Business & Economic Article Links (February 2014)

1.

Title: Two Decades of European Climate Policy: A Critical Appraisal
Authors: Böhringer, Christoph
Source: Review of Environmental Economics and Policy; 2014. Advance Access. First published online: January 13, 2014
Abstract: Climate change ranks high on the policy agenda of the European Union (EU), which considers itself a leading force in the battle against anthropogenic climate change. The EU is committed to the objective of limiting the rise in global average temperature to no more than 2°C above preindustrial levels to prevent dangerous anthropogenic interference with the climate system. This article provides a critical appraisal of two decades of EU climate policy. Based on the global nature of climate change, we present three criteria for sound unilateral action and evaluate current EU climate policy against these criteria. We find that the actual implementation of EU climate policies is likely to make emission abatement much more costly than necessary.
Note: doi: 10.1093/reep/ret018
Database: Oxford Journals Online

2.

Title: North-South Standards Harmonization and International Trade
Authors: Disdier, Anne-Célia, Fontagné, Lionel and Cadot, Olivier
Source: The World Bank Economic Review; 2014. Advance Access. First published online: January 20, 2014
Abstract: Recent years have seen a surge in economic integration agreements (EIAs) and the development of non-tariff measures (NTMs). As a consequence, a growing number of EIAs include provisions on NTMs. However, little attention has been given in the literature to the effects of NTM liberalization in the context of EIAs. In this paper, we focus on provisions for technical regulations and analyze whether the North-South harmonization of technical barriers affects international trade. Using a gravity equation, we test whether, as a result of the deep integration associated with standards provisions included in the EIA, the Southern partners' trade expands with the North, but at the expense of their trade with non-bloc Southern partners. Empirical results provide strong support for this conjecture. Moreover, harmonization on the basis of regional standards negatively impacts the exports of developing countries to the North.
Note: doi: 10.1093/wber/lht039
Database: Oxford Journals online

3.

Title: The political economics of austerity
Authors: Konzelmann, Suzanne J.
Source: Cambridge Journal of Economics; 2014. Advance Access. First published online: February 2, 2014

Abstract: The 2007/08 financial crisis has reignited the debate about economic austerity. With the aim of understanding why a government would pursue such a policy in the current context of persistent economic recession, this article traces the social, political and economic developments that have together shaped the evolution of ideas about austerity, from the earliest theorising by the classical political economists some 300 years ago. Throughout the historical narrative, important analytical themes revolve around the arguments used to justify austerity—notably appeals to ethics and morality (reinforced by misleading analogies drawn between government budgets and the accounts of firms and households). These include concerns about inflation and the observed relationship between inflation and unemployment; 'Ricardian equivalence' and 'non-Keynesian' effects of austerity; and the correlation between public debt levels and economic growth. The class analytics of austerity—who bears the burden of austerity and who benefits—and the process by which alternative ideas penetrate the mainstream and reconstitute the conventional wisdom are also important analytical themes.
Note: doi: 10.1093/cje/bet076
Database: Oxford Journals online

4.

Title: [International business cycle co-movement: the role of FDI]()
Authors: Jos Jansen, W. and Stokman, Ad C. J.
Source: Applied Economics; February 2014, Vol. 46 Issue 4, Pp.383-393
Abstract: This article investigates the relationship between FDI and business cycle synchronization in the period 1982 to 2011 for eight industrialized countries. We find that more synchronized business cycles are associated with stronger FDI relations in the period 1995 to 2011, but not before 1995. More intensive FDI links are also associated with a greater vulnerability to lagged output spillovers from abroad. Our findings suggest that FDI has become a separate channel through which economies may affect each other and that FDI stocks are now an essential aspect of economic interdependence.
Note: DOI: 10.1080/00036846.2013.844327
Database: Business Source complete

5.

Title: [Endogenous price flexibility and optimal monetary policy]()
Authors: Senay, Ozge and Sutherland, Alan
Source: Oxford Economic Papers; 2014. Advance Access. First published online: January 21, 2014
Abstract: Much of the literature on optimal monetary policy uses models in which the degree of nominal price flexibility is exogenous. There are, however, good reasons to suppose that the degree of price flexibility adjusts endogenously to changes in monetary conditions. This article extends the standard new Keynesian model to incorporate an endogenous degree of price flexibility. The model shows that endogenizing the degree of price flexibility tends to shift optimal monetary policy towards complete inflation stabilization, even when shocks take the form of cost-push disturbances. This contrasts with the standard result obtained in models with exogenous price flexibility, which show that

optimal monetary policy should allow some degree of inflation volatility to stabilize the welfare-relevant output gap.
Note: doi: 10.1093/oep/gpt040
Database: Oxford Journals online

6.

Title: [Fiscal Responses after Catastrophes and the Enabling Role of Financial Development]
Authors: Melecky, Martin and Raddatz, Claudio
Source: The World Bank Economic Review; 2014. Advance Access. First published online: January 20, 2014
Abstract: Natural disasters may constitute a major shock to public finances and debt sustainability because of their impact on output and the need for government response with reconstruction and relief expenses. The question arises of whether governments can use financial development policy as the means to mitigate or insure against this negative fiscal impact. This paper uses a panel vector autoregressive model, estimated on annual data for high- and middle-income countries over 1975–2008, to study the role of debt market development and insurance penetration in enabling fiscal response after catastrophes. The authors find that countries with higher debt market development suffer smaller real consequences from disasters but that their deficits expand further following the mitigating fiscal response. Disasters in countries with high insurance penetration also experience smaller real consequences of disasters but without the need for further deficit expansions. From an ex-post perspective, the availability of insurance could offer the best mitigation approach against the real and fiscal consequences of disasters.
Note: doi: 10.1093/wber/lht041
Database: Oxford Journals online

7.

