



New Research at the Bank of Italy

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Highlights

The Bank of Italy has recently offered eight research fellowships in the Economic Research and International Relations Area, with the objective of selecting outstanding young researchers on the international job market, in keeping with the Bank's tradition of very high standards for its research and economic analysis (for more on this, see the article on page 2).

The Bank of Italy has recently created a new, independent research institute, the Einaudi Institute for Economics and Finance (EIEF, www.eief.it). The Institute is a foundation that replaces the former Ente Luigi Einaudi,

bringing to fruition the idea, originally put forward by Carlo Azeglio Ciampi, of transforming the Ente Einaudi into a centre with resident researchers (for more on this, see the article on page 2).

On 13 February the Bank of Italy hosted a conference in memory of Beniamino Andreatta. The speakers addressed some of the most significant achievements of Andreatta as an economist and politician. As a young economist, Andreatta was mainly interested in the growth of backward areas and its technological aspects. The issues of innovation and economic dynamics, along with concern for social problems, marked all his subsequent activity. In the late seventies, he supported Italy's participation in the European Monetary System. In the eighties Andreatta, as Minister of the Treasury, in concert with Governor Ciampi, freed the Bank of Italy from the commitment to act as a residual buyer of unsold government bonds (the so-called *divorzio*). This represented a fundamental step towards the full independence of monetary policy. In the following years he played a key role in getting the privatization process started. Andreatta's relentless criticism of ever-growing public expenditure, regarded as the result of lobbying pressures leading to inefficient allocation of resources, represents a fundamental part of his intellectual legacy. ([see the speech by the Governor](#))

The Bank of Italy is organizing an international conference on “DSGE models in the policy environment,” to be held in Rome on 23-24 June, 2008. The deadline for papers submission is 31 March, 2008 ([see the call for papers](#)).

The Einaudi Institute (EIEF) finances the dissertation prize “Fausto Vicarelli”. The deadline for applications is May 28 ([see www.eief.it](http://www.eief.it) for more information).

On 19 February the Bank of Italy organized a workshop on “Local public services: Liberalization, regulation and business developments”. The workshop presented the preliminary results of a large research project on the reforms on local public services undertaken in Italy during the last fifteen years. The data used included those of new surveys on the economic and regulatory developments in the different industries, conducted by the Bank at the provincial level. Papers focused on waste management and water supply services, local transportation systems, the local distribution segment of the energy sector, hospital services and child care services. Specific papers were analyzing the emergence of big players and innovators into these industries and the relevance of project financing in building and managing infrastructures. The regulatory set up of the different industries was discussed in a final round table.

On 22 February the Bank of Italy hosted the workshop on “Policies for local development”. There is a particularly rich tradition of local development policies in Italy. Measures to overcome geographical disparities received a boost in the mid-1990s when a new approach (*Nuova Programmazione*) was launched. The papers presented at the workshop evaluated some of the policies introduced in the recent past (*Patti Territoriali* and *Contratti di programma*) and discussed newly designed interventions (*Zone Franche Urbane*) also in the light of the experience of similar policies introduced in the US and France. The discussion highlighted that project evaluation is a key step in assisting policy makers to design effective and non-distortionary measures.

Research Fellowships at the Bank of Italy

(continued from page 1) The Bank received a large number of applications, many from Ph.D. candidates at leading US and European universities. Short-listed candidates were interviewed at the American Economic Association Meeting of January 4-6 in New Orleans and later in Rome. Fourteen young researchers from top economic departments presented their research at seminars held in the Bank. The seminars covered topics in the fields of macroeconomics, international trade, growth, labour and public economics, bringing together excellent scientific quality and high policy relevance.

The selection process was completed in February. Fellows were recruited from Minnesota, Chicago, LSE, Pompeu Fabra, Carlos III and Bocconi universities.

Each fellowship will last one year, during which the fellows will work on their research projects at the Bank, in close cooperation with the economists in the Economic Research and International Relations Area, taking advantage of the possibility to participate in policy debates and tackle pressing policy issues. Fellows will then be given the possibility to apply for a permanent economist position at the Bank, or apply for renewal of the fellowship for a further 12 months.

The Einaudi Institute for Economics and Finance

(continued from page 1) EIEF aims to produce world-class research in economics

and finance. This will generate ideas that can be useful in the policy debate, and create an environment that will help to reverse the brain drain, by attracting foreign scholars and encouraging the best Italian scholars trained abroad to come back to Italy. EIEF also aims to complement the programs offered by Italian universities, focusing on graduate research-oriented courses and on supervision of selected Ph.D. students. EIEF's academic focus will usefully complement the research being produced at the Bank. The Institute will also offer a flexible setting to strengthen the intellectual exchange between academia and the central bank.

