



IUI, The Research Institute of Industrial Economics  
Stockholm

# **IUI YEARBOOK 1999/2000**

## Foreword

The concept of “the New Economy” has been at the center of the economic debate during the last years. Very often, the debate has taken on an euphoric tone. Some people have even claimed that we are now entering a completely new era where economics no longer has to deal with the problem of the optimal use of scarce resources and where high growth and low inflation will come automatically.

This is of course misleading. A great deal of the improvement in the performance of the OECD-economies can be traced back to the wide range of economic reforms that were implemented during the late seventies and the eighties. The major aim of these reforms was to increase the role of the market and decrease the role of government intervention in the economies. In Sweden, we had reforms in this direction during the latter part of the eighties and the early nineties and it is largely the fruits of these reforms that we are now harvesting. It is thus very important that the harvesting does not take the form of a reversal of policies.

The market-oriented reforms have facilitated the intense commercialization of new techniques that we now are witnessing. They also constitute an important background to the ongoing restructuring of the economies on a global scale.

An important element in this restructuring is a very high volume of merger activities between firms. To an increasing extent, these mergers are cross-border operations and they are often the points of departure for a major restructuring of the firms involved. This process involves decisions on the geographical localization of the different activities within the firms. The choice of a specific region for localization depends on several factors, including the general business environment, level of education, technological specialization etc. For a small country like Sweden, it is of great importance to be an attractive localization for activities with a capacity to create high value-added.

This process has put the policymakers into a situation with many new elements. The focus of the research at IUI makes this research institute very well placed to enhance our understanding of the forces shaping our new economic environment.

Stockholm 2000

Håkan Mogren  
Chairman of the Board

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## **Presentation of IUI**

IUI (Industriens Utredningsinstitut) is an independent non-profit research institution founded in 1939 by the Federation of Swedish Industries (Sveriges Industriförbund) and the Swedish Employers' Confederation (Svenska Arbetsgivareföreningen). Located in central Stockholm, IUI conducts both empirical and theoretical research on economic issues of importance for long-term industrial development in Sweden. The emphasis is, however, on applied economics.

IUI has always had a high academic profile. Altogether, 56 dissertations in economics originate at IUI, and a significant part of the work at IUI has been published in international scientific journals and books. A large number of Swedish professors of economics have also spent part of their research careers at IUI. It is certainly the aim of IUI to continue to meet the challenges posed by the quality requirements of the international academic community. In order to achieve this aim, research is concentrated to a limited number of areas. The two main research programs pursued at IUI are: (1) Knowledge Accumulation, Human Capital and Economic Growth and (2) Industrial Organization and International Specialization.

## **Organization**

The majority of the IUI research staff hold a doctoral degree in economics. Staff size has been fairly stable over the years, comprising the equivalent of 15–20 full-time researchers. Doctoral students are also offered the opportunity to work on their dissertations at IUI.

IUI's board of directors consists of leading industrialists. The board appoints the director of IUI and approves the budget and the research projects. The organization of research projects follows academic principles, and the researchers publish their results in academic journals. Affiliated researchers have full academic freedom in their choice of methodology and, naturally, in their conclusions. The board neither approves nor is responsible for any results published.

IUI conducts open academic seminars and maintains many formal and informal relations with leading universities and other research institutions all over the world. International contacts are extensive and foreign scholars regularly visit the institute. Generous contributions from the Marianne and Marcus Wallenberg Foundation make many of these activities possible. In 1996, IUI also initiated a seminar series on “Human Capital and Economic Growth” where leading international scholars are invited to give their views on current research and

policy issues in this field. This highly appreciated seminar series would not have been possible without financial support from Astra AB and Telefonaktiebolaget LM Ericsson AB.

## **Financial Sources**

The principals of the Institute, namely the Federation of Swedish Industries (Sveriges Industriförbund) and the Swedish Employers' Confederation (Svenska Arbetsgivareföreningen), provide about 60 percent of the budget. Further financial support is primarily from various research funds. Generous financial support from the following bodies is gratefully acknowledged: The Swedish Council for Work Life Research, the European Commission Research Directorates, the Office of Labour Market Policy Evaluation, the Bank of Sweden Tercentenary Foundation, the National Board for Industrial and Technical Development, the Swedish Competition Authority, the Swedish Transport & Communications Research Board, Jan Wallander's and Tom Hedelius' Foundation, the Jacob Wallenberg Foundation and the Marianne and Marcus Wallenberg Foundation.

## **Board of Directors**

The board of directors is appointed by the principals and comprises leading industrialists, as well as the directors of the two principals.

Håkan Mogren, Chairman of the Board  
Gösta Bystedt (until January 2000)  
Lars-Åke Helgesson  
Martin Leimdörfer  
Per Olofsson  
Lars-Eric Petersson (from January 2000)  
Carl Wilhelm Ros  
Göran Tunhammar  
Ulf Jakobsson, Director of the Institute

**Staff***Director*

Ulf Jakobsson

*Deputy Director*

Lars Persson

*Research Staff*

Susana Aparicio

Antje Baerenss

Jonas Björnerstedt

Henrik Braconier

Karolina Ekholm

Sven-Olof Fridolfsson

Mattias Ganslandt (on leave)

Magnus Henrekson

Helen Jakobsson

Assar Lindbeck

Tobias Lindqvist

Loredana Magri

Erik Mellander

Pehr-Johan Norbäck

Lars Oxelheim

Pavel Pelikan

Lars Persson

Eleni Savvidou

Anna Sjögren

Per Skedinger

Johan Stennek

David Sundén

Roger Svensson

Jörgen Weibull

*Administrative Staff*

Elisabeth Gustafsson

Maria Hedström

Jörgen Nilson

Marie Tilert

## Visiting Researchers

James E. Anderson, Boston College and NBER

Azzeddine M. Azzam, Department of Agricultural Economics, University of Nebraska, Lincoln

