



IUI, The Research Institute of Industrial Economics
Stockholm

IUI YEARBOOK 2004/2005

Foreword

We are presently in the early phase of a restructuring of the world economy that will have profound implications in many areas. Several factors are driving the process:

- *New technologies that dramatically reduce the importance of long distances in several ways.*
- *An increased importance of human capital in the production process.*
- *New technologies and deregulated markets have contributed to a mobility of capital unlimited by national borders.*
- *A massive entry of new countries on the world markets. The most important of these countries are China and India.*

Restructuring has indeed been part of the world economy since the industrial revolution. In some periods, however, the forces of restructuring are especially strong. I think that we are now entering such a period.

One reason for this is that new technologies allow for a fragmentation of the value-chain, which makes it possible to achieve a specialization in each part of this chain. Thus, relocation of activities is no longer confined to one or two particular branches; it is taking place in nearly all parts of the economy.

Another reason is the potential size of the newcomers to the world economy. The Heckscher-Ohlin theorem of factor price convergence suggests that the wage levels of Chinese and Indian industrial workers will eventually be equal to those of European industrial workers. The potential size of the Chinese and Indian economies suggests that the restructuring that goes together with the convergence will be of historical proportions.

Overall, the process I am discussing is highly beneficial for the world economy. The convergence of wages will lift hundreds of millions of workers out of poverty. The fast growth of the new markets creates new business opportunities on an unprecedented scale.

From a Swedish perspective, I can see two fields where action is needed for the Swedish economy to reap the full potential benefits of the ongoing restructuring process.

Much of the pressure of restructuring falls on workers with education at a low or medium level. When they lose their jobs in the restructuring process, it is very important that they can be employed in new positions. Otherwise, the alternative is that they end up as clients somewhere in the vast Swedish systems of government

transfers. For the former to occur, it is necessary to increase the flexibility of the Swedish labor market.

For the process to be beneficial for an advanced economy, resources in the economy should be relocated from simpler to more advanced activities. A necessary condition for this is that there is actually a growth of advanced activities in the economy. For a small economy like Sweden, there is no guarantee that this will happen automatically. The high unemployment figures we now see for people with an academic education indicate that there is no room for policy-maker complacency. Instead, there is a need for policy measures that will make Sweden more attractive as a location for advanced economic activities. There is also a need to improve the incentives for entrepreneurship based on human capital.

Much of the research at IUI goes on in areas connected to the issues upon which I have just touched. It is my conviction that good policies require good knowledge. Therefore, it is a challenge for the researchers at the IUI to make their research results part of the environment in which the economic policy decisions are taken.

Stockholm 2005

Björn Hägglund
Chairman of IUI

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Presentation of IUI

The IUI Foundation (Stiftelsen 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). At present, the main part of IUI is financed by the Confederation of Swedish Enterprise, which also elects the IUI board.

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, 59 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, 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.

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 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. The 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 be possible without financial support from AstraZeneca and Stora Enso.

Financial Sources

The Confederation of Swedish Enterprise provides about 66 percent of the budget. The remainder of the financial support primarily comes from various research funds in the form of grants for specific projects. Generous financial support from the following bodies is gratefully acknowledged: the European Commission, Jan Wallander's and Tom Hedelius' Foundation, the Office of Labour Market Policy Evaluation, the Swedish Competition Authority, the Swedish Research Council and the Marianne and Marcus Wallenberg Foundation.

Board of Directors

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

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María Sáez-Martí

Anna Sjögren

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Helena Svaleryd

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Yves Zenou

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Visiting Researchers

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Stephan Arping, University of Amsterdam, Netherlands

Olivier Bertrand, University of Paris 1 Panthéon-Sorbonne, France

Alberto Bisin, New York University, USA

Antonio Cabrales, University Pompeu Fabra, Barcelona, Spain

Pascal Courty, European University Institute, Florence, Italy

Marco Da Rin, Turin University, Bocconi University, Italy, and European Corporate Governance Institute, Brussels, Belgium

Simona Fabrizi, Bilbao University, Spain

Chaim Ferstman, Tel Aviv University, Israel

Cecilia Garcia-Penalosa, GRQAM, Marseille, France

Gaëlle Garnier, European Commission, Brussels, Belgium

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Jos Jansen, WZB Berlin and Humboldt University, Germany

Dalida Kadyrzhanova, Columbia University, New York, USA

Mikhail Klimenko, Georgia Institute of Technology, USA

Steffen Lippert, University of Toulouse 1, France, and Mannheim University, Germany

Thierry Mayer, University of Paris-Sud, France

Bo Søren Nielsen, Copenhagen Business School, Denmark

Manju Puri, Duke University, North Carolina, USA

Pierre Regibeau, University of Essex, UK

Moreno Roma, European Central Bank, Directorate Economic Developments, Frankfurt, Germany

Lars-Hendrik Röller, European Commission, Brussels, Belgium

Xavier Sala-i-Martin, Columbia University, New York, USA

Giancarlo Spagnolo, Research Unit of the Italian Public Procurement Agency, Rome, Italy, and Stockholm School of Economics, Sweden

Morten Søberg, Norwegian Parliament, Oslo, Norway

Dieter Urban, Johannes Gutenberg University of Mainz, Germany

Yoram Weiss, Tel Aviv University, Israel

News at IUI

A crucial ingredient in a well functioning market economy is entrepreneurial innovations, i.e. innovations made by small firms outside a specific industry. Increased competition is generally perceived as beneficial for the functioning of a market; however, there are concerns that the incentives for entrepreneurial innovations can be reduced by increased product market competition.

