

IUI, The Research Institute of Industrial Economics Stockholm

# **IUI YEARBOOK 2001/2002**

### **Foreword**

The decision to create a single European market is fundamentally changing the business environment of Europe. The policy measures used have been a removal of national trade barriers and a deregulation of domestic markets; measures which have certainly increased the pressure of competition. A sharpening of the edges of European competition policy has also enhanced this pressure. These developments have obviously been beneficial for the European economies and the citizens of Europe. As pointed out by many, there is a need for reformation of European competition policy, however.

The European commission has recently blocked several large mergers involving European companies. My feeling is that the EU commission often takes too static a view on these issues. Therefore, there is a risk that through some of its actions, the commission has blocked a development that might have created more efficiency and better productivity. Gains in efficiency and productivity should be allowed to play a larger role in the implementation of competition policy than today. It is also obvious that by assuming each country to represent a distinctive market, the commission introduces a bias against companies located in small countries in their rulings on mergers.

In its effort to improve the functioning of the market, competition policy has, so far, been limited to the markets for products and services in the private sector. The scope for improvement in market efficiency is, however, much greater in other markets of the European economies.

The European policy makers should direct more of their attention towards the cartelization of labor markets and the monopoly power exercised by the public sector in several important markets. In both cases, I dare say that the practices involve huge losses in overall economic efficiency. They are also detrimental to the functioning of the corporate sector.

One of the purposes of creating a single market in Europe was to make the European economies competitive with the US economy. In order to reach that goal, I consider it very important for European politicians to let the efforts to increase competition in the various European markets go far beyond competition policy as it is applied today. Obviously, this is easier said than done. The old policies have deep roots in the European societies and by many, they are perceived as the only way of meeting the goals of distributive justice. However, it is my conviction that these goals could also be attained within the framework of a more market liberal political regime than what we have in Europe today.

Obviously, economic research has an important role to play in illuminating the trade-offs involved. IUI has attained a leading position within the field of economic analysis of competition policy and is presently participating in several Europe-wide projects on competition policy in international markets. Examples of topics in these projects are, whether EU merger control disfavors small member states and the effects of cross-border mergers and acquisitions on the host economy of the acquired firm. I am convinced that IUI will give important contributions to the understanding of how to improve the functioning of the European markets.

Stockholm 2002

Håkan Mogren Chairman of IUI



Members of the IUI staff (from left to right): Per Skedinger, Jörgen Nilson, Marie Tilert, Elisabeth Gustafsson, Tobias Lindqvist, Ulf Jakobsson and Sven-Olof Fridolfsson.



Menbers of the IUI staff (from left to right): Pehr-Johan Norbäck, Lars Persson, Assar Lindbeck, María Sáez-Martí, Jonas Björnerstedt and Jörgen Weibull. The following staff members were not present: Marta Benkestock, Mattias Ganslandt, Christina Håkanson, Erik Mellander, Lars Oxelheim, Johan Stennek, David Sundén, Roger Svensson, Thomas Tangerås and Jonas Vlachos.



IUI's IUI's traditional Lucia meeting with the three Nobel Laureates in Economics. From left to right, above: Professor Janet Yellen, Ulf Jakobsson, Professor George A. Akerlof and Professor A. Michael Spence. Below: Jörgen Weibull, Tobias Lindqvist and Professor Joseph E. Stiglitz.



Professor Dale Jorgenson, Harvard University, was invited to give a lecture at the "AstraZeneca-Ericsson Seminar Series on Human Capital and Economic Growth".



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In June 2002, Javier Ortega, University of Toulouse, visited IUI. During his stay, he presented his paper "Uni-Lingual versus Bi-Lingual Education".

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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 Arbets-givareföreningen). 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, 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 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 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) provides about 60 percent of the budget. The remainder of the financial support primarily comes from various research funds. Generous financial support from the following bodies is gratefully acknowledged: The Bank of Sweden Tercentenary Foundation, the European Commission, 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 principal and comprises leading industrialists, as well as the director of the principal.

