



IUI, The Research Institute of Industrial Economics
Stockholm

IUI YEARBOOK 2002/2003

Foreword

As incoming chairman of IUI, I want to set the tone by addressing the European perspective. From an economic point of view, the most important project of the European Union (EU) is the Single Market Program, which is now about to be extended in several important dimensions.

First, the development of the EU Enlargement Program implies that the industries in the candidate countries will gradually become integrated into the single market. Second, the single market will be extended to also include services, and a significant share of the EU economy will thus be liberalized. Third, the work on developing a single EU capital market is continued, with the creation of the so-called “Societas Europaea”, which enables firms to conduct their business under one set of rules in the whole EU, and with a new set of “takeover directives”. The euro is an integrated part of the single market and will contribute to further integration in all areas of the EU economies.

I am convinced that already during the next decade, we will see profound effects on the EU economies, the Swedish economy included, as a result of these extensions. Let me just mention a few of the important trends I am convinced we will see:

- There will be a significant relocation of low- and medium cost economic activities to the new member countries. For a mature economy like Sweden, this will pose the challenge to develop those parts of the economy where we should have a comparative advantage. Hopefully, this will be in activities demanding an input of advanced human capital and with a high value-added content.
- The restructuring of the EU economy will involve a new wave of mergers and acquisitions across the continent. With the relative dominance of large firms in the Swedish economy, we can expect Swedish firms to be highly involved in this process. An important question from a Swedish perspective is then whether small countries, like Sweden, can be hurt by the current merger regulation, since firms in countries like ours might not be allowed to merge to a sufficient size during the implementation of the Single Market Program.
- Ownership of firms will continue to be more internationalized and more dispersed. With increasingly integrated EU financial markets, the so-called home bias of investors will subside. As a result, we can expect a typical EU firm to have many owners of several different nationalities. Moreover, we cannot expect to find a dominant controlling owner in such a firm. This will be a challenge, not least to the Swedish model of corporate control, with its long and successful tradition of controlling ownership.

These developments will raise a host of new political issues, and create new and important areas for economic research. I am happy to observe that a considerable part of the IUI research activities are closely related to questions raised by the significant changes we are now observing in the EU economies. I am convinced that in the next few years, we will see significant contributions from the researchers at IUI in these fields.

Stockholm 2003

Björn Hägglund
Chairman of IUI

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Presentation of IUI

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

IUI has always had a high academic profile. Altogether, 58 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 Agency for Innovation Systems, Jan Wallander's and Tom Hedelius' 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 (until January 2003)

Björn Hägglund, Chairman of the Board (from January 2003)

Lars-Åke Helgesson

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Lars Oxelheim

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Lena Edlund, Columbia University and University College London

Per Fredriksson, Southern Methodist University, USA

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Holger Görg, University of Nottingham, England

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Massimo Motta, European University Institute, Florence

James Markusen, University of Colorado at Boulder

Aviv Nevo, University of California, Berkeley

Rainer Nitsche, Charles River Associates, Brussels

Javier Ortega, University of Toulouse and London School of Economics

Susanna Sällström, University of Cambridge, England

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News at IUI

The European Union (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 candidate countries will gradually be integrated into the Internal Market. Second, the Internal Market will be extended to also include services. A significant share of the EU economy will thus be liberalized. The experiences from the implementation of the SMP for goods strongly suggest that the success of the reforms to come will hinge on their design. IUI has recently initiated a research program to investigate how to reform legal institutions in the EU in order to achieve an efficient extension of the SMP. One project will study the impact of FDI after investment liberalization. The effects on total investments and welfare of having different types of investment and privatization policies will be analyzed. Another project will illuminate aspects of merger policy during market integration, studying the welfare effects of domestic and cross-border mergers, and re-location of production.

During the academic year 2002/2003, the IUI staff has undergone several changes. Jörgen W. Weibull has been appointed Professor at Boston University and Mikael Sandström has accepted a position at the parliamentary secretariat of the Moderate Party.

To further strengthen IUI's research position in Industrial Organization and Human Capital, Yves Zenou, formerly at University of Southampton, has been recruited. Henrik Horn, Professor at the Institute for International Economic Studies, Stockholm University, has joined IUI part time to strengthen the research on International Economics and Industrial Organization.