IUI has therefore launched a project studying how different types of competition policies such as merger policy, cartel policy and licensing policy affect the incentives of entrepreneurial innovations. Another related project analyzes how policies supporting research and development (R&D) networks affect the incentives for firms' R & D investments. As part of this research agenda, IUI hosted a workshop on innovations, ownership and competition in June 2005, which attracted around 30 leading researchers in the field from all over the world.

In February 2005, Professor Xavier Sala-i-Martin, Columbia University, New York, was invited to give a public lecture and a mini course within the AstraZeneca-StoraEnso Seminar Series on Human Capital and Economic Growth. He is one of the leading researchers in this field and the focus of the mini course was on two topics (i) The Growth Competitiveness Index: Analyzing Key Underpinnings of Economic Growth, and (ii) Robust Cross-Country Estimators and African Growth. The title of Professor Sala-i-Martin's public lecture was "Poverty and Inequality". Professor Fabrizio Zilibotti, Institute for International Economic Studies (IIES) at Stockholm University, and Professor Ari Kokko, Stockholm School of Economics, were invited to discuss the findings.

The IUI research on multinational companies has contributed to a scientifically based economic-political debate and a more constructive approach concerning the internationalization of companies. To continue this important task in understanding how globalization affects business in Sweden and the Swedish economy, IUI has completed a study of multinational companies with businesses in Sweden and their activities abroad. This survey adds to the institute's previous surveys, the first of which was launched in 1965.

Other Activities

Olivier Bertrand is a visiting researcher at the IUI within the CEPR RTN program “Competition policy on International Markets”. He is currently working on a project investigating the trade-off between greenfield investment and M&A and their consequences on industry and firm performance using the IUI database on multinational Swedish firms. He has started a joint project with Pehr-Johan Norbäck, Katariina Hakkala and Lars Persson examining whether the repercussions of M&A differ from those of greenfield investments, mainly in terms of R&D activities or, more generally, investment expenditures. One of the papers on greenfield investment and cross-border M&A was published in March 2005 in the *Journal of Economic Integration*. Another paper on the impact of trade liberalization on industrial restructuring will be published in the *Journal of Economics and Management Strategy* in 2006. He also published articles in French journals. He participated at a CEPR meeting in Brussels in April and presented work at an IUI seminar.

Jonas Björnerstedt is currently studying the patterns of trade in intermediate goods markets together with Johan Stennek. They are working on testing their model (IUI WP 555) of intermediate goods markets on the aircraft engine markets. Jonas Björnerstedt is also working on an extension of this model where contracts are renegotiated over time. With overlapping contract renegotiation, the sales structure converges to an equilibrium of the model of Björnerstedt & Stennek. Jonas Björnerstedt is also working together with Andreas Westermark (Department of Economics, Uppsala University). They are developing a model of strategic discrimination between workers. Specifications of hours worked and of tasks can be strategically used in wage bargaining. In a joint work with Johan Stennek and Andreas Westermark, strategic incentives for horizontal and vertical mergers in intermediate goods markets are investigated.

Sven-Olof Fridolfsson has worked on various projects related to mergers and acquisitions. In cooperation with Johan Stennek, he has examined the possibility of identifying the welfare effects of mergers by analyzing stock market data. He has also devoted work to discussing appropriate objectives for merger control. The paper “Why Mergers Reduce Profits and Raise Share Prices – A Theory of Preemptive Mergers” (with Johan Stennek) was accepted for publication in the *Journal of the European Economic Association* at the beginning of 2005. In January 2005, Fridolfsson was a visiting research fellow at the research institute CERAS in Paris, France. During this visit, he presented the paper “Industry Concentration and Welfare – On the Use of Stock Market Evidence from Horizontal Mergers” (with

Johan Stennek). In April 2005, he also presented the paper “A Consumers’ Surplus Defense in Merger Control” at the International Industrial Organization Conference in Atlanta, USA.

Mattias Ganslandt’s research 2004/2005 focused on the economic and legal aspects of competition policy and intellectual property rights. In cooperation with Richard Friberg at the Stockholm School of Economics, he continued a project about the welfare effects of international trade and competition with differentiated products. They started a theoretical project on the welfare effects of reciprocal dumping with Bertrand competition. Mattias Ganslandt presented the paper “Do Mergers Result in Coordinated Effects?” at the 13th WZB Conference on Markets and Political Economy and the 2nd Workshop of the Research Training Network (Competition Policy in International Markets) on “Collusion and Cartel”, in Berlin in October 2004 and the International Industrial Organization Conference in Atlanta in April 2005. He also started a project on the competitive effects of vertical price control and wholesale price discrimination in international markets with Keith Maskus at University of Colorado and continued to work on the welfare effects of parallel trade. He contributed with a chapter about “International Trade and Intellectual Property Rights” to an intermediate textbook in international economics published by SNS in March 2005. In June, 2005 he co-organized a CEPR/IUI conference on “Innovation, Ownership and Competition” with Lars Persson and Yves Zenou. In addition, he coordinated the International Competition Network in Stockholm (Icon), he was president of the Association of Liberal Economists in Sweden and secretary general of the Swedish Economic Association.

