

Centre for Economic Policy Research: Work Programme 2002-3

1. FINANCIAL ECONOMICS

Programme Directors: **Marco Pagano** (Università di Salerno)
Raman Uppal (London Business School)

Research Themes:

Pensions: If long-established demographic and labour market trends continue, major changes to the existing national systems of retirement are inevitable. Work will be highly original in combining the latest techniques of financial economics and public economics to address these issues of institutional design. This allows a better definition of the competencies of markets, representatives of specific group interests such as occupational pension funds, and the representatives of the population as a whole. The research plan can be organized under the following headings: capital formation and economic growth, distributive incidence of pension reform, pension reform and age of retirement, economic integration, management and regulation of risks of pension finance, governance of the institutions of the second pillar, pension fund development and investor activism, impact on capital market development in Europe, asset and liability allocation criteria for funded pensions and fund performance and efficiency.

The impact of EMU on European financial markets: the direct effects of EMU (shrinking of currency markets and the emergence of an Europe-wide interbank loan and corporate bond market; EMU's indirect effects (cross-border trading and diversification cross-border mergers and acquisitions, increased liquidity and breadth of markets); impact on the cost of capital, the role of the Euro in international finance and investment

Banking and liquidity provision: the role of collateral in relationships between banks and their customers; the role of central banks in ensuring the stability of interbank markets; deposit insurance and excess risk taking by banks

Equity markets: the growth of European IPOs since 1997, the introduction of bookbuilding in Europe

Legal institutions and the performance of financial systems: why investor protection and legal enforcement are correlated with financial development and the growth and size of companies, the relationship between investor protection, the development of equity markets and the growth of R&D intensive industries; the interplay between the political coalitions, the legal system and finance

Geography and finance: the continuing role of geography and the importance of localized information in stock trading; the impact of information, transaction costs and market size on asset flows; European financial integration, competition among European stock exchanges through trading fees, listing fees, listing requirements, consolidation of stock exchanges and alliances between them; where do firms choose to list their shares? Which exchanges attract cross listings, and which companies choose to cross list?

Networks and Research Projects:

- The Industrial Organization of Banking and Financial Markets in Europe (network)
- Understanding Financial Architecture: Financial Structure and Bankruptcy (network)
- Financing Retirement in Europe: Public Sector Reform and Financial Market Development (network)
- Financial Market Integration, Corporate Financing and Economic Growth (project)

Publications:

'Financial Markets: Selected Readings' and **'Corporate Finance and Banking: Selected Readings'**, edited by Bruno Biais and Marco Pagano. These volumes bring together papers originally published in the CEPR Financial Economics Discussion Paper series.

2. INDUSTRIAL ORGANIZATION

Programme Directors: **Philippe Aghion** (University College London)
Lars-Hendrik Röller (Wissenschaftszentrum Berlin für Sozialforschung)

Research Themes:

Innovation: the interrelationship between innovation and the structure of product and financial markets in Europe

Competition policy: anti-trust policy at the national and the EU level; the design and operation of competition policy in Central and Eastern Europe

Liberalization and regulation in 'network' industries: the liberalization and integration of telecommunications, energy and other network industries in Europe

Market integration: The Impact of EMU and the Single Market on product market integration

Networks and Research Projects:

- The Evolution of Market Structure in Network Industries (*network*)
- Product Markets, Financial Markets and the Pace of Innovation in Europe (*network*)
- Merger Control in Europe: The First Ten Years (*project*)
- Competition Policy in International Markets (*network*)
- GM Foods: Facts, Mergers, Business Practices and Intellectual Property (*project*)

Publications:

Monitoring European Deregulation: Work is underway on the third report, on Banking Regulation, to be published early next year.

3. INTERNATIONAL MACROECONOMICS

Programme Directors: **Jordi Galí** (Universitat Pompeu Fabra),
Lucrezia Reichlin (ECARES, Université Libre de Bruxelles)
Charles Wyplosz (Graduate Institute of International Studies, Geneva)

Research Themes:

European Monetary Union: assessing the policy stance of the ECB; the transmission mechanism for monetary policy in the euro area; evaluation of alternative monetary policy rules and their implications for ECB policy

Macroeconomic policy design: modelling a large monetary union made up of several economies subject to idiosyncratic shocks and with independent fiscal policies; the need for coordination between monetary and fiscal authorities (and/or among the fiscal authorities themselves) within EMU

Economic fluctuations in Europe: understanding economic fluctuations in the euro area and their interaction with monetary and fiscal policies, as well as with business cycles abroad; the synchronization of business cycles across Europe

Exchange rate policies for the Euro zone: implications of alternative policy strategies regarding exchange rates between the euro, US dollar and the yen

The international financial system: the Mexican, Asian, and Russian crises, origins and responses; international capital flows; Europe's links to the global economy and its role in the management of the

Networks and Research Projects:

- New Approaches to the Study of Economic Fluctuations (*network*)
- The Analysis of International Capital Markets: Understanding Europe's Role in the Global Economy (*network*)
- Specialization Versus Diversification: The Microeconomics of Regional Development and The Spatial Propagation of Macroeconomic Shocks in Europe (*network*)
- Empirical Macro Models of the Euro Economy (*project*)
- Sustainable Regimes of Capital Movements in Accession Countries (*project*)
- Macroeconomic Policy Design for Monetary Unions (*network*)
- Inequality, Globalization, and Sustainable Development, study for the Group of Policy Advisors, European Commission
- Monitoring the Euro Area Business Cycle (*network*)

Publications:

'Monitoring the European Central Bank (MECB)' In 2001 the ECB faced a sharp deterioration in the economic outlook, both globally and in the euro area.

