. Moreover, the findings of the analysis suggest that in-house R&D is more relevant than other external sources of technological knowledge such as disembodied technology imports to internalise the positive spillover effect emanating from MNEs.

A survey on institutions and new firm entry: How and why do entry rates differ in emerging markets?

- Economic Systems---2010---Saul Estrin,Martha Prevezer

This paper considers the impact of institutions on new firm entry in emerging markets. In particular, it surveys the findings of a 2-year research project on the sources of success in terms of entry rates and conditions (including gross entry rates, exit rates and therefore net entry rates) across the BRIC countries (Brazil, Russia, India, China). These emerging market economies display widely varying entry and exit rates and a framework is developed to capture the interaction between key aspects of formal institutions, how those institutions play out in practice, and their impact on entry and exit rates. The country case studies reveal that, whilst different contingencies affect the relationships between institutions and entry in each country, there are some empirical regularities in the determinants of successful entry and conversely in its constraints. One such regularity is the critical interaction between formal rules and informal mechanisms. There is also variation in whether these works so as to compensate for deficiencies in formal institutions, as in China and India, or whether deficiencies in formal mechanisms are compounded by poor informal mechanisms, as is sometimes true in Brazil. Indeed, relatively good formal rules and structures can be undermined by informal mechanisms deterring or blocking entry, as is largely the case in Russia.

Inter- and intra-industry linkages as a determinant of FDI in Central and Eastern Europe

- Economic Systems---2010---Julien Lefilleur,Mathilde Maurel

This paper uses an unpublished dataset on disaggregated foreign direct investment (FDI) in Central and Eastern European countries (CEECs), and is rooted in new economic geography literature. A 10% increase in access to suppliers based in the FDI recipient country or access to the EU15 market for intermediate goods increases FDI by about 2% in Central European countries and by 1% in Eastern European countries. We argue that Central (core) European countries specialise in upstream industries and re-export goods toward FDI-origin countries, while Eastern (periphery) European countries are also involved in this production chain, but to a lesser extent.

China's energy economy: A survey of the literature

- Economic Systems---2010---Hengyun Ma,Les Oxley,John Gibson

This paper reviews the literature on China's energy economy, focusing particularly on: (i) the relationship between energy consumption and economic growth; (ii) China's changing energy intensity; (iii) energy demand and energy-non-energy substitution; (iv) the emergence of energy markets in China; and (v) economic reforms in the energy industry. After reviewing the literature, the paper presents the main findings that some important issues remain unanswered, for example, what determines energy consumption behavior; the effects of substitution of and demand for energy; and technological change effects on energy intensity. Finally, the review suggests some topics worthy of future study.

Default rates in the loan market for SMEs: Evidence from Slovakia

- Economic Systems---2010---Jarko Fidrmuc,Christa Hainz

Financial markets in emerging economies are often perceived as more risky than those in developed countries. We investigate whether this is true for loans to SMEs using a unique unbalanced panel of nearly 700 loans made to SMEs in Slovakia between 2000 and 2005. Several probit and panel probit models show that liquidity and profitability factors are important determinants of SME defaults. Moreover, we find that indebtedness significantly increases the probability of default. Liability as proxied by the legal form of SMEs has important incentive effects. Finally, there exist significant differences between sectors. We show that default rates and factors converged to values found in developed financial markets.

Monetary policy rules for convergence to the Euro

- Economic Systems---2010---Lucjan Orlowski

This paper investigates the applicability of open-economy convergence-consistent instrument rules for monetary policies in the economies undergoing monetary convergence to a common currency area. The proposed policy rule is forward-looking, consistent with a monetary framework based on inflation-targeting containing input variables that are relative to the corresponding variables in the common currency area. Robust forms of the policy rule are tested empirically for three inflation-targeting countries converging to the euro, i.e. the Czech Republic, Poland and Hungary. Empirical tests imply systemic differences in monetary policies among these euro-candidates. The Czech monetary policy seemingly follows the rule prescribed by our model. Both the Czech and the Polish central bank interest rate policies respond predominantly to changes in the inflation gap, while the Hungarian responds mainly to the exchange rate gap. In all three cases, changes in the eurozone short-term interest rates strongly drive adjustments in the central banks' reference interest rates.

Economic growth and multi-tasking by state-owned enterprises: An analytic framework and empirical study based on Chinese provincial data

- Economic Systems---2010---Xianfeng Huang,Ping Li,Richard Lotspeich

By preventing large-scale unemployment during China's economic transition, state-owned enterprises (SOEs) helped maintain social stability, which supported the development of non-state sectors through a positive externality. Yet this burden reduced the productive efficiency of SOEs. Using a simple framework with two sectors, our paper decomposes the conflicting contributions of SOEs (lower efficiency but enhanced stability) to regional economic growth during 1992-2007. We find that productive efficiency in the state sector was lower than in other sectors and identify a significant positive externality that supported non-state sectors. Since these two effects offset each other, the contribution of SOEs to economic growth in China during our sample time frame was not significantly different from that of non-state enterprises.

Capital procurement of a consumer cooperative: Role of the membership market

- Economic Systems---2010---Kazuhiko Mikami

Cooperative firms are commonly thought to be financially weak and unable to flourish in the market economy. This paper addresses the idea that a consumer cooperative issues a membership, which represents an ownership share in the cooperative, as a method of procuring equity capital. It then shows that, in theory, consumer cooperatives are not necessarily financially weaker than investor-owned firms in the presence of a membership market. This implies that the consumer cooperative is potentially a promising alternative to the investor-owned firm when the latter type of firm induces serious market failure in the product market.