Katariina Hakkala has worked with Helena Svaleryd and Pehr-Johan Norbäck studying how firms’ decisions on foreign direct investments are affected by corruption in a country. She presented this work at the European Trade Study Group Conference in Nottingham, UK and at the Society for the Advancement of Economic Theory (SAET) Conference in Vigo, Spain. She currently works with Karolina Ekholm studying how offshoring and outsourcing of production affects demand for labor in Sweden. Preliminary work was presented at the Swedish Network for European Studies in Business and Economics (SNEE) conference in Mölle and at Riksbanken. She is also involved in a project related to R&D investments and entry mode of multinational firms together with Pehr-Johan Norbäck and Olivier Bertrand. In addition, she has completed the data collection for IUI’s survey on Swedish international enterprises 2003 together with David Zimmermann.

Henrik Horn has spent most of the year working on the economic/legal aspects of the World Trade Organization (WTO) Agreement, in particular its Dispute

Settlement Mechanism. Part of this work has been in the American Law Institute project “Principles of International Trade Law: The World Trade Organization”, which he heads together with Petros C. Mavroidis (University of Neuchatel, and Columbia University). Within this project, Horn wrote jointly with Petros C. Mavroidis the reports “United States – Continued Dumping and Subsidy Offset Act of 2000”, “United States – Final Determination with Respect to Certain Softwood Lumber from Canada”, and “European Communities – Antidumping Duties on Malleable Cast Iron Tube or Pipe Fittings from Brazil”. These three reports are forthcoming in *Principles of International Trade Law: The WTO Case Law of 2003* (Cambridge University Press, 2006) edited by Horn and Mavroidis. During the year, Horn wrote (jointly with Mavroidis) the survey “International Trade – Dispute Settlement”, (forthcoming in Sykes, Alan O. and Guzman, Alan (eds.), *Handbook of International Trade Law*, 2005), and the paper “The Burden of Proof in National Treatment Disputes before the WTO: Some Theory and Some Evidence” (mimeo, 2004). Horn wrote jointly with Giovanni Maggi, Princeton University and Robert C. Staiger, University of Wisconsin, the paper “Incomplete Contracts in the GATT/WTO and Dispute Settlement” (mimeo, 2005), and he revised the paper “National Treatment in the GATT” (forthcoming in the *American Economic Review*, 2006). Horn also published “Is the Use of the WTO Dispute Settlement System Biased?”, in *The Law and Economics of the WTO Dispute Settlement System*, Mavroidis, Petros C and Sykes, Alan O. (eds.), Edward Elgar Publishing, 2005 (paper written jointly with Petros C. Mavroidis and Håkan Nordström) and “WTO-avtalet och dess efterlevnad” (The WTO Agreement and its Implementation), a chapter in the supplementary textbook *Internationell Ekonomi*, SNS Förlag, Stockholm, 2005 (ed. Karolina Ekholm). Finally, Horn has been working on a World Bank project aiming at constructing a data base on the WTO Dispute Settlement System.

Ulf Jakobsson is director of IUI. He is also presently chairman of the Swedish Economic Association. He is a member of the Statistics Sweden’s Board of National Accounting. He has been chairman of a project group at IVA (the Royal Swedish Academy of Engineering Sciences) that has analyzed the state and importance of manufacturing industry in the Swedish economy. The group has published the report “Produktionens Betydelse” (“The Importance of Production”). Together with Thomas Andersson, Jönköping International Business School, and Pontus Braunerhjelm, the Royal Institute of Technology, he has finished the work on a book discussing Swedish economic policy choices to meet the challenges posed by the forces of globalization. He has also taken an active part in the Swedish economic policy debate with Op-Ed articles in various Swedish newspapers.

Assar Lindbeck has devoted most of his time to the study of economic reforms, social change and social policy in China. He has also written a paper on alternatives to the Stability and Growth Pact (with Dirk Niepelt): “Improving the SGP: Taxes and Delegation rather Than Fines”, IUI WP 633. A revision has been made of his paper “Raising Children to Work Hard: Altruism, Work Norms and Social Insurance” (with Sten Nyberg). “Conceptualization of NDCs” is Assar’s contribution to the book *Pension Reform through NDCs: Issues and Prospect for Non-Financial Defined Contribution Schemes* to be published by the World Bank, Washington, DC (Holzmann, Robert and Palmer, Edward (eds.)). He has also been working on a theory paper on income insurance (with Mats Persson), and two empirical papers on sickness absence (with Mats Persson and Mårten Palme). Together with Christina Håkansson, he has published a paper on Swedish economy growth: “Korpi vilseleder igen”, *Ekonomisk Debatt* 1, 2005. An interview with Assar Lindbeck by Thorvaldur Gylfason has been published as a CESifo Working Paper No 1408. Moreover, Assar Lindbeck had a one-man show of his paintings at Gallery Svenska Bilder, Stockholm in April 2005.

