



IUI, The Research Institute of Industrial Economics
Stockholm

IUI YEARBOOK 2000/2001

Foreword

One of the most important trends in the world economy during the last couple of decades has been the increasing flows of financial and investment capital across national borders. This is probably the most significant aspect of the globalization of the world economy. While the figures of the gross volume of financial capital flows are gigantic and attract a great deal of media attention, the increasing flows of foreign direct investment (FDI) is however a more important development from a structural perspective.

In 1982, the ratio of world foreign direct investment to gross domestic capital formation was 2 percent. Now, the same ratio is 14 percent. For Sweden, the development in this area has been even more dramatic. At the beginning of the eighties, ingoing foreign direct investment in Sweden was insignificant. During the second half of the nineties, the ratio of ingoing foreign direct investment in Sweden to gross capital formation was over 50 percent. No other industrialized country had a higher figure. When it comes to outgoing Swedish investment, Sweden has been one of the leading OECD-countries since the beginning of the seventies.

These investment flows have been beneficial for the Swedish economy and the Swedish corporate sector. By expanding abroad, the large Swedish firms have become world leaders in their fields, which has clearly benefited their operations in Sweden. Moreover, the incoming investment has contributed to vitalizing the Swedish corporate sector. Academic research on FDI has shown that the host country benefits from the technology and knowledge transfer that is often inherent in foreign investment. This result is confirmed by the Swedish experience.

While the globalization process has been positive for the Swedish economy in general, it also creates new challenges for the business community as well as for policymakers. As production becomes more international, the choice of localization of economic activities becomes more important for firms, which means that mobility of capital and economic activity increases. The challenge for policymakers is then to create an economic environment that is attractive for mobile economic activities and creates a high value-added.

Research at IUI is, to a large extent, directed towards areas connected to the globalization process. Cross-border mergers and localization of economic activities in multinational firms are two areas to which the research activities at IUI are concentrated. By pursuing academic research in these areas, IUI contributes to the understanding of the globalization process and provides business and government with tools to analyze their position in a globalized environment.

Håkan Mogren
Chairman of IUI

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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, 57 dissertations in economics originate here, and a significant part of IUI's work has been published in international scientific journals and books. Many 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. 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 doctorate in economics. The 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 the conclusions they draw. 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 around 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 AstraZeneca and Ericsson.

Financial Sources

The principal of the Institute, namely the Confederation of Swedish Enterprise (Svenskt Näringsliv), formerly the Federation of Swedish Industries and the Swedish Employer's Confederation, provides about 60 percent of the budget. The remainder of the financial support is primarily from various research funds. Generous financial support from the following bodies is gratefully acknowledged: The Bank of Sweden Tercentenary Foundation, the European Commission Research Directorates General, the Office of Labour Market Policy Evaluation, the Swedish Business Development Agency, the Swedish Council for Work Life Research, the Swedish Competition Authority, the Swedish Research Council, 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.

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News at IUI

The progress of international economic integration has been strong all over the world in recent years. Over the period 1991–1996, approximately 95 percent of a total of 599 changes in the regulatory FDI regimes of countries were in the direction of liberalization. Moreover, enlargement is today a key priority for the European Union. IUI has several research programs dealing with the economic and social effects of these changes. Examples of issues studied in some of the ongoing projects are: an empirical study analyzing the determinants of location of production in Europe, and a study analyzing the determinants of parallel imports in international trade and evaluating the effects of arbitrage on prices, investment and welfare. Another project addresses the issue of competition policy in international markets. As part of this research agenda, IUI hosted a workshop on EU enlargement and market integration in April 2001. The workshop attracted almost 30 leading researchers in the field from all over the world.

During the academic year 2000/2001, the IUI staff has undergone several changes. Karolina Ekholm has been appointed assistant professor at the Stockholm School of Economics. Erik Mellander has accepted a post as deputy director general at the Office of Labour Market Policy Evaluation (IFAU). Pavel Pelikan has retired. Helen Jakobsson has, after having successfully defending her thesis, accepted a post at the Ministry of Finance. Research assistants Malin Hübner and Loredana Magri left IUI to take up positions at the Riksbank and Reuters respectively. Research assistant Susana Aparicio left to finish her master's degree. Finally, accountant Maria Hedström left IUI to take up a position at the Center for Business and Policy Studies (SNS).

