



Bank of Italy – Economics, Research and International Relations

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Seminars at the Bank of Italy

Seminars at EIEF

Highlights

Ricardo J. Caballero - the Ford International Professor of Economics, MIT - will deliver the ninth Paolo Baffi Lecture on 10 December 2009.

The Lecture will deal with the financial crisis, its consequences and policy responses. The Lecture series was instituted by the Bank of Italy to promote original contributions by eminent scholars on the subject of money and finance. The Lecture is named after Paolo Baffi, Governor of the Bank of Italy from 1975 to 1979 and its scope reflects the attention Paolo Baffi devoted to money and finance in his scholarly writings and his belief in the need to advance theoretical and applied analysis in this field. Recent speakers include Olivier J. Blanchard, Jean Tirole, Martin Hellwig and Andrei Shleifer ([see the new section of our website](#) dedicated to the Paolo Baffi Lecture on Money and Finance, which now includes the final version of the Lecture given by Andrei Shleifer in November 2007).

The Fourth Banca d'Italia - CEPR Conference on Money, Banking and Finance will be held on 2-3 October 2009 at the Bank's headquarters in Rome.

The conference will investigate the relationship between financial structure, corporate governance and firm performance in highly competitive and integrated markets. The deadline for submissions is 15 May 2009 ([see the call for papers](#))

The Bank of Italy is organizing its second conference on **Macro modeling in the policy environment**, which will be held in Rome on 30 June - 1 July, 2009. This year topic will be: Economic policy design in times of global crisis. The conference will provide a forum for discussing a wide range of theoretical and empirical issues relating to the development of macro models, including DSGE models, with focus on applications to current policy issues. The deadline is 30 April 2009 ([see the call for papers](#)).

On 19 December 2008 the Bank of Italy hosted the 7th edition of the Workshop on Macroeconomic Dynamics: Theory and Applications.

The workshop brings together Italian-based researchers with Italian members of foreign universities and research centres, offering participants, junior economists in particular, an opportunity to present and discuss research projects on modern dynamic macroeconomics and encouraging the creation of networks of economists working in closely related fields and on similar topics.

Twelve papers were presented during the workshop. The morning plenary session included contributions on: the analysis of currency attacks in global-game models (A. Pavan, Northwestern University); the role of on- and off-the-job search in labour markets (P. Garibaldi, Turin University and Collegio Carlo Alberto); the effects of the development of international financial markets on risk sharing (G. Corsetti, European University Institute); and the relationship between cash-flow management and equity returns (D. Palazzo, New York University). The workshop programme and papers are available [here](#).

Latest working papers

No. 699: **Bond risk premia, macroeconomic fundamentals and the exchange rate**

Marcello Pericoli and Marco Taboga

We introduce a two-country no-arbitrage term-structure model to analyse the joint dynamics of bond yields, macroeconomic variables, and the exchange rate. The model allows to understand how exogenous shocks to the exchange rate affect the yield curves, how bond yields co-move in different countries, and how the exchange rate is influenced by the interactions between macroeconomic variables and time-varying bond risk premia. Estimating the model with US and German data, we obtain an excellent fit of the yield curves and we are able to account for up to 75 per cent of the variability of the exchange rate. We find that time-varying risk premia play a non-negligible role in exchange rate fluctuations due to the fact that a currency tends to appreciate when risk premia on long-term bonds denominated in that currency rise. A number of other novel empirical findings emerge.

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

No. 700: **What determines debt intolerance? The role of political and monetary institutions**

Raffaella Giordano and Pietro Tommasino

Why do some states default on their debt more often than others? We argue that sovereign default is the outcome of a political struggle among different groups of citizens. It is more likely to happen if: (i) domestic debt-holders are relatively weak; (ii) the the political costs of the financial turmoil typically triggered by a sovereign bankruptcy are small. We show that these conditions are in turn more likely to be present if a country lacks a well-developed financial system and/or a sufficiently independent central bank.