Antjee Baerenss, University of Colorado

Kjetil Bjorvatn, Norwegian School of Economics and Business Administration, Bergen

Jay Pil Choi, Michigan State University

Kimberly Clausing, Reed University

Ramon Fauli-Oller, Universidad de Alicante

Luke Froeb, Owen Graduate School of Management, Vanderbilt University, Nashville

Vivek Ghosal, Economic Analysis Group, Antitrust Division, U.S. Department of Justice

Gautam Gowrisankaran, University of Minnesota

Thomas J. Holmes, University of Minnesota

Bengt Holmström, Massachusetts Institute of Technology

Henrik Horn, World Trade Organization, Geneva

Jos Jansen, Wissenschaftszentrum Berlin

Dan Kovenock, Purdue University

Jerker Lundbäck, International Monetary Fund, Washington

James Levinsohn, University of Michigan

Kjell-Erik Lommerud, University of Bergen and CEPR

Massimo Motta, European University Institute, Italy

Roderick Meiklejohn, Directorate-General of Economic and Financial Affairs of the European Commission, Brussels

Volker Nocke, Nuffield College, Oxford

Henry Overman, London School of Economics

Ariel Pakes, Harvard University

Joel Sandonís, Universidad del País Vasco, Bilbao

Christian Schultz, University of Copenhagen

Odd Rune Straume, University of Bergen

Susanna Sällström, University of St Andrews, U.K.

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## News at IUI

At present, we witness a large restructuring of production and trading patterns in the world economy. Two important ingredients are the current merger wave and the increased use of information technology. These have both affected market structures and trading patterns. In order to contribute to a better understanding of these changes in market structures and trading patterns, IUI has enlarged its research program dealing with these issues. For instance, a project which will empirically analyze the determinants of merger patterns within the EU and the effect of the Single Market Program (SMP) on this pattern, has been initiated. Moreover, as a part of this enlargement, IUI hosted a workshop on Mergers and Competition jointly organized with CEPR in June 2000. The workshop attracted almost 30 leading researchers in the field from all over the world.

During the academic year 1999/2000, the IUI staff has undergone several changes. Pontus Braunerhjelm left his position as deputy director and accepted a post as deputy director at the Center for Business and Policy Studies (SNS). Magnus Henrekson has been appointed associate professor at the Stockholm School of Economics, but is still associated with IUI. Eugenia Kazamaki Ottersten has accepted a post at the European Investment Bank, Erika Ekström has joined the Office of Labour Market Policy Evaluation (IFAU) as a researcher. Research assistants Per Thulin and Marie Hesselman left IUI to take up positions at SNS and the Ministry of Finance respectively. Finally, Anna Ahlberg left to enroll in nursing school.

IUI would like to express its gratitude to all former colleagues and friends for their efforts at IUI and wish them good luck in their new positions.

In order to strengthen IUI's research position in Industrial Organization, Jonas Björnerstedt, formerly at the Stockholm School of Economics, has been recruited. Moreover, Anna Sjögren, also from the Stockholm School of Economics, has been recruited to strengthen the research on Human Capital. Two new doctoral students have also become affiliated with IUI during the past academic year; Antjee Baerenss and Tobias Lindqvist. In addition, Susana Aparicio, Loredana Magri and Eleni Savvidou have joined IUI as research assistants. In the administrative staff, Marie Tilert has replaced Anna Ahlberg.

## Other Activities

*Antje Baerenss*, a Ph.D. student at the University of Colorado, was visiting IUI as a TMR researcher from October 1999 until the summer 2000. She is working on her dissertation entitled “Cooperation versus Competition: Optimal Strategies for Product and Process Innovation”. During her stay at IUI, Antje Baerenss completed two papers on R&D cooperation.

*Jonas Björnerstedt* began his work at IUI on September 1, 1999. He was recruited from the Stockholm School of Economics. Jonas Björnerstedt is currently working on a theory of bilateral oligopoly (with Johan Stennek). The work has been presented at workshops at the Stockholm School of Economics, the University Autònoma, Barcelona, and at the CEPR/IUI workshop on mergers in Vaxholm. Together with Lars Persson and Johan Stennek, the theory is being applied to topics such as mergers, foreclosure and outsourcing. Jonas Björnerstedt is also working on an experiment on repeated purchases in sealed bid first price auctions (together with Magnus Arnek and Johan Lindén).

*Henrik Braconier* works on issues of R&D, growth, multinationals, trade and fiscal policy indicators. In the area of multinational firms and trade, the paper “Swedish Multinationals and Competition from High- and Low-Wage Locations” (with Karolina Ekholm) is forthcoming in *Review of International Economics*, while the study “Multinationals and Competition between Different Locations” (with Karolina Ekholm) has almost been completed. On growth, R&D and multinationals, the paper “Does FDI Work as a Channel for R&D Spillovers? Evidence Based on Swedish Data” (with Karolina Ekholm and Karen Helene Midelfart Knarvik) has been completed and is forthcoming as a CEPR working paper. Ongoing projects include “Mergers and Acquisitions within Europe” (with Pehr-Johan Norbäck and Lars Persson), “FDI patterns in Europe” (with Karolina Ekholm, Karen Helene Midelfart Knarvik and Henry Overmann) and “Fiscal Policy Indicators” (with Steinar Holden). During the winter of 1999, Henrik Braconier was on leave from IUI to conduct a background report for the public investigation into the central government budget process (*Utvärdering av budgetprocessen Fi 1999:04*). During this period, Henrik Braconier has also presented his research at various international workshops and conferences.