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

In order to strengthen IUI's position in Human Capital and Industrial Organization, María Sáez-Martí, formerly at the Stockholm School of Economics, has been recruited. In addition, Christina Håkanson and Magnus Wiberg have joined IUI as research assistants. Elisabet Berglund, Umeå University, has been a visiting researcher during the year. In the administrative staff, Marta Benkestock has replaced Maria Hedström.

Other Activities

Elisabet Berglund, Umeå University, has been visiting IUI during the academic year 2000–2001. She has been working on the issue of what individual and regional characteristics are important for an individual's switch from employment to entrepreneurship, or to a combination of employment and entrepreneurship. The research project is a self-contained project within the FEM-project (Female Entrepreneurship Studies) driven by Professor Carin Holmquist, Umeå University and the Stockholm School of Economics. Examples of questions that have been discussed in the research project are: Do individual characteristics with an impact on the choice differ between different groups, for example between men and women? Do they differ for employed and unemployed individuals? During the year, Elisabet Berglund has presented some of the results of her research at seminars at IUI, the Entrepreneurship and Small Business Research Institute, Stockholm and Stockholm University. Her paper "Plants' Entry and Exit in Swedish Municipalities" co-authored with Kurt Brännäs has been accepted for publication in *The Annals of Regional Science*.

Jonas Björnerstedt is currently working on a theory of bilateral oligopoly. Together with Johan Stennek, he has developed a model (IUI working paper 555) of intermediate goods markets, where both buyers and sellers have market power. In a separate paper, this model is applied to the theory of mergers. Jonas Björnerstedt is also working on an extension of this model to describe price adjustment in markets where contracts are renegotiated. In a separate line of work, he is also working on a general setup for experiments in economics based on web-technology.

Henrik Braconier works on issues of multinationals, trade, economic growth and R&D, 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 K. Ekholm) has been published in *Review of International Economics*. Three studies, "Competition for Multinational Activity in Europe: The Role Played by Wages and Market Size", "Foreign Direct Investment in Central and Eastern Europe: Employment Effects in the EU" and "Locating Foreign Affiliates in Germany: The Case of Swedish MNEs" (all with K. Ekholm) have been completed. On growth and R&D, the paper "Do Higher Per Capita Incomes Lead to more R&D Expenditure?" was published in *Review of Development Economics*. Furthermore, the study "Does FDI Work as a Channel for R&D Spillovers? Evidence Based on Swedish Data" (with K. Ekholm and K. H. Midelfart Knarvik) has been accepted for publication in *Weltwirtschaftliches*

Archiv. The paper “Measuring Changes in Fiscal Policy” (with S. Holden) has been completed. Ongoing projects include ”National and International Mergers and Acquisitions” (with P.-J. Norbäck and L. Persson), “Relative Wage Costs and Employment Patterns within MNEs” and “Vertical versus Horizontal FDI” (with P.-J. Norbäck and D. Urban). In March 2001, Henrik Braconier was on leave from IUI to conduct a background report (Automatic Stabilizers and Fiscal Policy within the EMU) for the “Committee on Stabilization Policy for Full Employment if Sweden Joins the Monetary Union”. Henrik Braconier has also presented his research at various international workshops and conferences.

Sven-Olof Fridolfsson continued his research in industrial organization with an emphasis on the process of merger formation and merger control. He presented a paper at the Nordic Workshop in Industrial Organization in Helsinki. In February 2001, he successfully defended his Ph.D. thesis at Stockholm University.

Mattias Ganslandt returned to the institute after a year as a visiting scholar at the University of Colorado at Boulder. He continued a research project on pricing and arbitrage in international oligopolies. His co-operation with Keith Maskus resulted in a couple of papers on distribution and the pricing of pharmaceutical products. He also worked on a joint project with James Markusen on national standards in international oligopolies. As part of the co-operation between the institute and international researchers, Mattias Ganslandt organized a workshop on Mergers and Vertical Organization of Industries as well as a workshop on International Trade and Competition in the fall. In January, he organized a seminar on 3G-auction design with professor Paul Klemperer. In April, he was the co-organizer of a research conference on EU Enlargement and Market Integration. In the spring, he also wrote a commissioned report for the Ministry of Industry, Employment and Communications (“Kartellbekämpningsutredningen”) on dissolution and divestiture as a remedy in competition law.

