

2ND ANNUAL MEETING OF THE PORTUGUESE ECONOMIC JOURNAL

July 4-5, 2008



Banco de Portugal

FCT

Fundação para a Ciência e a Tecnologia
MINISTÉRIO DA CIÊNCIA, INOVAÇÃO E DO ENSINO SUPERIOR

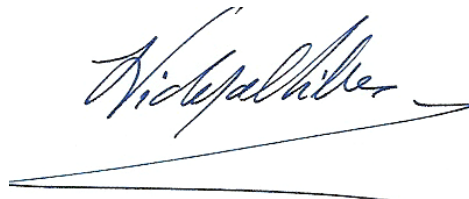
Welcome Message

Dear Colleagues and Participants

It is our pleasure to welcome you to the 2nd Annual Meeting of the Portuguese Economic Journal organized by CEFAGE-UE at the University of Évora.

The main objective of this event is to offer an opportunity for reflection and discussion of important economic issues, such as: Micro and Macro Economics, Econometrics, Business Cycles, Labour, Monetary Policy, Innovation and Efficiency, and Finance.

It is an honour for CEFAGE-UE to host this event, and we are thankful for your participation.

A handwritten signature in blue ink, which appears to read 'Vitor Palhares', is positioned above a horizontal line.

(Local Organizing Committee)

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Program Committee

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Aurora Galego

Joaquim Ramalho

José Correia

Program Overview

Time	Friday - 04/07/08	Saturday - 05/07/08
09:30 - 09:45		Contributed Session
09:45 - 10:00		
10:00 - 10:15		
10:15 - 10:30		
10:30 - 10:45		
10:45 - 11:00	Registration	Coffee-Break
11:00 - 11:15		
11:15 - 11:30		
11:30 - 11:45		
11:45 - 12:00		
12:00 - 12:15	Lunch	Invited Lecture
12:15 - 12:30		
12:30 - 12:45		
12:45 - 13:00		
13:00 - 13:15		
13:15 - 13:30		Lunch
13:30 - 13:45		
13:45 - 14:00		
14:00 - 14:15		
14:15 - 14:30		
14:30 - 14:45	Welcome Session	
14:45 - 15:00		
15:00 - 15:15		
15:15 - 15:30		
15:30 - 15:45		
15:45 - 16:00	Contributed Session	Contributed Session
16:00 - 16:15		
16:15 - 16:30		
16:30 - 16:45		
16:45 - 17:00		
17:00 - 17:15	Coffee-Break	Contributed Session
17:15 - 17:30		
17:30 - 17:45		
17:45 - 18:00		
18:00 - 18:15		
18:15 - 18:30	Contributed Session	
18:30 - 18:45		
18:45 - 19:00		
...		
20:00 - 23:00		
	Conference Dinner	

Detailed Programme

Friday, 04 th July 2008			
11:00 – 12:30	Room 131 A	Registration	
12:30 – 14:00	Restaurante “Cozinha do Cardeal”	Lunch	
14:00 – 14:30	Room 131	Welcome Session	
14:45 – 16:15	Contributed Session		
	Room 124	Micro 1	Session chair: Ana Borges <i>Help and Factionalism in Politics and Organizations – William Chan</i> , Priscilla Man
			<i>A test of collusive behavior based on incentives – Ricardo Cabral</i>
			<i>Using Cost Observation to Regulate Bureaucratic Firms – Ana Borges</i> , João Correia da Silva
			Session chair: Pedro Gomes <i>On the role of progressive taxation in a Ramsey model with heterogeneous households – Stefano Bosi</i> , Thomas Seegmuller
	Room 105	Macro 1	<i>Optimal Taxation with Financial Instruments in a Small Open Economy – José Miguel Cardoso Costa</i>
			<i>Corporate Tax Competition and the Decline of Public Investment – Pedro Gomes</i> , François Pouget
			Session chair: Pedro Portugal <i>Business Cycles, Core and Periphery in Monetary Unions: Comparing Europe and North America – Alexandra Ferreira Lopes</i> , Álvaro Pina
			<i>Basel II Capital Requirements, Firms' Heterogeneity, and the Business Cycle – Inês Drumond</i> , José Jorge
	Room 119	Business Cycles	<i>Real Wages and the Business Cycle: Accounting for Worker and Firm Heterogeneity – Anabela Carneiro</i> , Paulo Guimarães, Pedro Portugal
			Session chair: António Caleiro <i>Assessing Hospital Efficiency: Non-parametric Evidence for Portugal – António Afonso</i> , Sónia Fernandes
			<i>How Productive is Public Capital? A Meta-Analysis – Pedro Bom</i> , Jenny Ligthart
			<i>A fuzzy logic popularity index for Portugal – António Caleiro</i>
	Room 120	Econometrics 1	
16:15 – 16:45	Room 131A	Coffee-Break	
16:45 – 18:45	Contributed Session		
	Room 124	Micro 2	Session chair: João Amador <i>A Model of Mobile Telephony with Policy Applications – Pedro Pereira</i> , Tiago Ribeiro
			<i>Tariff-Mediated Network Externalities: Is Regulatory Intervention Any Good? – Steffen Hoernig</i>
			<i>Product and Destination Mix in Export Markets – João Amador</i> , Luca David Opromolla

	Room 105	Macro 2	Session chair: Vasco Leite
			<i>Barriers to Technological Adoption in Spain and Portugal</i> – Steven Cassou, Emanuel Castro de Oliveira
			<i>Social Security in Portugal: An Overlapping Generations Approach</i> – Sameer Rege , António Menezes
			<i>The core periphery model with asymmetric inter-regional and intra-regional transportation costs</i> – Vasco Leite , Sofia Castro, João Correia da Silva
	Room 119	General Equilibrium	Session chair: Marta Faias
			<i>Past expectations and present prices - hysteresis in a simple economy</i> – Sofia Castro, João Correia da Silva
			<i>Existence of Equilibrium in Common Agency Games with Adverse Selection</i> – Guilherme Carmona , José Fajardo
			<i>General equilibrium with private state verification</i> – João Correia da Silva , Carlos Hervés-Beloso
			<i>Incomplete Financial Markets and Differential Information</i> – Marta Faias , Emma Moreno-Garcia
	Room 120	Labour 1	Session chair: Álvaro Novo
			<i>How Working Time Reduction Affects Employment and Wages</i> – Pedro Raposo , Jan Ours
			<i>Regional Wage Differentials: Static and Dynamic Approaches</i> – João Pereira , Aurora Galego
			<i>Does size matter? A propensity score approach to the effect of BMI on labour market outcomes</i> – Silvia Sousa
			<i>The impact on reemployment wages of UI non-distortionary income effect: A regression discontinuity approach</i> – Mário Centeno, Álvaro Novo
20:00 – 23:00	Restaurante “Jardim do Paço”	Conference Dinner	
Saturday, 05 th July 2008			
09:30 – 11:00	Contributed Session		
	Room 124	Micro 3	Session chair: Joakim Ahlberg
			<i>Third-degree Price Discrimination, Entry and Welfare</i> – Silvia Jorge, Cesaltina Pacheco Pires
			<i>The simple economics of risk-sharing agreements between the NHS and the pharmaceutical industry</i> – Pedro Pita Barros
			<i>Revenues in a Discrete Multi-Unit, Common Value Auctions: A Study of three Sealed-Bid Mechanisms</i> – Joakim Ahlberg
	Room 105	Econometrics 2	Session chair: Esmeralda Ramalho
			<i>Is it different for zeros?</i> – João Santos Silva , Silvana Tenreiro, Frank Windmeijer
			<i>Departure From Independence and Stationarity in a Handball Match</i> – Montezuma Dumangane, Nicoletta Rosati , Anna Volossovitch