EIEF has a governing board that includes three internationally renowned academics – currently Marco Pagano (University of Naples) who is also the President, Olivier Blanchard (MIT) and Anil Kashyap (University of Chicago) – and two representatives of the Bank – Fabrizio Saccomanni (Director General) and Salvatore Rossi (Managing Director for Economics, Research and International Relations). The Board provides strategic inputs to the research agenda, monitors the output of research activity, and enforces the highest quality standards. The President liaises with the Director, who is currently Daniele Terlizzese (Bank of Italy), and together they run the Institute.

The first “engine” of EIEF is the group of Fellows. They are academics with positions in Italian universities, who conduct research at EIEF. Fellows interact with the other researchers at the Institute, teach research-oriented courses, supervise Ph.D. students, organize seminars, workshops and conferences, and participate in the recruitment of junior researchers and in the selection of visiting scholars. They are also available to discuss topics of policy relevance with the management and research staff of the Bank of Italy. There are now 6 Fellows (consult the list at

<http://www.eief.it/people/fellows/>), but their number may gradually grow, roughly doubling in the medium run. A periodic review of the Fellows' contribution to EIEF activities will be conducted by the Board.

The second “engine” of EIEF is the group of Assistant Professors, outstanding junior researchers who are recruited in the international job market for economists. Their initial appointment is for three years, renewable for an additional four years following a successful review, based on their publications and their contribution to the intellectual life of the Institute. Assistant Professors are expected to publish their research in top international journals, teach research-oriented courses, supervise Ph.D. students, and actively participate in the seminars, workshops and other scientific events that take place at EIEF. This year EIEF is on the market to recruit its first group of Assistant Professors. Several interviews took place at the meeting of the American Economic Association in New Orleans and a number of job market seminars took place at EIEF (see

<http://www.eief.it/seminars/forthcoming-seminars/>), offering a good opportunity to learn about the research carried out by some of the best Ph.D. students from top schools around the world. So far, three positions have been filled, with candidates coming from Berkeley, Minnesota and Northwestern universities (see <http://www.eief.it/people/assistant-professors/>). In the medium run there should be around ten Assistant Professors.

The third “engine” powering the intellectual life of the Institute is the group of visitors, both senior and younger but well established scholars, who spend relatively short periods of time – from a few weeks to a whole academic year – at EIEF, doing research and possibly teaching (for a list of prospective visitors see <http://www.eief.it/people/visitors/>). The high quality of the visiting program

offers researchers at EIEF a unique opportunity to work or discuss their work with some of the world's top economists.

The teaching offered by EIEF does not amount to a stand-alone Ph.D. program; rather, EIEF will offer advanced courses on topics of current research. These courses are intended to complement the curricula of the Ph.D. programs of Italian universities (a partnership with non-Italian universities is also being considered). The opportunity to conduct their Ph.D. thesis at the Institute under the supervision of one of EIEF's researchers will be offered to some of the students attending courses at EIEF.

EIEF maintains close links with the Bank of Italy and its research staff. This relationship provides researchers at EIEF with a challenge to address substantive policy issues in their work.

EIEF will continue to offer scholarships to Italian students wishing to follow a Ph.D. program abroad. The call for the 2008-2009 scholarships can be found at <http://www.eief.it/it/borse-di-studio>.

As regards its location, EIEF is currently in the same building as the former Ente Einaudi, close to the Spanish steps, in the centre of Rome. In 2009 it will move to a newly restored townhouse, still in the heart of Rome (via Sallustiana, near via Veneto), with much more space available.

Whether discretionary fiscal policies in euro-area countries act counter- or pro-cyclically and whether their reaction is symmetric or asymmetric over the cycle are still largely unsettled questions, which have important implications for the debate on European fiscal rules. We review the recent empirical literature to explain why the results of the various studies differ so greatly. We find that differences are driven partly by the choices made in modelling fiscal behaviour and in the related notions of fiscal policy cyclicality. Results are also affected by data source and vintage (*ex post* or real-time). The time period chosen is relatively less important. We conclude that the notion of pro-cyclical fiscal policies often upheld in the debate is not justified by the data. *Ex post* data suggest either a-cyclicality or weak counter-cyclicality. Real-time information gives clearer indications of counter-cyclical behaviour, especially when we include at least the impact of fiscal rules. As for symmetry or asymmetry, the answer varies with sources of data and time periods. Whenever asymmetry is present, it entails shifts in all the parameters of the fiscal rule.