Ulf Jakobsson is director of IUI and adjunct professor of Economics at the University of Umeå. He has recently, together with Magnus Henrekson, been studying policies and structures of corporate ownership in Sweden after World War II. The results of the work so far have been presented in several articles, one of which will be published in *Journal of Evolutionary Economics*, and another in a forthcoming book on ownership policies in Sweden. The work has also been presented at different seminars. Together with Pontus Braunerhjelm, he is also working on a book on the economic effects of technological change.

Assar Lindbeck has worked within the research areas alternative pension systems and pension reforms, the interaction between economic incentives and social norms, the insider-outsider theory of unemployment, and the consequences

for the labor market and the structure of the reorganization of firms. 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 of Assar Lindbeck's research on pension systems are forthcoming in a volume on pension systems by the National Bureau of Economic Research (NBER). A paper on "Changing Tides for the Welfare State" will be published in a conference volume in honor of Richard Musgrave.

Tobias Lindqvist, a Ph.D. student in economics at Stockholm University, joined IUI in the summer of 1999. He is currently working on his thesis in the area of experimental economics and industrial organization, with an emphasis on mergers and acquisitions. In June 2001, he presented a paper at the ESA01 meeting in Barcelona and in Trento, where he joined the summer school in Experimental Economics.

Erik Mellander is involved in research on human capital, new technologies and productivity. He presented the paper "The Multi-Dimensional Nature of Labor Demand and Skill-Biased Technical Change" at the 8th World Congress of the Econometric Society in Seattle. He also presented the paper "Is Human Capital the Key to the IT Productivity Paradox?" (written jointly with Gudmundur Gunnarsson and Eleni Savvidou) at several conferences and workshops. He organized a workshop on productivity measurement in the public sector, at Statistics Sweden, together with Professor Bertil Holmlund, Uppsala University. He serves as the thesis advisor of Eleni Savvidou, IUI. Erik Mellander and Eleni Savvidou published a report for a public investigation on individual learning accounts: SOU 2000:107, *Företagens syn på individuella kompetenskonton* (Firms' Views on Individual Learning Accounts). In March 2001, Erik Mellander accepted the position as deputy director general at the Office of Labour Market Policy Evaluation (IFAU), in Uppsala. He maintains an affiliation with IUI to continue his research on productivity issues.

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 their sales abroad and how markets abroad are served. He is currently working with Lars Persson on the project "Trade and Investment Liberalization and Privatization in an International Oligopoly". Other projects include "Merger 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). Pehr-Johan Norbäck has also taught at Stockholm University

and Södertörn University College. During the year, he has published articles in *Journal of Development Economics* and *Journal of International Economics*.

Lars Oxelheim has maintained his affiliation with IUI while holding a full-time professorship (chair) in International Business at Lund University. His current research focuses on the implications of macroeconomic disturbances for corporate performance and issues related to economic and financial integration. During the year, he had one paper published in *Journal of Common Market Studies* (with Pontus Braunerhjelm) and one in *Journal of Multinational Financial Management*. One paper was also accepted for publication in *International Business Review* (with Art Stonehill and Trond Randøy). Lars Oxelheim is chair of the Swedish Network for European Studies in Economics and Business. In that capacity, he has edited (with Ulf Bernitz and Sverker Gustafsson) the network's annual publication *Europaperspektiv – Östutvidgning, majoritetsbeslut och flexibel integration (European Perspectives – Extension towards the East, Majority Decisions and Flexible Integration)*, Santérus Förlag, Uppsala. He also organized the network's third annual conference in Mölle on *Economic Aspects of European Integration: The Swedish Research Frontier*. Lars Oxelheim serves on the editorial board of *Journal of International Business Studies*, *Management International Review* and *International Business Review*.

Lars Persson is the deputy director of IUI and a CEPR research affiliate. He has been involved in the project "Industrial Re-Organization: Understanding Changing Market Structures and Trading Patterns". 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. Lars Persson 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. Finally, Lars Persson is working on the project "Merger and Acquisitions in Europe" (with Henrik Braconier and Pehr-Johan Norbäck). Together with Henrik Braconier and Mattias Ganslandt, he has organized an IUI workshop on EU enlargement and market integration. He also gave talks at the Stockholm School of Economics and University of Bergen, NHH (Bergen).