			<i>Alternative estimating and testing empirical strategies for fractional regression models</i> – José Murteira, Esmeralda Ramalho , Joaquim Ramalho
	Room 119	Macro 3	Session chair: Luis Costa
			<i>Market Imperfections and Endogenous Fluctuations: a general approach</i> – Teresa Lloyd-Braga , Leonor Modesto, Thomas Seegmuller
			<i>Optimal immigration policy when the public good is rival</i> – Stefano Bosi, Eleni Iliopoulos , Hubert Jayet
			<i>Two Saddles and a Source: On endogenous mark-up, multiple equilibria, and threshold effects</i> – P. Brito, Luís Costa , H. Dixon
	Room 120	Monetary Policy 1	Session chair: Samuel Bates
			<i>The Phillips Curve in Portugal</i> – Agostinho Rosa
			<i>Threshold Effects in Monetary Policy: Evidence for the EMU</i> – Jorge Andraz, Pedro Gouveia, Adriano Pimpão, Paulo Rodrigues
<i>Measuring Monetary Transmission Effectiveness: The Tunisian Experience</i> – Samuel Bates , Ahmed Hachicha			
11:00 – 11:30	Room 131A	Coffee-Break	
11:30 – 13:00	Room 131	Invited Lecture	<i>Negishi -Solow Efficiency Wages, Unemployment Insurance and Stochastic Endogenous Keynesian Business Cycles</i> - Jean-Michel Grandmont
13:00 - 14:30	Restaurante “Cozinha do Cardeal”	Lunch	
14:30 – 14:45	Contributed Session		
	Room 124	Innovation and Efficiency	Session chair: Maria Leonor Carvalho
			<i>Accelerating Innovation: National R&D Subsidies versus Foreign R&D Tax Credits</i> – Sofia Sousa Vale , Felipa de Mello-Sampayo, Francisco Camões
			<i>Growth, Innovation and Environmental Policy: Clean vs Dirty Technical Change</i> – Ana Reis, Maria Cunha-e-Sá, Alexandra Leitão
			<i>Characterization and technical efficiency of Portuguese wine farms</i> – Pedro Damião Henriques, Maria Leonor Carvalho
	Room 105	Labour 2	Session chair: Luís Faria
			<i>Temporary Agency Work in Portugal, 1995–2000</i> – René Boheim, Ana Rute Cardoso
			<i>Wages and the Risk of Displacement</i> – Anabela Carneiro , Pedro Portugal
			<i>Agent-based model: an application to the labor market</i> – Luís Faria
	Room 119	Macro 4	Session chair: Paulo Júlio
			<i>Household Welfare, Precautionary Saving, and Social Insurance under Multiple Sources of Risk</i> – Ivan Vidangos
			<i>Individual and Aggregate Money Demands: Theory and an Application to the Welfare Cost of Inflation</i> – André Silva

			<i>Endogenous spillovers in the trade-off between centralization and decentralization – Paulo Júlio</i>
	Room 120	Gowth 1	Session chair: Corrado Andini
			<i>Real exchange rate and endogenous growth dynamics for a small open economy – Paulo Brito, Armando Ferreira</i>
			<i>An Endogenous Growth Model with Human and Social Interactions – Tiago Sequeira, Alexandra Lopes</i>
			<i>Financial Development and Long-Run Growth: Is the Cross-Sectional Evidence Robust? – Corrado Andini</i>
16:00 – 16:30	Room 131A	Coffee-Break	
16:30 – 18:00	Contributed Session		
	Room 124	Finance	Session chair: Jorge Bravo
			<i>Accurate minimum capital risk requirements: a comparison of several approaches – A. Grané, Helena Veiga</i>
			<i>A New Approach To Bad News Effects On Volatility: The Multiple-Sign-Volume Sensitive Regime Gjr-Garch Model – José Curto, João Tomaz</i>
			<i>Pricing Longevity Bonds Using Affine-Jump Diffusion Models – Jorge Bravo</i>
	Room 105	Applied Econometrics	Session chair: Hugo Reis
			<i>Does Class size affect the academic performance of first year college students? – Matilde Machado, Marcos Vera-Hernandez</i>
			<i>Preventing Behavior Problems in Childhood and Adolescence: Evidence from Head Start – Pedro Carneiro, Rita Ginja</i>
			<i>Sources of inequality in educational achievement - an international comparison – Pedro Carneiro, Hugo Reis</i>
	Room 119	Monetary Policy 2	Session chair: Orlando Gomes
			<i>European Integration and the Credit Channel Transmission of Monetary Policy – Cândida Ferreira</i>
			<i>Monetary and Fiscal Policies Interactions in a Monetary Union With Country-size Asymmetry – Celsa Machado, Ana Paula Ribeiro</i>
			<i>The Dynamics of Learning in Optimal Monetary Policy – Orlando Gomes, Vivaldo Mendes, Diana Mendes</i>
	Room 120	Growth 2	Session chair: Pedro Gil
			<i>Towards an inclusive model of sustainable growth – Catarina Roseta Palma, Alexandra Lopes, Tiago Sequeira, Rui Castro</i>
			<i>Public Investment, Distributive Politics and Economic Growth – Francisca Oliveira</i>
			<i>A Model of Quality Ladders with Horizontal Entry – Pedro Gil, Paulo Brito, Óscar Afonso</i>

Abstracts

Applied Econometrics

Does Class size affect the academic performance of first year college students?

Matilde Machado (Universidad Carlos III de Madrid)

Marcos Vera-Hernandez (University College London and Institute for Fiscal Studies)

Preventing Behavior Problems in Childhood and Adolescence: Evidence from Head Start

Pedro Carneiro (University College London, Centre for Microdata Methods and Practice, and Institute for Fiscal Studies)

Rita Ginja (University College London)

This paper shows that participation in Head Start decreases behavioral problems, grade repetition, and obesity of children at ages 12 and 13, and depression, criminal behavior, and obesity at ages 16 and 17. Head Start's eligibility rules induce discontinuities in program participation as a function of income, which we use to identify program impacts. Since there is a range of discontinuities (they vary with family size, state and year), we identify the effect of Head Start for a large set of individuals, as opposed to a small set of people around a single discontinuity.

Sources of inequality in educational achievement - an international comparison

Pedro Carneiro (University College London, Centre for Microdata Methods and Practice, and Institute for Fiscal Studies)

Hugo Reis (University College London)

This paper studies inequality in the school performance of adolescents in a sample of OECD countries. In the spirit of the Coleman Report, we compare the role of school and family factors in determining inequality within each country. We then relate the importance of each of them to characteristics of each national school system such as the existence of catchment areas, the extent to which schools can be selective in admitting their students, or the degree of school autonomy. Our results document how different education systems lead to different degrees of inequality of educational opportunity.

Business Cycles

Basel II Capital Requirements, Firms' Heterogeneity, and the Business Cycle

Inês Drumond (CEMPRE and Universidade do Porto)

José Jorge (CEMPRE and Universidade do Porto)

This paper assesses the potential procyclical effects of Basel II capital requirements by evaluating to what extent those effects depend on the composition of banks' asset portfolios and on how borrowers' credit risk evolves over the business cycle.

By developing a heterogeneous-agent general equilibrium model, in which firms' access to credit depends on their financial position, we find that regulatory capital requirements, by forcing banks to finance a fraction of loans with costly bank capital, have a negative effect on firms' capital accumulation and output in steady state. This effect is amplified with the changeover from Basel I to Basel II, in a stationary equilibrium version of the model supports the Basel II procyclicality hypothesis: Basel II capital requirements accentuate the bank loan supply effect underlying the bank capital channel of propagation of exogenous shocks.

