



Bank of Italy –  
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*Seminars at the Bank of Italy*

*Seminars at EIEF*

## Highlights

**The Bank of Italy will host its second conference on Macro modelling in the policy environment** on 30 June - 1 July, 2009 in Rome. The conference will provide a forum to discuss a wide range of theoretical and empirical issues relating to the development of macro models, including DSGE models (*the conference programme is available here*).

**On 16-17 April 2009 the Bank of Italy organized a conference on “Financial Market Regulation after Financial Crises: The Historical Experience”.** The conference was convened in order to analyse the historical experience of post-crisis financial regulation in different countries, in the belief that a review of past episodes and trends could be useful to economists, regulators and policymakers as they now set out to design a new regulatory environment in the wake of the current financial crisis.

The conference brought together academics and colleagues from central banks and other research centres. Thirteen papers were presented, divided up into four sessions. The first session “An Evaluation of Long-Term National Experiences” included papers

concerning the US (E. White, Rutgers University), Italy (A. Gigliobianco and C. Giordano, Bank of Italy and G. Toniolo, Duke University), Finland (J. Tarkka, Bank of Finland), Belgium (I. Maes, Banque Nationale de Belgique) and Spain (P. Martín-Aceña). The second session “Key Crises Episodes and Regulatory Responses” saw the contributions of M. Flandreau (Graduate Institute of International and Development Studies, Geneva), Ø. Eitrheim and S.A. Berg (Norges Bank), Y. Goland (Russian Academy of Sciences) and O. Feiertag (Université de Rouen). The third session “Techniques and Rules for Crisis Resolution” analysed historical episodes in Germany (M. Pontzen, Deutsche Bundesbank) and Jugoslavia (Ž. Lazarević, Institute for Contemporary History). The final session “The Design of Regulation: Experience and Theory” included papers by R. Hetzel (Federal Reserve Bank of Richmond) and J. Mason (LSU). *The Conference programme and papers are available here*

**On December 14-15 2009 the Bank of Italy will host the VIII Brucchi Luchino Labour Economics Workshop.** This year keynote speaker is Luigi Pistaferri (Stanford University). The deadline for submitting a paper is September 15th. *More details are available here.*



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## Latest working papers

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### No. 708: Trend inflation, Taylor principle and indeterminacy

*Guido Ascari and Tiziano Ropele*

Even low levels of trend inflation substantially affect the dynamics of a basic new Keynesian DSGE model when monetary policy is conducted by a contemporaneous Taylor rule. Positive trend inflation shrinks the determinacy region. Neither the Taylor principle, which requires the inflation coefficient to be greater than one, nor the generalized Taylor principle, which requires that in the long run the nominal interest rate should be raised by more than the increase in inflation, is a sufficient condition for local determinacy of equilibrium. This finding holds for different types of Taylor rules, inertial policy rules and price indexation schemes. Therefore, regardless of the theoretical set up, the monetary literature on Taylor rules cannot disregard average inflation in both theoretical and empirical analysis.

[\(full pdf text\)](#)

### No. 709: Politicians at work. The private returns and social costs of political connections

*Federico Cingano and Paolo Pinotti*

We quantify the private returns and social costs of political connections exploiting a unique longitudinal dataset that combines matched employer-employee data for a representative sample of Italian firms with administrative archives on the universe of individuals appointed in local governments over the period 1985-97. According to our results, the revenue premium granted by political connections amounts to 5% on average, it is obtained through changes in domestic sales but not in exports, and it is not related to improvements in firm productivity. The connection premium is positive for upstream producers for the public administration only, and larger (up to 25%) in areas characterized by high public expenditure and high levels of corruption. These findings suggest that the gains in market power derives from public demand shifts towards politically connected firms. We estimate such shifts reduce the provision of public goods by approximately 20%. Finally, we find positive but

modest effects on the wage profile of politicians employed in connected firms.

[\(full pdf text\)](#)

### No. 710: Gradualism, transparency and the improved operational framework: a look at the overnight volatility transmission

*Silvio Colarossi and Andrea Zaghini*

This paper proposes a possible way of assessing the effect on interest rate dynamics of changes in the decision-making approach, in the communication strategy and in the operational framework of a central bank. Through a GARCH specification we show that the US and the euro area displayed a limited but significant spillover of volatility from money market to longer-term rates. We then checked the stability of this phenomenon in the most recent period of improved policy-making and found empirical evidence to show that the transmission of overnight volatility along the yield curve had entirely vanished.