Other Activities

Jonas Björnerstedt is currently working on a theory of bilateral oligopoly. Together with Johan Stennek, he has developed a model (IUI Working Paper 555) of intermediate goods markets, where both buyers and sellers have market power. He is also working on an extension of this model to describe price adjustment in markets where contracts are renegotiated. In a separate paper, convergence to equilibrium is studied. Even though contracts are set myopically, there is a fast convergence to trade with efficient quantities. Jonas Björnerstedt is also working with Andreas Westermark (Dept. of Economics, Uppsala University) on simultaneous negotiations. A model of “strategic discrimination” is developed which is used to explain differential treatment in the labor and intermediate goods markets.

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 discuss appropriate objectives for merger control. From October 2002 to April 2003, Sven-Olof Fridolfsson was a visiting research fellow at the Institut d’Economie Industrielle at University of Toulouse. During his visit, he presented the paper “Why Event Studies Fail to Detect the Competitive Effects of Mergers” co-authored with Johan Stennek. He has also presented papers at the Econometric Society European Meetings in Venice (ESEM2002), and the European Association for Research in Industrial Economics in Madrid (EARIE2002).

Mattias Ganslandt continued a research project on international trade, antitrust and intellectual property rights. Among other things, he completed a paper with Richard Friberg on the welfare effects of trade and competition in the bottled water industry and a paper on the empirical assessment of co-ordinated effects of mergers (with Pehr-Johan Norbäck). He presented papers at the European Economic Association Congress in Venice, Italy and the AEA/ASSA winter meetings in Washington DC and gave seminars at Stockholm University, University of Colorado at Boulder and FIEF. He wrote a book on competition policy with Sten Nyberg, *Konkurrens på nya villkor*, published by SNS Förlag and a commissioned report with Keith Maskus for the Swedish Competition Authority entitled “Vertical Restraints, Distribution and the Price Impact of Parallel Imports”.

Henrik Horn’s research during 2002/2003 has primarily focused on various economic and legal aspects of the World Trade Organization (WTO). Together

with Petros C. Mavroidis, University of Neuchatel and Columbia Law School, he wrote “Still Hazy After All These Years: The Interpretation of National Treatment in GATT/WTO Case Law on Tax Discrimination”, to be published in the *European Journal of Internal Law*. He also wrote two reports evaluating rulings from the WTO Dispute Settlement System. Together with Mavroidis, he wrote “United States – Safeguard Measures on Imports of Fresh, Chilled or Frozen Lamb Meat from New Zealand and Australia: What Should be Required of a Safeguard Investigation?” and with Joseph W. Weiler, New York University School of Law, he wrote “European Communities – Measures Affecting Asbestos and Asbestos-Containing Products”. These papers are forthcoming in a volume edited by Horn and Mavroidis, which puts together papers written for the project “The Principles of World Trade Law: The World Trade Organization” to be published by Cambridge University Press. Horn and Mavroidis are Chief Reporters for this American Law Institute project. Horn also worked on the paper “National Treatment in Trade Agreements”, which was presented at a seminar at IUI in June 2003. In addition, he worked with Johan Stennek on the paper “Does EU Merger Control Disfavor Small Member State Interests?”.

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 Professor Magnus Henrekson at the Stockholm School of Economics, 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 joint articles. One of the articles, “The Transformation of Ownership Policy and Structure in Sweden: Convergence towards the Anglo-Saxon Model?”, has been published in the journal *New Political Economy*. The article “The Swedish Model of Corporate Ownership and Control in Transition” was presented at the conference “Who will own Europe?” arranged by the European Commission (DGECFIN), Brussels. Ulf Jakobsson has also published the article “Devaluation Cycles in Sweden and Finland” in a *Festschrift* for Pentti Vartia, director of ETLA (The Research Institute of the Finnish Economy) in Helsinki. He was also editor of the book *Därför euron – tio ekonomer om den gemensamma valutan*. In the book, ten economists with a positive view of the euro present their analyses of the effects on the Swedish economy of joining the euro.