Business Cycles, Core and Periphery in Monetary Unions: Comparing Europe and North America

Alexandra Ferreira Lopes (ISCTE, UNIDE and DINÂMIA)

Álvaro Pina (Universidade Técnica de Lisboa and UECE)

We compare Europe with the USA and Canada as regards business cycle synchronization and core-periphery patterns. A long sample (1950-2005) makes it possible to study how these aspects have evolved over time. Results support the economic viability of EMU. Average cyclical correlations among European countries have risen significantly, reaching levels close to, or even higher than, those of North American regions. Applying fuzzy clustering to the analysis of core-periphery issues, we find Europe to actually outperform North America: the core-periphery divide is milder, and peripheral status seems generally less protracted.

Real Wages and the Business Cycle: Accounting for Worker and Firm Heterogeneity

Anabela Carneiro (Universidade do Porto – FEP/CETE)

Paulo Guimarães (Universidade do Minho and CEMPRES)

Pedro Portugal (Banco de Portugal)

Using a longitudinal matched employer-employee data set for Portugal over the 1986-2005 period, this study analyzes the heterogeneity in wages responses to aggregate labor market conditions for newly hired workers and existing workers. Controlling simultaneously for worker and random specific effects, the results show that entry wages are much more procyclical than current wages. A one-point increase in the unemployment rate decreases wages of newly hired male workers by around 2.5% and by just 1.5% for workers in continuing jobs. For female workers these same effects are 2.3% and 1.1%, respectively. Thus, our empirical evidence does not seem to support the hypothesis of wage stickiness as an explanation for the unemployment volatility puzzle.

Econometrics 1

A fuzzy logic popularity index for Portugal

António Caleiro (Universidade de Évora and CEFAGE-UE)

The paper presents a fuzzy logic approach showing how a popularity index can be determined. Considering monthly data, from 1983 until 2007, for Portugal, the fuzzy logic popularity index, based on inflation and

unemployment rates, helps to understand the Portuguese election results and, in particular, clearly detects the electoral victories and defeats of the incumbents. The approach here considered can be viewed as a complement to the 'traditional' popularity functions determined using regression methods.

Assessing Hospital Efficiency: Non-parametric Evidence for Portugal

António Afonso (ISEG/Universidade Técnica de Lisboa)

Sónia Fernandes (ISEG/Universidade Técnica de Lisboa)

We compute DEA efficiency scores and Malmquist indexes for a panel data set comprising 68 Portuguese public hospitals belonging to the National Health System (NHS) in the period 2000-2005, when several units started being run in an entrepreneurial framework. With data on hospital services' and resource quantities we construct an output distance function, we assess by how much can output quantities be proportionally expanded without changing input quantities. Our results show that, on average, the NHS hospital sector revealed positive but small productivity growth between 2000 and 2004. The mean TFP indices vary between 0.917 and 1.109, implying some differences in the Malmquist indices across specifications. Furthermore, there are significant fluctuations among NHS hospitals in terms of individual efficiency scores from one year to the other.

How Productive is Public Capital? A Meta-Analysis

Pedro Bom (Tilburg University)

Jenny Ligthart (Tilburg University, University of Groningen)

The paper analyzes the contribution of public capital to private output using several meta analytical techniques. Both fixed and random effects models are estimated by Weighted Least Squares. Sample overlap across studies is explicitly controlled for by employing a 'full' Generalized Least Squares estimator. The weighted average output elasticity of public capital amounts to 0.08 after correcting for publication bias. A substantial part of the heterogeneity across studies is explained by study design parameters, such as econometric specification, estimation technique, empirical model, type of public capital, and level of aggregation of public capital data. The large elasticities of public capital found in the early literature seem to be caused by either unidentified (but present) cointegrating relationships or spurious relationships in national time series.

Econometrics 2

Alternative estimating and testing empirical strategies for fractional regression models

José Murteira (Universidade de Coimbra)

Esmeralda Ramalho (Universidade de Évora)

Joaquim Ramalho (Universidade de Évora)

In many economic settings, the variable of interest (y) is often a fraction or a proportion, being defined and observed only on the standard unit interval, i.e. $0 \leq y \leq 1$. The bounded nature of such variables and, in some cases, the possibility of nontrivial probability mass accumulating at one or both the boundaries raise some interesting estimation and inference issues. This paper analyses alternative models, estimation methods and specification tests suitable to deal with fractional response variables. An extensive Monte

Carlo simulation study examines the finite sample properties of most of the estimators and tests discussed. An empirical application concerning corporate capital structure choices is also provided.

Departure From Independence and Stationarity in a Handball Match

Montezuma Dumangane (ISEG/Universidade Técnica de Lisboa)

Nicoletta Rosati (ISEG/Universidade Técnica de Lisboa)

Anna Volossovitch (ISEG/Universidade Técnica de Lisboa)

This paper analyses direct and indirect forms of dependence in the probability of scoring in a handball match, taking into account the mutual influence of both playing teams. Nonidentical distribution and nonstationarity, which are commonly observed in sport games, are studied through the specification of time-varying parameters.

The model accounts for the binary character of the dependent variable, and for unobserved heterogeneity. The parameter dynamics is specified by a first-order auto-regressive process.

Data from the Handball World Championships 2001-2005 show that the dynamics of handball violate both independence and identical distribution, in some cases having a non-stationary behavior.

Is it different for zeros?

João Santos Silva (University of Essex)

Silvana Tenreiro (London School of Economics)

Frank Windmeijer (University of Bristol)

In many interesting applications, the variate of interest is non-negative and its distribution is characterized by a mass-point at zero and a long right-tail. Essentially, two different strategies have been proposed to deal with data of this type. A popular approach is to model separately the probability of observing a zero and the distribution of the positive outcomes. An alternative to this approach is to model directly the conditional expectation of the variate of interest, not taking explicitly into account the mixed nature of the data. Although there is a long debate in the literature on the choice between the different specifications, formal statistical tests to choose between these competing models are rarely, if at all, used in practice. In this paper we show that simple regression-based specification tests can be used to test these specifications against each other.

Finance

A New Approach To Bad News Effects On Volatility: The Multiple-Sign-Volume Sensitive Regime GJR-GARCH Model

José Curto (ISCTE)

João Tomaz (CMVM)

In this paper, using daily data for three major international stock market indexes and a modified GJR-GARCH specification, the links between stock market returns, volatility and trading volume are investigated

in a new nonlinear conditional variance framework with multiple regimes and an on/off unexpected volume effect.

The advantages of the new model are confirmed in an empirical application, where we compare the out-of-sample forecasts of several asymmetric GARCH models with the MSV-GJR-GARCH model.

Accurate minimum capital risk requirements: a comparison of several approaches

A. Grané (Universidad Carlos III de Madrid)

Helena Veiga (Universidad Carlos III de Madrid)

In this paper we estimate, for several investment horizons, minimum capital risk requirements for short and long positions, using the unconditional distribution of three daily indexes futures returns and a set of short and long memory stochastic volatility and GARCH-type models. We consider the possibility that errors follow a t-Student distribution in order to capture the kurtosis of the returns' series. The results suggest that an accurate modelling of extreme observations obtained for long and short trading investment positions is possible with an autoregressive stochastic volatility model. Moreover, modelling futures returns with a long memory stochastic volatility model produces, in general, excessive volatility persistence, and consequently, leads to large minimum capital risk requirement estimates. Finally, the models' predictive ability is assessed with the help of out-of-sample conditional tests.

Pricing Longevity Bonds Using Affine-Jump Diffusion Models

Jorge Bravo (Universidade de Évora)

Historically, actuaries have been calculating premiums and mathematical reserves using a deterministic approach, by considering a deterministic mortality intensity, which is a function of the age only, extracted from available (static) life tables and by setting a flat ("best estimate") interest rate to discount cash flows over time. Since neither the mortality intensity nor interest rates are actually deterministic, life insurance companies and pension funds are exposed to both financial and mortality (systematic and unsystematic) risks when pricing and reserving for any kind of long-term living benefits, particularly on annuities and pensions. In this paper, we assume that an appropriate description of the demographic risks requires the use of stochastic models. In particular, we assume that the random evolution of the stochastic force of mortality of an individual can be modeled by using doubly stochastic processes. The model is then embedded into the well know affine-jump framework, widely used in the term structure literature, in order to derive closed-form solutions for the survival probability. We show that stochastic mortality models provide an adequate framework for the development of longevity risk hedging tools, namely mortality-linked contracts such as longevity bonds or mortality derivatives.