[\(full pdf text\)](#)

### No. 711: The topology of the interbank market: developments in Italy since 1990

*Michele Manna and Carmela Iazzetta*

When a bank defaults or stops trading in the interbank market, both a liquidity shortage in the market itself and mounting trading losses should be anticipated. To gain more insight into the way a liquidity crisis spreads, we apply network topology techniques to monthly data on deposits exchanged by Italian banks, from 1990 to 2008. Our research yields three main results: first, only a few banks are today pivotal in the redistribution of liquidity across the system, while banks close to, but outside this core circle, weigh less than they used to; secondly, the halt in operations in a second set of banks may cut off some of their counterparts from the rest of the network, with increasingly less negligible effects; finally, only 2-3 banks out of the 10 we identify as most interconnected within the network are

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## €coin

*the real time indicator  
of the  
Euro Area economy*



currently also among the top 10 banks by volume of traded deposits.

[\(full pdf text\)](#)

### **No. 712: Bank risk and monetary policy**

*Yener Altunbas, Leonardo Gambacorta and David Marques-Ibanez*

We find evidence of a bank lending channel for the euro area operating via bank risk. Financial innovation and the new ways to transfer credit risk have tended to diminish the informational content of standard bank balance-sheet indicators. We show that bank risk conditions, as perceived by financial market investors, need to be considered, together with the other indicators (i.e. size, liquidity and capitalization), traditionally used in the bank lending channel literature to assess a bank's ability and willingness to supply new loans. Using a large sample of European banks, we find that banks characterized by lower expected default frequency are able to offer a larger amount of credit and to better insulate their loan supply from monetary policy changes.

[\(full pdf text\)](#)

### **No. 713: Composite indicators for monetary analysis**

*Andrea Nobili*

The prominent role assigned to money by the ECB has been the subject of an intense debate because of the declining predictive power of the monetary aggregate M3 for inflation in recent years. This paper reassesses the information content of monetary analysis for future inflation using dynamic factors extracted from a new and richer cross-section of data including the monetary aggregate M3, its components and counterparts, and a detailed breakdown of deposits and loans at sectoral level. Weighting monetary and credit variables according to their signal to noise ratio allows us to downplay those that in recent times contributed significantly to the deterioration of the information content of the M3. Factor-model based inflation forecasts turn out to be more accurate than those produced by traditional competitor models at the relevant policy horizon of six-quarters ahead. All in all, our results support the view that an analysis based on a large set of monetary and credit variables is a more useful tool for assessing risks to price stability than one that simply focuses on the dynamic of the overall monetary aggregate M3.

[\(full pdf text\)](#)

## **Forthcoming working papers**

Bugamelli M., F. Schivardi and R. Zizza,  
*The euro and firm restructuring*

Buono I.,  
*Firm heterogeneity and comparative advantage: evidence on French firm's response to the entry of Turkey in the European customs union*

De Carolis F.,  
*When the highest bidder loses the auction: theory and evidence from public procurement*

De Vincenzo A., E. Fiorentino, F. Heid, A. Karmann and M. Koetter,  
*The effects of privatization and consolidation on bank productivity: comparative evidence from Italy and Germany*

Di Giacinto W., G. Micucci and P. Montanaro,  
*Dynamic macroeconomic effects of public capital: evidence from regional Italian data*

Ferrero G. and A. Secchi,  
*The Announcement of Monetary Policy Intentions*

Fiaschi D. and M. Romanelli,  
*Nonlinear dynamics in welfare and the evolution of world inequality*

Finicelli A., P. Pagano and M. Sbracia,  
*The selection effect of international competition*

Hall Bronwyn H., F. Lotti and J. Mairesse,  
*Innovation and productivity in SMEs. Empirical evidence for Italy*

Infante L. and P. Rossi,  
*The retail activity of foreign banks in Italy: effects on credit supply to households and firms*