Håkan Mogren, Chairman of the Board Lars-Åke Helgesson Martin Leimdörfer Per Olofsson Lars-Eric Petersson Carl Wilhelm Ros Göran Tunhammar Ulf Jakobsson, Director of the Institute

# **Staff**

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Ulf Jakobsson

Deputy Director

Lars Persson

Research Staff

Jonas Björnerstedt

Sven-Olof Fridolfsson

Mattias Ganslandt

Magnus Henrekson

Christina Håkanson

Assar Lindbeck

Tobias Lindqvist

Erik Mellander

Pehr-Johan Norbäck

Lars Oxelheim

María Sáez-Martí

Mikael Sandström (on leave)

Anna Sjögren (on leave)

Per Skedinger

Johan Stennek

David Sundén

Roger Svensson

Thomas Tangerås

Jörgen Weibull

Jonas Vlachos

Administrative Staff

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Elisabeth Gustafsson

Jörgen Nilson

Marie Tilert

# **Visiting Researchers**

Eric Avenel, University of Toulouse

Jan Boone, Tilburg University

Ron Davies, University of Oregon

Chiara Fumagalli, Bocconi University, Milan

Robert J. Gordon, Northwestern University, Illinois

Matthew Haag, Georgetown University, Washington

Roman Inderst, University College London

Dale Jorgenson, Harvard University, Boston

Kai Konrad, Wissenschaftszentrum, Berlin

Dan Kovenock, Purdue University West Lafayette

Keith Maskus, University of Colorado at Boulder

Peter Neary, University College Dublin

Javier Ortega, University of Toulouse

Susanna Sällström, University of Cambridge and St John's College, England

Sylvie Thoron, GREQAM, Marseille

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# News at IUI

As industries are deregulating as well as re-regulating all over the world, interdependence of antitrust and various types of regulation have become increasingly important. In addition, these issues often have an international dimension, involving national or regional policy decision making. IUI has several research programs dealing with these issues. For instance, a project studying the welfare effects of European merger control, in particular on small countries, has been initiated. Another project analyzes the interaction between cross-border merger policy and investment liberalization. Moreover, the IUI researchers have also been active in the policy debate of these issues. For instance, IUI researchers participated in the SNS (Swedish Center for Business and Policy Studies) Economic Policy Group and co-authored the 2002 report "Competition without Borders".

During the academic year 2001/2002, the IUI staff has undergone several changes.

Henrik Braconier has accepted a post as head of the macroeconomic research and simulations' division at the National Institute of Economic Research (Konjunkturinstitutet). Research assistants Eleni Savvidou and Magnus Wiberg have left IUI to complete their Ph.D. studies at Uppsala University and Stockholm University, respectively.

To further strengthen IUI's research position in Industrial Organization, Thomas Tangerås, formerly at Institut d'Economie Industrielle, Toulouse, has been recruited. Mikael Sandström, formerly at the Swedish Research Institute of Trade (HUI), has joined IUI to strengthen the research on Human Capital and Econometrics. Finally, Jonas Vlachos, who defended his thesis at the Stockholm School of Economics in May 2002, has been recruited to regain IUI's research position in International Economics.

# **Other Activities**

Jonas Björnerstedt is currently working on a theory of bilateral oligopoly. Together with Johan Stennek, he has developed a model (IUI WP No. 555) of intermediate goods markets, where both buyers and sellers have market power. He is also working on an extension of this model to describe price adjustment in markets where contracts are renegotiated. Further, he is working on two papers together with Andreas Westermark (Department of Economics, Uppsala University). In one paper, a model of strategic discrimination between workers is developed. A specification of the number of hours worked and the tasks can be used strategically in wage bargaining. Countervailing power – the question of whether market power on one side of the market can be mitigated by market power on the other – has been discussed in theory and policy. In a second paper, a model is developed where a market is efficient only if the market concentration of sellers is the same as that of buyers.

Sven-Olof Fridolfsson continued his research in industrial organization with an emphasis on the process of merger formation and merger control. In addition, he has written a policy report for the Swedish Competition Authority (Konkurrensverket) on the objectives of merger control. In May 2002, he presented a paper co-authored with Johan Stennek at the London Business School.

