

Front Matter

Source: *The American Economic Review*, Vol. 87, No. 1 (Mar., 1997)

Published by: American Economic Association

Stable URL: <https://www.jstor.org/stable/2950850>

Accessed: 15-02-2023 08:29 UTC

---

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



JSTOR

*American Economic Association* is collaborating with JSTOR to digitize, preserve and extend access to *The American Economic Review*

# The American Economic Review

## ARTICLES

- ANNE O. KRUEGER**  
**Trade Policy and Economic Development: How We Learn**
- LEE E. OHANIAN**  
**The Macroeconomic Effects of War Finance in the United States:  
World War II and the Korean War**
- STEVE DOWRICK AND JOHN QUIGGIN**  
**True Measures of GDP and Convergence**
- EMANUELA CARDIA**  
**Replicating Ricardian Equivalence Tests with Simulated Series**
- JAMES D. HAMILTON**  
**Measuring the Liquidity Effect**
- LARS E. O. SVENSSON**  
**Optimal Inflation Targets, "Conservative" Central Banks, and  
Linear Inflation Contracts**
- RICARDO J. CABALLERO, EDUARDO M. R. A. ENGEL, AND JOHN HALTIWANGER**  
**Aggregate Employment Dynamics: Building from Microeconomic  
Evidence**
- LEONARDO BARTOLINI AND ALLAN DRAZEN**  
**Capital-Account Liberalization as a Signal**
- JEFFREY PONTIFF**  
**Excess Volatility and Closed-End Funds**
- MARIANNE BAXTER AND URBAN J. JERMANN**  
**The International Diversification Puzzle Is Worse Than You Think**
- NIKO CANNER, N. GREGORY MANKIW, AND DAVID N. WEIL**  
**An Asset Allocation Puzzle**

SHORTER PAPERS: J. Gruber; W. Jack and L. Sheiner; P.-Y. Geoffard and T. Philipson;  
S. Ziss; G. C. Morrison; J. F. Shogren and D. J. Hayes; D. Fullerton; A. L. Bovenberg and  
R. A. de Mooij.

**MARCH 1997**

# THE AMERICAN ECONOMIC ASSOCIATION

- Printed at Banta Company, Menasha, Wisconsin, U.S.A.

- Copyright © 1997 by the American Economic Association. Permission to make digital or hard copies of part or all of this work for personal or classroom use is granted without fee provided that copies are not made or distributed for profit or direct commercial advantage and that copies show this notice on the first page or initial screen of a display along with the full citation, including the name of the author. Copyrights for components of this work owned by others than AEA must be honored. Abstracting with credit is permitted. To copy otherwise, to republish, to post on servers, to redistribute to lists, or to use any component of this work in other works, requires prior specific permission and/or a fee. Permissions may be requested from the American Economic Association, 2014 Broadway, Suite 305, Nashville, TN 37203.

- No responsibility for the views expressed by authors in this *Review* is assumed by the editors or the publishers, The American Economic Association.

Correspondence relating to advertising, business matters, permissions to quote, back issues, subscriptions, and changes of address, should be sent to the American Economic Association, 2014 Broadway, Suite 305, Nashville, TN 37203. Change of address notice must be received at least six (6) weeks prior to the publication month. A membership or subscription paid twice is automatically extended for an additional year unless otherwise requested.

*THE AMERICAN ECONOMIC REVIEW* (ISSN 0002-8282), March 1997, Vol. 87, No. 1, is published five times a year (March, May, June, September, December) and every four years it is published six times a year (twice in December) by the American Economic Association, 2014 Broadway, Suite 305, Nashville, TN 37203. Annual fees for regular membership, of which 30 percent is for a year's subscription to this journal, are: \$54.00, \$64.00, or \$75.00, depending on income. A membership also includes subscriptions to *The Journal of Economic Literature* and *The Journal of Economic Perspectives*. In countries other than the U.S.A., add \$23.00 for extra postage. Information on becoming a member can be found on the last page of this journal. Periodical postage paid at Nashville, TN and at additional mailing offices. POSTMASTER: Send address changes to the *American Economic Review*, 2014 Broadway, Suite 305, Nashville, TN 37203.

Founded in 1885

## Officers

### *President*

ARNOLD C. HARBERGER  
University of California-Los Angeles

### *President-elect*

ROBERT W. FOGEL  
University of Chicago

### *Vice-Presidents*

RICHARD B. FREEMAN  
Harvard University  
GLENN C. LOURY  
Boston University

### *Secretary*

JOHN J. SIEGFRIED  
Vanderbilt University

### *Treasurer*

C. ELTON HINSHAW  
Vanderbilt University

### *Editor of The American Economic Review*

ORLEY ASHENFELTER  
Princeton University

### *Editor of The Journal of Economic Literature*

JOHN PENCABEL  
Stanford University

### *Editor of The Journal of Economic Perspectives*

ALAN B. KRUEGER  
Princeton University

## Executive Committee

### *Elected Members of the Executive Committee*

REBECCA M. BLANK  
Northwestern University  
JOHN E. ROEMER  
University of California-Davis  
RONALD G. EHRENBERG  
Cornell University  
BARBARA L. WOLFE  
University of Wisconsin  
RACHEL McCULLOCH  
Brandeis University  
PAUL M. ROMER  
Stanford University