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

No. 701: **On analysing the world distribution of income**

Anthony B. Atkinson and Andrea Brandolini

This paper argues that consideration of world inequality should cause us to re-examine the key concepts underlying the welfare approach to the

measurement of income inequality and the inter-relation between the measurement of inequality and the measurement of poverty. There are three reasons why we feel that a re-examination is necessary: (i) the extent of global income differences means that we cannot simply carry over the methods used at a national level; we need a more flexible measure; (ii) we have to reconcile measures of world inequality and world poverty; and (iii) we need to explore more fully the different ways in which measures may be relative or absolute. This leads us to propose a new measure, which (a) combines poverty and inequality, including provision for those who are concerned only with poverty, (b) incorporates different approaches to the measurement of inequality; and (c) allows the cost of inequality to be expressed in different ways. Applied to the world distribution for the period 1820-1992, the new measure provides different perspectives on the evolution of global inequality.

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

No. 702: **Dropping the books and working off the books**

Rita Cappariello and Roberta Zizza

The paper empirically tests the relationship between underground labour and schooling achievement for Italy, a country ranking badly in both respects when compared to other high-income economies, with a marked duality between North and South. In order to identify underground workers, we exploit the information on individuals' social security positions available from the Bank of Italy's Survey on Household Income and Wealth. After controlling for a wide range of socio-demographic and economic variables and addressing potential endogeneity and selection issues, we show that a low level of education sizeably and significantly increases the probability of working underground. Switching from completing compulsory school to graduating at college more than halves this probability for both men and women. The gain is slightly higher for individuals completing the compulsory track with respect to those having no formal education at all. The different probabilities found for self-employed and dependent workers support the view of a dual informal sector, in which necessity and desirability coexist.

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

€coin

*the real time indicator
of the
Euro Area economy*



No. 703: Measuring wealth mobility

Andrea Neri

In the economic literature on mobility measurement issues are generally disregarded. The aim of the paper is to assess their impact on the analysis of Italian households' mobility across the wealth distribution in the 1989-2004 period. The paper shows that response (or measurement) errors and transitory shocks may account up to 30-50 per cent of the observed mobility (depending on the index used). Moreover, also the dynamics of mobility is likely to be biased by the dynamics of response (or measurement) errors. In the case of Italy, the declining level of observed mobility is downward biased by the increasing difficulty in measuring household wealth (which results in an increase of response errors). Measurement issues appear to be more important than socio-demographic characteristics to explain mobility.

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

No. 704: Oil and the macroeconomy: a quantitative structural analysis

Francesco Lippi and Andrea Nobili

We consider an economy in which the oil costs, industrial production, and other macroeconomic variables fluctuate in response to fundamental domestic and external demand and supply shocks. We estimate the effects of these structural shocks on US monthly data for the 1973.1-2007.12 period using robust sign restrictions suggested by theory. The interplay between the oil market and the US economy goes in both directions. About 20% of changes in the cost of oil come in response to US aggregate demand shocks, while shocks originating in the oil market also affect the US economy, the impact depending on the nature of the shock: a negative oil supply shock reduces US output, whereas a positive oil demand shock has a positive and persistent effect on GDP.

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

No. 705: The (mis)specification of discrete duration models with unobserved heterogeneity: a Monte Carlo study

Cheti Nicoletti and Concetta Rondinelli

Empirical researchers usually prefer statistical models that can be easily estimated using standard software packages. One such model is the sequential binary model with or without normal random effects; such

models can be adopted to estimate discrete duration models with unobserved heterogeneity. But ease of estimation may come at a cost. In this paper we conduct a Monte Carlo simulation to evaluate the consequences of omitting or misspecifying the unobserved heterogeneity distribution in single-spell discrete duration models.

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

No. 706: Macroeconomic effects of greater competition in the service sector: the case of Italy

Lorenzo Forni, Andrea Gerali and Massimiliano Pisani

The paper assesses the effects of increasing competition in the service sector in Italy which, based on cross-country comparisons, is the OECD country with the highest markups in non-manufacturing industries. We propose a two-region (Italy and the rest of the euro area) dynamic general equilibrium model allowing for monopolistic competition in the labor, manufacturing and service markets. We then use the model to simulate the macroeconomic and spillover effects of increasing the degree of competition in the Italian services sector. Our results indicate that reducing the service sector markups to the levels of the rest of the euro area increases in the long run Italian GDP by 11 percent and welfare (measured in terms of steady state consumption equivalents) by about 3.5 percent. Half of the GDP increase would be realized in the first three years. The spillover effects to the rest of the euro area are limited.