*Karolina Ekholm* has been in charge of the 1998 survey of Swedish multinational corporations, which was completed this year. Her research has mainly dealt with the effects of foreign direct investment on the labor market and on international R&D spillovers. Together with Henrik Braconier, she has studied the effects of changes in relative labor costs on the employment by Swedish

multinational corporations. Articles of hers have been accepted in *Review of International Economics* and *Scandinavian Journal of Economics*. Moreover, she has written a chapter on international trade and investment in the latest edition of *Marknad och Politik* (edited by Bo Södersten). She has attended several CEPR conferences and she has been active in a European network of researchers dealing with foreign direct investment and multinational corporations. In the spring, she spent a month visiting the Norwegian School of Economics and Business Administration in Bergen.

*Sven-Olof Fridolfsson*, a Ph.D. student in economics at Stockholm University, continues to work on his thesis in the area of industrial organization, with an emphasis on competition policy and merger control. He plans to defend his thesis during the fall of 2000. Sven-Olof Fridolfsson presented a paper at the ESEM99 and EEA99 meetings in Santiago de Compostela and gave a seminar at IUI.

*Helen Jakobsson* continued her research on issues of economic integration within the European Union and is currently also working on issues on the formation of research joint ventures. In September 1999, she successfully defended her licentiate thesis at Stockholm University.

*Ulf Jakobsson* is director of IUI and adjunct professor of Economics at the University of Umeå. He has recently been working on the shifts in Swedish economic policies after World War II. A fruit of this work is the article “Where Schumpeter was nearly Right – the Swedish Model and *Capitalism, Socialism and Democracy*”, written together with Magnus Henrekson. Ulf Jakobsson is also heading a research project on the causes of the high domestic price-level in Sweden. At present, he is working on a book on “the New Economy” together with Pontus Braunerhjelm. He has also participated in the public debate as a regular columnist on the editorial page in the Swedish newspaper *Dagens Nyheter*.

*Assar Lindbeck* has worked within the research areas alternative pension systems and pension reforms, the consequences of the IT revolution for consumer product markets, the interaction between economic incentives and social norms, structural unemployment and the insider-outsider theory of unemployment, the consequences for the labor market and the structure of the reorganization of firms, the functioning of the political system in Sweden and the growth performance of the Swedish economy. Assar Lindbeck has also been chairman of the SNS Economic Council Report 2000. He has had articles accepted for publication in *Journal of Economic Perspectives*, *Journal of Labor Economics*, *European Economic Review* and *Swedish Economic Policy Review*. Some of the results from

Assar Lindbeck's research are forthcoming in a volume on pensions systems by the National Bureau of Economic Research (NBER).

*Tobias Lindqvist*, a Ph.D. student in economics at Stockholm University, joined IUI in the summer 1999. He is currently working on his thesis in the area of industrial organization and experimental economics. Last year, he published a study in *Ekonomisk Debatt* concerning the location of headquarters of Swedish multinational firms (with Pontus Braunerhjelm).

*Erik Mellander* participated in the European Economic Association's congress in Santiago de Compostela in Spain, September, 1999, where he presented the paper "Input Aggregation Matters a Lot in Productivity Measurement, Even in the Short Run", written jointly with Gudmundur Gunnarsson, Mälardalens University College. During 1999 he published "Corporate Job Ladders in Europe: Wage Premia for University- versus High School Level Jobs" (with Per Skedinger) in *Swedish Economic Policy Review* and "Evaluating Firm Training, Effects on Performance and Labour Demand" (with Eugenia Kazamaki Ottersten and Thomas Lindh) in *Applied Economics Letters*. In the year 2000, he has been involved in the construction of a new survey of the production in the Swedish private service sector, which is administered jointly by the Federation of Swedish Industries and IUI. In May, he served as faculty opponent to Linda Andersson (licentiate thesis) at the University of Umeå. At the First World Conference for Labor Economists, in Milan, Italy, in June, he presented the paper "The Multi-Dimensional Nature of Labor Demand and Skill-Biased Technical Change".

*Pehr-Johan Norbäck* has been working on various projects related to multinational firms. This work has mainly involved examining how firms' decisions in Research and Development interact with their choice of expanding sales abroad and the mode in which market abroad is served. He is currently working with Lars Persson on the project "Trade and Investment Liberalization and Privatization in an International Oligopoly". Other projects include "Mergers and Acquisitions in Europe" (with Lars Persson and Henrik Braconier) and "External Shocks, High Savings and Financial Crises - A model with Application to the Asian Crisis" (with Xiang Lin, Center for Banking and Finance, Södertörn University College). He has also taught at Stockholm University and Gotland University College.

*Lars Oxelheim* has maintained his affiliation with IUI while holding a full-time professorship (chair) in International Business at Lund University. His current research is focused on the implications of macroeconomic disturbances for corporate performance and on issues related to economic and financial integration. During the year, he had one paper published in *Competitive Intelligence Review*

and two papers accepted; one in *Journal of Common Market Studies* (with Pontus Braunerhjelm) and one in *Journal of Multinational Financial Management*. He also contributed a chapter to *Ökonomisk politik i en turbulent verdensökonomi*, Fagbokforlaget, Bergen (ed. Ö. Thørgersen). Lars Oxelheim is chair of the Swedish Network for European Studies in Economics and Business ([www.snee.org](http://www.snee.org)). In that role, he has edited (with Ulf Bernitz and Sverker Gustafsson) the network's annual publication, *Europaperspektiv 2000*, Santérus Förlag, Uppsala. He has also organized the network's second annual conference in Mölle on *Economic Integration in Europe: New Directions in Swedish Research*. Lars Oxelheim serves on the editorial board of *Journal of International Business Studies*, *Management International Review* and *International Business Review*.