Tobias Lindqvist has worked on various projects related to experimental economics and mergers and acquisitions. He wrote a commissioned report for the Swedish Competition Authority “Payment Systems in the Swedish Banking Market”. The paper “Acquisition Strategies: Empirical Evidence of Outsider-Toeholds” was presented at CEA’05 in Toronto and NORIO’05 in Reykjavik. This paper was also published as an IUI Working Paper, as well as a theoretical paper called “Mergers by Partial Acquisition”. In the spring, two papers were accepted for publication: “Bubbles and Experience: An Experiment” (with Martin Dufwenberg, University of Arizona, and Evan Moore, Auburn University Montgomery) in *American Economic Review* and “The Insiders’ Dilemma: An Experiment on Merger Formation” (with Johan Stennek, IUI) in *Experimental Economics*.

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. Together with Lars Persson, he is working on the project “Investment Liberalization and Privatizations”, which studies the pattern and welfare effects of acquisitions, and new investments in liberalized markets. With Lars Persson and Jonas Vlachos, he studies the tax effects of profit shifting activities by multinational firms. Other projects include “Do Mergers Result in Collusion” (with Mattias Ganslandt), “Efficiency and Market Structure – the Case of Poland” (with Karl-Markus Modén and Lars Persson) and “The Organization of the Innovation Industry: Entrepreneurs, Venture Capitalists, and Oligopolists” (with

Lars Persson). His paper “Multinational Firms and Wage Costs –Vertical FDI Revisited” (with Henrik Braconier and Dieter Urban) was accepted for publication in *Journal of International Economics* .

Lars Oxelheim has maintained his affiliation with IUI while holding a full-time professorship (chair) in International Business and Finance 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 article accepted for publication in *The World Economy* and papers published in *Journal of Applied Corporate Finance* and *Journal of International Business Studies*. He also published a research monograph titled *Corporate Performance and the Exposure to Macroeconomic Fluctuations* (Norstedts Academic Publishers) and contributed one chapter to the monograph *Risk Management: Challenges and Opportunities* (Springer Verlag). He presented new research at conferences in Austria, Belgium, China, Iceland, Italy, Norway, Slovenia and the US. He was appointed advisory professor at Fudan University, Shanghai and was visiting researcher at University of Hawaii at Manoa. During the year, he was elected by the *Financial Management Association* as the scientific organizer of their European conference in 2006. Lars Oxelheim is chair of the *Swedish Network for European Studies in Economics and Business*. In that capacity, he has co-edited (with Sverker Gustafsson and Nils Wahl) the network’s annual publication *Lissabonstrategin i halvtid – Europaperspektiv 2005 (European Perspectives 2005)*, Santérus Förlag, Uppsala. He also organized the network’s seventh annual conference in Mölle on *European Economic Integration in Swedish Research*. During the year, Lars Oxelheim served on the editorial board of *Management International Review*, *International Business Review* and *Treasury Affairs* and on the board of directors of the *Swedish Institute of European Policy Studies*.

Lars Persson is the Deputy Director of IUI and a CEPR research affiliate. The paper “Endogenous Asset Ownership Structures in Deregulated Markets” (with Pehr-Johan Norbäck) was accepted for publication in the *European Economic Review* and the paper “The Failing Firm Defence” was accepted for publication in *Journal of Industrial Economics*. Jointly with Pehr-Johan Norbäck, he has written the paper “The Organization of the Innovation Industry. Entrepreneurs, Venture Capitalists and Oligopolists”, IUI WP 626, and jointly with Chiara Fumagalli and Massimo Motta he has written the paper “Exclusive Dealing, Entry and Mergers”, CEPR DP 4902. He is currently working with Pehr-Johan Norbäck on the project “Investment Liberalization and Privatizations”, which studies the pattern and welfare effects of acquisitions and new investments in liberalized markets. Together with Pehr-Johan Norbäck and Jonas Vlachos, he studies the tax effects of profit

shifting activities by multinational firms and how competition affects the incentives for entrepreneurial innovations. In June 2005, he organized an international conference on Innovation, Ownership and Competition with Mattias Ganslandt and Yves Zenou in Vaxholm. He gave talks at IGIER (University of Bocconi), HECER (University of Helsinki) and the 7th Annual SNEE European integration conference.

María Sáez-Martí has been working on several projects on family background, cultural transmission, discrimination and labor market outcomes. She has also continued working on issues related to deadlines, incentives, intertemporal choice and discounting. Her work on deadlines was presented at the EEA meeting in Madrid. Her paper “Discrimination and Cultural Transmission” has been presented in Paris, Tel Aviv and Barcelona. Maria received her Docentship from Stockholm University in December 2004.