General Equilibrium

Existence of Equilibrium in Common Agency Games with Adverse Selection

Guilherme Carmona (Universidade Nova de Lisboa)

José Fajardo (IBMEC Business School)

We establish the existence of perfect Bayesian equilibria in general menu games, known to be sufficient to analyze common agency problems. Our main result states that every menu game satisfying enough continuity properties has a perfect Bayesian equilibrium. Despite the continuity assumptions that we make,

discontinuities naturally arise due to the absence, in general, of continuous optimal choices for the agent. Our approach, then, is based on (and generalizes) the existence theorem of Simon and Zame (1990) designed for discontinuous games.

General equilibrium with private state verification

João Correia da Silva (Universidade do Porto)

Carlos Hervés-Beloso (Universidad de Vigo)

We study general equilibrium with private and incomplete state verification. Trade is agreed ex ante, that is, before private information is received. It is useful to define a list of bundles as a derivative good that gives an agent the right to receive one of the bundles in the list. Enforceable trade agreements can be described by Pi-measurable plans of lists of bundles, instead of Pi-measurable plans of bundles as in Radner (1968). In equilibrium, the price of a list coincides with the price of the cheapest bundle in the list, and it is always the cheapest bundle of the list that is delivered. This property leads to a system of linear inequalities which are deliverability constraints on the choice set. We investigate existence of equilibrium in the case in which preferences are Pi-measurable. If there is a perfectly informed trader in the economy, existence of equilibrium is guaranteed.

Incomplete Financial Markets and Differential Information

Marta Faias (Universidade Nova de Lisboa)

Emma Moreno-Garcia (Universidad de Salamanca)

We provide a model of an incomplete markets economy where private restrictions on consumption are interpreted as lack of information. The existence of an equilibrium where agents are unable to infer any additional information from prices is proved. When assets are nominal, these non-enlightening equilibrium prices lead us to a natural selection of equilibria where the degree of real indeterminacy is reduced. Finally, we present an example illustrating that consumption constraints can remove completely the real indeterminacy of equilibria.

Past expectations and present prices - hysteresis in a simple economy

Sofia Castro (Universidade do Porto)

João Correia da Silva (Universidade do Porto)

We give an illustration of hysteresis (path-dependence) in a simple economy. In the presence of multiple possible equilibrium prices, we find that past expectations determine present prices. This phenomenon of path-dependence is robust to perturbations of the economy.

Growth 1

An Endogenous Growth Model with Human and Social Interactions

Tiago Sequeira (Universidade da Beira Interior and INOVA)

Alexandra Lopes (ISCTE)

Social capital has recently been introduced in the economic literature as a growth factor. In this paper we study the interactions between social and human capital, and their contributions to economic growth in an endogenous growth model. In particular, we are interested in comparing the results from our theoretical framework with the empirical evidence already found by other authors. The model indicates a correlation between human and social capital throughout time, as suggested by the data. Furthermore, an increasing relative importance of human capital when compared to social capital is always evident throughout the development process of the economy.

Financial Development and Long-Run Growth: Is the Cross-Sectional Evidence Robust?

Corrado Andini (Universidade da Madeira)

In a seminal paper, Levine et al. (2000) provide cross-sectional evidence showing that financial development has positive average impact on long-run growth, using a sample of 71 countries. We argue that the evidence is sensitive to the presence of outliers.

Real exchange rate and endogenous growth dynamics for a small open economy

Paulo Brito (ISEG / Universidade Técnica de Lisboa)

Armando Ferreira (ISEG / Universidade Técnica de Lisboa)

The joint dynamics of the relative prices between non-tradable and tradable goods and endogenous growth for a small open economy is studied. The dynamics depends crucially on the factor intensities. In the normal factor intensity case the dynamics is driven by the relative prices and in the factor reversals case by quantity effects. Productivity and demand shocks will not change the long run rate of growth, but may change the long run levels of output and of the relative prices of non-tradable goods. The correlation between the detrended real output and the real exchange rate along the transition towards the BGP may be of any kind, depending on the nature of the shock and on the structure of the economy.

Growth 2

A Model of Quality Ladders with Horizontal Entry

Pedro Gil (Universidade do Porto)

Paulo Brito (ISEG / Universidade Técnica de Lisboa)

Óscar Afonso (Universidade do Porto)

In this paper, we develop a multi-sector model of R&D-driven endogenous growth, which, following Howitt (1999), Aghion and Howitt (1998, ch. 12), Dinopoulos and Thompson (1998) and Young (1998), merges the expanding variety with the quality-ladders mechanism. The aim is to explore the view that, from the perspective of the households, wealth can be accumulated either by setting up new firms or by accumulating capital, in line with Brito and Dixon (2007). In the context of our model, the mechanism of expanding variety provides the flow of new firms (new product lines), whilst the mechanism of quality ladders provides the accumulation of technological knowledge (i.e., nonphysical capital) in each industry. Following Dinopoulos and Thompson (1998), we view the creation of new product lines as a product development activity without any sort of spillovers. Differently from the usual view in the literature of expanding variety, we allow for entry as well as exit of product lines from the market, that is, we do not assume irreversibility of investment in product development, and postulate a horizontal entry mechanism

that takes explicitly into account dynamic second-order effects. Within our framework, the assessment of the effects of R&D on economic growth and on firm dynamics comprises two analytical stages: balanced growth path and transitional dynamics. We perform a detailed comparative steady-state analysis and characterize qualitatively the local dynamics properties in a neighbourhood of the interior balanced growth equilibrium, by studying the solution of the linearized system of detrended variables.

Public Investment, Distributive Politics and Economic Growth

Francisca Oliveira (Universidade Católica Portuguesa / centro Regional do Porto)

This paper develops on a Solow type of model where the government is introduced as a decision maker. Additionally, this paper introduces consumer decisions and assumes that individuals can be differentiated by their relative factor endowment (labor and private capital). The results indicate that the economy's growth rates has an inverted U-shape relationship with the tax rate on private capital π . They also indicate that the tax rate has a positive relation with the amount of money government spend on consumption, Θ , (rather than on investment in public capital). The paper also concludes that the choice of the tax rate will be above the optimal level and hence the potential growth rate will not be achieved. Taking the analysis further, it can be assumed that voters will try to correct lower tax rates of public investment by choosing an higher tax rate. This tax rate will be higher if society is more disparate in terms of income distribution. However, by reducing Θ , π automatically decreases thus bringing us closer to the optimum.

Finally, the conclusion from a public policy perspective is that there is a negative relationship between the chosen tax rate and public investment and that this relationship is highly sensitive to the model parameters.

Towards an inclusive model of sustainable growth

Catarina Roseta Palma (Universidade de Aveiro)

Alexandra Lopes (ISCTE)

Tiago Sequeira (Universidade da Beira Interior and INOVA)

Rui Castro (Universidade Técnica de Lisboa)

Models of economic growth are typically based on the use of one or more stocks of productive assets to create goods for utility-generating consumption. The roles played by man-made capital, natural capital and human capital have been explored, often separately, in the literature, and more recently the notion of social capital has been brought to the fore. This paper provides an attempt to construct an inclusive model of growth that considers the different available assets, analysing sustainable consumption possibilities.

Innovation and Efficiency

Accelerating Innovation: National R&D Subsidies versus Foreign R&D Tax Credits

Sofia Sousa Vale (ISCTE)

Felipa de Mello-Sampayo (ISCTE)

Francisco Camões (ISCTE)

This paper examines and compares the impact on growth of government's funding national R&D or providing a tax rate reduction for foreign investment in R&D. In an innovation based model we show the relation between the costs of these two policies. One meaningful policy implication of our results is that, to accelerate innovation, governments should adopt a tax rate deduction for foreign R&D, rather than subsidizing national R&D because the former is more economical and effective than the latter.