María Sáez-Martí is currently working on the applications of evolutionary game theory to economic issues, the foundations of time inconsistent preferences and the cultural roots of corruption. María Sáez-Martí has had her paper "Cycles of Aggregate Behavior in Theory and Experiment" (joint with Antoni Bosch-Domènech) accepted for publication in *Games and Economic Behavior*

(forthcoming 2001). She has also given seminars at Crest (Paris), Stockholm School of Economics, Stockholm University and IUI.

Eleni Savvidou was admitted to the Ph.D. program in Economics at Uppsala University. She continued her research on issues of IT, human capital and productivity growth. She published “Firms’ Skills Provision and Points of View on the Individual Learning Accounts” (with Erik Mellander) in SOU 2000:107. Eleni Savvidou also published two articles in *Dagens Industri*, *Debatt & Dialog*, “IT Productivity Cannot be Measured with Statistics Only” (with Erik Mellander and Gudmundur Gunnarsson) and “ILA is Going to be a Complement” (with Erik Mellander).

Anna Sjögren does research on the importance of socio-economic background and gender for educational and occupational choices, labor market outcomes and mobility. During the year, she has worked on the project “Intergenerational Mobility, Occupational Choice and the Incentive Structure”. In the period November 2000–June 2001, Anna was a visiting scholar at the University of Chicago, USA. Anna presented “Occupational Choice and Incentives: The Role of Family Background”, at the European Economic Association in Bolzano in August 2000. In April 2001, Anna presented “Negative Self-Selection and the Dynamics of Self-Confidence” (joint work with Susanna Sällström, University of Cambridge, UK), at the University of Chicago.

Per Skedinger is currently doing research on the employment effects of the negotiated minimum wages in Swedish hotels and restaurants. The project makes use of SAF’s (Confederation of Swedish Employers) micro data on wages and employment and data on wage agreements. In December 2000, he acted as the opponent of Erik Zetterström at Uppsala University (preliminary Ph.D. thesis) and in May 2001, he lectured at the Executive MBA-IT program at the Stockholm School of Economics.

Johan Stennek is currently doing research on Mergers & Acquisitions (with Sven-Olof Fridolfsson and Tobias Lindqvist) and Bilateral Oligopoly (with Jonas Björnerstedt). Five of his papers have been published as IUI working papers: “Bilateral Oligopoly” (with Jonas Björnerstedt), “Why Event Studies Do Not Detect Anti-Competitive Mergers” (with S-O Fridolfsson), “Should Mergers be Controlled” (with S-O Fridolfsson), “Efficiency Gains from Mergers” (with Lars-Hendrik Röller and Frank Verboven), and “Merger Control and Enterprise Competitiveness” (with Frank Verboven). The latter two are based on two reports for the European Commission concerning the costs and benefits of introducing a so-called efficiency defense into the EU merger control. Johan Stennek visited WZB in Berlin in March 2001. During the year, Johan Stennek has submitted a

proposal for an RTN project to the European Commission concerning Competition Policy in International Markets together with L-H Röller (WZB, Berlin), Patrick Legros (ECARE, Brussels), Mark Ivaldi (IDEI, Toulouse), Frank Verboven (Leuven), Damien Neven (Geneva), Konrad Stahl (Mannheim) and Jerry Hausman (MIT, Boston). Johan Stennek is associate editor of the *International Journal of Industrial Organization* (IJIO) and a CEPR research affiliate. During the year, Johan Stennek has lectured and supervised at Stockholm University, acted as a discussant at a licentiate defense at Stockholm School of Economics, and has been a member of the scientific committee of the European Economic Association Annual Meeting.

David Sundén, a Ph.D. student at the Stockholm School of Economics, has been working on his thesis on public pension systems. The work concentrates on the macroeconomic effects and efficiency consequences of reforming old-age social security.

Roger Svensson is currently doing research on consulting firms and services. Specific issues of the consulting sector that he investigates are procurement, knowledge transfer and effects on competition when government authorities sell consulting services. During the year, his article on procurement of consulting services “Success Determinants when Tendering for International Consulting Projects” was published in *International Journal of the Economics of Business*. Another article on research and development and export performance, “R&D and Foreign Sales in Swedish Multinationals: A Simultaneous Relationship?” was accepted for publication in *Research Policy*. Two articles about unfair competition by the government in the consulting market and whether consulting firms should be listed on the stock market were published in *Ekonomisk Debatt*. Finally, Roger Svensson has published several policy-related articles in newspapers (*Svenska Dagbladet* and *Dagens Industri*), on whether government authorities should be allowed to sell services in the free market.