Anna Sjögren does research on the importance of family background and gender for educational and occupational choices, and labor market outcomes. Recent work includes work on cultural transmission with Maria Saez-Marti (IUI WP 641). During the year, she has also continued working on issues related to deadlines, incentives and intertemporal choice (with María Sáez-Martí). This work (IUI WP 618) was presented at the EEA 2004 Meeting in Madrid. During the fall of 2004, Anna was invited as a discussant at the CEPR Summer Workshop on Labour Economics in Munich. During the year, Anna also continued working with Anne Boschini at Stockholm University on the preference for gender segregation in academic co-authorships. This research was presented in Uppsala. Anna has started to work on two IFAU projects, first on the fertility effects of the 2002 childcare fee reform (with Helena Svaleryd) and second, on the effects of abolishing school grades on student performance (with Johnny Zetterberg). During the spring, Anna has taught personnel economics at Stockholm University. Anna organized and hosted the AstraZeneca-StoraEnso Seminar Series on Human Capital and Economic Growth in February 2005. The invited speaker was Xavier Sala-i-Martin from Columbia University.

Per Skedinger continued working on issues related to the economics of disability. He wrote “Are Official, Objective Measures of Disability Reliable?”, IUI WP 643 (with Per Johansson). The paper was presented at the second World Conference of the European Association of Labour of Economists (EALE) and the Society of Labor Economists (SOLE) in San Francisco in June. The papers “Minimum Wages and Employment in Swedish Hotels and Restaurants” and “Decentralisation of Active Labour Market Policy: The Case of Swedish Local Employment Service Committees” (with Martin Lundin) were accepted for publication in *Labour Economics* and the *Journal of Public Economics*, respectively.

Johan Stennek is currently doing research on mergers & acquisitions (with Sven-Olof Fridolfsson), bilateral oligopoly (with Jonas Björnerstedt and Andreas Westermark) and telecommunications (with Thomas Tangerås). During the year, the papers “Why Mergers Reduce Profits and Raise Share-Prices” (with Sven-Olof Fridolfsson) was accepted for publication in *Journal of the European Economic Association*, and “The Insider’s Dilemma: An Experiment on Merger Formation” was accepted by *Experimental Economics*. A book on *Efficiency Defense* is under publication by Edward Elgar, including a chapter written by Lars-Hendrik Röller, Johan Stennek and Frank Verboven. Together with Vivek Ghosal, Johan is editing a volume on *The Political Economy of Antitrust*, to be published by North-Holland during 2005. Johan Stennek is a member of the CEPR-RTN project on Competition Policy in International Markets, and he is affiliated with Center for Economic Policy Research (CEPR) and Center for Business and Policy Studies (SNS), and he is a member of the Swedish Competition Authority’s Council for Competition Research.

Helena Svaleryd has, together with Katariina Hakkala and Pehr-Johan Norbäck, studied the effects of host country corruption on different types of foreign direct investments using the IUI data base on multinational firms (IUI WP 641). WP 640 is the result of joint work with Jonas Vlachos, where they investigate if the supply of human capital is of importance for the skilled bias technological change experienced in OECD countries. This paper was presented at the annual EEA conference in Madrid. Currently she is, together with Jonas Vlachos, studying the effects of political competition and local media on political decision making in general, and political rents in particular. Together with Jonas Vlachos, Fredrik Heyman (FIEF), Mattias Nilsson (Stockholm School of Economics) and Henrik Cronqvist (Ohio State University) she is working on a project which examines the impact of firm ownership structure on how the firm is managed. In particular, the focus is on employee wages, firm wage setting policy and firm response to shocks.

Roger Svensson is currently doing research on the commercialization of Swedish patents. Two papers: “Commercialization of Patents and External Financing during the R&D-Phase” and “Strategies for Successful Commercialization of Patents” were published as IUI working papers. These papers focus on how different factors and strategies influence: 1) the decision to commercialize patents; and 2) the outcome of the commercialization in profit-terms. Special attention is paid to how government subsidies affect the incentives to commercialize inventions. Roger participated in a workshop on Entrepreneurship Research at the Max Planck Institute in Jena, Germany, in June 2005.

Thomas Tangerås worked on the papers “Unilingual versus Bilingual Education System: A Political Economy Analysis”, with Javier Ortega, “Rational Voter

Turnout: Evidence from 232 Norwegian Referendums”, with Morten Søberg, and “Ethnic Diversity and Civil War”, with Nils-Petter Lagerlöf. The paper “Regulatory Policies in Telecommunications”, with Johan Stennek, was presented at a CEPR conference on electronic communication markets in Toulouse and at the Nordic Workshop in Industrial Organization at University of Iceland.

Jonas Vlachos has studied international financial integration. His joint work with Daniel Waldenström (Stockholm School of Economics) on asymmetric growth effects across industries by financial liberalization has been accepted for publication in the *International Journal of Finance and Economics*. He has further investigated the effects of regulatory harmonization on the integration of financial markets (IUI WP 612). This paper was presented at the Stockholm Institute for Transition Economics and at the ECB in Frankfurt. IUI WP 640 is the result of joint work with Helena Svaleryd where they investigate if the supply of human capital is of importance for the skilled bias technological change experienced in the OECD countries. The paper was presented at the annual EEA conference in Madrid. Currently he is, together with Helena Svaleryd, studying the effects of political competition and local media on political decision making in general, and political rents in particular. Together with Helena Svaleryd, Fredrik Heyman (FIEF), Mattias Nilsson (Stockholm School of Economics) and Henrik Cronqvist (Ohio State University), he is working on a project examining the impact of firm ownership structure on how the firm is managed. In particular, the focus is on employee wages, firm wage setting policy and firm response to shocks. Finally, he is studying why some firms have more female executives and board members than others. This is joint work with Anne Boschini (Stockholm University) and Luigi Zingales (University of Chicago). Jonas Vlachos is also one of the editors of *Ekonomisk Debatt*.