Transparency, Risk Management and International Financial Fragility ' the fourth report in the ICMB/CEPR series of Geneva Reports on the World Economy will be published at the end of 2002.

EuroCOIN™: A Real Time Cyclical Indicator for the Euro Area: EuroCOIN is a new coincident indicator of the euro area business cycle

Making Sense of Globalization: A Guide to the Economic Issues: CEPR Policy Paper 8, a study commissioned by the European Commission's Group of Policy Advisors.

The European Convention: Accountability, Effectiveness and Flexibility of Europe's Institutions - Monitoring European Integration – Report 12. Europe's fundamental problem is that the competition of the economic superstructure has preceded the construction of the political substructure.

4. INTERNATIONAL TRADE

Programme Directors: **Anthony Venables** (London School of Economics)
Thierry Verdier (DELTA, Paris)

Research Themes:

Economic geography: the location of economic activity; the impact of the Single Market and the single currency on location

Foreign direct investment and the behaviour of multinationals: modelling the decisions of multinational firms to invest, licence technology, export finished products etc; the impact of FDI on sending and receiving countries

Trade and development: the conditions under which countries succeed in participating effectively in the world economy, and are able to gain from attracting new economic activities; the effects of trade liberalization and the wider forces of globalization on the pattern of international trade flows, on foreign direct investment flows, and on the location of production; how disadvantaged are countries by geography – being landlocked or remote; the gainers and losers from reform, the impact on inequalities, and the adjustment costs involved

The world trading system: issues in the next WTO round; trade policy in the transition economies

Networks and Research Projects:

- Foreign Direct Investment and the Multinational Corporation: New Theories and Evidence (*network*)
- Labour Market Effects of European Foreign Investments (*network*)
- The Economic Geography of Europe: Measurement, Testing and Policy Simulations (*network*)
- Trade, Industrialisation and Development (*network*)
- Enhancing Economic Cooperation between the EU and the Americas: An Economic Assessment (project)

Publications:

Making Sense of Globalization: A Guide to the Economic Issues: CEPR Policy Paper 8, a study commissioned by the European Commission's Group of Policy Advisors.

5. LABOUR ECONOMICS

Programme Directors: **Juan J Dolado** (Universidad Carlos III, Madrid)
Gilles Saint Paul (Université des Sciences Sociales de Toulouse)

Research Themes:

Regulation and deregulation in European labour markets: the impact of labour market policies on productivity and growth

Evaluating the effectiveness of European labour market policies.

Education, training and labour market outcomes.

Migration and social exclusion in Europe: migration within the EU and from its periphery.

Networks and Research Projects:

- New Techniques for the Evaluation of European Labour Market Policies (*network*)
- Impact of EU Enlargement on Employment and Labour Markets in Europe (*project*)
- A Dynamic Approach to Europe's Unemployment Problem (*project*)

6. PUBLIC POLICY

Programme Directors: **Raquel Fernández** (London School of Economics)
Thomas Piketty (ENS-CEPREMAP)

Research Themes:

Political economy and the reform of European institutions: the relationship between the political system, coalition formation and the performance of institutions; the political economy of international financial institutions; the role of institutions in economic growth and development

Taxation: tax competition and tax harmonization in Europe

Welfare state: the role of the public and the private sector in the provision of welfare services; the financing of the welfare state and its impact on European financial markets

Behavioural Economics: Economics and Psychology

The Economics of Education

Networks and Research Projects:

- The Economic Analysis of Political Institutions: Coalition Building and Constitutional Design (*network*)

- Pension Provision, Risk and Capital Flows (*project*)

Publications:

'Economics and Psychology', edited by Juan Carrillo and Isabelle Brocas will be published in 2002 by OUP.

7. TRANSITION ECONOMICS

Programme Directors: **Erik Berglöv** (Stockholm Institute of Transition Economics (SITE))
 G rard Roland (University of California, Berkeley)

Research Themes:

The economic implications of eastern enlargement: the impact on intra-European trade and production patterns

Monetary and exchange rate policies in Central and Eastern Europe: the relationship between accession (and EMU membership) and monetary, fiscal and exchange-rate policies in the Associated Countries

Competition policy in Central and Eastern Europe: its role in the accession process and in economic transition more generally

Economic transition in Russia and the CIS: research and capacity building at the Centre for Economic and Financial Research (CEFIR) in Moscow.

Networks and Research Projects:

- Sustainable Regimes of Capital Movements in Accession Countries (*project*)
- Enterprise Reform and the Institutional Environment in the Transition Economies (*project*)

Publications:

'Who's Afraid of the Big Enlargement?' – CEPR Policy Paper 7 - The initial enthusiasm of many EU citizens at the 'return to Europe' of former members of the Soviet bloc has turned to anxiety at the realization of the possible adverse consequences of enlargement.

'Is there a New Russia?' Can Russia's burst of economic growth be sustained?

Lessons from the Russian Meltdown: The Economics of Soft Legal Constraints – CEPR Policy Paper 9 (forthcoming) - On 17 August 1998 Russia abandoned its exchange rate regime, defaulted on its domestic public debt and declared a moratorium on all private foreign liabilities, which was equivalent to an outright default.