Jörgen Weibull has presented research results at the Arne Ryde Symposium (Lund University), Boston University, Columbia University, Cornell University, European Economic Association Annual Congress (Bolzano), Harvard University, Institut Poincaré (Paris), M.I.T., Odense University, Pennsylvania State University, University College London, Université de Montreal, University of Wisconsin at Madison, World Congress of Game Theory Society (Bilbao), and Zurich University. He acted as scientific program chairman for the European Economic Association’s Annual Conference, Lausanne 2001, as associate editor for *Econometrica*, and spent the spring semester at the Economics Department at M.I.T. He worked on the following research topics: (1) “Neutrally Stable

Outcomes in Cheap-Talk Coordination Games”, with Abhijit Banerjee, published in *Games and Economic Behavior*; (2) “Evolution and Refinement with Endogenous Mistake Probabilities”, IUI WP 525, revised and submitted for journal publication; (3) “Deterministic Approximation of Stochastic Evolution in Games”, with Michel Benaim, IUI WP No 534, under revision for resubmission to *Econometrica*; (4) “Probabilistic Choice as a Result of Mistakes”, with Lars-Göran Mattsson, IUI WP 544, under revision for resubmission to *Games and Economic Behavior*; (5) “Testing Game Theory”, SSE WP 382, under revision and extension for journal submission; (6) “Bertrand Competition with Forward-Looking Consumers”, with Prajit Dutta and Alexandr Matros, draft; and (7) “Altruism as a Cause for Insurance Market Failure”, with Björn Persson, draft.

Conferences, Workshops and Courses

In October 2000, IUI organized one workshop on international trade and competition and another on mergers and the vertical organization of industries. The workshops were attended by Swedish and international researchers.

During two days in April 2001, IUI arranged a workshop on EU enlargement and market integration. The workshop was held at Vaxholm outside Stockholm and attracted almost 30 leading researchers in the field from all over the world.

As a follow-up on last year's seminar in the Astra-Ericson Seminar Series on Human Capital and Economic Growth, Professor Bengt Holmstrom, M.I.T., visited IUI in January 2001 and gave a seminar on shortage and waste of liquidity.

Professor Paul Klemperer, Nuffield College, University of Oxford, was invited by IUI and the Stockholm School of Economics to give a seminar on lessons from European UMTS auctions in January 2001. Paul Klemperer was the principal auction theorist advising the U.K. government on its 3G-auction design.

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 Intergenerational Mobility, Occupational Choice and the Incentive Structure
- 1.3 Evolution and Bounded Rationality in Economics

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 Globalization and the Changes in Ownership Policy and Ownership Structure in Post-War Sweden
- 2.6 The Swedish Price Level in an International Perspective
- 2.7 International Integration and Domestic Competition

Program 3 Economics of the Welfare State

- 3.1 The Advanced Welfare State

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 returns on investments in education compensate for their 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 and 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 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 the wage-setting for high-skilled workers differ in multinational and domestic firms.

Responsible for the project: Per Skedinger and Erik Mellander

Participating researchers: Gudmundur Gunnarsson and Eleni Savvidou

1.2 Intergenerational Mobility, Occupational Choice and the Incentive Structure

The project analyses theoretically and empirically the processes determining educational and occupational choices and labor market outcomes of individuals in order to understand how the degree of intergenerational mobility is affected by the incentive structure. The contribution of the project is to bring into focus family background and gender determined differences in information and incentives to acquire information about ability. The empirical part of the project uses Swedish micro data to study socio-economic and gender differences in earnings, and allocation and returns to talent. Swedish micro data is also used to estimate discrete occupational choice models with the aim of answering the questions of whether there are family background and gender effects in how the incentive structure influences occupational choice.

Responsible for the project: Anna Sjögren

1.3. Evolution and Bounded Rationality in Economics

The main objective of the project is to apply tools from evolutionary game theory in analyses of central economic issues within areas such as macroeconomics and financial economics, paying special attention to the possibility of multiple equilibria, where small changes in the environment can trigger large changes in the aggregate, via changed micro incentives. Evolutionary game theory can provide hitherto little used powerful tools for economic analysis. A second objective is to deepen the knowledge of the foundations of bounded rationality in decision making and strategic interaction, by studying the evolutionary adaptation of learning behaviors in games. Part of the research will be devoted to connecting this theory with experimental research in economics and behavioral sciences, in particular studies of how human subjects play, and learn to play, games in laboratory experiments. This is an important development of high relevance for the theoretical modeling of bounded rationality.