Title: [What Are We Learning from Business Training and Entrepreneurship Evaluations around the Developing World?]
Authors: McKenzie David, and Woodruff, Christopher
Source: The World Bank Research Observer; Feb 2014, Vol. 29 Issue 1, Pp. 48-82.
Abstract: Business training programs are a popular policy option to improve the performance of enterprises around the world, and the number of rigorous impact evaluations of these programs is growing. A critical review reveals that many evaluations suffer from small sample sizes, measure impacts only within a year of training, and experience problems with survey attrition and measurement that limit the conclusions one can draw. Over these short time horizons, there are relatively modest effects of training on the survivorship of existing firms. However, there is stronger evidence that training programs help prospective owners launch new businesses more quickly. Most studies find that existing firm owners implement some of the practices taught in training, but the magnitudes of the improvement to practices is often modest. Few studies find significant impacts on profits or sales, although some studies with greater statistical power have done so. There is little evidence to guide policymakers regarding whether any identified effects are due to trained firms drawing sales from competing businesses rather than through productivity improvements or to guide the development of the provision of training at

market prices. We conclude by summarizing some directions and key questions for future studies.
Note: doi: 10.1093/wbro/lkt007
Database: Oxford Journals online

8.

Title: Is net stock issuance relevant to capital formation? Comparing heterodox models of firm-level capital expenditures across the advanced and largest developing economies
Authors: Hecht, Jason
Source: Cambridge Journal of Economics; 2014. Advance Access. First published online: January 7, 2014
Abstract: Smith, Ricardo, Marx and Keynes never claimed that stock markets were critical funding conduits for a firm's capital expenditures. While Adam Smith had a rather poor opinion of the joint-stock form of business organisation, classical economists generally saw accumulated profits as the primary source of funding for capital investment. Keynes famously remarked in the *General Theory* that the 'capital investment needs of a nation' would likely be 'ill served' by stock markets. Prior empirical studies of financialisation found a deleterious impact from stock buybacks on capital investment; however, they did not match buybacks against new stock issuances. Using an unbalanced panel of firms located in China, France, Germany, Great Britain, India, Japan and the USA from 1998 to 2008, classical, post-Keynesian and financialisation models of firm-level investment were specified and estimated across the seven economies as well as individual countries. Net stock issuance is found to have a positive impact on real investment when estimated across all models and observations. Between the classical and post-Keynesian models, profitability, internal and external finance, macroeconomic demand as well as net stock issuance were positively related to capital expenditures; capital intensity in the classical model exhibited a negative association across all countries. For the financialisation model, interest and dividend payments were inversely associated with capital expenditures but not consistently so for individual countries. Macroeconomic growth had a consistently positive impact for most advanced economies, affirming the critical role played by aggregate demand in heterodox theories of business investment.
Note: doi: 10.1093/cje/bet070
Database: Oxford Journals Online

9.

Title: Do small businesses create more jobs? New evidence for Europe
Authors: de Wit, Gerrit and de Kok, Jan
Source: Small Business Economics; February 2014, Volume 42, Issue 2, Pp. 283-295
Abstract: In this paper, we argue why, in our view, the so-called dynamic classification method should be favored when determining the contribution of small businesses towards job creation. First, it is the only method that consistently attributes job creation or loss to the size class in which it actually occurs. In addition, dynamic classification has two other advantages: (1) it is not vulnerable to the so-called regression to the mean bias, and (2) only a small number of aggregated data are required for its application. Using the dynamic classification, we analyze job creation within the different size classes for the 27 Member

States of the European Union. Our main findings are as follows. For the EU as a whole, smaller firms contribute on a larger scale towards job creation than do larger firms. Net job creation rates decrease with each firm size class. This pattern occurs in most industries, however, not in all; the manufacturing industry and trade industry show different patterns. At the level of individual countries, the net job creation rate also tends to decrease with each firm size class. However, this relationship is not perfect.
Note: DOI: 10.1007/s11187-013-9480-1
Database: SprigerLink

10.

Title: Should the US increase subsidies to R&D? Lessons from an endogenous growth theory
Authors: Gómez, Manuel A. and Neves Sequeira, Tiago
Source: Oxford Economic Papers; Jan 2014, Vol. 66 Issue 1, Pp. 254-282.
Abstract: In this article we devise an endogenous growth model with R&D, physical capital, and human capital with several externalities. The model is calibrated to the US economy and used to quantitatively evaluate the effect on growth and welfare of implementing different budget-neutral policies. The welfare effects of different policies are calculated by taking into account the transitional dynamics of the economy after the policy reform. Our main findings have policy implications; mainly, subsidies to research are the most welfare-increasing amongst the budget-neutral policies, and the optimal structure of subsidies entails substantially increasing the subsidy to R&D, maintaining a zero subsidy to production, and reducing the subsidy to education, so as to keep the intertemporal government budget balanced. A detailed sensitivity analysis shows the robustness of these results.
Note: doi: 10.1093/oep/gpt007
Database: Oxford Journals Online

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