Mattias Ganslandt continued his research in industrial organization, anti-trust and international trade. He wrote a couple of papers on international trade with Keith Maskus at the World Bank. Moreover, he started a joint empirical project with Richard Friberg to test the new trade theory in the bottled water market and another project to study the welfare effects of European merger control with Sten Nyberg. During the fall 2001 and spring 2002, he presented papers at Stockholm School of Economics, Norwegian School of Business and Administration in Bergen, Stockholm University, University of Colorado at Boulder, the Swedish National Tax Board (Riksförsäkringsverket), Stockholm, and the Swedish Network for European Studies in Business and Economics' (SNEE) conference in Mölle. In the fall 2001, he wrote a commissioned report on "Dissolution and Divestiture as Remedies in Anti-trust Cases" for the Swedish Government (SOU 2001:94). In March 2002, he was a visiting scholar at University of Colorado at Boulder. He also participated in the SNS Economic Policy Group and co-authored the 2002 report "Competition without Borders", SNS Förlag.

*Ulf Jakobsson* is director of IUI and Adjunct Professor of Economics at University of Umeå. He is also vice chairman of the Swedish Economic Association. Together with Magnus Henrekson, he is currently working on a

project studying the development of corporate ownership in Sweden. So far, the work has resulted in a number of articles, one of which was published in *Journal of Evolutionary Economics* and another in the anthology *Vem skall äga Sverige?*, published by SNS Förlag. The work will continue with the aim of writing a book on the development of ownership and corporate governance after WWII. Ulf Jakobsson has also participated in the public debate as a columnist in the Swedish daily newspaper Svenska Dagbladet and with a booklet on tax policy in a globalized world, published in connection with the centennial of the Stockholm Chamber of Commerce.

Assar Lindbeck has continued his work with Mats Persson on the gains from pension reform. Together with Sten Nyberg, he is also writing about the interaction between economic incentives and social norms. In cooperation with Solveig Wikström, he is working on a study about the consequences of IT on the division of tasks and hence, the "border" between firms and households. He has written a paper for a EU conference in Barcelona on the topic "Improving the Performance of the European Social Model", to be published in a book at the Cambridge University Press, and a paper on "The European Social Model: Lessons for Developing Countries", a working paper for the Asian Development Bank, to be published in a volume at the Springer-Verlag. In the last year, Assar Lindbeck has published the following articles and working papers: "The European Social Model: Lessons for Developing Countries", May 2002, IUI Working Paper No. 581; "The Gains from Pension Reform", (with Mats Persson), May 2002, IUI Working Paper No. 580; "Unemployment - Structural, in: N. J. Smelser and P. B. Baltes, eds.; International Encyclopedia of the Social and Behavioral Sciences, Pergamon, Elsevier Science, Oxford, 2002; "Lessons from Sweden for Post-Socialist Countries", in: J. Kornai, S. Haggard and R. Kaufman, eds., Reforming the State, Fiscal and Welfare Reform in Post-Socialist Countries, Cambridge University Press, 2001, also IUI Reprint No. 537; "Centralized Bargaining and Reorganized Work: Are They Compatible?" (with Dennis Snower), European Economic Review, 2001; "The Sveriges Riksbank (Bank of Sweden) Prize in Economic Sciences in Memory of Alfred Nobel 1969-2000", The Nobel Foundation's Internetmuseum (www.nobel.se), 2001; "Improving Performance of the European Social Model", 2001, forthcoming in a book on European policies at the Oxford University Press; "Raising Children to Work Hard: Altruism, Work Norms and Social Insurance" (with Sten Nyberg), May 2001, IUI Working Paper No. 557; "Changing Tides for the Welfare State – An Essay", July 2001, IUI Working Paper No. 550, forthcoming in Festschrift for Richard Musgrave at the Springer-Verlag; "Pensions and Contemporary Socioeconomic Change", IUI Working Paper No. 548, forthcoming in a volume by the National Bureau of Economic Research, Cambridge, MA.