*Pavel Pelikan* has continued the study of institutional change and flexibility of industrial organizations for the needs of policy analysis. The main problem addressed has been the one of economic growth with unequally able agents, which enlarges the previously studied problem of unequal abilities of entrepreneurs to also include unequal abilities of investors. Together with Professor Gerhard Wegner from the Ruhr University in Bochum, Pavel Pelikan has also organized a workshop on "Evolutionary Analysis of Economic Policy", whose participants included the Nobel laureate Professor Douglass North. He is now editing this workshop into a book. His contribution to the 1999 Brisbane Club Workshop "Self-organizing and Darwinian Selection in Economic Evolutions: An Inquiry into the Sources of Organizing Information" is forthcoming in J. Foster and J.S. Metcalfe (eds.), *Frontiers of Evolutionary Economics*, Edward Elgar Publishing. Pavel Pelikan was also invited for seminars on institutional and evolutionary economics at the University of Paris I C Sorbonne, University of Paris Sud, University of Marne-la-Valée, Ecole Supérieure de Commerce de Paris, and University of Economics in Prague.

*Lars Persson* has been involved in the project "Competition Policy: Understanding and Evaluating Cooperation between Firms". He is currently working with Dan Kovenock, Purdue University, on the project "Mergers and Entry", which studies the interaction between incentives for mergers and entry in oligopolistic industries. He is also working with Pehr-Johan Norbäck on the project "Trade and Investment Liberalization and Privatization in an International Oligopoly", which studies the interaction between incentives for acquisitions, greenfield investments and exports in international oligopoly industries. During the year, he had articles accepted for publication in *International Journal of Industrial Organization* and *Journal of International Economics*. Together with Jonas Björnerstedt and Johan Stennek, he has organized an IUI/CEPR Workshop

on Mergers and Competition. Lars Persson also participated in a conference organized by EARIE. He gave talks at the Institute for International Economic Studies (Stockholm), WZB (Berlin), Workshop on Current Issues in Competition Policy (Copenhagen), and European University Institute (Florence).

*Anna Sjögren* joined IUI in January 2000. She is currently doing research on intergenerational mobility, occupational choice and incentive structure. She also does joint research on negative self-selection and self-confidence together with Susanna Sällström at Cambridge University.

*Per Skedinger* published “Corporate Job Ladders in Europe: Wage Premia for University vs. High School Level Jobs” in *Swedish Economic Policy Review* (with Erik Mellander). In October, the paper was presented at the International Atlantic Economic Society's conference in Montreal, Canada. He continued his affiliation with the Office for Labour Market Policy Evaluation (IFAU) in Uppsala and wrote “Decentralisation of Active Labour Market Policy: The Case of Swedish Local Employment Service Committees” (with Martin Lundin). In May, Per Skedinger lectured at the Stockholm School of Economics' Executive MBA - IT program.

*Johan Stennek* is currently doing research on mergers & acquisitions (with Sven-Olof Fridolfsson) and bilateral oligopoly (with Jonas Björnerstedt). Two of his papers have been accepted for publication. “The Survival Value of Assuming Others to be Rational” is forthcoming in *International Journal of Game Theory* and “Competition Increases X-efficiency – A Limited Liability Mechanism” is forthcoming in *European Economic Review*. Together with Jonas Björnerstedt and Lars Persson, he has organized an IUI/CEPR Workshop on Mergers and Competition. Johan Stennek has been appointed docent (associate professor) at Stockholm University, research affiliate of the Center for Economic Policy Research (CEPR), and an associate editor of *International Journal of Industrial Organization* (IJIO). During the year, Johan Stennek has lectured at Stockholm School of Economics and Stockholm University, where he also has been supervising. Johan Stennek is preparing two reports for the European Commission concerning the costs and benefits of introducing a so-called efficiency defense in the EU merger regulation (with Lars-Hendrik Röller and Frank Verboven).

*David Sundén*, a Ph.D. student at the Stockholm School of Economics, joined the IUI in March 1999. He is currently working on a paper concerning the macroeconomic effects of the pension reform in Sweden.

*Roger Svensson* is currently doing research on consulting firms and services. Specific issues about the consulting sector that he investigates are procurement, knowledge transfer and effects on competition when government authorities sell

consulting services. He has completed the book *Success Strategies and Knowledge Transfer in Cross-Border Consulting Operations* published by Kluwer Academic Publishers in Boston in February 2000. A paper about procurement of consulting services was presented at a conference in Vaasa, Finland.

*Jörgen Weibull* has presented research results at the European Economic Association 1999 Annual Meeting, University of Paris X and Vienna University, among other places. He was elected member of the European Economic Association Council, elected fellow of the Econometric Society, awarded the 1999 Torsten and Ragnar Söderberg Prize in Economics, and appointed program chairman for the European Economic Association Annual Meeting in 2001. He worked on the following research topics: (1) “Clever agents in Young’s evolutionary bargaining model”, with Maria Saez-Marti, published in *Journal of Economic Theory* (2) “Internal efficiency and external conditions”, published in E. Maskin and A. Simonovitz (eds.), *Planning, Shortage, and Transition – Essays in honor of Janos Kornai*. MIT Press, (3) “Neutrally stable outcomes in cheap-talk coordination games”, with Abhijit Banerjee, forthcoming in *Games and Economic Behavior*, (4) “Evolution and refinement with endogenous mistake probabilities”, with Eric van Damme, IUI WP No 525, (5) “National Wealth Accumulation as a Recurrent Game”, mimeo, (6) “Testing Game Theory”, mimeo, and (7) “Deterministic Approximation of Stochastic Evolution in Games”, with Michel Benaim, IUI WP No. 534.