Yves Zenou’s main research consists of better understanding social interactions and social networks between agents in the context of education, crime and labor markets. By using the recent developments in graph theory, he has been able to take into account both the direct and indirect interactions between agents in a network, thereby capturing the full effect of a network on the participating agents. This has allowed him to extend the existing literature on social interactions and peer effects, which typically focuses on the direct links between agents in the interaction process. Moreover, using a very detailed dataset of adolescent friendship networks in the United States, he examined how the individual’s position in a network affects her level of crime and educational activities. Since 2004, Yves Zenou is Associate Editor of the *Journal of Urban Economics*. In June 2005, he organized (with Mattias Ganslandt and Lars Persson) an international conference in Vaxholm on

“Innovation, Ownership and Competition”. The following papers have recently been published or accepted for publication: “Job Matching, Social Network and Word-of-Mouth Communication” (with Antoni Calvó-Armengol), *Journal of Urban Economics*, 2005, “Equilibrium Search Unemployment with Explicit Spatial Frictions” (with Etienne Wasmer), forthcoming in *Labour Economics*, “Density, Social Networks and Job Search Methods: Theory and Applications to Egypt” (with Jackline Wahba), forthcoming in *Journal of Development Economics*, “The Spatial Mismatch Hypothesis”, forthcoming in *The New Palgrave, A Dictionary of Economics, Second Edition*, “Search Intensity, Cost of Living and Local Labor Markets in Britain” (with Eleonora Patacchini), forthcoming in *Regional Science and Urban Economics*, “Demand Uncertainty, Mismatch and Unemployment” (with Mohamed Jellal and Jacques-François Thisse), forthcoming in *Economics Letters*, “Urban Crime”, forthcoming in *The New Palgrave, A Dictionary of Economics, Second Edition*, “Spatial Mismatch, Transport Mode and Search Decisions in England” (with Eleonora Patacchini), forthcoming in *Journal of Urban Economics*, “Efficiency Wages and Unemployment in Cities: The case of High Relocation Costs”, forthcoming in *Regional Science and Urban Economics*.

Current Research Programs

Program 1 Industrial Organization and International Specialization

- 1.1 Foreign Direct Investment (FDI), Industrial Organization and Trade Patterns
- 1.2 Competition Policy: Understanding and Evaluating Cooperation between Firms
- 1.3 Industrial Re-Organization: Understanding Changing Market Structures and Trading Patterns
- 1.4 Enlargement of the European Single Market
- 1.5 Globalization and Changes in Ownership Policy in Post-War Sweden
- 1.6 International Integration and Domestic Competition
- 1.7 Commercialization of Swedish Patents
- 1.8 Procurement and Export of Consulting Services

Program 2 Knowledge Accumulation, Human Capital and Economic Growth

- 2.1 Empirical Analyses of the Relations between Education, Training, Productivity and Wages
- 2.2 Individual Choices and Labor Market Institutions: How are Income and Earnings Differences between Individuals and Groups Generated?
- 2.3 Intergenerational Mobility, Occupational Choice and the Incentive Structure
- 2.4 Evolution and Bounded Rationality in Economics

Program 3 Economics of the Welfare State

- 3.1 The Advanced Welfare State

1 Industrial Organization and International Specialization

Throughout the history of IUI, this research program has been of crucial importance. Since the 1960s, the institute has undertaken comprehensive studies on the behavior 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 survey sent out approximately every fourth year to all Swedish MNFs. The database was updated in 1999. A new survey is presently under way.

1.1 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 attracting 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 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: Pehr-Johan Norbäck

Participating researchers: Mattias Ganslandt, Katariina Hakkala, Helena Svaleryd and Jonas Vlachos

1.2 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 looser forms of cooperation. Cooperation concerns a wide range of areas, such as the adoption of common standards, joint research and development and the shared use of common resources. Such forms of cooperation may be part of the competitive process bringing 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 facilitating the introduction of products on new markets. The problem is that such agreements can also be used to exclude other entrants who 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 their consequences for social welfare.

Responsible for the project: Lars Persson and Johan Stennek

Participating researchers: Jonas Björnerstedt, Sven-Olof Fridolfsson, Henrik Horn, María Sáez-Martí and Thomas Tangerås

1.3 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 in 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 in 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, Sven-Olof Fridolfsson, Henrik Horn, Tobias Lindqvist, Pehr-Johan Norbäck, Helena Svaleryd, Roger Svensson and Jonas Vlachos

1.4 Enlargement of the European Single Market

The European Union's (EU) Single Market Program (SMP) is about to be extended in two important dimensions: First, the development of the EU Enlargement Program implies that industries in the new member countries will gradually be integrated into the Internal Market. Second, the Internal Market will be extended to also include services.