Tobias Lindqvist, a Ph.D. student in economics at Stockholm University, is currently working on his thesis in the area of experimental economics and industrial organization, with an emphasis on mergers and acquisitions. His paper "The Insiders' Dilemma: An Experiment on Merger Formation" (with Johan Stennek) has been published as an IUI working paper and he presented it at the EARIE'01 in Dublin, IUI and Stockholm University. In October 2001, he spent two weeks at the Laboratory of Virginia Tech running experimental sessions for the paper "Bubbles and Experience: An Experiment on Speculation" (with Martin Dufwenberg, Stockholm University, and Evan Moore, Virginia Tech), which he presented at the ESA'01 North American Regional Meeting in Tucson, Arizona, the 5<sup>th</sup> session Workshop on Experimental Economics in Siena'02, the Mannheim Empirical Research Summer School'02 and the International ESA'02 Meeting in Boston. On June 4, 2002, Tobias Lindqvist defended his Ph. Licentiate at Stockholm University.

Erik Mellander maintains an affiliation with IUI, while holding a position as Deputy Director of the Institute for Labour Market Policy Evaluation (IFAU) in Uppsala. At IUI, his research is focused on the relations between human capital, technology and productivity. Together with Christina Håkanson, IUI, and Satu Johanson, PricewaterhouseCoopers AB, he published a report (SOU 2002:16, Annex 6) for the Swedish Government Commission on "Stabilisation Policy for Full Employment in the Event of a Swedish Membership in the Monetary Union". An English version of the report, entitled "Firm Training Viewed from Stabilisation and Growth Policy Perspectives" has been presented at several international conferences. Jointly with Christina Håkanson and Satu Johanson, he also initiated a project aimed at exploring whether firms investigate the need to conduct personnel training in connection with investments in information technology and whether this affects productivity growth. The empirical analysis will be based on firm data, collected by the Federation of Swedish Enterprise and IUI.

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 "Vertical FDI revisited" (with Henrik Braconier and Dieter Urban).

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 papers published in International Business Review (with Arthur Stonehill and Trond Randøy), European Management Journal (with Arthur Stonehill and Trond Randøy), Journal of Finnish Economic Society (with Niclas Andrén) and Ekonomisk Debatt (with Niclas Andrén). Papers have also been accepted for publication in Journal of Banking and Finance, Journal of Applied Corporate Finance and Financial Analyst Journal. Lars Oxelheim is chair of the Swedish Network for European Studies in Economics and Business. In that capacity, he has edited and co-authored (with Ulf Bernitz and Sverker Gustafsson) the network's annual publication Europaperspektiv – Konkurrens på tre nivåer (European Perspectives – Competition at three levels), Santérus Förlag, Uppsala. He also organized the network's fourth annual conference in Mölle on European Integration in Swedish Economic Research. He spent part of the spring as visiting professor at the National University of Singapore. 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, he is working on the project "Merger and Acquisitions in Europe" (with Henrik Braconier and Pehr-Johan Norbäck). During the fall 2001, Lars Persson was a visiting Jean Monnet Fellow at the European University Institute in Florence for two months. He also gave talks at University College Dublin, SNEE (Mölle) and the North American Summer Meetings of the Econometrics Society, 2002.

*María Sáez-Martí* has continued her work on cultural transmission and corruption (with Esther Hauk) and the foundations of discounting (with Jörgen Weibull). She has also been working on the political economy of health care (with

Douglas Lundin) and the effect of a preference for fairness on cooperation. Her paper "On the Cultural Transmission of Corruption" has been accepted for publication in *Journal of Economic Theory* and "Cycles of Aggregate Behavior in Theory and Experiment" has appeared in *Games and Economic Behavior*. She has also given seminars at London University and Oxford University.

*Mikael Sandström* joined IUI in October 2001, and has done research exploring the effects of competition from independent schools on the public school system. He studies the results of the radical reform of school financing undertaken in Sweden in the 1990s. Furthermore, he is working on a project, which aims at describing the competitive effects of Internet commerce.