### *EX OFFICIO Members*

VICTOR R. FUCHS  
Stanford University  
ANNE O. KRUEGER  
Stanford University

# THE AMERICAN ECONOMIC REVIEW

## Editor

ORLEY ASHENFELTER

## Co-Editors

DENNIS N. EPPLÉ

R. PRESTON McAFEE

MATTHEW D. SHAPIRO

## Production Editor

LYNN FLEISHER

## Board of Editors

JAMES E. ANDERSON

ALAN J. AUERBACH

DAVID K. BACKUS

KYLE W. BAGWELL

DAVID P. BARON

THEODORE C. BERGSTROM

TIMOTHY J. BESLEY

REBECCA M. BLANK

CHARLES C. BROWN

H. LORNE CARMICHAEL

STEPHEN G. CECCHETTI

TIMOTHY S. FUERST

DON FULLERTON

JORDI GALÍ

NANCY GALLINI

GENE M. GROSSMAN

R. MARK ISAAC

ADAM B. JAFFE

PAUL L. JOSKOW

KAREN K. LEWIS

PAUL R. MILGROM

ROBERT A. MOFFITT

CHRISTINA H. PAXSON

WOLFGANG PESENDORFER

VALERIE A. RAMEY

SERGIO T. REBELO

JENNIFER F. REINGANUM

RICHARD E. ROMANO

DAVID H. ROMER

NANCY L. ROSE

DAVID E. M. SAPPINGTON

ANDREW R. SCHOTTER

GARY SOLON

CURTIS R. TAYLOR

W. KIP VISCUSI

CARL E. WALSH

KENNETH D. WEST

DAVID W. WILCOX

MICHAEL D. WOODFORD

**March 1997**

VOLUME 87, NUMBER 1

## Articles

Trade Policy and Economic Development: How We Learn  
*Anne O. Krueger* 1

The Macroeconomic Effects of War Finance in the United States: World War II and the Korean War  
*Lee E. Ohanian* 23

True Measures of GDP and Convergence  
*Steve Dowrick and John Quiggin* 41

Replicating Ricardian Equivalence Tests with Simulated Series  
*Emanuela Cardia* 65

Measuring the Liquidity Effect  
*James D. Hamilton* 80

Optimal Inflation Targets, "Conservative" Central Banks, and Linear Inflation Contracts  
*Lars E. O. Svensson* 98

Aggregate Employment Dynamics: Building from Microeconomic Evidence  
*Ricardo J. Caballero, Eduardo M. R. A. Engel, and John Haltiwanger* 115

Capital-Account Liberalization as a Signal  
*Leonardo Bartolini and Allan Drazen* 138

Excess Volatility and Closed-End Funds  
*Jeffrey Pontiff* 155

The International Diversification Puzzle Is Worse Than You Think  
*Marianne Baxter and Urban J. Jermann* 170

An Asset Allocation Puzzle  
*Niko Canner, N. Gregory Mankiw, and David N. Weil* 181

## Shorter Papers

The Consumption Smoothing Benefits of Unemployment Insurance	<i>Jonathan Gruber</i>	192
Welfare-Improving Health Expenditure Subsidies	<i>William Jack and Louise Sheiner</i>	206
Disease Eradication: Private versus Public Vaccination	<i>Pierre-Yves Geoffard and Tomas Philipson</i>	222
A Solution to the Problem of Externalities When Agents Are Well-Informed: Comment	<i>Steffen Ziss</i>	231
Resolving Differences in Willingness to Pay and Willingness to Accept: Comment	<i>Gwendolyn C. Morrison</i>	236
Reply	<i>Jason F. Shogren and Dermot J. Hayes</i>	241
Environmental Levies and Distortionary Taxation: Comment	<i>Don Fullerton</i>	245
Reply	<i>A. Lans Bovenberg and Ruud A. de Mooij</i>	252

- Submit manuscripts (4 copies), single-sided, double-spaced, to:  
Orley Ashenfelter, Editor, *AER*, 209 Nassau Street,  
Princeton, NJ 08542-4607.
- Authorship should be identified only on a removable cover page; the  
anonymous text should begin on the following page.
- Submission fee: \$50 for members; \$100 for nonmembers. Please pay with  
a check or money order payable in United States dollars. Foreign (including  
Canadian) payments must be in the form of a check drawn on a United  
States bank payable in United States dollars.
- Style guides will be provided upon request.

It is the policy of the *American Economic Review* to publish papers only if the data used in the analysis are clearly and precisely documented and are readily available to any researcher for purposes of replication. Details of the computations sufficient to permit replication must be provided. The Editor should be notified at the time of submission if the data used in a paper are proprietary, or if, for some other reason, the above requirements cannot be met.

Number 98 of a series of photographs of past presidents of the Association