One of the most important observed features of the integration of the European economy is the strong increase in foreign direct investments among member countries in the manufacturing sector following the implementation of the Single Market Program in 1993. These investments, both in the form of mergers and acquisitions and greenfield investments, have led to efficiency improvements in production, a better use of new technologies and a challenge to established domestic oligopolies in many industries. Yet, in many industries, successful integration has not taken place and strong incumbent firms have been able to protect their markets from competition.

Moreover, the Single Market Program for Services and the Enlargement Program will have a profound impact on the growth of different regions in Europe. It has been a great concern for many policy makers that some countries might be hurt in this process.

The first purpose of this research program is to determine under what circumstances foreign firms can successfully enter liberalized industries, the second is to determine the regional welfare consequences of changes in firms' investment behavior following the extension of the SMP. By fulfilling these purposes, we aim at contributing to the understanding of how to reform legal institutions in EU to achieve an efficient extension of the SMP.

Responsible for the project: Mattias Ganslandt, Pehr-Johan Norbäck and Lars Persson

Participating researchers: Olivier Bertrand, Sven-Olof Fridolfsson, Henrik Horn, Katariina Hakkala, Tobias Lindqvist, Helena Svaleryd, Roger Svensson, Jonas Vlachos and Yves Zenou

1.5 Globalization and Changes in Ownership Policy in Post-War Sweden

The 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 the 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 and merged with foreign firms. At the same time there has been a rapid increase in the foreign ownership share on the Swedish Stock Exchange.

Another important tendency is, ironically, that the ownership share of the government and different government or union controlled firms has increased in a dramatic way. The old Swedish model of family ownership is upheld mainly by the system of shares with differentiated voting rights. This situation poses several questions that will be analyzed in the project, some of which are:

- To what extent is the model of family ownership sustainable in the future?
What will the effects be of an increasing share of ownership by the public sector and labour unions?
- Could the emerging model of dispersed ownership function without the kind of high powered executive compensation schemes that are common in the Anglo-Saxon countries, but are adverse to Swedish egalitarian values?

Responsible for the project: Magnus Henrekson and Ulf Jakobsson

1.6 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 into 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 for preventing strategic market segmentation and enhancing market integration, e.g. international standards and international producer liability?

The purpose of the second sub-project is to analyze the potential conflicts between the 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

1.7 Commercialization of Swedish Patents

Sweden is top-ranked in the world with respect to R&D spending, granted patents and publications in academic journals. However, we do not have many small, fast-growing, technology-intensive firms, and the commercialization of the intellectual capital is relatively slow in Sweden as compared to other countries. The purpose of this project is to empirically analyze the commercialization process of intellectual capital in Sweden by following individual patents. Three research issues are especially analyzed: 1) The reasons why patents are commercialized or not; 2) Factors influencing the outcome of the commercialization of patents; and 3) The reasons why patents are “killed” by the owners before the patents expire. In all these issues, it is investigated how government subsidies affect the outcome.

Responsible for the project: Roger Svensson

1.8 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. 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 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 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 Knowledge Accumulation, Human Capital and Economic Growth

Contemporary economic research has identified knowledge accumulation as the prime engine of growth. 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 at the macro level.

2.1 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 between multinational and domestic firms.

Responsible for the project: Per Skedinger

2.2 Individual Choices and Labor Market Institutions: How are Income and Earnings Differences between Individuals and Groups Generated?

The project analyses the interplay between demand and supply side effects and institutions in the generation of income and earnings differences between individuals and groups. The project is organized around two themes. The first theme studies the generation of income and earnings differences via processes and institutions influencing individual human capital accumulation and career choice. Within this theme, the effects of ability uncertainty and business cycles on career choice and timing of education are studied. Temporary and part time employment as results of strategic discrimination and their consequences for human capital accumulation are also studied. The second theme is the effect of labor market institutions and the supply of human capital on wages, employment and productivity. Within this theme, the effects of minimum wages and payroll taxes for employment and income distribution are studied using Swedish micro data. Furthermore, the effect of the supply of human capital on the direction of technological change is studied on industry level data for the OECD countries.

Responsible for the project: Anna Sjögren

Participating researchers: Jonas Björnerstedt, María Sáez-Martí, Per Skedinger, Helena Svaleryd and Jonas Vlachos.

2.3 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 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 if there are family background and gender effects in how the incentive structure influences occupational choice.

Responsible for the project: Anna Sjögren

2.4 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 behavior 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

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 IUI 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. 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 of which will include technical papers, while the other will consist of more popularly written papers.