Assar Lindbeck has continued to study welfare-state arrangements. Recently published papers in this field are “Social Model: Lessons for Developing Countries”, in R. Pethig and M. Rauscher (eds.), *Challenges to the World Economy*, Festschrift for Horst Siebert, Springer-Verlag, Berlin-Heidelberg, 2003; “The Gains from Pension Reform” (with Mats Persson) in *Journal of Economic*

Literature, Vol. XLI, March 2003; “Social Norms and Welfare State Dynamics” (with Sten Nyberg and Jörgen W. Weibull) in *Journal of the European Economic Association* 2, 2003; “Pensions and Contemporary Socioeconomic Change”, in M. Feldstein and H. Siebert (eds.), *Social Security Pension Reform in Europe*, National Bureau of Economic Research Conference Report, University of Chicago Press, Chicago, 2002, also IUI Reprint No. 562; “Unemployment – Structural”, in N. J. Smelser and P. B. Baltes (eds.), *International Encyclopedia of the Social and Behavioral Sciences*, Pergamon, Elsevier Science, Oxford, 2002; and “Improving the Performance of the European Social Model – The Welfare State over the Life Cycle”, IUI Working Paper No. 587, 2003, forthcoming in a book on European policies at Cambridge University Press. Lindbeck has also published the paper “E-exchange and the Boundary between Households and Organizations” (with Solveig Wikström), *Kyklos* 2, 2003.

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 “Bubbles and Experience: An Experiment on Speculation” (with Martin Dufwenberg, SU, and Evan Moore, Auburn University Montgomery), has been published as an IUI working paper. He has presented papers at the sixth International Conference in Economics in Ankara, the ESA’02 European Meeting in Strasbourg, at IUI, the Stockholm School of Economics, EARIE’02 in Madrid, 10th ENTER Jamboree in Tilburg and Stockholm University. In October 2002, he published “An Asset Market Experiment” (with John Latsis, Evan Moore and Kyu Sang Lee) in *Economics Lab: An Intensive Course in Experimental Economics* (by Daniel Friedman and Alessandra Cassar). He has also published a ranking of economists and institutions in Sweden in *Ekonomisk Debatt*. On May 14, he held his Final Seminar 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. In the fall of 2002, he published the paper “Lön och lärande – räcker utbildningspremien?” (“Learning and Earning – Is the Wage Premium Large Enough?”) in K. Abrahamsson et al. (eds.), *Utbildning, kompetens och arbete (Education, Competence, and Work)*, Studentlitteratur. Together with Christina Håkanson, IUI, and Satu Johanson, PricewaterhouseCoopers AB, he wrote the paper “Employer-Sponsored Training in Stabilisation and Growth Policy Perspectives”, which has been presented at several international conferences. With the same collaborators, he initiated a

project aimed at investigating the links between personnel economics, investments in information technology, and productivity growth. The empirical analysis will be based on plant level 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. Together with Lars Persson, he had the paper "Privatization and Foreign Competition" accepted for publication in *Journal of International Economics*. They are currently working on the project "Investment Liberalization and Privatizations", which studies the pattern and welfare effects of acquisitions, and new investments in liberalized markets. Together with Lars Persson and Jonas Vlachos, he studies the tax effects of profit shifting activities by multinational firms. Other projects include "Vertical FDI Revisited" and "Reconciling the Knowledge Capital Model" (with Henrik Braconier and Dieter Urban) and "Efficiency and Market Structure - the Case of Poland" (with Karl-Markus Modén and Lars Persson).

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 accepted for publication in *Journal of Banking and Finance*, *Journal of Applied Corporate Finance* and *Financial Analysts Journal*. He has co-authored (with Jens Forssbaeck) one book *Money Markets and Politics – A Study of European Financial Integration and Monetary Policy Options* (Edward Elgars, forthcoming) and co-edited (with Pervez Ghauri) another *The European Union and the Race for Inward FDI in Europe* (Elsevier, forthcoming). He has also contributed one chapter to *International Business and The Eclectic Paradigm* (edited by John Cantwell and Raj Narula, Routledge, forthcoming). 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 Sverker Gustafsson and Nils Wahl) the network's annual publication *Europaperspektiv 2003 – Valutaunionen, Författningsfrågan och Östutvidgningen (European Perspectives 2003)*, Santérus Förlag, Uppsala. He also organized the network's fifth annual conference in Mölle on *European Integration in Swedish Economic Research*. During the year, Lars Oxelheim served 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”. During the year, his paper “Predation and Mergers: Is the Merger Law Counter Productive?” was accepted for publication in *European Economic Review*, and, together with Pehr-Johan Norbäck, he also had the paper “Privatization and Foreign Competition” accepted for publication in *Journal of International Economics*. 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. Other projects include “Mergers and Entry” (with Dan Kovenock), which studies the interaction between incentives for mergers and entry in oligopolistic industries and “Efficiency and Market Structure - The Case of Poland” (with Karl-Markus Modén and Pehr-Johan Norbäck). He gave talks at University of Colorado at Boulder, Southern Methodist University and Purdue University.