(full pdf text)

No. 655: **What's behind "inflation perceptions"? A survey-based analysis of Italian consumers**

Paolo Del Giovane, Silvia Fabiani and Roberto Sabbatini

This study investigates inflation perceptions in both qualitative and quantitative terms and their relationship with factors likely to affect them. This has been done in a unified framework through a survey of a representative sample of Italian consumers carried out at the end of 2006. The results show that reported inflation is, on average, much higher than measured by official statistics. Inflation

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Latest working papers

No. 654: **The cyclical response of fiscal policies in the euro area. Why do results of empirical research differ so strongly?**

Roberto Golinelli and Sandro Momigliano

perceptions are higher for women, the unemployed and less educated individuals, as well as for consumers with some forms of financial distress. A very low knowledge of the inflation concept and related statistics and an inaccurate memory of past prices turn out to play a significant role in explaining the highest class of perceptions. In contrast, the characteristics of individual shopping activity do not result to be significant. All in all, these results suggest that when consumers express their opinions on what they report as “inflation”, they are incorporating a complex combination of forces that go well beyond the phenomena measured by official inflation statistics. [\(full pdf text\)](#)

No. 656: The effects of fiscal policy in Italy: Evidence from a VAR model

Raffaella Giordano, Sandro Momigliano, Stefano Neri and Roberto Perotti

This paper studies the effects of fiscal policy on private GDP, inflation and the long-term interest rate in Italy using a structural vector autoregression model. To this end, a database of quarterly cash data for selected fiscal variables for the period 1982:1-2004:4 is constructed, largely relying on the information contained in the Italian Treasury Quarterly Reports. The main results of the study can be summarized as follows. A shock to government purchases of goods and services has a sizeable and robust effect on economic activity: an exogenous one per cent (in terms of private GDP) shock increases private real GDP by 0.6 per cent after 3 quarters. The response goes to zero after two years, reflecting with a lag the low persistence of the shock. The effects on employment, private consumption and investment are also positive. The response of inflation is positive but small and short-

lived. In contrast, public wages, which in many studies are lumped together with purchases, have no significant effect on output, while the effects on employment turn negative after two quarters. Shocks to net revenue have negligible effects on all the variables. [\(full pdf text\)](#)

No. 657: Excess money growth and inflation dynamics

Barbara Roffia and Andrea Zaghini

The paper analyzes the short-run impact of periods of strong monetary growth on inflation dynamics for 15 industrialized economies. We find that when robust money growth is accompanied by large increases in stock and house prices and loose credit conditions, the probability of recording an inflationary outburst over a three-year horizon is significantly increased. In contrast, significant money stock expansions which are not associated with sustained credit increases and strong dynamics in other asset prices seem to be less likely to have inflationary consequences and thus, less worrying from a policy perspective. [\(full pdf text\)](#)

No. 658: R&D and market structure in a horizontal differentiation framework

Davide Fantino

This paper examines the dynamic interaction between R&D and market structure in a horizontally differentiated market framework. Firms invest in R&D to modify the level of differentiation of their products, increasing their specialization and their market power. The invested resources in research are declining over time because of decreasing returns from further specialization. Prices, output and

short-run profits of the firms producing differentiated products increase and move towards the higher steady state values, while production of the non-differentiated good falls; the number of firms is constant in all periods. The increasing specialization of varieties improves the overall utility of consumers. The comparison with the socially optimal solution shows that firms underinvest in R&D. Firms do not internalize the effects of their research effort on the overall level of substitutability of the other varieties and on the profits of the other firms.

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

No. 659: Housing market spillovers: Evidence from an estimated DSGE model

Matteo Iacoviello and Stefano Neri

The ability of a two-sector model to quantify the contribution of the housing market to business fluctuations is investigated using U.S. data and Bayesian methods. The estimated model, which contains nominal and real rigidities and collateral constraints, displays the following features: first, a large fraction of the upward trend in real housing prices over the last 40 years can be accounted for by slow technological progress in the housing sector; second, residential investment and housing prices are very sensitive to monetary policy and housing demand shocks; third, the wealth effects from housing on consumption are positive and significant, and have become more important over time. The structural nature of the model allows identifying and quantifying the sources of fluctuations in house prices and residential investment and measuring the contribution of housing booms and busts to business cycles.