Magri S.,  
*Household Wealth and Entrepreneurship: is There a Link?*

Sørensen C. K., D. Marqués Ibáñez and C. Rossi,  
*Modelling loans to non-financial corporations in the euro area*

Pinotti P.,  
*Financial development and the demand for Pay-As-You-Go social security*

Pinotti P.,  
*Trust and Regulations Addressing a Cultural Bias*

Sette E.,  
*Competition and opportunistic advice of financial analysts: theory and evidence*

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## Recently published working papers

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- No. 699: Marcello Pericoli and Marco Taboga, *Bond risk premia, macroeconomic fundamentals and the exchange rate* (January 2009)
- No. 700: Raffaella Giordano and Pietro Tommasino, *What determines debt intolerance? The role of political and monetary institutions* (January 2009)
- No. 701: Anthony B. Atkinson and Andrea Brandolini, *On analysing the world distribution of income* (January 2009)
- No. 702: Rita Cappariello and Roberta Zizza, *Dropping the books and working off the books* (January 2009)
- No. 703: Andrea Neri, *Measuring wealth mobility* (January 2009)
- No. 704: Francesco Lippi and Andrea Nobili, *Oil and the macroeconomy: a quantitative structural analysis* (March 2009)
- No. 705: Cheti Nicoletti and Concetta Rondinelli, *The (mis)specification of discrete duration models with unobserved heterogeneity: a Monte Carlo study* (March 2009)
- No. 706: Lorenzo Forni, Andrea Gerali and Massimiliano Pisani, *Macroeconomic effects of greater competition in the service sector: the case of Italy* (March 2009)
- No. 707: Riccardo De Bonis and Massimiliano Stacchini, *What determines the size of bank loans in industrialized countries? The role of government debt* (March 2009)

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## Latest occasional papers

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### No. 44 **Financial sector pro-cyclicality: lessons from the crisis**

*Fabio Panetta and Paolo Angelini (coordinators), Ugo Albertazzi, Francesco Columba, Wanda Cornacchia, Antonio Di Cesare, Andrea Pilati, Carmelo Salleo and Giovanni Santini*

We analyze the main forces affecting financial system pro-cyclicality (the fact that developments in the financial sector can amplify business cycle fluctuations). We first review some major structural

developments in financial markets that may influence pro-cyclicality and that have been overlooked in earlier analyses. We then examine three issues that are center stage in the current debate: capital regulation, accounting standards and managers' incentives. After reviewing the institutional set-up and the key mechanisms at work, we critically examine a series of proposals designed to mitigate pro-cyclicality. ([full pdf text](#))

### No. 45: **Report on trends in the Italian productive system**

*Andrea Brandolini and Matteo Bugamelli (coordinators), Guglielmo Barone, Antonio Bassanetti, Magda Bianco, Emanuele Breda, Emanuela Ciapanna, Federico Cingano, Francesco D'Amuri, Leandro D'Aurizio, Virginia Di Nino, Stefano Federico, Andrea Generale, Federica Lagna, Francesca Lotti, Giuliana Palumbo, Enrico Sette, Bruna Szego, Alessandra Staderini, Roberto Torrini, Roberta Zizza, Francesco Zollino and Stefania Zotteri,*

In the last decade the Italian economy has underperformed compared both with the previous decades and with the main European countries. It is widely acknowledged that this evolution reflects unresolved structural problems, which have become more urgent in view of the major changes in the world economy (the new technological paradigm, globalization, European economic integration). The goal of the Report is to make a critical survey of all the empirical analyses on the Italian economy and to derive policy suggestions. The evolution of Italy's productive system is examined from a long-run perspective, highlighting weaknesses and possible signs of recovery and elaborating on the systemic features that may have negatively affected growth performance directly or indirectly through the above exogenous shocks. The focus, mostly but not exclusively microeconomic, emphasizes the considerable heterogeneity of firms, a crucial element for identifying the factors that affect economic growth.