## **Conferences, Workshops and Courses**

The Astra-Ericsson seminar series Human Capital and Economic Growth has now been offered for four years. A public seminar entitled “Corporate Restructuring: Markets versus Managers” was held in April 2000 by Professor Bengt Holmström, Massachusetts Institute of Technology and board member of Nokia. His findings were commented on by Peter Malmqvist, Aragon Fondkommission AB, and Sten Westerberg, MNB Maizels AB.

In June 2000, IUI arranged a workshop on Mergers and Competition together with CEPR. The workshop attracted almost 30 leading researchers in the field from all over the world.

## **Current Research Programs**

### **Program 1 Knowledge Accumulation, Human Capital and Economic Growth**

- 1.1 Empirical Analyses of the Relations between Education, Training, Productivity and Wages
- 1.2 Economic and Industrial Structure in Europe: International Specialization and Adjustment
- 1.3 Institutions and Economic Performance
- 1.4 Intergenerational Mobility, Occupational Choice and the Incentive Structure

### **Program 2 Industrial Organization and International Specialization**

- 2.1 Foreign Direct Investment (FDI), Industrial Organization and Trade Patterns
- 2.2 Competition Policy: Understanding and Evaluating Cooperation between Firms
- 2.3 Industrial Re-Organization: Understanding Changing Market Structures and Trading Patterns
- 2.4 Procurement and Export of Consulting Services
- 2.5 Industrial Policy, Small Business and Economic Performance: A Comparison of Sweden and the United States
- 2.6 The Swedish Price Level in an International Perspective

### **Program 3 Economics of the Welfare State**

- 3.1 Welfare State Dynamics

# **1 Knowledge Accumulation, Human Capital and Economic Growth**

Contemporary economic research has identified knowledge accumulation as the prime engine of growth. Growth is endogenized through investment in knowledge which, in contrast with other factors of production, is not subject to decreasing rates of return. Differences in the rate of knowledge investments have been offered as the main explanation for differences in growth performance on both the macro and the micro level. IUI's research in this area has been oriented toward microeconomic issues, particularly the role of education and the functioning of the labor market. To secure sustainable growth, it is necessary that the return on investments in education compensate for its costs. Similarly, without the right incentive structure within the economy, labor may not be optimally allocated from a social point of view. International differences in incentive structures may also induce labor to move between countries. Thus, a proper microeconomic setting is necessary for growth to materialize on the macro level.

## **1.1 Empirical Analyses of the Relations between Education, Training, Productivity and Wages**

One purpose of this project is to compare wage levels and the returns to education across countries. A related issue concerns the relation between education and labor demand, involving, e.g., the effect of minimum wages on the employment of skilled workers. A third analysis considers the interaction between human capital and information technology and how this interaction affects productivity growth. In a fourth line of research, the fact that human capital can be upgraded through training outside the regular education system is recognized, through studies analyzing the effects of firm-financed training and individual, privately financed, training. A fifth issue considers whether employer incentives in wage-setting for high-skilled workers differ in multinational and domestic firms.

*Responsible for the project:* Erik Mellander and Per Skedinger

*Participating researchers:* Gudmundur Gunnarsson and Eleni Savvidou

## **1.2 Economic and Industrial Structure in Europe: International Specialization and Adjustment**

This project also involves researchers from the Trade Union Institute for Economic Research (FIEF) and Lund University. The research undertaken at IUI focuses on technological progress, growth, structural adjustment and the demand for human capital.

*Responsible for the project:* Magnus Henrekson

## **1.3 Institutions and Economic Performance**

The project continues to deal with three little examined questions of institutional economics: (1) How do institutions affect the selection and use of scarce economic abilities (unequally bounded rationality)? (2) How do they affect the forming and reforming of economic organizations? (3) How, and under which constraints, can they be used as policy instruments for improving the performance of economies? These questions are complementary to, and for policy applications no less important than, the usually studied questions of how institutions affect incentives and transaction costs, and how policies influence the workings of given (constant) organizations.

The work on this project continues in the two previously started directions: a formal analysis of selection processes, with particular attention to the selection of entrepreneurs and investors; and a qualitative analysis of processes of economic organization, from the perspective on organizing information.

*Responsible for the project:* Pavel Pelikan

#### **1.4 Intergenerational Mobility, Occupational Choice and the Incentive Structure**

This project analyzes, theoretically and empirically, the processes determining the degree of intergenerational mobility with the aim to further the understanding of how these processes influence and are influenced by incentive structure, income distribution, and economic growth. The processes in focus are human capital formation and occupational choice and how these are linked to family background through information asymmetries. The empirical part of the project uses micro data to estimate discrete occupational choice models with the aim of answering the question whether the influence of the incentive structure on occupational choice is affected by family background effects.

*Responsible for the project: Anna Sjögren*

## **2 Industrial Organization and International Specialization**

Throughout IUI's history, this research program has been of central importance. Since the 1960s, the Institute has undertaken comprehensive studies of Swedish multinational firms (MNFs) and their influence on the Swedish economy. The emphasis of the study has been on the location of production across countries and its implications for the pattern of specialization and trade in the Swedish manufacturing sector. Research in this area emanates from a detailed questionnaire sent out approximately every fourth year to all Swedish MNFs. This database was updated in 1999.

### **2.1 Foreign Direct Investment (FDI), Industrial Organization and Trade Patterns**

IUI's unique database on MNFs will be pooled with country data to analyze the factors that attract FDI and the implications of FDI for the specialization of small, open economies in manufacturing and trade. Can changes over time be related to shifts in FDI flows, and what are the driving forces behind FDI? Are corporate headquarters likely to become more footloose? What impact does a high degree of internationalization have on wages and the demand for labor? How is the process of transferring technology within MNFs organized, and can the impact of such transfers on productivity be measured? How do MNFs facilitate the transfer of technology and growth? Recent theoretical contributions in trade, location and growth will be combined with the theory of the firm in the analyses.