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

No. 707: What determines the size of bank loans in industrialized countries? The role of government debt

Riccardo De Bonis and Massimiliano Stacchini

Given the importance of banking intermediation, we investigate the determinants of the size of bank loans in 18 OECD countries in the period 1981-1997. The aim of the paper is to show that the ratio of government debt to GDP has a negative effect on the level of bank credit. Second, countries with a German legal origin have higher ratios of loans to GDP than common law countries. Our results are robust to including such variables in the regressions as per capita GDP, stock market capitalization, the banking reserve requirement, the level of inflation and its volatility, openness to trade and the use of different econometric methods.

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

Forthcoming working papers

- Ascari G. and T. Ropele,
Trend inflation, Taylor principle and indeterminacy
- 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
- Finicelli A., P. Pagano and M. Sbracia,
The selection effect of international competition
- 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?
- 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

Recently published working papers

- No. 694: Alberto Locarno and Alessandra Staderini,
Tax revenue and the macroeconomic framework in Italy (December 2008)
- No. 695: Antonio Accetturo and Luigi Infante,
Immigrant earnings in the Italian labour market (December 2008)
- No. 696: Paolo Sestito and Eliana Viviano,
Reservation wages: explaining some puzzling regional patterns (December 2008)

No. 697: Francesco Lippi and Alessandro Secchi,
Technological change and the demand for currency: an analysis with household data (December 2008)

No. 698: Milo Bianchi, Paolo Buonanno and Paolo Pinotti,
Immigration and crime: an empirical analysis (December 2008)

Latest occasional papers

No. 38: **Assessing the vulnerability of emerging Asia to external demand shocks: the role of China**

Daniela Marconi and Laura Painelli

The paper assesses the vulnerability of China to external shocks via the indirect negative effect of a slow-down in exports on domestic demand for investment. In the last decade China has increased its dependence on external demand, particularly from the advanced countries; at the same time it has become a primary destination market for goods produced in the rest of emerging Asia. Since 2001 investment expenditures have represented a key driver of Chinese GDP growth; as a very large share of activity in the manufacturing sector is export oriented, we expect fixed capital investment in this sector to be highly related to exports. Overcoming serious shortcomings in available data, we estimate an investment equation for the period 1993-2006 and find an elasticity of investment to exports in the manufacturing sector in the range between 0.9 and 1. Taking into account the dominant contribution of capital accumulation to Chinese GDP growth, we conclude that the growth effects of an external demand shock could become significant when taking into account the domestic investment channel.

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

No. 39: **The Italian port system: a survey on competitiveness and development factors**

Enrico Beretta, Alessandra Dalle Vacche and Andrea Migliardi

Between 2003 and 2007 the volume of container traffic handled by the national port system increased only slightly despite the strong growth of maritime traffic in the Mediterranean Sea. This was due both to national economic stagnation and to the inability of the ports to extend their operational area further afield because of the lack of good port and land infrastructure. This paper aims to investigate these issues on the basis of a

survey of the national agents of the main global shipping companies. The main weaknesses in competitiveness regard land infrastructure; other problems involve inefficiencies in national ports' activities and insufficient infrastructure. National logistics and the supply chain are fragmented compared with the integrated systems of other countries. In the opinion of the shipping agents, in addition to improvements in infrastructure, it is necessary to liberalize rail transportation and to modernize port governance, especially by reducing red tape and granting wider financial autonomy to the port authorities.