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". Her research has largely focused on the micromechanisms involved in determining how the individual forms beliefs about ability. During the period November 15 - December 15, 2001, she was a guest researcher at the Institute for International Economic Studies in Stockholm. She presented "Negative Self-Selection and the Dynamics of Self-Confidence" which is joint work with Susanna Sällström, at the European Economic Association meeting in Lausanne in August 2001. In the fall of 2001, related research was presented in seminars at SOFI, the Stockholm School of Economics and the IIES. In January 2002, Anna Sjögren made a research trip to St Johns College, Cambridge University, UK. During the spring of 2002, she has been involved in arranging the AstraZeneca-Ericsson Seminar held by Professor Dale Jorgenson in May 2002.

Per Skedinger wrote "Minimum Wages and Employment in Swedish Hotels and Restaurants", which was presented at the Econometrics of Wages conference in Brussels in May. He also wrote "Omställning eller avstjälpning? Om utformningen av en omställningsförsäkring" with Pär Andersson and Stefan Fölster. Together with Barbro Widerstedt, he embarked on a research project about the recruitment to sheltered employment at Samhall, a Swedish state-owned company. He was also appointed member of the board at the Swedish Institute for Social Research (SOFI) at Stockholm University.

Johan Stennek is currently doing research on Mergers & Acquisitions (with Sven-Olof Fridolfsson, Henrik Horn, Tobias Lindqvist and Carlos Razo) and Bilateral Oligopoly (with Jonas Björnerstedt). He has also started a paper on intra-industry trade. Together with Pontus Braunerhielm, Mattias Ganslandt, Sten Nyberg and Nils Wahl, Johan Stennek has been a member of the SNS Economic

Policy Group and published the report "Gränslös konkurrens" ("Competition without Borders"). Together with Henrik Horn, he has analyzed whether EU merger control disfavors small member states. The results will be published in the Swedish Competition Agency's Festschrift called "The Pros and Cons of Merger Control". During the year, Johan Stennek had two articles published in European Economy, one written jointly with Frank Verboven and the other with Lars-Hendrik Röller and Frank Verboven. He is a coordinator in a European Commission RTN (Research Training Network) project on Competition Policy in International Markets. Further, he is also member of a research network on mergers and competition in international markets and he presented a paper at its first workshop in Helsinki. He made a short visit to CentER for Economic Research, Tilburg University, during the fall 2001. Johan Stennek is associate editor of the International Journal of Industrial Organization (IJIO) and a CEPR research affiliate. During the year, he has become a research fellow of SNS. He has also lectured at the Department of Law and supervised doctoral students at Stockholm University.

*David Sundén* has continued his research on issues concerning the dynamics and the macroeconomic effects of pension reform. He plans to defend his doctoral thesis during the fall of 2002.

Roger Svensson is currently doing research about consulting firms and services. Specific issues about the consulting sector that he investigates are procurement, knowledge transfer and effects on competition when government authorities sell consulting services. He has also started a new research project about the commercialization of Swedish patents. An article about research and development and export performance "R&D and Foreign Sales in Swedish Multinationals: A Simultaneous Relationship?" was published in Research Policy.

Thomas Tangerås joined IUI in August 2001. His article "Collusion-Proof Yardstick Competition" has been published in Journal of Public Economics and "Regulation of Cost and Quality under Yardstick Competition" as IUI WP No. 573. Further, he continued his work on two projects, "Ethnic Diversity and Civil War", with Nils-Petter Lagerlöf, and "Unilingual versus Bilingual Education System: A Political Economy Approach", with Javier Ortega. The former paper is a theoretical study of redistribution across ethnic lines as a source of conflict; the second studies how the distribution of power across language groups in a society affects the choice of language in the education system. He gave presentations at the EEA Annual Meetings in Lausanne, IUI, University of Oslo, the Norwegian

School of Management (BI), Lund University and acted as the discussant at a licentiate defense at Lund University.