Responsible for the project: María Sáez-Martí and Jörgen Weibull

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 studies 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: Henrik Braconier and Karolina Ekholm

Participating researchers: Mattias Ganslandt

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 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 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. Price fixing and sales volume targeting are the prime examples of these detrimental factors. Other, less obvious, examples include agreements between large producers and local distributors that facilitate the introduction of products into new markets. The problem is 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 to design appropriate policy measures, we need to understand both the driving forces behind the firms' collaboration and their consequences for social welfare.

Responsible for the project: Lars Persson and Johan Stennek

Participating researchers: Jonas Björnerstedt, Sven-Olof Fridolfsson, Dan Kovenock and María Sáez-Martí

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

At present, we witness a restructuring of production and trading patterns of historical proportions in the world economy. 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 about international trade and FDI have focused on multinational corporations (MNCs) in the manufacturing sector. Few studies have examined the service sectors. 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 transfers. 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 the 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 Globalization and Changes in Ownership Policy and Ownership Structure in Post-War Sweden

This project studies the dramatic turnaround of ownership policies and ownership structure that has taken place in Sweden. After World War II, Swedish ownership policies were guided by a socialist vision, where the ultimate goal was abolition of private ownership. These policies came to an end in the early 1980s. Since then, a large number of Swedish firms have been acquired by foreign owners or merged with foreign firms. At the same time, the foreign ownership share on the Swedish Stock Exchange has increased rapidly.

The march towards socialism has turned into a convergence towards the Anglo-Saxon model of capitalism. A central question in the project is whether this fast turnaround is merely the logical consequence of current globalisation, or whether this tendency is further reinforced by economic vis-à-vis the business sector in Sweden. Another question that will be investigated in the project is whether the convergence in ownership structure also leads to a convergence towards the Anglo-Saxon model when it comes to economic policies.

Responsible for the project: Magnus Henrekson and Prof. Ulf Jakobsson

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 on all OECD countries. Exchange rates play an important role in these kinds of comparisons. If the production and markets of a country are inefficient 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 lack of competitiveness. In the study, we have found that a high degree of union power and a high degree of 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

2.7 International Integration and Domestic Competition

The general theme of this project is to study the microeconomic linkages between international market integration and domestic competition. More specifically, the project is divided in three sub-projects:

In the first sub-project, the intention is to analyze how the expected efficiency gains from institutional reforms to liberalize trade and investment are affected if firms in imperfectly competitive industries adopt business strategies to induce market segmentation. What are the effects of policies to prevent strategic market segmentation and enhance market integration, e.g. international standards and international producer liability?

The purpose of the second sub-project is to analyze the potential conflicts between current law on intellectual property rights and further market integration, e.g. the conflict between patents and international arbitrage. In particular, it will analyze the dynamic and static efficiency of intellectual property rights with respect to both spatial and time dimensions. The theoretical results will be tested on detailed micro-data from the Pharmaceutical industry.

Finally, in the third sub-project, the intention is to analyze how information technology, in particular personal computers and the Internet, can enhance market integration. The purpose is to study the effects on consumer behavior when search costs are reduced. Political and institutional barriers to individual imports – e.g. technical standards and taxation – will be analyzed. The aim is to test the theoretical results on data from the retail industry.

Responsible for the project: Mattias Ganslandt

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 The Advanced Welfare State

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. 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 two books on the dynamics of the welfare state. One book will include technical papers, the other will consist of more popularly written papers.

Responsible for the project: Prof. Assar Lindbeck

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523. *Swedish Multinationals and Competition from High- and Low-Wage Locations*. Henrik Braconier and Karolina Ekholm
522. *Does Foreign Direct Investment Replace Home Country Investment? The Effect of European Integration on the Location of Swedish Investment*. Pontus Braunerhjelm and Lars Oxelheim
521. *Testing the Female Underperformance Hypothesis*. Anita Du Rietz and Magnus Henrekson
520. *Cumulative Effects of Labor Market Distortions in a Developing Country* Pehr-Johan Norbäck
519. *Multinationals, Endogenous Growth and Technological Spillovers: Theory and Evidence*. Richard E. Baldwin, Henrik Braconier and Rikard Forslid
518. *The Multi-Dimensional Nature of Labor Demand and Skill-Biased Technological Change*. Erik Mellander
517. *The Prize in Economic Sciences in Memory of Alfred Nobel*. Assar Lindbeck