Characterization and technical efficiency of Portuguese wine farms

Pedro Damião Henriques (Universidade de Évora)

Maria Leonor Carvalho (Universidade de Évora)

This study aims to characterize and to analyse the evolution of wine production, to measure the levels of technical efficiency, and to relate these with farmers and farms attributes. The attributes considered were the physical and economic size, the producer age, the farmer legal status, type of land ownership, land irrigation, type of commercialization and productive specialization. The sample used is composed of a panel of wine farms, producers of grapes for wine, for the period 2000-2005, enrolled in the European Farm Accounting System, belonging to the Alentejo region of Portugal.

The characterization and the evolution analysis of the wine farms were done based on a set of technical and economic indicators. In order to measure the efficiency, the methodology utilized was the parametric one, making use of a stochastic production frontier. The characteristics of the utilized distribution to compute the efficiency were tested, as well as the efficiency variability with time. The relationship between the efficiency and the farms and farmers attributes was tested making use of analyses of variance and Kruskal-Wallis tests. The results showed that there are room to improve the levels of technical efficiency in input use and that efficiency is variant with time. The increase on technical efficiency with economic size and with farm net income was observed, as well as with farm entrepreneurship.

Growth, Innovation and Environmental Policy: Clean vs Dirty Technical Change

Ana Reis (Universidade Nova de Lisboa)

Maria Cunha-e-Sá (Universidade Nova de Lisboa)

Alexandra Leitão (Universidade Católica Portuguesa / Centro Regional do Porto)

This paper focuses on a two sector endogenous growth model with environmental quality, with two goods and factors, one clean and one dirty. Endogenous technological change creates either clean or dirty innovations, depending on relative profitability. The reduction of emissions intensity of aggregate output is achieved by changing the dirty-bias of technology in the economy. The decentralized equilibrium growth rate can be either below or above the optimal one. Distortions caused by the monopoly power and the R&D activity tend to decrease the decentralized equilibrium growth rate relative to the optimal one, while the environmental externality works in the opposite direction. We study both first and second-best policies.

Labour 1

Does size matter? A propensity score approach to the effect of BMI on labour market outcomes

Sílvia Sousa (Universidade do Minho)

It is unquestionable the public health dimension the phenomenon of obesity has taken both in the United States and more recently in Europe. Health economists have dealt with overweight and obesity prevalence estimating their direct and indirect costs. In this paper, the effect of overweight and obesity is analyzed in terms of labour market outcomes. Using the ECHP, this paper provides a new approach both in terms of scope of analysis, since it focus on European countries, and in terms of methodology, since it proposes an alternative technique so far not applied to this particular problem. Recognizing the endogeneity associated in the relation between body mass measures and labour market outcomes, this paper uses a matching approach, overcoming the difficulty in finding suitable instruments associated with an instrumental variable approach. Average treatment effects on the treated are estimated. Parametric results point to the importance of overweight and obesity on labour market outcomes. Results obtained from matching corroborate parametric results concerning the effect of BMI on labour force participation. Female labour force participation, as well as employment, is negatively affected by a BMI indicating overweight while male labour force participation and employment react positively to a BMI indicating overweight; and this gender pattern can be observed for Northern and Southern European countries.

How Working Time Reduction Affects Employment and Wages

Pedro Raposo (Tilburg University)

Jan Ours (Tilburg University and University of Melbourne)

December 1, 1996 the standard workweek in Portugal was reduced from 44 hours to 40 hours. We study how this mandatory reduction affected employment and wages. We find that the working hours' reduction increased hourly wage of workers involved, keeping monthly earnings approximately constant. The working hours reduction did not lead to job loss of workers directly affected but may have caused negative employment effects for workers working less than 40 hours per week.

Regional Wage Differentials: Static and Dynamic Approaches

João Pereira (Universidade de Évora)

Aurora Galego (Universidade de Évora)

This work aims at studying regional wage differentials both in a static and in a dynamic perspective. Previous studies have typically studied this issue using the Blinder and Oaxaca static decomposition. This approach does not provide clear information about the sources explaining the change in regional wage differentials along the years. To overcome this problem this study also uses Junh, Murphy and Pierce (1991, 1993) decomposition. We analyse the case of Portugal for 1995 and 2002. Our results show that, although there are small changes in the interregional wage inequality, particularly between the region of Lisboa and the other regions, there are important and counteracting factors shaping this outcome. In fact, Lisboa has reinforced its position as the region with more qualified workers, but the gap in unobserved characteristics has decreased.

The impact on reemployment wages of UI non-distortionary income effect: A regression discontinuity approach

Mário Centeno (Banco de Portugal and Universidade Técnica de Lisboa)

Álvaro Novo (Banco de Portugal and Universidade Nova de Lisboa)

This paper assesses the impact of unemployment insurance (UI) on labor market outcomes by measuring how longer spells of subsidized unemployment translate into reemployment wages. It takes advantage of

the design of the Portuguese UI system, in which the entitlement period is completely determined by the worker's age. This generates a sharp discontinuity at different ages that we explore within the regression discontinuity frame work. We identify a big impact on subsidized unemployment duration and a small impact on reemployment wages. However, both impacts are quite heterogeneous across the preunemployment income distribution, which we relate with the income effect of UI. This effect predicts a stronger impact of UI generosity for low income individuals; the more liquidity constrained should gain the most from UI generosity. Indeed, we find that the wage gains are concentrated on individuals at the bottom of the wage distribution. This evidence reinforces the interpretation of the UI income effect as a non distortionary impact on the search behavior of the unemployed.

Labour 2

Agent-based model: an application to the labor market

Luís Faria (ISEG / Universidade Técnica de Lisboa)

This paper presents an agent-based model where is shown in which circumstances cooperation appears from a heuristic process and how equilibrium endogenously emerges from the decentralized interactions of adaptive and autonomous agents. This modeling strategy is presented as a promising way to avoid the burdens of traditional rational agent conceptualization, for instance, the link between micro and macro level, a fragility overtaken by the idea of 'aggregation' and the ubiquitous concept of "representative agent". A human subject experiment inspired this agent-based computational model in labor market. The model defines two sorts of agents 'firms and workers' with different payoff functions and learning abilities which allow them to develop a repertoire of behavior rules selectively activated. In a frame of incomplete contracts each wage offered by the firm will be associated to an effort level chosen by the employee. According to the obtained payoffs, rules are redefined and new payoffs arise in the next iteration. This process is repeated a large number of iterations. Then, slight changes are introduced to the model (e.g., reciprocity, competition and unemployment) aiming to compare outcomes. How do different features create an efficient coordination among divergent micromotives? Computational economics is descriptive and doesn't have any normative demandings. As prospective theory, it describes preferences as they are 'rational' or not. Agent-based computational simulations can help explaining the complex relations between micro and emergent macro realities and, consequently, to give another perspective on interaction structures, their heterogeneity and agents evolutionary and adaptive processes. This work broad aim is to show that bridging the analysis of individual agents and systemic behavior is where the promises of gains are.