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

Forthcoming working papers

Affinito M. and G. Piazza, *What are borders made of? An analysis of barriers to European banking integration.*

Balassone F., M. Francese and S. Zotteri, *Cyclical asymmetry in fiscal variables.*

Barbieri G., P. Cipollone and P. Sestito, *Labour market for teachers: Demographic characteristics and allocative mechanisms.*

Biancotti C. and G. D'Alessio, *Values, inequality and happiness.*

Bonci R. and F. Columba, *Monetary policy effects: New evidence from the Italian flow of funds.*

Bortolotti B. and P. Pinotti, *Delayed privatization.*

Brandolini A., *On applying synthetic indices of multidimensional well-being: Health and income inequalities in selected EU countries.*

Breda F., R. Cappariello and R. Zizza, *Vertical specialization in Europe: Evidence from the import content of exports.*

Bronzini E., G. de Blasio, G. Pellegrini and A. Scognamiglio, *The effect of investment tax credit: Evidence from an atypical programme in Italy.*

Ciapanna E., *Directed matching with endogenous Markov probability: Clients or competitors?*

Cristadoro R., A. Gerali, S. Neri and P. Pisani, *Real exchange rate volatility and disconnect: An empirical investigation.*

Cucculelli M. and G. Micucci, *Family succession and firm performance:*

Evidence from Italian family firms.

- Di Giacinto V. and M. Pagnini, *Agglomeration within and between regions: An econometric based indicator.*
- Faiella I., *Accounting for sampling design in the SHIW.*
- Lamorgese A., *Innovation driven sectoral shocks and aggregate city cycles.*
- Lippi F. and A. Secchi, *On financial development and the demand for currency: An analysis with household data.*
- Maccheroni F., M. Marinacci, A. Rustichini and M. Taboga, *Portfolio selection with monotone mean-variance preferences.*
- Marcucci J. and M. Quagliariello, *Credit risk and business cycle over different regimes.*
- Pinotti P., *Financial development and the demand for Pay-As-You-Go social security.*
- Sette E., *Competition and opportunistic advice of financial analysts: Theory and evidence.*
- Silvestrini A. and D. Veredas, *Temporal aggregation of univariate and multivariate time series models: A survey.*

Recently published working papers

- No. 653 Yener Altunbas, Leonardo Gambacorta and David Marqués, *Securitisation and the bank lending channel* (November 2007)
- No. 652 Lorenzo Forni, Libero Monteforte and Luca Sessa, *The general equilibrium effects of fiscal policy:*

Estimates for the euro area (November 2007)

- No. 651 Gian Maria Tomat, *Revisiting poverty and welfare dominance* (November 2007)
- No. 650 Leonardo Gambacorta and Carlotta Rossi, *Modelling bank lending in the euro area: A non-linear approach* (November 2007)
- No. 649 Ugo Albertazzi and Leonardo Gambacorta, *Bank profitability and taxation* (November 2007)
- No. 648 Angela Romagnoli, *Balance-sheet ratios and stock returns: An analysis for Italian banks* (November 2007)
- No. 647 Guido Ascari and Tiziano Ropele, *Optimal monetary policy under low trend inflation* (November 2007)
- No. 646 Giorgio Gobbi and Roberta Zizza, *Does the underground economy hold back financial deepening? Evidence from the Italian credit market* (November 2007)
- No. 645 Amanda Carmignani and Massimo Omiccioli, *Costs and benefits of creditor concentration: An empirical approach* (November 2007)
- No. 644 Enrico Beretta and Silvia Del Prete, *Bank consolidation and lending policies to small business: Differences across geographical areas* (November 2007)

Selection of recent journal articles and books by Bank of Italy's staff (full list since 1990)

- Angelini P.** and **A. Generale**, *Firm size distribution: Do financial constraints explain it all? Evidence from survey*

data, Forthcoming, American Economic Review (WP No. 549)

Ascari G. and **T. Ropele**, *Optimal monetary policy under low trend inflation*, Forthcoming, Journal of Monetary Economics (WP No. 647)

Buseti F., **L. Forni**, A. Harvey and **F. Venditti**, *Inflation convergence and divergence within the European monetary union*, Forthcoming, International Journal of Central Banking

Del Giovane P. and **R. Sabbatini** (eds.), *The euro, inflation and consumers perceptions. Lessons from the case of Italy*, Forthcoming, Springer

Paiella, M., *The forgone gains of incomplete portfolios*, Forthcoming, Review of Financial Studies (WP No. 625)

De Bonis R., *La Banca*, Carocci, Roma (2008)

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)

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)

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)

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)

Buseti, 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, 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, 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)

Useful links

Working papers of the other euro-area central banks:

[Banque Nationale de Belgique](#)

[Deutsche Bundesbank](#)

[Bank of Greece](#)

[Banco de España](#)

[Banque de France](#)

[Central Bank of Ireland](#)

[Banque Centrale du Luxembourg](#)

[De Nederlandsche Bank](#)

[Oesterreichische Nationalbank](#)

[Banco de Portugal](#)

[Bank of Slovenia](#)

[Bank of Finland](#)

[European Central Bank](#)

Other

[BIS Central Bank Research Hub](#)

[International Journal of Central Banking](#)