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516. *Predation and Mergers: Is Merger Law Counterproductive?* Lars Persson
515. *The Equilibrium Ownership of an International Oligopoly*. Henrik Horn and Lars Persson
514. *The Auctioning of a Failing Firm*. Lars Persson
513. *Endogenous Mergers in Concentrated Markets*. Henrik Horn and Lars Persson
512. *Multinational Firms, Technology and Location*. Pehr-Johan Norbäck
511. *Why Mergers Reduce Profits, and Raise Share Prices*. Sven-Olof Fridolfsson and Johan Stennek
510. *Institutions for the Selection of Entrepreneurs: Implications for Economic Growth and Financial Crises*. Pavel Pelikan

509. *Are Female Workers Less Productive Than Male Workers? Productivity and the Gender Wage Gap.* Eva M. Meyerson, Trond Petersen and Vemund Snartland
508. *Exporting Consultancy Services in the Infrastructure Sectors: The Determinants of Obtaining Assignments.* Roger Svensson
507. *Clever Agents in Young's Evolutionary Bargaining Model.* Maria Saez-Marti and Jörgen W. Weibull
506. *The Long-Run Growth Effects of R&D Subsidies.* Paul S. Segerstrom
505. *How Can Economic Policy Strike a Balance between Economic Efficiency and Income Equality?* Assar Lindbeck
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

Seminars

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Frank Verboven, University of Leuven: *Quantifying the Effects from Horizontal Mergers in European Competition Policy*

Co-author: Marc Ivaldi

Wednesday 6 June

Jay Pil Choi, Michigan State University: *Bundling and the Dynamic Entry Process*

Co-author: Chris Stefanadis

Monday 28 May

Jonas Häckner, Stockholm University: *Vertical Integration and Competition Policy*

Wednesday 23 May

Peter Norman, University of Wisconsin-Madison: *Efficient Mechanisms for Public Goods with Use Exclusions*

Monday 21 May

Pehr-Johan Norbäck, IUI: *Investment Liberalization – Who Benefits from Cross-Border M&As?*

Monday 14 May

Matthew J. Lindquist, Stockholm University: *Capital-Skill Complementarity and Inequality in Swedish Industry*

Wednesday 9 May

Björn Öckert, Swedish Institute for Social Research (SOFI): *Estimating the Return to Higher Education Using a Social Experiment*

Monday 7 May

Otto Toivanen, Helsinki School of Economics: *Monitoring and Market Power in Credit Markets*

Co-author: Ari Hyytinen

Monday 23 April

Mattias Ganslandt, IUI: *Parallel Imports of Pharmaceutical Products in the European Union*

Co-author: Keith E. Maskus

Wednesday 18 April

Almas Heshmati, Stockholm School of Economics: *Knowledge Capital and Performance Heterogeneity: A Firm-Level Innovation Study*

Co-author: Hans Lööf

Monday 9 April

Elisabet Berglund, IUI and Umeå University: *Definitions and Measures of New Entrepreneurs*

Wednesday 2 April

Paul S. Segerstrom, Stockholm School of Economics: *Intel Economics*

Monday 26 March

Mikael Carlsson, Uppsala University: *Measures of Technology and the Short-Run Responses to Technology Shocks: Is the RBC-Model Consistent with Swedish Manufacturing Data?*

Monday 19 March

Per Lundborg, Trade Union Institute for Economic Research (FIEF) and Gothenburg University: *Taxes, Risk Aversion, and Unemployment Insurance as Causes of Wage Rigidity*

Monday 12 March

Ann-Sofie Kolm, Uppsala University: *Wages, Unemployment, and the Underground Economy*

Co-author: Birthe Larsen

Monday 5 March

Katherine Wakelin, University of Nottingham: *Investment Liberalisation and International Trade*

Co-author: Mary Amiti

Monday 26 February

Roger Svensson, IUI: *Visits to the Client when Tendering for Consulting Contracts: Sourcing Information or Influencing the Client?*

Monday 19 February

María Sáez-Martí, Stockholm School of Economics: *On the Cultural Transmission of Corruption*

Co-author: Esther Hauk

Wednesday 14 February

Åsa Rosén, Swedish Institute for Social Research (SOFI): *Firms' Outside Options and Wage Inequality*