Temporary Agency Work in Portugal, 1995–2000

René Boheim (Johannes Kepler University Linz)

Ana Rute Cardoso (Institute for the Study of Labor – IZA)

There is widespread belief that workers in temporary agency work (TAW) are subject to poorer working conditions, in particular pay, than comparable workers in the rest of the economy. The first aim of this analysis is to quantify the wage penalty, if any, for workers in TAW. Secondly, we analyze the wage profile of workers before and after spells of TAW. Linked employer-employee data for Portugal enable us to account for observable as well as unobservable worker quality. Our results show that workers in TAW earn lower wages than their peers and that this difference is mostly due to the workers' characteristics. We estimate that workers in TAW earn on average 9% less than comparable workers in the rest of the economy if we control for the workers' observable attributes only; this difference is reduced to 1% when we control for unobservable characteristics as well. However, interesting differences emerge across groups. Younger workers, both men and women, earn higher wages in TAW than their peers in other firms, as opposed to

prime-age and older workers. Moreover, for young workers TAW is not associated with a stigma effect that slows wage progression after working for TAW, contrary to prime-age and older workers, in particular males. The wage trends are also different before entering TAW. Prime-age and older workers see their wages deteriorate relative to their peers before entering TAW, suggesting that adverse labor market conditions may motivate them to search for a TAW job. We do not detect any pre-TAW wage trend for young workers.

Wages and the Risk of Displacement

Anabela Carneiro (Universidade do Porto)

Pedro Portugal (Banco de Portugal and Universidade Nova de Lisboa)

In this paper a simultaneous-equations model of firm closing and wage determination is specified in order to analyse how wages adjust to unfavorable product demand shocks that raise the risk of displacement through firm closing, and to what extent an exogenous wage change affects the exit likelihood. Using a longitudinal matched worker-firm data set from Portugal, the estimation results suggest that, under the existence of noncompetitive rents, the fear of job loss leads workers to accept wage concessions, even though a compensating differential for the ex ante risk of displacement might exist. A novel result that emerges from this study is that firms with a higher incidence of minimum wage earners are more vulnerable to adverse shocks due to their inability to adjust wages downward. Indeed, minimum wage restrictions were seen to increase the failure rates.

Macro 1

Corporate Tax Competition and the Decline of Public Investment

Pedro Gomes (London School of Economics)

François Pouget (University of Paris Dauphine)

This paper argues that the governmental decisions on corporate tax and public capital stock are not independent. In order to explain this relationship, we have built a general equilibrium model of corporate tax competition where governments supply public capital and compete for corporate profits. When international tax competition drives the statutory tax rate down from 50% to 30%, public capital stock goes down by 10% of GDP. To confirm this relation, we estimate two policy functions for 18 OECD countries. We find that corporate tax rate and public investment are endogenous and that a decline of 20% in the corporate tax rate, driven by competition, reduces public investment by 0.5% to 0.9% of GDP. We also find evidence that there is international competition in both policy tools and that tax competition increases with the degree of openness of the economy.

On the role of progressive taxation in a Ramsey model with heterogeneous households

Stefano Bosi (Université de Lille and Université d'Evry)

Thomas Seegmuller (Université Paris)

The aim of this paper is to study the role of progressive tax rules on the steady state allocation and the dynamic stability in a Ramsey economy with heterogeneous households and borrowing constraints. Since labor supply is elastic, it is relevant to consider that capital and labor incomes are affected by different tax rates. The analysis of steady states allows us to show that there exist many types of stationary equilibria.

Indeed, depending on the degree of marginal progressivity on capital taxation, impatient agents do or do not supply capital, while we are able to exhibit stationary equilibria where all consumers do not supply labor. Analyzing comparative statics and local dynamics, we focus on the steady state where the population split in two classes: most patient households hold all the capital stock and only impatient ones supply labor. We prove the existence of persistent cycles and expectation-driven fluctuations according to the degree of capital-labor substitution and the degree of marginal progressivity of taxation on capital and labor incomes. In contrast to many contributions, progressive tax rules can promote indeterminacy and endogenous cycles. Therefore, this paper argues that progressivity can be inopportune to stabilize the macroeconomic volatility.

Optimal Taxation with Financial Instruments in a Small Open Economy

José Miguel Cardoso Costa (Universidade Nova de Lisboa)

This paper discusses optimal fiscal policy in a small open economy, when agents have access to a limited set of assets. Instead of the usual incomplete markets setting, where there is only a risk-free asset available (a case that I label fully-incomplete), we allow the government to trade other financial instruments that pay a stochastic return. If the return of these assets is correlated with other sources of uncertainty in the economy, the government may use these instruments to hedge against shocks in the fiscal deficit. The proposed setting can then be seen as an intermediate case between complete and fully-incomplete markets. Our numerical exercises show that the use of this set of financial instruments can close a significant portion of the welfare loss between the complete and fully-incomplete markets cases. This crucially depends on the public debt structure chosen by the social planner. This discussion is relevant for public debt management in practice, as it allows us to explicitly address issues like the choice between nominal and price-indexed debt, or between domestic and foreign-denominated debt.

Macro 2

Barriers to Technological Adoption in Spain and Portugal

Steven Cassou (Kansas State University)

Emanuel Castro de Oliveira (Kansas State University)

Since 1945, both Spain and Portugal have experienced significant market transformations. These countries were both led by dictators for many years until the mid 1970s when each moved toward more democratic governments and more open markets. As a result, each experienced significant changes in output with Spain's becoming a model for proper market based transformations. Although Portugal's transformation has been less impressive it experienced improvements too. This paper uses a Parente and Prescott (1994, 2002) type model to investigate the recent transformations in each of these countries and quantify the extent to which barriers to technological adoption may have played for these two development experiences. Our results indicate that from 1945 to 2003 these barriers have fallen considerably but remain high, and are somewhat higher in Portugal than in Spain.

Social Security in Portugal: An Overlapping Generations Approach

Sameer Rege (Universidade dos Açores)

António Menezes (Universidade dos Açores)

We build a 60 period Overlapping Generations model for the Portuguese Economy to analyse the impacts of tax cuts and social security. The model is calibrated to the Portuguese economy of 2005. We find that cutting pensions without change in taxes increases utility and is sensitive to the elasticity of substitution in the production function. Cutting pensions with an increase in retirement age has a marginal impact on utility as individuals smoothen consumption over their lifetimes. Cutting pensions and changing (lowering/raising) different taxes like VAT has larger welfare impacts (gain/loss) as opposed to taxes on capital.

The core periphery model with asymmetric inter-regional and intra-regional transportation costs

Vasco Leite (Universidade do Porto)

Sofia Castro (Universidade do Porto)

João Correia da Silva (Universidade do Porto)

We generalize the model of Krugman (1991) to allow for asymmetric transportation costs between regions and for asymmetric transportation costs that are internal to the regions. We find that industrial activity, in a region, is enhanced by higher costs of importing and lower costs of exporting (more precisely, by a higher ratio between the two trade costs). This suggests that countries may impose tariffs on imported goods and seek to remove the import tariffs in other countries (unilateral protectionism). Industrial activity is also promoted by lower domestic internal transportation costs and higher foreign internal transportation costs (more precisely, by a lower ratio between the two trade costs).

Macro 3

Market Imperfections and Endogenous Fluctuations: a general approach

Teresa Lloyd-Braga (Universidade Católica Portuguesa)

Leonor Modesto (Universidade Católica Portuguesa and IZA)

Thomas Seegmuller (Paris School of Economics)

We provide a methodology to study the role of distortions and market failures on endogenous fluctuations. We extend the well-known Woodford (1986) model to account for market distortions, introducing general specifications for three crucial functions: real rental cost of capital, real wage and workers offer curve. The elasticities of these three functions have a key role on local dynamics and, using them, we are able to identify the several parameters' configurations under which local indeterminacy and bifurcations occur. Most of the specific market imperfections considered in the related literature become particular cases of our general framework, and by comparing them we show that several types of market distortions are equivalent in terms of the local dynamics, sharing therefore the same indeterminacy mechanisms. We further provide examples of distortions leading to new configurations. We also found that indeterminacy is possible with arbitrarily small levels of distortions in real wage and/or in workers offer curve, but it requires extremely high values for the elasticity of substitution between inputs and for the elasticity of the labor supply curve.