*Responsible for the project:* Karolina Ekholm and Henrik Braconier

*Participating researchers:* Henrik Braconier, Mattias Ganslandt, Marie Hesselman, Helen Jakobsson, Loredana Magri and Per Thulin

## **2.2 Competition Policy: Understanding and Evaluating Cooperation between Firms**

In a well-functioning market economy, firms both compete and cooperate. Cooperation can take many different forms, from mergers to joint ventures and to looser forms of cooperation. Cooperation concerns a wide variety of areas, such as adoption of common standards, joint research and development and shared use of common resources. Such forms of cooperation may be part of the competitive process that brings benefits to the consumers: they may reduce the cost of product development and hence, speed up the development of new and better products, or they may enhance inter-operability. However, collaboration among competitors can also be detrimental to competition. The prime examples of these detrimental factors are price fixing and sales volume targeting. Other, less obvious, examples include agreements between large producers and local distributors that facilitate the introduction of products into new markets. The problem is, however, that such agreements can also be used to exclude other entrants that would intensify competition and put downward pressure on prices. To separate socially beneficial cooperation from harmful cooperation and design appropriate policy measures, we need to understand both the driving forces behind the firms' collaboration and the consequences for social welfare.

*Responsible for the project:* Lars Persson and Johan Stennek

*Participating researchers:* Jonas Björnerstedt, Sven-Olof Fridolfsson, Prof. Dan Kovenock and Maria Saez-Marti

### **2.3 Industrial Re-Organization: Understanding Changing Market Structures and Trading Patterns**

At present, we witness a restructuring of production and trading patterns in the world economy of historical proportions. One of the most striking ingredients of the ongoing transformation is the current merger wave. According to some observers, these mergers are a reaction to policy reforms such as trade and investment liberalization, deregulation of industries and privatization. An interesting feature of the current wave is the increasing importance of cross-border mergers.

Another spectacular change is the IT-revolution in business-to-business relations. Internet business simplifies firms' contacts with suppliers and customers, and is expected to have a profound impact on industry structure, trading patterns and ultimately, the efficiency of intermediate goods markets. The purpose of this project is to contribute to a better understanding of these changes of market structures and trading patterns. Four (sub-) projects are concerned with mergers, while two projects are concerned with trading patterns in intermediate goods markets.

*Responsible for the project:* Lars Persson and Johan Stennek

*Participating researchers:* Jonas Björnerstedt, Henrik Braconier, Sven-Olof Fridolfsson, Tobias Lindqvist, Pehr-Johan Norbäck and Roger Svensson



## **2.4 Procurement and Export of Consulting Services**

More than 95% of all studies on international trade and FDI have focused on MNCs in the manufacturing sector, however. Few studies have examined the service sectors, however. Consulting firms (CFs) are the prototype of knowledge-based firms and sell services on a project-basis. CFs are relatively small, but play an important role with respect to knowledge transfer. In contrast to manufacturing firms, CFs direct around 90% of their exports to developing countries and Eastern Europe and they seldom establish permanent affiliates abroad. A unique database on Swedish CFs' individual tender proposals is here used to analyze the following issues: 1) Which factors determine the choice of supplier when consulting services are procured; 2) Lobbying and marketing in consulting sectors; 3) Effects on competition when state-owned consulting firms are present in the market; 4) The extent and direction of knowledge transfer in the consulting sectors; 5) The choice of entry mode in the consulting sectors.

*Responsible for the project:* Roger Svensson

## **2.5 Industrial Policy, Small Business and Economic Performance: A Comparison of Sweden and the United States**

The purpose of this project is to assess whether differences in key institutions and rules of the game can explain variations in growth, employment creation, and industrial and size distribution of employment across countries. Hypotheses are tested by a detailed analysis of institutions and rules of the game in Sweden and the United States and, in a second step, by an assessment of whether the detected institutional differences are consistent with observed differences in economic outcomes such as growth, employment creation, and industrial distribution of employment.

*Responsible for the project:* Prof. Steven J. Davis and Magnus Henrekson

## **2.6 The Swedish Price Level in an International Perspective**

In international comparisons, Sweden invariably comes out as one of the most expensive industrialized countries. The goal of this project is to investigate which factors affect the price level of a specific country and specifically to pin down the factors contributing to the high price-level in Sweden.

In one part of the project, price levels are compared and analyzed with the help of statistical data of all OECD countries. Exchange rates play an important role in these kinds of comparisons. If a country has inefficient production and inefficient markets all over the economy, this should be reflected in a low exchange rate. Therefore, we should not expect the price level to be high in this particular country, in an international comparison. A high price level could, on the other hand, be expected in a country with a cost effective and competitive traded goods sector and a non-traded goods sector characterized by regulations and a lack of competitiveness. In the study, we have found that a high degree of union power and corporatism are factors contributing to a higher price-level.

In another part of the project, a microeconomic study is made of selected markets in the US, Japan and Sweden. One of the conclusions from this study is that openness to competition in a market is conducive to a lower price level.

*Responsible for the project:* Prof. Ulf Jakobsson and Prof. Bo Carlsson

### **3 Economics of the Welfare State**

Analyses of the welfare state have mainly considered problems of a static nature. The overall purpose of this research program at the Institute is to study the welfare state from an evolutionary point of view. How does the design of welfare systems influence the incentive structure and thereby the behavior of economic agents? In addition, issues such as capital accumulation in the welfare state and the role of institutions in economic performance will be considered.