Anna Sjögren does research on the importance of socio-economic background and gender for educational and occupational choices, labour market outcomes and mobility. In the spring of 2003, Anna Sjögren initiated and led the preparatory phase of a joint IUI project on the importance of individual choices and labour market institutions for the generation of income and earnings differences. She has also continued to work on the project “Intergenerational Mobility, Occupational Choice and the Incentive Structure”. Furthermore, Anna Sjögren has started a project together with Anne Boschini at Stockholm University aiming at investigating whether there is a preference for gender segregation in academic co-authorships. In the spring of 2003, she hosted three seminars/meetings of the recently formed FNEC (Female Network of Economists) at IUI. In May, Anna Sjögren lectured on Human Capital Theory in the Executive MBA Program at the Stockholm School of Economics.

Per Skedinger presented the paper “Minimum Wages and Employment in Swedish Hotels and Restaurants”, published as IUI Working Paper No. 584, at the annual EALE conference in Paris. He wrote “Recruitment to Sheltered Employment. Evidence from Samhall, a Swedish State-owned Company” with Barbro Widerstedt and “Syns professorerna i globaliseringsdebatten?”, published in *Ekonomisk Debatt*, with Dan Johansson. Per Skedinger was on leave from October to January to work at the Institute for Labour Market Policy Evaluation (IFAU). In June, he lectured at the Stockholm School of Economics’ Executive

MBA Program. Together with Per Johansson, he embarked on a research project on the determinants of early retirement among the unemployed. To this end, survey data on individuals with work disabilities (from Statistics Sweden's Labour Force Surveys) will be matched with data on the unemployment histories of individuals registered as unemployed (by the National Labour Market Board).

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). Johan Stennek has published the paper "Horizontal Mergers without Synergies May Increase Consumer Welfare" in *Topics in Economic Analysis & Policy*. Together with Frank Verboven, Johan Stennek has written two reports for the European Commission; *Efficiency Defence and Consumers' Interests in European Merger Control* and *Quantitative Techniques to Assess Price Effects in European Merger Control from a Consumers' Perspective*. Together with Thomas Tangerås, he wrote the report *Analysis of SMP Assessments*. Johan Stennek is a member of the CEPR-RTN project on Competition Policy in International Markets, a research network on mergers and competition in international markets coordinated by Rune Stenbacka and Otto Toivanen and financed by the Yrjö Jahnsson foundation. Johan Stennek is associate editor of the *International Journal of Industrial Organization* (IJIO) and a CEPR research affiliate. During the year, Johan Stennek has become an SNS research fellow. Johan Stennek has also been appointed member of the Council for Competition Research, linked to the Swedish Competition Authority. He has also lectured at the Department of Law, Stockholm University, and supervised doctoral students at the Department of Economics, Stockholm University.

Roger Svensson is currently doing research on consulting firms and services. Specific issues about the consulting sector that he investigates are procurement, knowledge transfer and effects on competition when government authorities sell consulting services. An article about procurement in the consulting sector: "Visits to the Clients when Tendering for New Consulting Contracts: Sourcing Information or Influencing the Client?" was accepted for publication in *Applied Economics*. He has also continued his research project on the commercialization of Swedish patents. The working paper "Commercialization of Swedish Patents: A Pilot Study in the Medical & Hygiene Sector" was published at IUI (IUI WP No. 583).