Jörgen Weibull has presented research results at the Institut Poincaré (Paris), Pompeu Fabra University (Barcelona), Marseille University, Wissenschaftskollegium (Berlin), Dortmund University, Amsterdam University and Cambridge University. He was a visiting researcher at the Laboratoire d'Econometrie at Ecole Polytechnique (Paris) and the GREQAM Institute (Marseille). He worked on the following research topics: (1) "Evolution in Games with Endogenous Mistake Probabilities", with Eric van Damme, IUI WP No. 525, forthcoming in *Journal of* Economic Theory; (2) "Deterministic Approximation of Stochastic Evolution in Games", with Michel Benaim, IUI WP No. 534, resubmitted to Econometrica; (3) "Probabilistic Choice as a Result of Mistakes", with Lars-Göran Mattsson, IUI WP No. 544, forthcoming in Games and Economic Behavior; (4) "Testing Game Theory", SSE WP No. 382, under revision; (5) "Bertrand Competition with Intertemporal Demand", with Prajit Dutta and Alexandr Matros, SSE WP No. 493; (6) "Social Norms and Optimal Incentives in Firms", with Steffen Huck and Dorothea Kubler, IUI WP No. 565; (7) "Discounting and Future Selves", with María Sáez-Martí, IUI WP No. 575; and (8) "Uniqueness in Infinitely Repeated Decision Problems", with Nicolas Vieille, IUI WP No. 577.

Jonas Vlachos joined IUI in May 2002 after defending his Ph.D.-thesis "Risk Matters: Studies in Finance, Trade and Politics" at the Stockholm School of Economics. The thesis empirically investigates how various risk-sharing arrangements affect international trade and political attitudes. One of the thesis chapters appeared in the Journal of International Economics during the summer of 2002. Apart from revising parts of the thesis, he is currently starting up projects investigating the growth effects of international financial integration (with Daniel Waldenström at the Stockholm School of Economics), and the consequences of different types of entry decisions made by multinational corporations (with Karolina Ekholm at the Stockholm School of Economics). Jonas Vlachos also holds a part time position as the secretary of the Economic Council.

# Conferences, Workshops and Courses

In October 2001, IUI organized a seminar in the AstraZeneca-Ericson Seminar Series on Human Capital and Economic Growth with Professor Robert J. Gordon, Northwestern University, Illinois. The title of the seminar was "The Rise and Fall of the US New Economy". Professor Assar Lindbeck, IUI and the Institute for International Economic Studies, Stockholm University, was invited to comment on Professor Gordon's research.

Furthermore, in May 2002, another seminar in the series was arranged. This time Professor Dale Jorgenson, Harvard University, was invited to give a lecture entitled "Economic Growth in the Information Age". His findings were commented on by Stefan Fölster, Chief Economist at the Confederation of Swedish Enterprise, and John Hassler, Ph.D. at the Institute for International Economic Studies, Stockholm University. Professor Jorgenson also gave a more academic seminar where he presented a paper entitled "Lifting the Burden: Fundamental Tax Reform and U.S. Economic Growth".

# **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 International Integration and Domestic Competition
- 2.7 Commercialization of Swedish Patents

### **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 between multinational and domestic firms.

Responsible for the project: Per Skedinger and Erik Mellander Participating researchers: Christina Håkanson and Satu Johanson

# 1.2 Intergenerational Mobility, Occupational Choice and the Incentive Structure

This project theoretically and empirically analyzes 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 ntribution is to bring family background and gender determined differences in information and incentives to acquire information about ability into focus. 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 Prof. 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. The 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: Pehr-Johan Norbäck

Participating researchers: Henrik Braconier, Karolina Ekholm and 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 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 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 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, María Sáez-Martí and Thomas Tangerås

# 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 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, Henrik Braconier, Sven-Olof
Fridolfsson, Tobias Lindqvist, Pehr-Johan Norbäck, Mikael Sandström 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 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

# 2.5 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 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 foreign owners or have 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 globalization, or whether this tendency is further reinforced by economics vis-à-vis the Swedish business sector. 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: Prof. Magnus Henrekson and Prof. Ulf Jakobsson

# 2.6 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 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 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

### 2.7 Commercialization of Swedish Patents

Innovations created through research and development (R&D) have obtained a more strategic role in firms' competitiveness. As a large part of the R&D is accomplished in the universities in Sweden, a central question is how this intellectual capital is transferred to, and commercialized in, the private sector. 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 compared to other countries. The purpose of this project is to empirically analyze the commercialization process of intellectual capital in Swedish by following individual patents. The project includes questions like type of commercialization, financing and the reason why many patents were never commercialized.