Optimal immigration policy when the public good is rival

Stefano Bosi (Université de Lille)

Eleni Iliopoulos (University of Evry)

Hubert Jayet (University of Lille)

In this dynamic model we characterize optimal immigration and fiscal policies in presence of a rival public good. Surprisingly, without costs of cultural heterogeneity, it is optimal for a government who is benevolent towards natives only, to keep frontiers open; indeed the positive effect of production-factors complementarity dominates natives' disutility deriving from the congestion of the public good. To the contrary, taking into account for costs of cultural heterogeneity, we find that it is optimal to regulate immigration inflows. Finally, we analyze the sensitivity of the policy mix with respect to changes in structural parameters.

Two Saddles and a Source: On endogenous mark-up, multiple equilibria, and threshold effects

Paulo Brito (ISEG / Universidade Técnica de Lisboa))

Luís Costa (Universidade Técnica de Lisboa)

How Dixon (Cardiff University)

We develop a simple Ramsey model with numerous Cournotian industries where entry generates an endogenous mark-up. We demonstrate that up to three equilibria exist and that they may be connected through a heteroclinic orbit. This can be viewed as a model of a threshold effect, in that there is a stable equilibrium with a monopoly markup, and a low markup oligopoly equilibrium can only be achieved when there is above a critical level of capital. The markups will be anti-cyclic in the low-markup oligopoly, but acyclic in the monopoly equilibrium.

Macro 4

Endogenous spillovers in the trade-off between centralization and decentralization

Paulo Júlio (London School of Economics and Universidade Nova de Lisboa)

In this paper, we revisit the classical trade-off between centralized and decentralized provision of local public goods, in a setting where interregional spillovers depend on the level of a national public good. We compare the standard benevolent planner approach with a political economy in which decisions are undertaken by a non-cooperative legislature. We observe that the policy-maker in a centralized system is able to play both with local public goods and spillovers, a mechanism that is not available under a decentralized system. When compared to the traditional exogenous spillovers assumption, this improves the case for centralization under the standard benevolent planner approach. However, the same is not necessarily true in a non-cooperative legislature, as in this case the interests of the legislator in a centralized system do not need to be aligned with those of the society.

Household Welfare, Precautionary Saving, and Social Insurance under Multiple Sources of Risk

Ivan Vidangos (Yale University)

This paper assesses the quantitative importance of a number of sources of income risk for household welfare and precautionary saving. To that end I construct a lifecycle consumption model in which household income is subject to shocks associated with disability, health, un-employment, job changes, wages, work hours, and a residual component of household income. I use PSID data to estimate the key

processes that drive and affect household income, and then use the consumption model to: (i) quantify the welfare value to consumers of providing full, actuarially fair insurance against each source of risk and (ii) measure the contribution of each type of shock to the accumulation of precautionary savings. I find that the value of fully insuring disability, health, and unemployment shocks is extremely small (well below 1/10 of 1% of lifetime consumption in the baseline model). The gains from insuring shocks to the wage and to the residual component of household income are significantly larger (above 1% and 2% of life-time consumption, respectively). These two shocks account for more than 60% of precautionary wealth.

Individual and Aggregate Money Demands: Theory and an Application to the Welfare Cost of Inflation

André Silva (Universidade Nova de Lisboa)

This paper introduces a model in which the distribution of money holdings is non-degenerate in equilibrium. I use the model to evaluate the effects of endogenous market segmentation and to measure the cost of inflation. Endogenous segmentation is important to fit the data on real balances and interest rates. I write analytical expressions for individual and aggregate money demands and for the welfare cost of inflation. As inflation increases, agents use more resources for financial transfers and consumption varies more. The effect on financial transfers is stronger: the welfare cost is similar for various degrees of intertemporal substitution.

Micro 1

A test of collusive behavior based on incentives

Ricardo Cabral (Universidade da Madeira)

This paper proposes a collusion test based on the analysis of incentives faced by each firm in a colluding coalition, which, while intuitive, is novel, to the best of my knowledge. It is well known that each colluding firm faces the incentive to secretly deviate from the collusive agreement, since it thereby increases its profits, although the colluding firms' joint profit decreases. Based on this fact, this paper shows that collusion occurs if and only if firm marginal revenues, calculated with Nash conjectures, are larger than firm marginal costs, for a sufficiently large subset of the firms in the industry.

Help and Factionalism in Politics and Organizations

William Chan (University of Hong Kong)

Priscilla Man (University of Chicago)

Whether in electoral politics or promotions within organizations, players often face the dilemma of whether to enter the contest or to assist other candidates. This paper analyzes incentives in a rank-order tournament when the winner, apart from earning the 'first prize', also has control over a 'second prize' that he can distribute to his supporters. Some players may then be encouraged to help others in exchange for paybacks, resulting in factionalism, with leaders, solo contestants and supporters of other candidates sorted by ability. The number and the size of factions depend on the structure of the contest, which can be manipulated to provide optimal incentives for effort coordination as required by political objectives or production technology.

Using Cost Observation to Regulate Bureaucratic Firms

Ana Borges (Universidade do Porto)

João Correia da Silva (Universidade do Porto)

We study regulation of a bureaucratic provider of a public good in the presence of moral hazard and adverse selection. By bureaucratic we mean that it values firm size in itself, and not only the monetary compensation. Three different financing systems are studied: cost reimbursement, prospective payment, and the optimal incentive scheme.

Micro 2

A Model of Mobile Telephony with Policy Applications

Pedro Pereira (Autoridade da Concorrência)

Tiago Ribeiro (INDERA)

In this article, we develop a model of the mobile telephony industry that includes both a demand and a supply side. The model is estimated for a rich panel of firm level Portuguese data, and used to perform several policy exercises. We simulate the effect of the merger that would reduce the number of firms from three to two on prices and social welfare. Our results indicate that the merger would lead to substantial price increases. On average, each household would spend an additional 6.3% of the current expenditure levels. The comparison of observed and estimated margins suggests that the Nash assumption is plausible. The merger seems to generate small efficiency gains. Marginal cost reductions of 10% would generate small price reductions. The entry of a firm after the merger would lead to a less competitive equilibrium, than before the merger.

Product and Destination Mix in Export Markets

João Amador (Banco de Portugal and Universidade Nova de Lisboa)

Luca David Opromolla (Banco de Portugal)

Firms' product and destination mix is the result of a complex combination of factors. The decision of which products to offer in each market depends on the set of parameters that determine production costs, market structure and the nature of consumer preferences. Product switching allows firm to survive to changes in the underlying conditions and, at the macro level, it contributes to reallocate economic activity towards more efficient uses. This paper examines the product and destination mix of firms operating in export markets, making use of trade transactions-level data for Portuguese exporters and of matched employer-employee data for the same firms over the period 1995-2005. The paper follows a strand of research based on the analysis of international trade micro data and offers insights on the joint product mix - destination market decisions of exporters. This differs from the paper by Bernard et al. (2006) in the sense that we focus on exporting firms and explore the destination market dimension. In addition, we investigate the link between export strategies and the characteristics of firm's labor force.

Tariff-Mediated Network Externalities: Is Regulatory Intervention Any Good?

Steffen Hoernig (Universidade Nova de Lisboa)

Mobile phone networks' practice of charging higher prices for off-net than for on-net calls has been pinpointed as the source of various competition problems: under provision of calls and permanent disadvantages for small networks and entrants. We consider these allegations and four different remedies. Lower termination charges, asymmetric termination charges, limits on the on/off-net differential and limits on off-net margins. In all cases a trade-off has to be made between efficiency and networks' profits on the one hand, and consumer surplus on the other. Furthermore, generically price discrimination or uniform pricing (or anything in between) can maximize welfare.