Responsible for the project: Assar Lindbeck

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2005

Tuesday 9 June

Thierry Mayer, University of Paris-Sud: *Make Trade not War?*

Co-authors: Philippe Martin and Mathias Thoenig

Wednesday June 1

Marco Da Rin, Turin University, ECGI (European Corporate Governance Institute), Brussels, and IGIER, Bocconi University: *Human Capital in the Knowledge-based Firm: Evidence from Venture Capital*

Co-authors: Laura Bottazzi and Thomas Hellmann

Wednesday May 25

Morten Sørensen, Norwegian Parliament: *Advisory Referendums and "Referendum Paradox"*

Wednesday May 18

Alberto Bisin, New York University: *Hyperbolic Discounting: An Experimental Analysis*

Co-author: Onur Ozgur

Wednesday May 11

Erik Lindqvist, Stockholm School of Economics: *Does Privatization Always Reduce Costs? Theory and Evidence from Service Contracting*

Wednesday May 4

Karolina Ekholm, Stockholm School of Economics: *Location Choice and Employment Decisions: A Comparison of German and Swedish Multinationals*

Co-authors: Sascha Becker, Robert Jäckle and Marc-Andreas Muendler

Wednesday April 27

Olivier Bertrand, IUI and University of Paris 1 Panthéon-Sorbonne: *M&A and Target Firms' Performance: Are Cross-Border M&A Different? Some Evidence from French Firm-Level Data*

Co-author: Habib Zitouna

Wednesday April 20

David Strömberg, IIES: *Media Markets' Impact on Politics*

Co-author: James Snyder

Wednesday April 13

Cecilia Garcia-Penalosa, GREQAM, Marseille: *Labour Shares and the Personal Distribution of Income in the OECD*

Co-author: Daniele Checchi

Wednesday March 23

Mats Bergman, Södertörn University College and Swedish Competition Authority: *Two-Sided Network Effects, Bank Interchange Fees, and the Allocation of Fixed Costs*

Wednesday March 16

Mikael Nordberg, Uppsala University: *Input Joint Ventures and Their Effects on Product-Market Competition*

Wednesday March 9

Peter Gustafsson, Stockholm School of Economics: *Product Cycles in an Expanding Global Economy*

Wednesday February 23

Giancarlo Spagnolo, the Italian Public Procurement Agency, Rome, and Stockholm School of Economics: *Reputation and Collusion in Procurement*

Co-author: Giacomo Calzolari, Bologna

Monday February 14

Xavier Sala-i-Martin, Columbia University, New York: *Poverty and Inequality*

Wednesday February 9

Per Strömberg, Stockholm Institute for Financial Research (SIFR) and University of Chicago Graduate School of Business: *How Do Legal Differences and Experience Affect Financial Contracts?*

Co-authors: Steven N. Kaplan and Frederic Martel

Wednesday February 2

Renée Adams, Stockholm School of Economics: *Do Directors Perform for Pay?*
Co-author: Daniel Ferreira

Wednesday January 26

Per Pettersson-Lidbom, Stockholm University: *Does the Size of the Legislature Affect the Size of Government? Evidence from Two Natural Experiments*

Wednesday January 19

Witness Simbanegawi, Stockholm School of Economics: *The Effects of Informative Advertising When Only Some Goods Are Advertised*

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Wednesday December 15

Karl Wärneryd, Stockholm School of Economics: *Participation in Contests with Asymmetric Information*

Wednesday December 8

Erik Grönqvist, Stockholm School of Economics: *Does Adverse Selection Matter? Evidence from a Natural Experiment*

Wednesday December 1

Mattias Ganslandt, IUI: *Vertical Distribution, Parallel Trade, and Price Divergence in Integrated Markets*
Co-author: Keith E. Maskus

Wednesday November 24

Pehr-Johan Norbäck, IUI: *Foreign Direct Investment: Taxes, Transfer Pricing and Inefficient Ownership*
Co-authors Lars Persson and Jonas Vlachos

Wednesday November 17

Magnus Jonsson, Bank of Sweden: *The Welfare Costs of Imperfect Competition and Distortionary Taxation*

Thursday November 11

Lars-Hendrik Röller, European Commission: *The Role of Economics in EU Competition Policy*

Wednesday October 27

Per Johansson, IFAU, and Per Skedinger, IUI: *On the Validity of Objective Measures of Disability: Evidence from a Sample of Swedish Jobseekers*

Wednesday October 20

Andreas Madestam, Stockholm School of Economics: *Informal Finance: A Theory of Moneylenders*

Wednesday October 13

Antonio Cabrales, University Pompeu Fabra: *Social Preferences, Skill Segregation and Wage Dynamics*

Co-authors: Antoni Calvó-Armengol and Nicola Pavoni

Wednesday October 6

Lars Ljungqvist, Stockholm School of Economics: *The European Unemployment Experience: Theoretical Robustness*

Co-author: Thomas J. Sargent

Wednesday September 29

Roger Svensson, IUI: *Commercialization of Patents and External Financing during the R&D-Phase*

Wednesday September 22

Marcus Salomonsson, Stockholm University: *The Glocal Equilibrium: Simultaneous Individual and Group Selection*

Wednesday September 15

Yoram Weiss, Tel Aviv University: *Post Schooling Wage Growth: Investment, Search and Learning*

Co-author: Yona Rubenstein

Wednesday September 8

Fredrik Wilander, Stockholm School of Economics: *An Empirical Analysis of the Currency Denomination in International Trade*

Wednesday September 1

Bård Harstad, Kellogg School of Management, Northwestern University, Illinois:

Majority Rules and Incentives