([full pdf text - only in Italian](#))

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## Recently published occasional papers

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- No. 38: Daniela Marconi and Laura Painelli, *Italian Assessing the vulnerability of emerging Asia to external demand shocks: the role of China* (February 2009)

- No. 39: Enrico Beretta, Alessandra Dalle Vacche and Andrea Migliardi, *The Italian port system: a survey on competitiveness and development factors* (February 2009)
- No. 40: Amanda Carmignani and Silvia Giacomelli,, *Italian civil justice: regional disparities* (February 2009)
- No. 41: Chiara Bentivogli, Amanda Carmignani, Diana Marina Del Colle, Roberto Del Giudice, Massimo Gallo, Andrea Generale, Anna Gervasoni, Massimiliano Rigon, Paola Rossi, Enrico Sette and Bruna Szegö, *Private equity and venture capital in Italy* (February 2009)
- No. 42: Andrea Silvestrini, *Seasonal adjustment of bank deposits and loans* (March 2009)
- No. 43: Claudia Maurini and Riccardo Settimo, *Assessing the allocation of Italian foreign aid* (March 2009)

## Selection of recent journal articles and books by Bank of Italy's staff

([full list since 1990](#))

### Forthcoming

- Affinito M.** and **F. Farabullini**, *Does the law of one price hold in euro-area retail banking?*, International Journal of Central Banking
- Altunbas Y., **L. Gambacorta** and D. Marqués, *Securitisation and the bank lending channel*, European Economic Review ([WP No. 653](#))
- Forni L.**, **L. Monteforte** and **L. Sessa**, *The general equilibrium effects of fiscal policy: estimates for the euro area*, Journal of Public Economics ([WP No. 652](#))

### 2009

- Lippi F. and **A. Secchi**, *Technological Change and the Households' Demand for Currency*, Journal of Monetary Economics 56, 2, 222-230, ([WP No. 697](#))

### 2008

- Angelini P.**, **P. Del Giovane**, **S. Siviero** and **D. Terlizzese**, *Monetary policy in a monetary union: What role for regional information?*, International Journal of Central Banking, 4, 3, 1-28 ([WP No. 457](#))
- Angelini P.** and **A. Generale**, *On the Evolution of*

*Firm Size Distributions*, American Economic Review 98, 1, 426-438, ([WP No. 549](#))

- Busetti F.** and A. Harvey, *Testing for Trend*, Econometric Theory, 24, 1, 72-87 ([WP No. 614](#))
- Cesarano F.**, *Money and monetary systems: selected essays of Filippo Cesarano*, Cheltenham, Elgar
- Casolaro L.**, D. Focarelli and A. Pozzolo, *The pricing effect of certification on syndicated loans*, Journal of Monetary Economics, 55, 2, 335-349
- De Bonis R.**, *La Banca*, Carocci, Roma
- Del Giovane P.** and **R. Sabbatini** (eds.), *The euro, inflation and consumers' perceptions. Lessons from Italy*, Springer, Berlin-Heidelberg
- Gambacorta L.**, *How do banks set interest rates?*, European Economic Review, 52, 5, 792-819 ([WP No. 542](#))
- Pericoli M.** and **M. Taboga**, *Canonical term-structure models with observable factors and the dynamics of bond risk premia*, Journal of Money, Credit and Banking, 40, 7, 1471-1488 ([WP No. 580](#))

### 2007

- Angelini P.** and F. Lippi, *Did prices really soar after the euro cash changeover? Evidence from ATM withdrawals*, International Journal of Central Banking, 3, 4, 1-22 ([WP No. 581](#))
- Ascari G. and **T. Ropele**, *Optimal monetary policy under low trend inflation*, Journal of Monetary Economics, 54, 8, 2568-2583 ([WP No. 647](#))
- Busetti F.**, **L. Forni**, A. Harvey and **F. Venditti**, *Inflation convergence and divergence within the European monetary union*, International Journal of Central Banking, 3, 2, 95-121
- Bonaccorsi di Patti E.** and **G. Gobbi**, *Winners or losers? The effects of banking consolidation on corporate borrowers*, Journal of Finance, 62, 669-695 ([WP No. 479](#))
- Cesarano F.**, *Monetary theory in retrospect: The selected essays of Filippo Cesarano*, Routledge, Abington
- Devicienti F., A. Maida and **P. Sestito**, *Downward wage rigidity in Italy: Micro based measures and implications*, Economic Journal, 117, 524, F530-F552
- Fabiani S.**, C. Loupias, F. Martins and **R. Sabbatini** (eds.), *Pricing decisions in the euro area: How firms set prices and why*, Oxford University Press, New York
- Lippi F.** and **S. Neri**, *Information variables for monetary policy in a small structural model of the euro area*, Journal of Monetary Economics, 54, 4, 1256-1270 ([WP No. 511](#))