Micro 3

Revenues in a Discrete Multi-Unit, Common Value Auctions: A Study of three Sealed-Bid Mechanisms

Joakim Ahlberg (VTI)

We propose in this paper a discrete bidding model, both on quantities and in pricing. It has a two-unit demand environment where subjects bid for contracts with an unknown redemption value, common to all bidders. Prior to bidding, the bidders receive private signals of information on the (common) value. Both the value and the signals are drawn from a known discrete affiliated joint distribution. The relevant task for the paper is to compare equilibrium strategies and the seller's revenue between three auction formats. We find that, among the three auction formats below with two players, the Vickrey auction always gives the most revenue to the seller, where the discriminatory auction becomes second and the uniform auction last, partly due to demand reduction. We also find that, in equilibrium, bidders bid the same amount on both items in the discriminatory auction; a phenomenon we do not notice in either of the other two auction formats.

The simple economics of risk-sharing agreements between the NHS and the pharmaceutical industry

Pedro Pita Barros (Universidade Nova de Lisboa)

The Janssen-Cilag proposal for a risk-sharing agreement regarding bortezomib received a welcome signal from NICE. The Office of Fair Trading report included risk-sharing agreements as an available tool for the National Health Service. Nonetheless, recent discussions have somewhat neglected the economic fundamentals underlying risk-sharing agreements. We argue here that risk-sharing agreements, although attractive due to the principle of paying by results, also entail risks. Too many patients may be put under treatment even with a low success probability. Prices are likely to be adjusted upward, in anticipation of future risk-sharing agreements between the pharmaceutical company and the third-party payer. An available instrument is a verification cost per patient treated, which allows obtaining the first-best allocation of patients to the new treatment, under the risk sharing agreement. Overall, the welfare effects of risk-sharing agreements are ambiguous, and care must be taken with their use.

Third-degree Price Discrimination, Entry and Welfare

Silvia Jorge (Universidade de Aveiro)

Cesaltina Pacheco Pires (Universidade de Évora)

This paper investigates the impact of firms' pricing policies upon entry and welfare under price competition and product differentiation. We consider a model where an incumbent serves two distinct and independent geographical markets and an entrant may enter in one of the markets. Our results show that discriminatory pricing may either be more, less or equally favorable to entry than uniform pricing. The

welfare effect of banning price discrimination is also ambiguous. However, the case for banning price discrimination is much weaker than under monopoly. Interestingly, discriminatory pricing may yield higher welfare even when entry occurs only under uniform pricing.

Monetary Policy 1

Measuring Monetary Transmission Effectiveness: The Tunisian Experience

Samuel Bates (University Paris-Dauphine)

Ahmed Hachicha (Tunisian University of Management and Economics Sciences)

Although the theoretical channels of monetary policy transmission are well defined, empirical results cast some doubts on their relative intensity remains, particularly for developing countries. The aim of the paper is to study the Tunisian case from an original method. On the one hand, unobserved component models are used to show separately the short and long term dynamics of variables that participate in macroeconomic monetary transmission channels. On the other hand, a causal strength of each effective transmission mechanism is measured. The analysis includes the complementary dimension among transmission mechanisms. It offers the ability to classify the effectiveness of transmission mechanisms in short and long term. The identification of the intermediary variables of the Tunisian monetary policy is ensured.

The Phillips Curve in Portugal

Agostinho Rosa (Universidade de Évora)

The estimation of the Phillips curve in Portugal, using the wage inflation rate as a dependent variable, based on annual data from the period 1954-1995, using the Johansen Method, allows us to conclude two things. Firstly, in the long term, the wage inflation rate relates positively to the inflation rate and negatively to the unemployment rate, as was expected. There is also a positive relationship between the wage inflation rate and the average labour productivity growth index. Secondly, in the short term, the variation of the wage inflation rate relates negatively and significantly to the error correction mechanism with a negative unitary coefficient; therefore, there is a quick and significant response to the equilibrium error between the wage inflation rate and its determinants (inflation rate, unemployment rate and average labour productivity growth index). Besides this adjustment, the wage inflation rate responds positively to a lagged wage inflation rate. The variation in the unemployment rate and the average labour productivity growth present the expected signal, negative and positive respectively, but without significance in the short term. The dummy that refers to the April 1974 revolution is significant.

Threshold Effects in Monetary Policy: Evidence for the EMU

Jorge Andraz (Universidade do Algarve)

Pedro Gouveia (Universidade do Algarve)

Adriano Pimpão (Universidade do Algarve)

Paulo Rodrigues (Universidade do Algarve)

This paper uses threshold models for purposes of analysing the interest rate behaviour defined by the European Central Bank, as prescribed by the Taylor rule, for the EMU member states from January 1999

and July 2007. The estimation of a threshold Taylor rule provides evidence of the existence of nonlinearities reflected in the differences between the weights of the considered variables over recession and expansion periods. In particular, monetary policy is differently affected by the growth rate of IPI of the largest economies over expansion and recession periods and by the inflation rates of the economies with higher rates.

Monetary Policy 2

European Integration and the Credit Channel Transmission of Monetary Policy

Cândida Ferreira (ISEG / Universidade Técnica de Lisboa)

Using pooled panel OLS estimations and dynamic Arellano-Bond GMM estimations with quarterly data for 26 EU countries for the period from Q1 1999 to Q3 2006 this paper confirms the high degree of integration between the EU financial systems, as well as the importance of bank performance conditions to the credit-lending channel of monetary policy in the EU. Furthermore, it demonstrates not only the quite high degree of openness of the financial markets but also their indebtedness and the dependence of the EU banking institutions on the financial resources of other countries.

Monetary and Fiscal Policies Interactions in a Monetary Union With Country-size Asymmetry

Celsa Machado (ISCAP - Instituto Superior de Contabilidade e Administração do Porto)

Ana Paula Ribeiro (Universidade do Porto)

Within a country-size asymmetric monetary union, idiosyncratic shocks and national fiscal stabilization policies cause asymmetric cross-border effects. These effects are a source of strategic interactions between noncoordinated fiscal and monetary policies: on the one hand, due to larger externalities imposed on the union, large countries face less incentives to develop free-riding fiscal policies; on the other hand, a larger strategic position vis-à-vis the central bank incentives the use of fiscal policy to, deliberately, influence monetary policy. Additionally, the existence of non-distortionary government financing may also shape policy interactions. As a result, optimal policy regimes may diverge not only across the union members, but also between the latter and the monetary union.

In a two-country micro-founded New-Keynesian model for a monetary union, we consider two fiscal policy scenarios: (i) lump-sum taxes are raised to fully finance the government budget and (ii) lump-sum taxes do not ensure balanced budgets in each period; therefore, fiscal and monetary policies are expected to impinge on debt sustainability. For several degrees of country-size asymmetry, we compute optimal discretionary and dynamic non-cooperative policy games and compare their stabilization performance using a union-wide welfare measure. We also assess whether these outcomes could be improved, for the monetary union, through institutional policy arrangements.

We find that, in the presence of government indebtedness, monetary policy optimally deviates from macroeconomic to debt stabilization. We also find that policy cooperation is always welfare increasing for the monetary union as a whole; however, indebted large countries may strongly oppose to this arrangement in favour of fiscal leadership. In this case, delegation of monetary policy to a conservative central bank proves to be fruitful to improve the union's welfare.

The Dynamics of Learning in Optimal Monetary Policy

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This paper analyzes the dynamic properties of a standard New Keynesian monetary policy model when private agents expectations are assumed to be formed under a learning mechanism. As pointed out in the literature, learning with decreasing gain estimators tends to lead to convergence to the rational expectations equilibrium; however, under constant gain, persistent learning dynamics prevail and nonlinear trajectories of the state variables may prevail over the long term. By assuming a gain sequence that is asymptotically constant, explicit local and global stability results are presented for two specifications of an optimal monetary policy model. In the first setting, the central bank believes that private agents possess rational expectations; while in the second, the bank incorporates the learning rule in its optimal decisions. In such a framework we find out interesting long term results, in particular, the presence of endogenous business cycles should be stressed as an expected outcome.

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