How did structural reform influence inflation in transition economies?

- Economic Systems---2010---David Barlow

This paper empirically examines the contribution of structural reforms to reducing inflation using a panel data-set of 25 transition economies. Two econometric methodologies are applied. First, the Blundell and Bond (1998) estimator for panel data incorporating lags of the dependent variable. Second, a panel logit estimator is employed to consider the likelihood of achieving low inflation. Results highlight the importance of price and trade liberalization and the reform of credit allocation for reducing inflation, the latter being especially important for bringing inflation below 10%.

Future of capitalism: Is it failing?

- Economic Systems---2010---Ali Kutan

This special issue includes six papers on issues regarding the recent 2007-2009 global financial crisis. They discuss the underlying reasons for the crisis, offer reforms for preventing future crises, and provide some empirical estimates of the unit price of risk associated with the crisis. In addition, the experience of some individual countries and the European Union dealing with the crisis is explored. Regarding future prospects, the appetite of Chinese and Indian citizens for a capitalistic society is evaluated, and it is investigated whether capitalism is a necessary condition for political freedom.

The 2007-2009 financial crisis, global imbalances and capital flows: Implications for reform

- Economic Systems---2010---Turalay Kenc,Selahattin Dibooglu

The paper discusses the currents that led to the 2007-2009 financial crisis. We discuss the crisis in a historical context and present evidence regarding the incidence and unit price of risk. Our results show that the unit price of risk prior to the subprime crisis is comparable to the price of risk prior to the great depression and similar to the price of risk at onset of the technology bubble. We then discuss global imbalances, the associated risks with regard to international optimal allocation of capital, and arrangements to minimize problems of global imbalances.

The financial sector and the future of capitalism

- Economic Systems---2010---Richard Pomfret

Financial sector innovation and development since the 1970s contributed to global prosperity, but increased the probability of bank failures. The post-2007 financial crisis was one of many crises with idiosyncratic catalysts but common underlying causes. Public policies, such as deposit insurance, with moral hazard implications increased the likelihood of crises, and cheap money exacerbated the situation by encouraging highly leveraged investments. The policy challenge is to address moral hazard without repressing the financial sector. This is not the end of capitalism, but a reminder of the difficulty in policing the financial sector which is at the heart of capitalist economies.

The global financial crisis: Lessons for European integration

- Economic Systems---2010---Marek Dabrowski

The EU's limited fiscal capacity has proven to be the most critical constraint in responding to the global financial crisis in a coordinated manner. The EU does not have enough resources to rescue the troubled financial institutions and member states. This leads to a nationalization of rescue operations, which undermines the Single European Market and requires IMF involvement with respect to member states in distress. The EU must also complete the lacking elements of the Single European Market architecture (such as European financial supervision) and help in strengthening global policy and regulatory coordination.

Capital flows and the boom-bust cycle: The case of Estonia

- Economic Systems---2010---Zuzana Brixiová,Laura Vartia,Andreas Wörgötter

During 2000-2007, Estonia was among the fastest growing emerging market economies, but in late-2008 entered a deep recession. This paper examines shocks, institutions, and policies that have made Estonia's boom-bust cycle so severe. It finds that an open capital account, the prospect for EU entry, and the currency board facilitated massive capital inflows, which led to credit and real estate booms. In late-2008 a domestic slowdown was greatly amplified by the global financial and economic crisis. To resume sustainable growth, the country will need to regain competitiveness and rebalance resources to exports. Estonia's experience underscores the importance for other emerging market economies to retain some flexibility in their macroeconomic frameworks and approach capital account liberalization cautiously.

Supporting the free and competitive market in China and India: Differences and evolution over time

- Economic Systems---2010---Matteo Migheli

This paper analyzes the support to market competition by Indian and Chinese citizens. In particular, I study the individual preferences with respect to some characteristics of a free and competitive market. The paper aims at establishing whether preferences in these countries are different and their evolution over the time. This is an important issue, as the economic literature shows that people's preferences and policies tend to go hand in hand. This means that the analysis of today's preferences and their evolution over time can be useful to forecast tomorrow's policies. The main findings of this paper are that Indians and Chinese are different in supporting competition. The Chinese express preferences that are more in line with a free and competitive market than Indians do. The detected time path reveals that this support has been decreasing over time during the last two decades. The two populations appear to be in favour of a capitalistic, but strictly regulated market. This can mean that the future economic policies of these Asian giants will tend to this direction. Apparently there are no risks for some form of capitalism, but it is likely the two countries will not adopt completely free and competitive market institutions.

Capitalism and freedom?

- Economic Systems---2010---Frederic L. Pryor

This essay tests Milton Friedman's conjecture that capitalism is a necessary condition for political freedom. For the decade around 2000 indices of the degree of capitalism and the degree of political freedom are highly correlated and provide plausibility for Friedman's conjecture. In looking at changes over time in the nineteenth century, however, the analysis refutes Friedman's conjecture. These apparently contradictory results are reconciled by showing that both capitalism and freedom are related to such variables as the educational level of the population so that, although not causally tied, they are correlated in a cross-national comparison.