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

No. 40: Italian civil justice: regional disparities

Amanda Carmignani and Silvia Giacomelli

The functioning of the Italian civil justice system is characterized by deep regional disparities: the length of legal proceedings is on average significantly higher in the South than in the rest of Italy. Using mainly a descriptive approach, this paper documents these differences and investigates possible explanations examining the number of proceedings initiated in courts and the human and financial resources assigned to the courts. As regards population distribution, regions in the South are more litigious than those in the Centre and North and therefore receive a higher proportion of public resources. Nevertheless, the endowment of resources in the South is in line with the rest of Italy when measured according to the annual flow of new proceedings whereas it receives fewer resources in relation to the number of proceedings pending. On the basis of the available information, it is not possible to establish whether the greater stock of proceedings pending in the South is due to an inadequate endowment of resources and/or to lower productivity.

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

No. 41: Private equity and venture capital in Italy

Chiara Bentivogli, Amanda Carmignani, Diana Marina Del Colle, Roberto Del Giudice, Massimo Gallo, Andrea Generale, Anna Gervasoni, Massimiliano Rigon, Paola Rossi, Enrico Sette e Bruna Szegö

This paper examines private equity and venture capital in Italy. The first part looks at the main features of the Italian market and its recent evolution; the second part considers the results of a survey of firms and intermediaries designed to gather information regarding contract features and the characteristics of

investee firms and investing intermediaries. Finally, the paper discusses the main obstacles to the development of the sector using information from the survey of intermediaries.

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

No. 42: Seasonal adjustment of bank deposits and loans

Andrea Silvestrini

This paper illustrates the seasonal adjustment procedure for bank deposits and loans, focusing on the policy for the revision of seasonally adjusted data. Seasonal adjustment is semi-automatic when the commonly used software package, TRAMO-SEATS, is used to produce seasonally adjusted series. With reference to the frequency of seasonally adjusted data revisions, three alternative methods (current adjustment, concurrent adjustment, partial concurrent adjustment) are tested according to a quantitative criterion. A simulation study measures the speed of convergence of the estimates, obtained with these three updating methods, to reach a "final" estimate to be used as a benchmark. The results favour the use of the partial concurrent adjustment method, that suggests identifying the ARIMA model and the effects of the deterministic components once a year, and updating the corresponding coefficients once a month.

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

No. 43: Assessing the allocation of Italian foreign aid

Claudia Maurini and Riccardo Settimo

This paper provides an assessment of Italian aid policy during the period 1983-2006. In comparison with other donors (DAC and G-7), the main stylized facts are: persistently lower aid/GDP ratio, greater recourse to multilateral channels, a higher percentage of "tied" flows and relatively greater recourse to debt relief. Drawing on the empirical literature on aid allocation, we estimate the determinants of Italy's bilateral aid. We use three groups of explanatory variables, reflecting national-interest, humanitarian and selectivity-related motivations. We find that the distribution of Italian bilateral resources is significantly affected by both national-interest (like foreign policy or trade) and humanitarian motives, related to recipients' needs; the latter's role, in particular, seems to have strengthened over time. There is ample room for improving selectivity, i.e., the capacity to direct ODA flows to "deserving" countries, where better policies and institutions are likely to increase aid effectiveness.

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

Recently published occasional papers

- No. 31: Maura Francese and Angelo Pace, *Italian Public debt since national unification. A reconstruction of the time series* (October 2008)
- No. 32: Emilia Bonaccorsi di Patti and Roberto Felici, *The risk of home mortgages in Italy: evidence from one million contracts* (October 2008)
- No. 33: Valeria Rolli, *New policy challenges from financial integration and deepening in the emerging areas of Asia and Central and Eastern Europe* (October 2008)
- No. 34: Emanuela Ciapanna and Daniele Sabbatini, *Broadband in Italy: an overview* (October 2008)
- No. 35: Alessio Ciarlone, Paolo Piselli and Giorgio Trebeschi, *Emerging market spreads in the recent financial turmoil* (November 2008)
- No. 36: Giuseppe Bruno, Leandro D'Aurizio and Raffaele Tartaglia-Polcini, *Remote processing of firm microdata at the Bank of Italy* (December 2008)
- No. 37: Antonella Foglia, *Stress testing credit risk: a survey of authorities' approaches* (December 2008)

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
- 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](#))

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](#))
- Buseti 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](#))
- Buseti 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

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

Useful links

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

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