Responsible for the project: Roger Svensson

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

Responsible for the project: Prof. Assar Lindbeck

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- 531. Visits to the Client when Tendering for Consulting Contracts: Sourcing Information or Influencing the Client? Roger Svensson

- 530. Incentives for Academic Entrepreneurship and Economic Performance: Sweden and the United States. Magnus Henrekson and Nathan Rosenberg
- 529. Wage-Setting Institutions as Industrial Policy. Steven J. Davis and Magnus Henrekson
- 528. *The Division of Labor and the Market for Organizations*. Assar Lindbeck and Dennis J. Snower
- 527. ICT and Household-Firm Relations. Assar Lindbeck and Solveig Wikström
- 526. Routes to Equity Market Integration The Interplay between Politicians, Investors and Managers. Lars Oxelheim
- 525. Evolution and Refinement with Endogenous Mistake Probabilities. Eric van Damme and Jörgen W. Weibull
- 524. Intel Economics. Paul S. Segerstrom
- 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

# **Seminars**

#### 2002

#### Monday 17 June

Chiara Fumagalli, Bocconi University: Internal Capital Markets, Cross-Subsidization and Product Market Competition

Co-author: Giacinta Cestone

#### Monday 10 June

Javier Ortega, University of Toulouse: Unilingual versus Bilingual

Education System: A Political Economy Analysis

Co-author: Thomas P. Tangerås

#### **Monday 3 June**

Kai A. Konrad, Wissenschaftszentrum Berlin für Sozialforschung:

Merger Profitability and Trade Policy

Co-author: Steffen Huck

# Wednesday 29 May

Dale Jorgenson, Harvard University: Lifting the Burden: Fundamental

Tax Reform and U.S. Economic Growth

Co-author: Kun-Young Yun

#### Monday 27 May

Anders Björklund, Swedish Institute for Social Research, Stockholm University: Influences of Nature and Nurture on Earnings Variation: Preliminary Results from a Study of Various Sibling Types in Sweden

Co-authors: Markus Jäntti and Gary Solon

#### Wednesday 22 May

Keith E. Maskus, University of Colorado at Boulder: Intellectual

Property Rights, Licensing, and Innovation

Co-author: Guifang Yang

### **Tuesday 14 May**

J. Peter Neary, University College Dublin: Competitive versus Comparative Advantage

#### Wednesday 6 May

Ronald B. Davies, University of Oregon: Competition in Taxes and

Performance Requirements for Foreign Direct Investment

Co-author: Christopher J. Ellis

# **Monday 29 April**

Jan Boone, Tilburg University: Be Nice Unless It Pays to Fight: A New Theory of Price Determination with Implications for Competition Policy

### **Monday 22 April**

Henrik Jordahl, Uppsala University: An Economic Analysis of Voting in Sweden

### Wednesday 15 April

Jonas Vlachos, Stockholm School of Economics: Financial Markets, Industrial Specialization and Comparative Advantage: Evidence from OECD Countries

Co-author: Helena Svaleryd

### **Monday 8 April**

Dan Kovenock, Purdue University: A Comparison of Multiple-Unit All-Pay and Winner-Pay Auctions under Incomplete Information

Co-authors: Yasar Barut and Charles Noussair

# Monday 25 March

Jesper Roine, Stockholm University: Voting over Tax Schedules in the Presence of Tax Avoidance

#### **Monday 18 March**

Erik Mellander, IUI and Office of Labour Market Policy Evaluation (IFAU): Employer-Sponsored Training Viewed from Growth and Stabilisation Policy Perspectives

