Business & Economic Article Links (May 2015)

1.

Title: Theories of Poverty Traps and Anti-Poverty Policies
Author: Ghatak, Maitreesh
Source: World Bank Economic Review; 2015. Advance Access. First published online: April 16, 2015
Abstract: This paper is based on a keynote lecture given at the World Bank ABCDE conference at Washington DC in June 2014. In this paper we provide a conceptual overview of alternative mechanisms leading to poverty traps at the individual level, making a distinction between those that are due to external frictions (e.g., market failure), and those that are due to behavior under extreme scarcity in the absence of any frictions. We develop a common theoretical framework to examine alternative scenarios, characterizing conditions under which poverty traps (in the sense of multiple stable steady states) arise, as opposed to (possibly, conditional) convergence to a unique steady state. We apply this framework to discuss the relative merits of alternative anti-poverty policies, such as unconditional and conditional cash transfers, and direct interventions aimed at improving market access to the poor or improving public service delivery.
Note: doi: 10.1093/wber/lhv021
Database: Oxford Journals

2.

Title: Financial Crises, Development, and Growth: A Long-term Perspective
Author: Reinhart, Carmen M. and Reinhart, Vincent R.
Source: World Bank Economic Review; 2015. Advance Access. First published online: April 24, 2015
Abstract: Observed over long periods, the upward path of the output of most economies occasionally takes jagged steps down. More often than not, these events are associated with a variety of crises, including systemic banking stresses, exchange rate crashes, a burst of inflation, and a restructuring or default on sovereign debt. Using a large panel of countries over a long period, we document that crises are typically associated with lower medium-term growth. That may be a direct causal channel, a reverse channel, or the influence of some other factors on both growth and finance. But they tend to go together. Given that the forces for convergence of income across countries are estimated to be slow, going off track around a crisis will likely have long-lived consequences for relative economic development.
Note: doi: 10.1093/wber/lhv011
Database: Oxford Journals

3.

Title: On the size of the government spending multiplier in the euro area
Author: Fèvea, Patrick and Sahucb, Jean-Guillaume
Source: Oxford Economic Papers; 2015. Advance Access. First published online: April 16, 2015
Abstract: This article addresses the existence of a wide range of estimated government spending multipliers in a dynamic stochastic general equilibrium model of the euro area. Our estimation results and counter-factual exercises provide evidence that omitting the interactions of key ingredients at the estimation stage (such as Edgeworth

complementarity/substitutability between private consumption and government expenditures, endogenous government spending policy, and general habits in consumption) paves the way for potentially large biases. We argue that uncertainty on the quantitative assessments of fiscal programmes could partly originate from these biases.
Note: doi: 10.1093/oep/gpv025
Database: Oxford Journals

4.

Title: World Price Shocks, Income, and Democratization
Author: Zissimos, Ben
Source: World Bank Economic Review; 2015. Advance Access. First published online: April 12, 2015
Abstract: This paper shows how a world price shock can increase the likelihood that democratization must be used to resolve the threat of revolution. Initially, a ruling elite may be able to use trade policy to maintain political stability. But a world price shock can push the country into a situation where the elite face a commitment problem that only democratization can resolve. Because the world price shock may also reduce average incomes, the model provides a way to understand why the level of national income per capita and democracy may not be positively correlated. The model is also useful for understanding dictatorial regimes' rebuttal of World Bank calls to keep their export markets open in the face of the 2007–08 world food crisis.
Note: doi: 10.1093/wber/lhv019
Database: Oxford Journals

5.

Title: The ins and outs of German unemployment: a transatlantic perspective
Author: Hertwecka, Matthias S. and Sigristb, Oliver
Source: Oxford Economic Papers; 2015. Advance Access. First published online: April 8, 2015
Abstract: This article decomposes fluctuations in the German unemployment rate into changes in inflows (job separation) and outflows (job finding). For this purpose, we construct and examine monthly labour market transition rates from the West German sample of the SOEP (and the CPS) for the period 1984–2009. We explicitly take account of the low level of labour market transition rates in Germany. Our article shows that in West Germany, changes in the inflow rate are more important (about 60%) than changes in the outflow rate, whereas in the USA close to 80% are due to changes in the outflow rate.
Note: doi: 10.1093/oep/gpv031
Database: Oxford Journals

6.

Title: Leveling the Playing Field? The Role of Public Campaign Funding in Elections
Author: Klumpp, Tilman, Mialon, Hugo M. and Williams, Michael A.
Source: American Law Economics Review; 2015. Advance Access. First published online: April 16, 2015
Abstract: In a series of First Amendment cases, the U.S. Supreme Court established that government may regulate campaign finance, but not if regulation imposes costs on political speech and the purpose of regulation is to "level the political playing field." The Court has applied this principle to limit the ways in which governments can provide public campaign funding to candidates in elections. A notable example is the Court's decision to strike down matching funds provisions of public funding programs (Arizona Free Enterprise Club's Freedom

Club PAC v. Bennett, 2011). In this paper, we develop a contest-theoretic model of elections in which we analyze the effects of public campaign funding mechanisms, including a simple public option and a public option with matching funds, on program participation, political speech, and election outcomes. We show that a public option with matching funds is equivalent to a simple public option with a lump-sum transfer equal to the maximum level of funding under the matching program; that a public option does not always "level the playing field," but may make it more uneven and can decrease as well as increase the quantity of political speech by all candidates, depending on the maximum public funding level; and that a public option tends to increase speech in cases where it levels the playing field. Several of the Supreme Court's arguments in Arizona Free Enterprise are discussed in light of our theoretical results.
Note: doi: 10.1093/aler/ahv006
Database: Oxford Journals

7.