#### **3.1 Welfare State Dynamics**

This project aims at investigating the dynamic effects of welfare state policy on individual behavior in the long run. Particular attention is directed toward the interaction between social norms and incentives and their economic implications. The theories developed will be related to empirical data for Sweden and the other Nordic countries. Another part of the project aims at analyzing the links between income distribution, employment, and growth in the welfare state. So far, the work has resulted in a number of articles. The next goal is to bring the results together in a book on the dynamics of the welfare state.

*Responsible for the project:* Prof. Assar Lindbeck

## Publications

### Books

*IUI Yearbook 1999/2000*. 2000. 52 pp.

*Knowledge Capital and the "New Economy" – Firm Size, Performance and Network Production*. Pontus Braunerhjelm (ed.). Boston, Dordrecht and London: Kluwer Academic Publishers. 2000. 116 pp.

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55. *Income Distribution and Labour Market Discrimination: A Case Study of Namibia*. Licentiate Dissertation in Economics. Erika Ekström. 1998. 75 pp. (Published as IUI Working Paper No. 502)
54. *Multi-Market Competition and Coordination in Games*. Licentiate Dissertation in Economics. Mattias Ganslandt. 1997. 54 pp. (Published as IUI Working Paper No. 484.)
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## Working Papers

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504. *Trade and Location with Horizontal and Vertical Multi-Region Firms*. Karolina Ekholm and Rikard Forslid
503. *Growth Effects of Government Expenditure and Taxation in Rich Countries*. Stefan Fölster and Magnus Henrekson
502. *Income Distribution and Labour Market Discrimination: A Case Study of Namibia*. Erika Ekström
501. *Evolution with Mutations Driven by Control Costs*. Eric van Damme and Jörgen W. Weibull
500. *Anatomy of Policy Complementarities*. J. Michael Orszag and Dennis J. Snower

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499. *Can and Should a Pay-As-You-Go Pension System Mimic a Funded System?* John Hassler and Assar Lindbeck
498. *Swedish Lessons for Post-Socialist Countries.* Assar Lindbeck
497. *Institutional Effects on the Evolution of the Size Distribution of Firms.* Magnus Henrekson and Dan Johansson
496. *Global Income Divergence, Trade and Industrialisation: The Geography of Growth Take-Offs.* Richard E. Baldwin, Philippe Martin and Gianmarco I. P. Ottaviano
495. *Corporate Job Ladders in Europe: Wage Premia for University vs. High School Level Positions.* Erik Mellander and Per Skedinger
494. *On Omitted Variable Bias and Measurement Error in Returns to Schooling Estimates.* Erik Mellander
493. *Intergenerational Risk Sharing, Stability and Optimality of Alternative Pension Systems.* John Hassler and Assar Lindbeck

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492. *Growth and the Public Sector: A Critique of the Critics.* Stefan Fölster and Magnus Henrekson
491. *New Keynesianism and Aggregate Economic Activity.* Assar Lindbeck
490. *Foreign Direct Investment and Employment: Home Country Experience in the United States and Sweden.* Magnus Blomström, Gunnar Fors and Robert E. Lipsey
489. *Evolution, Rationality and Equilibrium in Games.* Jörgen W. Weibull
488. *Trade, Southern Integration, and Uneven Development.* Georgi Trofimov
487. *What Have We Learned from Evolutionary Game Theory so Far?* Jörgen W. Weibull
486. *Implications of Skill-Biased Technological Change: International Evidence.* Eli Berman, John Bound and Stephen Machin
485. *Noisy Equilibrium Selection in Coordination Games.* Hans Carlsson and Mattias Ganslandt
484. *Multi-Market Competition and Coordination in Games.* Mattias Ganslandt
483. *The Number and the Size Distribution of Firms in Sweden and Other European Countries.* Dan Johansson
482. *Explaining National Differences in the Size and Industrial Distribution of Employment.* Steven J. Davis and Magnus Henrekson

481. *The European Unemployment Dilemma*. Lars Ljungqvist and Thomas J. Sargent
480. *Allocation of Economic Competence in Teams: A Comparative Institutional Analysis*. Pavel Pelikan
479. *Internal Efficiency and External Conditions*. Jörgen W. Weibull
478. *A Note on Social Norms and Transfers*. David Sundén and Jörgen W. Weibull
477. *Trade and Security, I: Anarchy*. James E. Anderson and Douglas Marcouiller, S.J.
476. *Social Norms and Economic Incentives in the Welfare State*. Assar Lindbeck, Sten Nyberg and Jörgen W. Weibull



## Seminars

**2000**

### **Wednesday 14 June**

James E. Anderson, Boston College and NBER: *Trade and Contract Enforcement*

Co-author: Leslie Young

### **Monday 5 June**

Martin Lundin, Office of Labour Market Policy Evaluation (IFAU), and Per Skedinger, IUI: *Decentralisation of Active Labour Market Policy: The Case of Swedish Local Employment Service Committees*

### **Monday 29 May**

Joseph E. Harrington, Jr., The Johns Hopkins University: *Centralization vs. Decentralization in a Multi-Unit Organization: A Computational Model of a Retail Chain as a Multi-Agent Adaptive System*

Co-author: Myong-Hun Chang

### **Monday 22 May**

Jonathan Haskel, Queen Mary and Westfield College and CEPR: *Restructuring and Productivity Growth in UK Manufacturing*

Co-authors: Richard Disney and Ylva Heden

### **Monday 15 May**

Niklas Strand, Stockholm School of Economics: *Pricing Contracts with Different Duration: The Role of Switching Costs*

### **Wednesday 3 May**

Henry Overman, London School of Economics: *The Location of EU Industry*

Co-authors: Karen Helene Midelfart-Knarvik, Stephen J. Redding and Anthony J. Venables