Co-authors: Christina Håkanson and Satu Johanson

#### **Monday 11 March**

Jonas Björnerstedt, IUI: Wage Bargaining and Unequal Treatment

Co-author: Andreas Westermark

### **Monday 4 March**

Hans Lööf, Royal Institute of Technology (KTH): *Technological Change* and the Determinants of Dynamic Optimal Capital Structure

# **Monday 25 February**

María Sáez-Martí, IUI: Discounting and Future Selves

Co-author: Jörgen W. Weibull

# **Monday 18 February**

Jan-Eric Nilsson, Swedish National Road and Transport Research Institute and Dalarna University: Taking the Lab to the Field: Experimental Tests of Alternative Mechanisms to Procure Multiple Contracts

Co-author: Anders Lunander

### **Monday 11 February**

Sylvie Thoron, GREQAM, Marseille: Which Acceptable Agreements are Equilibria?

# **Monday 4 February**

Helder Vasconcelos, European University Institute, Florence: *Tacit Collusion, Cost Asymmetries and Mergers* 

### **Monday 28 January**

Mikael Priks, Stockholm University: Institutions in Corrupt Societies

#### **Monday 21 January**

Jörgen W. Weibull, IUI and Stockholm School of Economics: *Social Norms and Optimal Incentives in Firms* 

Co-authors: Steffen Huck and Dorothea Kübler

#### **Monday 14 January**

Tatiana Damjanovic, Stockholm School of Economics: *The Importance of Income Distribution for the Price of the Tax Avoidance Service* 

#### 2001

# **Monday 17 December**

Per Skedinger, IUI: Minimum Wages and Employment in Swedish Hotels and Restaurants

### **Monday 10 December**

Susanna Sällström, University of Cambridge and St John's College, U.K.: *Disclosure Laws Revisited* 

# **Monday 3 December**

Anne Boschini, Stockholm University: Women's Contribution to Technological Change

# **Monday 26 November**

Mahmood Arai, Trade Union Institute for Economic Research (FIEF) and Stockholm University: Wages, Individual Unemployment Risk and Profits

Co-author: Fredrik Heyman

### **Monday 19 November**

Mårten Palme, Stockholm School of Economics: Social Security Reform and the Labor Market: Assessing the Distribution of Welfare Gains and Losses

Co-authors: Anders Karlström and Ingemar Svensson

#### **Monday 12 November**

Rikard Larsson, Lund University: Achieving Acculturation in Mergers and Acquisitions: An International Case Survey Study

Co-author: Michael Lubatkin

#### **Monday 5 November**

Mikael Sandström, IUI: Competition and the Quality of Public Schools Co-author: Fredrik Bergström

# **Monday 29 October**

David Strömberg, Institute for International Economic Studies (IIES): *The Electoral College and Presidential Resource Allocation* 

### **Monday 22 October**

Roman Inderst, University College London: *Bargaining, Mergers, and Technological Choice in Bilaterally Oligopolistic Industries* 

Co-author: Christian Wey

# **Monday 15 October**

Fredrik Andersson, Lund University: Tax Competition and Economic

Geography

Co-author: Rikard Forslid

# **Monday 8 October**

Matthew Haag, Georgetown University: Reciprocal Entry and Strategic Delay

# Wednesday 1 October

Eric Avenel, University of Toulouse: The Link between Tariffs and Imports in a Country with Endogenous Industrial Vertical Structure and Lenient Control of Concentrations: A Good Reason for WTO Negotiators to Care about Antitrust

Co-author: Corinne Barlet

### **Monday 24 September**

Giancarlo Spagnolo, University of Mannheim: Optimal Leniency Programs

# **Monday 17 September**

Thomas Tangerås, IUI: Regulation of Cost and Quality under Yardstick Competition

# **Monday 10 September**

Peter Fredriksson, Uppsala University: Settlement Policies and the Economic Success of Immigrants

Co-authors: Per-Anders Edin and Olof Åslund

#### **Monday 3 September**

Tobias Lindqvist, IUI: The Insider's Dilemma: An Experiment on Merger

**Formation** 

Co-author: Johan Stennek