**Locarno A.**, *Imperfect knowledge, adaptive learning, and the bias against activist monetary policies*, International Journal of Central Banking, 3, 3, 47-85 ([WP No. 590](#))

Magnoli Bocchi A. and **M. Piazza**, *La Banca mondiale*, Il Mulino Editore, Bologna

**Marchetti D.J.** and F. Nucci, *Pricing behavior and the response of hours to productivity shocks*, Journal of Money, Credit and Banking, 39, 7, 1587-1611 ([WP No. 524](#))

**Paiella, M.**, *The forgone gains of incomplete portfolios*, Review of Financial Studies, 20, 5, 1623-1646 ([WP No. 625](#))

**Rossi S.**, *La politica economica italiana 1968-2007*, Laterza, Bari-Roma

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### 2006

Álvarez, L. J., E. Dhyne, M. Hoeberichts, C. Kwapil, H. Le Bihan, P. Lünemann, F. Martins, **R. Sabbatini**, H. Stahl, P. Vermeulen, J. Vilmunen, *Sticky prices in the euro area: A summary of new micro evidence*, Journal of the European Economic Association, 4, 575-584

**Bianco M.** and G. Nicodano, *Pyramidal groups and debt*, European Economic Review, 50, 937-961

**Brandolini A., P. Cipollone** and **E. Viviano**, *Does the ILO definition capture all unemployment?*, Journal of the European Economic Association, 4, 153-179 ([WP No. 529](#))

**Busetti, F.**, *Tests of seasonal integration and cointegration in multivariate unobserved component models*, Journal of Applied Econometrics, 21, 419-438

**Cipollone P.** and **A. Rosolia**, *Social interactions in high school: Lessons from an earthquake*, American Economic Review, 97, 3, 948-965 ([WP No. 596](#))

Dhyne, E., E. Vilmunen, L.J. Álvarez, H. Le Bihan, **G. Veronese**, D. Dias, J. Hoffmann, N. Jonker, P. Lannemann and F. Rumler, *Price changes in the euro area and the United States: Some facts from individual consumer price data*, Journal of Economic Perspectives, 20, 171-192

Dedola L. and **S. Neri**, *What does a technology shock do? A VAR analysis with model-based sign restrictions*, Journal of Monetary Economics, 54, 2, 512-549 ([WP No. 607](#))

Druant, M., **S. Fabiani**, I. Hernando, C. Kwapil, B. Landau, C. Loupias, F. Martins, T. Mathä, **R.**

**Sabbatini**, H. Stahl and A. Stokman, *What firms' surveys tell us about price-setting behaviour in the euro area*, International Journal of Central Banking, 2, 3-47

Engle R.F. and **J. Marcucci**, *A long-run pure variance common features model for the common volatilities of the Dow Jones*, Journal of Econometrics, 132, 7-42

Fuchs W. and **F. Lippi**, *Monetary union with voluntary participation*, Review of Economic Studies, 73, 437-457 ([WP No. 512](#))

**Gaiotti E.** and **A. Secchi**, *Is there a cost channel of monetary transmission? An investigation into the pricing behaviour of 2000 firms*, Journal of Money, Credit and Banking, 38, 8, 2013-2038 ([WP No. 525](#))

**Rossi S.**, *La Regina e il Cavallo. Quattro mosse contro il declino*, Laterza, Bari-Roma

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## Useful links

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### WORKING PAPERS OF THE OTHER EURO-AREA CENTRAL BANKS:

Banque Nationale de Belgique

Deutsche Bundesbank

Central Bank of Cyprus

Bank of Finland

Bank of Greece

Banco de España

Banque de France

Central Bank of Ireland

Banque Centrale du Luxembourg

Central Bank of Malta

De Nederlandsche Bank

Oesterreichische Nationalbank

Banco de Portugal

Central Bank of Slovakia

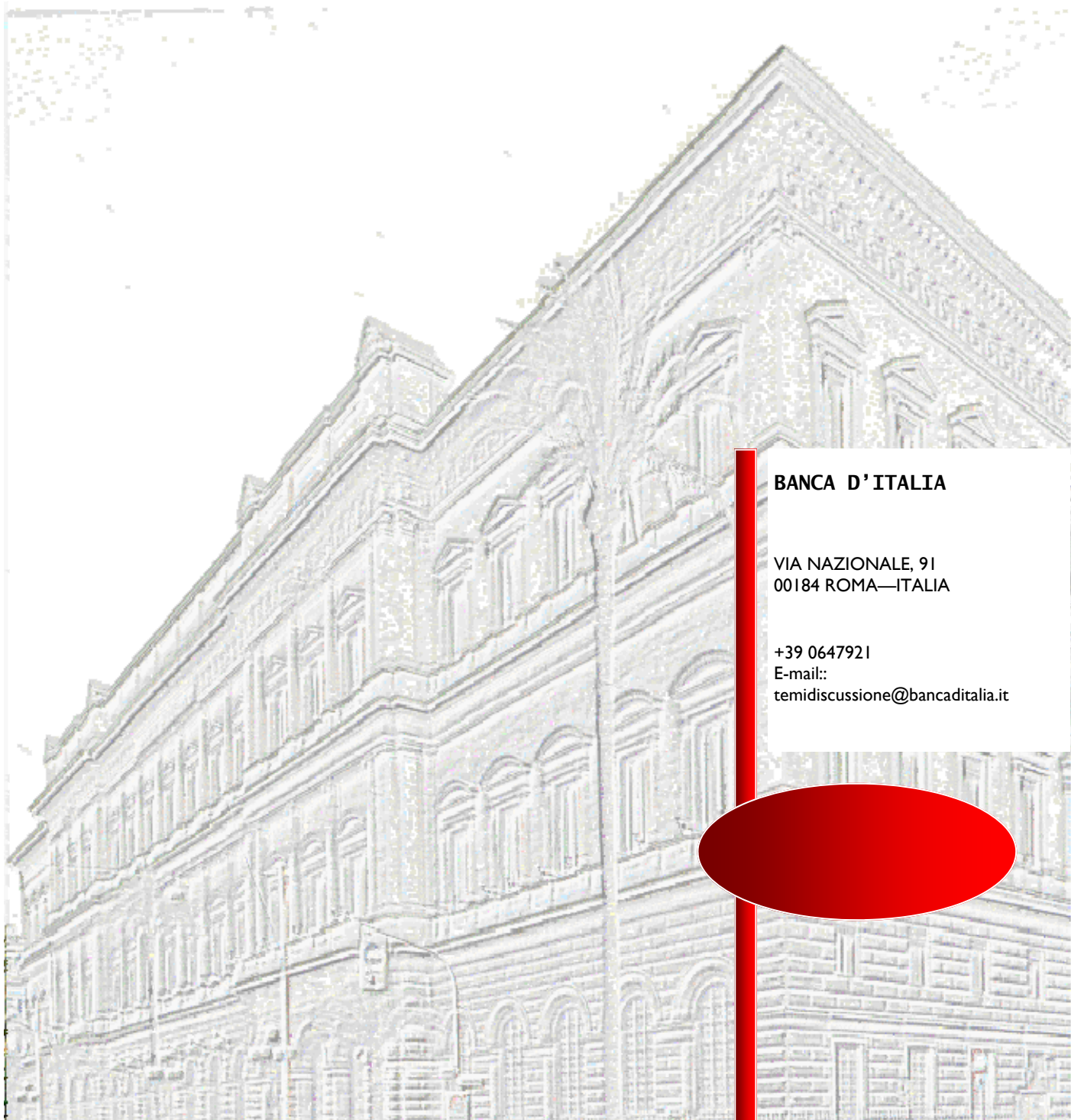
Bank of Slovenia

European Central Bank

### OTHER

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**BANCA D'ITALIA**

VIA NAZIONALE, 91  
00184 ROMA—ITALIA

+39 0647921

E-mail:  
[temidiscussione@bancaditalia.it](mailto:temidiscussione@bancaditalia.it)