**Tuesday 25 April**

Jerker Lundbäck, Lund University: *Demand, Comparative Advantage and Economic Geography in International Trade: Evidence from the OECD*

Co-author: Johan Torstensson

**Wednesday 12 April**

Jos Jansen, Wissenschaftszentrum Berlin: *Preannouncements and Concealments in R&D Races with Learning Labs*

**Monday 10 April**

Anna Sjögren, IUI: *Occupational Choice and Incentives: The Role of Family Background*

**Wednesday 5 April**

Kjetil Bjorvatn, The Norwegian School of Economics and Business Administration, The Norwegian Centre in Organization and Management: *FDI in LDCs: Who Should One Invite Home?*

**Monday 3 April**

Gunnar Isacson, Dalarna University: *Twin Data vs. Longitudinal Data to Control for Unobserved Variables in Earnings Functions – Which are the Differences?*

**Monday 27 March**

Christian Schultz, University of Copenhagen: *Export Cartels and Domestic Markets*

**Monday 20 March**

Susanna Sällström, University of St Andrews, UK: *Interlocked Contracts*

**Monday 13 March**

Andreas Westermark, Uppsala University: *Bargaining, Binding Contracts and Competitive Wages*

**Monday 6 March**

Giancarlo Spagnolo, Stockholm School of Economics: *Debt as a (Credible) Collusive Device*

**Monday 21 February**

Vivek Ghosal, Economic Analysis Group, Antitrust Division, U.S. Department of Justice: *Potential Foreign Competition in U.S. Manufacturing*

**Wednesday 16 February**

Lena Edlund, Columbia University: *Why are Prostitutes Well Paid?*  
Co-author: Evelyn Korn

**Monday 14 February**

Rickard Eriksson, Stockholm School of Economics: *Market Structure and Price Responses to Seasonal Demand Changes*

**Monday 7 February**

Michael Lundholm, Stockholm University: *Externalities in Day Care: The Optimality of Deterrents against Labour Force Participation and Transfers to Day Care*  
Co-author: Henry Ohlsson

**Monday 31 January**

Mikael Lindahl, Swedish Institute for Social Research (SOFI), Stockholm University: *Home versus School Learning: A New Approach to Estimating the Effect of Class Size on Achievement*

**Monday 24 January**

Mats A. Bergman, The Swedish Competition Authority: *Strategic Investments in the Pulp and Paper Industry: A Count Data Regression Analysis*  
Co-author: Per Johansson

**Monday 17 January**

Martin Dufwenberg, Stockholm University: *Price Competition and Market Concentration: An Experimental Study*  
Co-author: Uri Gneezy

**1999**

**Monday 20 December**

Pehr-Johan Norbäck and Lars Persson, IUI: *Privatization in an Open Economy*

**Monday 13 December**

Azzeddine M. Azzam, Department of Agricultural Economics, University of Nebraska, Lincoln: *Measuring Market Power in Bilateral Oligopoly: The Wholesale Market for Beef*  
Co-authors: John R. Schroeter and Mingxia Zhang

**Monday 6 December**

Sebastian Arslanogullari, Uppsala University: *Social Assistance in Sweden 1990–1995*

**Monday 29 November**

Magnus Arnek, Dalarna University: *Do Firms Respond to Incentives? An Empirical Analysis of the Swedish National Road Administration's Contracting Practices*  
Co-author: Per Johansson

**Monday 22 November**

Matz Dahlberg and Eva Johansson, Uppsala University: *On the Vote Purchasing Behavior of Incumbent Governments*

**Monday 15 November**

Kimberly Clausing, Reed University: *The Impact of Transfer Pricing on Intrafirm Trade*

**Monday 8 November**

Fredrik Andersson, Office of Labour Market Policy Evaluation (IFAU) and Department of Economics, Uppsala University: *Job Flows in Swedish Manufacturing 1972–1996*

**Monday 1 November**

Sven-Olof Fridolfsson, IUI: *On the Objective of Merger Control: A Consumer's Surplus Defense*

**Monday 25 October**

Henrik Braconier and Karolina Ekholm, IUI: *Swedish Multinationals and Competition from High- and Low-Income Locations*

**Monday 18 October**

Antje Baerenss, IUI and University of Colorado: *R&D Joint Ventures: The Case of Asymmetric Firms*

**Monday 11 October**

David Domeij, Stockholm School of Economics: *Capital versus Labor Income Taxation with Heterogeneous Agents*  
Co-author: Jonathan Heathcote

**Monday 4 October**

Jörgen W. Weibull, IUI and Stockholm School of Economics: *Robust Prediction in Games with Endogenous Mistake Probabilities*  
Co-author: Eric van Damme

**Monday 27 September**

Erik Mellander, IUI: *Input Aggregation Matters a Lot in Productivity Measurement, Even in the Short Run*  
Co-author: Gudmundur Gunnarsson

**Wednesday 22 September**

Volker Nocke, London School of Economics; Oxford University: *Monopolization and Industry Structure*

**Monday 20 September**

Henrik Braconier, IUI: *Multinationals, Endogenous Growth and Technological Spillovers: Theory and Evidence*  
Co-authors: Richard E. Baldwin and Rikard Forslid

**Monday 13 September**

Kaj Martensen, Stockholm School of Economics: *Returns to Scale and Information Externalities*

**Monday 6 September**

Christian Kjellström, National Institute of Economic Research (KI) and Swedish Institute for Social Research (SOFI), Stockholm University:  
*Omitted Ability Bias and the Wage Premium for Schooling: New Swedish Evidence*

**Monday 23 August**

Massimo Motta, European University Institute, Italy: *The Economics of Joint Dominance*

Co-author: Kai-Uwe Kuhn