Thomas Tangerås has completed three papers, "Ethnic Diversity and Civil War", joint with Nils-Petter Lagerlöf, "Yardstick Competition and Quality" and "Democracy, Autocracy and the Likelihood of International Conflict". Further, he

continued his work on “Unilingual versus Bilingual Education System: A Political Economy Analysis” with Javier Ortega, and initiated the project “Voter Turnout in Direct Democracy: Theory and Evidence” with Morten Søberg. The former studies how the distribution of power across language groups in a society affects the choice of language in the education system; the second is a theoretical and empirical study on how voter participation depends on whether a referendum is binding or advisory. He gave presentations at the Annual Congress of the European Economic Association in Venice, the Swedish Network for European Studies in Business and Economics (SNEE) conference in Mölle, the fourth Nordic Workshop in Industrial Organization (Norio IV) in Copenhagen, IUI and Uppsala University.

Jonas Vlachos gave seminars at Gothenburg University, Stockholm University and FIEF. One thesis chapter, “Financial Markets, the Pattern of Industrial Specialization, and Comparative Advantage: Evidence from OECD Countries”, was accepted for publication in *European Economic Review*. Another paper, “Who Wants Political Integration? Evidence from the Swedish EU-Membership Referendum”, appeared as IUI Working Paper No. 594 and is forthcoming in *Journal of Public Economics*. His collaborations with Daniel Waldenström have so far generated the paper “International Financial Liberalization and Industry Growth”, IUI Working Paper No. 586. Jonas Vlachos is also working with Helena Svaleryd investigating the effects of supply-side changes in human capital on the direction of technological change. Together with Pehr-Johan Norbäck and Lars Persson, he studies the tax effects of profit shifting activities by multinational firms. Jonas Vlachos also holds a part-time position as secretary of the Economic Council.

Conferences, Workshops and Courses

Together with the Institute for International Economic Studies (IIES) at Stockholm University and the Stockholm School of Economics, IUI organized a joint workshop on international trade and investments in Stockholm in September 2002, with about 20 international leading researchers in the field.

In December 2002, Professor Aviv Nevo, University of California, Berkeley, gave a mini course on empirical methods in industrial organization. Professor Nevo is one of the leading researchers in this field. The course covered research methods in applied empirical industrial organization. The primary focus was on the use of econometric analysis and data both for descriptive and measurement purposes, and tests of the predictions of economic theories.

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

Participating researchers: Jörgen Weibull

2 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 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, Mattias Ganslandt and Jonas Vlachos

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 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, 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, Henrik Horn, Tobias Lindqvist, Pehr-Johan Norbäck, Roger Svensson and Jonas Vlachos

2.4 Procurement and Export of Consulting Services

More than 95% of all studies on international trade and FDI have focused on MNCs in the manufacturing sector. 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, there has been a rapid increase in the foreign ownership share on the Swedish Stock Exchange.

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 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 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. 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 Swedish by following individual patents. The project includes questions like mode 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

Publications

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IUI Yearbook 2002/2003. 2003. 46 pp.

IUI Yearbook 2001/2002. 2002. 49 pp.

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Seminars

2003

Wednesday 11 June

Per Johansson, Office of Labour Market Policy Evaluation (IFAU): *Employment, Mobility, and Active Labor Market Programs*

Co-author: Peter Fredriksson

Wednesday June 4

Henrik Horn, IUI and Institute for International Economic Studies (IIES):
National Treatment in Trade Agreements

Wednesday May 28

Tomaso Duso, University of Vienna: *Product Market Competition and Lobbying Coordination in U.S. Mobile Telecommunications*

Co-author: Astrid Jung

Wednesday May 21

Mariassunta Giannetti, Stockholm Institute of Transition Economics (SITE): *Does Prestige Matter More than Profits? Evidence from Entrepreneurial Choices*

Co-author: Andrei Simonov

Wednesday May 14

Massimo Motta, European University Institute, Florence: *Exclusive Dealing and Entry, when Buyers Compete*

Co-author: Chiara Fumagalli

Wednesday May 7

Sven-Olof Fridolfsson, IUI: *Why Event Studies Do Not Detect the Competitive Effects of Mergers*

Co-author: Johan Stennek

Wednesday April 23

Lars Frisell, The Swedish Riksbank and Wissenschaftszentrum Berlin für Sozialforschung: *The Breakdown of Authority*