Co-author: Etienne Wasmer

Wednesday 7 February

Mats Bergman, Swedish Competition Authority: *Potential Competition and Patent Expiration: Empirical Evidence from the Pharmaceuticals Market*

Co-author: Niklas Rudholm

Monday 5 February

Fredrik Andersson, Uppsala University and Office of Labour Market Policy Evaluation (IFAU): *Determinants of Plant Closures in Swedish Manufacturing*

Co-author: Altin Vejsiu

Monday 31 January

Thomas Tangerås, Institut d'Économie Industrielle, Toulouse: *Ethnic Diversity and Civil War*

Co-author: Nils-Petter Lagerlöf

Monday 29 January

Gudmundur Gunnarsson, Mälardalen's University College, and Erik Mellander and Eleni Savvidou, IUI: *Is Human Capital the Key to the IT Productivity Paradox?*

Wednesday 24 January

Bengt R. Holmstrom, Sloan School of Management, Massachusetts Institute of Technology: *Shortage and Waste of Liquidity*

Monday 15 January

Assar Lindbeck, Institute for International Economic Studies (IIES) and IUI, and Mats Persson, Institute for International Economic Studies (IIES): *What Are the Gains from Pension Reform?*

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Jan Bouckaert, Ghent University: *Borrower Poaching and Information Sharing in the Credit Market*
Co-author: Hans Degryse

Monday 11 December

Jon Thor Sturluson, Stockholm School of Economics: *Power to Cheat: Strategic Cross Subsidization in Imperfectly Competitive Power Markets*
Co-author: Niclas Damsgaard

Monday 4 December

Assar Lindbeck, IUI and Institute for International Economic Studies (IIES), and Sten Nyberg, Stockholm University: *Raising Children to Work Hard: Altruism, Free Riding and Social Insurance*

Monday 27 November

Helder Vasconcelos, European University Institute, Florence: *Entry Effects on Cartel Stability and the Joint Executive Committee*

Monday 20 November

Ingela Alger, Boston College: *Expert Services Market Equilibria*
Co-author: François Salanié

Monday 13 November

Mats Persson, Institute for International Economic Studies (IIES), and Claes-Henric Siven, Stockholm University: *An Intertemporal General Equilibrium Model of Crime and Incarceration*

Monday 6 November

Marcus Asplund, Gothenburg University: *Imperfect Competition, Market Size and Firm Turnover*

Co-author: Volker Nocke

Monday 30 October

Anna Sjögren, IUI: *On Self-Confidence, Negative Self-Selection, and Discrimination*

Co-author: Susanna Sällström

Monday 23 October

Arvid Nilsson, Stockholm School of Economics: *Transparency and Competition*

Monday 16 October

Arthur Robson, University of Western Ontario: *The Coevolution of Human Longevity and Intelligence in Hunter-Gatherer Societies*

Co-author: Hillard S. Kaplan

Monday 9 October

James R. Markusen, University of Colorado at Boulder: *Multi-issue Bargaining and Linked Games: Ricardo Revisited or No Pain No Gain*

Co-authors: Ignatius J. Horstmann and Jack Robles

Wednesday 4 October

Yongmin Chen, University of Colorado at Boulder: *Vertical Disintegration*

Monday 2 October

Mike Burkart, Stockholm School of Economics: *Agency Conflicts, Ownership Concentration and Legal Shareholder Protection*

Co-author: Fausto Panunzi

Monday 25 September

Erika Ekström, Office of Labour Market Policy Evaluation (IFAU): *The Recruitment Behaviour of Employers*

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Niko Matouschek, London School of Economics: *Increasing Lock-in to Facilitate Decision Making: A Property Rights Theory of the Firm with Private Information*

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Dieter Urban, Bocconi University: *For Whom is MAI? A Theoretical Perspective on Multilateral Agreements on Investment*

Co-author: Alessandro Turrini

Monday 11 September

Karolina Ekholm, IUI and Stockholm School of Economics: *Competition for Multinational Activity in Europe: The Role Played by Wages and Market Size*

Co-author: Henrik Braconier

Monday 4 September

Björn Segendorff, Stockholm School of Economics: *Scapegoats and Transparency in Organizations*

Monday 28 August

Elisabet Berglund, IUI and Umeå University: *Human Capital and Regional Entry of Firms*