Title: Why Haven't Global Markets Reduced Inequality in Emerging Economies?

Author: Maskin, E.

Source: World Bank Economic Review; 2015. Advance Access. First published online: April 23, 2015

Abstract: The theory of comparative advantage predicts that globalization should cause inequality in emerging economies to fall. However, this has not been true of the current globalization (even though the prediction held up well for previous such episodes). In this paper, I sketch an alternative theory—developed in collaboration with Michael Kremer—that seems to fit recent history well.
Note: doi: 10.1093/wber/lhv013
Database: Oxford Journals

8.

Title: How Business Community Institutions Can Help Fight Corruption

Author: Dixit, Avinash K.

Source: World Bank Economic Review; 2015. Advance Access. First published online: April 27, 2015

Abstract: Collective action by the business community to counter corruption in the award of government licenses and contracts is analyzed, by analogy with contract enforcement institutions studied by economic historians and contract law scholars. The suggested anti-corruption institution comprises a no-bribery norm, a system to detect violations, and a multilateral ostracism penalty upon conviction in a tribunal. In combination with formal state law, a business institution of sufficient quality—probability of detection and severity of punishment—can eliminate corruption; a less good institution helps reduce it. The legal and communal institutions together achieve substantially better outcomes than either by itself.
Note: doi: 10.1093/wber/lhv016
Database: Oxford Journals

9.

Title: Causality between FDI and Financial Market Development: Evidence from Emerging Markets

Author: Soumaré, Issouf and Tchana, Fulbert Tchana

Source: World Bank Economic Review; 2015. Advance Access. First published online: April 8, 2015

Abstract: This paper studies the causal relationship between foreign direct investment (FDI) and financial market development (FMD) using panel data from emerging markets. Most studies of the relationship between FDI and FMD have focused on the role of FMD in the link between FDI and economic growth, with no deep understanding of direct causality between FDI and FMD, especially in emerging markets, where financial markets are in the development stage. We document bidirectional causality between FDI and stock market development indicators. For banking sector development indicators, the relationship is ambiguous and inconclusive. Care is therefore needed when analysing the relationship between FMD and FDI, as results may depend on whether the FMD variables used to evaluate causality are stock market or banking sector development indicators.

Note: doi: 10.1093/wber/lhv015

Database: Oxford Journals

10.

Title: The decline in average family size and its implications for the average benefits of within-household sharing

Author: Schrödera, Carsten, et al.

Source: World Bank Economic Review; 2015. Advance Access. First published online: April 29, 2015

Abstract: Economic policies rely on demographic projections. Yet in making these projections, researchers often ignore the aspect of household formation—despite sustained trends in many industrialized countries towards smaller household units with fewer members. Over the long term, this trend is likely to reduce the benefits of sharing goods/services within households (household economies of scale) at the micro-level, thereby increasing household-sector demand at the macro level. We propose a framework to (a) quantify the level of household economies of scale for different household types and (b) assess how the decline in average household size impacts aggregate household-sector demand. We apply the framework to energy consumption in Japan. The application indicates that household economies of scale in energy use are substantial and that the 5% decline in average household size in Japan between 2005 and 2010 led to an economy-wide loss in household economies of scale amounting to almost 4%.

Note: doi: 10.1093/oep/gpv033

Database: Oxford Journals

11.

Title: Gone for Good? Subsidies with Export Share Requirements in China: 2002–13

Author: Defever, Fabrice and Riaño, Alejandro

Source: World Bank Economic Review; 2015. Advance Access. First published online: April 16, 2015

Abstract: This paper presents a simple model of subsidies with export share requirements (ESR) in a heterogeneous firm environment. A two-country general equilibrium version of the model with a single 100% ESR is calibrated using firm-level data from the 2002 wave of the Business Environment and Enterprise Performance Survey collected by the World Bank for China. The calibrated model is used to gauge the change in subsidies with ESR that is consistent with the fall in the share of 'pure exporters', firms exporting all their output, observed in China, from 25.7% in 2002 to 11.1% in 2013. Our results indicate that a 6.9% reduction in the ad-valorem subsidy rate available to firms that export all their output is consistent with the observed fall in their share of exporting firms. Expenditure in subsidies (as

a share of value-added) falls by 66% and welfare in China increases by 1.76% while real income in the rest of the world falls by 0.59%.
Note: doi: 10.1093/wber/lhv020
Database: Oxford Journals

12.

Title: Institutional Investors and Long-Term Investment: Evidence from Chile
Author: Opazo, Luis, Raddatz, Claudio and Schmukler, Sergio L.
Source: World Bank Economic Review; 2015. Advance Access. First published online: April 7, 2015
Abstract: Developing countries are trying to develop long-term financial markets and institutional investors are expected to play a key role. This paper uses unique evidence on the universe of institutional investors from the leading case of Chile to study to what extent mutual funds, pension funds, and insurance companies hold and bid for long-term instruments and which factors affect their choices. Using monthly asset-level portfolios we show that, despite the expectations, mutual and pension funds invest mostly in short-term assets relative to insurance companies. The significant difference across maturity structures is not driven by the supply side of debt or tactical behavior. Instead, it seems to be explained by manager incentives (related to short-run monitoring and the liability structure) that, combined with risk factors, tilt portfolios toward short-term instruments, even when long-term investing has averaged higher returns. Thus, expanding large institutional investors does not necessarily imply more developed long-term markets.
Note: doi: 10.1093/wber/lhv002
Database: Oxford Journals

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