Wednesday April 9

Per Skedinger, IUI: *Recruitment to Sheltered Employment. Evidence from Samhall, a Swedish State-Owned Company*

Co-author: Barbro Widerstedt

Wednesday April 2

Morten Søberg, University of Oslo: *Voting Rules and Endogenous Trading Institutions: An Experimental Study*

Wednesday March 26

Natalie Pienaar, Institute for International Economic Studies (IIES): *Economic Aspects of the Consistency Requirement in the WTO Agreement on Sanitary and Phytosanitary Measures*

Wednesday March 19

Susanna Sällström, University of Cambridge and St John's College, Cambridge, U.K.: *Is the Hotelling Market Really Covered? Theory and Implications*

Wednesday March 12

Magnus Johannesson, Stockholm School of Economics: *Consumption and Health*
Co-author: David Domeij

Wednesday March 5

Richard Friberg, Stockholm School of Economics: *Micro Foundations of Macroeconomic Price Adjustment: Survey Evidence from Swedish Firms*

Co-authors: Mikael Apel and Kerstin Hallsten

Wednesday February 19

Per G. Fredriksson, Southern Methodist University, Dallas: *Trade Integration and Political Turbulence: Environmental Policy Consequences*

Co-author: Muthukumara Mani

Wednesday February 12

Lena Edlund, Columbia University and University College London: *The State and the Family – Does Marriage Matter? Evidence from Western Europe*

Co-authors: Laila Haider and Rohini Pande

Wednesday February 5

Daniel Waldenström, Stockholm School of Economics: *International Financial Liberalization and Industry Growth*

Co-author: Jonas Vlachos

Wednesday January 29

Mark Voorneveld, Stockholm School of Economics: *Discrete Choice and Endogenous Uncertainty in Games*

Co-authors: Edward Droste and Michael Kosfeld

Wednesday January 22

Karl Lundvall, the Swedish Competition Authority (Konkurrensverket): *De svenska priserna kan pressas! (The Price Level in Sweden)*

Co-author: Kristian Viidas

Wednesday January 15

Helena Svaleryd, Stockholm University: *Female Representation – Is It Important for Policy Decisions?*

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Thomas P. Tangerås, IUI: *Democracy, Autocracy and the Likelihood of International Conflict*

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Rainer Nitsche, Charles River Associates, Brussels: *On the Effectiveness of Anti-Predation Rules*

Wednesday December 4

Aviv Nevo, University of California, Berkeley: *Measuring the Implications of Sales and Consumer Stockpiling Behavior*

Co-author: Igal Hendel

Wednesday November 27

Lars Sørsgard, Norwegian School of Economics and Business Administration: *Temporary Bottlenecks, Hydropower and Acquisitions in Networks*

Co-author: Jostein Skaar

Wednesday November 20

Tore Ellingsen, Stockholm School of Economics: *In-Kind Finance*
Co-Author: Mike Burkhart

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Javier Ortega, University of Toulouse and London School of Economics:
Working-Time Rigidities and Efficiency

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Bruce R Lyons, University of East Anglia: *Could Politicians be More Right than Economists? A Theory of Merger Standards*

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Mats Bergman, Uppsala University: *Lessons from Deregulation*

Wednesday October 23

Magnus Henrekson, Stockholm School of Economics: *Entrepreneurship – A Weak Link in the Welfare State*

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Katariina Hakkala, Stockholm School of Economics: *Ownership Change, Firm Specific Knowledge Capital and Productivity*

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Flavio Toxvaerd, London Business School: *Strategic Merger Waves: A Theory of Musical Chairs*

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Tobias Lindqvist, IUI: *Bubbles and Experience: An Experiment on Speculation*
Co-authors: Martin Dufwenberg and Evan Moore

Wednesday September 11

Holger Görg, Centre for Economic Policy Research (CEPR): *Foreign Ownership, Returns to Scale and Productivity: Evidence from UK Manufacturing Establishments*
Co-author: Sourafel Girma

Wednesday September 4

Yves Zenou, University of Southampton: *Does City Structure Affect the Labor Market Outcomes of Blacks?*

Co-author: Harris Selod