BANCA D'ITALIA
EUROSISTEMA

New Research at the Bank of Italy

Number 24 – November 2011

Bank of Italy – Economics, Research and International Relations

**Number 24
November 2011**

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Seminars at the Bank of Italy

Seminars at EIEF

Highlights

Social Capital Workshop (4 July 2011) For many years now, the concept of social capital has assumed particular importance in the field of social research, where the debate on its definition and measurement continues to be lively. Various studies have demonstrated the connection between some measures of social capital endowment and major economic phenomena. The study of these links is particularly important in Italy, where there are wide and persistent development gaps between regions.

The workshop examined the results of several recent research projects at the Bank of Italy on the link between social capital and the behaviour of households, businesses and the public sector. A roundtable discussion attended by experts from various relevant disciplines concluded the proceedings. The conference programme is available here.

On 30 September –1 October, the 9th Hydra Workshop on Dynamic Macroeconomics, sponsored by the ECB, EIEF, Swiss National Bank, University of Bern, University of Cagliari and University of Sassari was held in Alghero, Sardinia, and brought together leading researchers in this field.

The workshop programme and presentations are available here.

On 6-7 October, EIEF and the Center for Financial Studies at Goethe University Frankfurt organized a major conference on Household Finance. The conference provided an overview of recent empirical and theoretical research on households' financial behaviour and how it is influenced by government policies and the general economic environment. The conference was held at the EIEF's premises in Rome and benefited from contributions of economists actively involved in research in this area.

The conference programme and presentations are available here.

Italy and the World Economy, 1861-2011 (Rome, 12-15 October 2011)

The research promoted by the Bank of Italy as part of the celebrations for the 150th Anniversary of Italy's National Unification focuses on the responses of the Italian economy, in the course of its history, to the major changes in the international context: episodes of expansion and of crisis, of globalization and an end to economic self-sufficiency. As well as furthering the understanding of Italian history, the studies provide food for thought on the current position of Italy in the world economy. The results were presented at the international conference "Italy and the World Economy, 1861-2011", held in Rome from 12 to 15 October 2011.

More information on page 10 of the newsletter.

On 18 October 2011 the Bank of Italy hosted the conference "Economic growth, equity and equality: the role of women". After opening remarks by Director General Fabrizio Saccomanni and by the Minister for Equal Opportunity, Maria Rosaria Carfagna, the Report on

"Gender equality and development" was presented by Ana Revenga of the World Bank. The conference continued with a presentation of some preliminary findings of a Bank of Italy research project on "Gender and economic growth in Italy" (evidence of gaps, their sources in Italy, potential impact on economic growth) and a discussion of these findings by a panel of academic experts. An address by Deputy Director General Anna Maria Tarantola concluded the event. The conference was preceded by a research seminar, held in Rome on 26 September 2011. Power point presentations are available here.

Forthcoming Events

Fifth Bank of Italy-CEPR Conference on Money, Banking and Finance (Rome, 14-15 December 2011)

This year's conference will focus on "Macroprudential Policies, Regulatory Reform and Macroeconomic Modeling".

Visit the internet website for Call for papers.

On 16 December 2012 Bank of Italy will host a Conference in memory of Tommaso Padoa-Schioppa

The conference will held at the Bank's headquarters in Rome and will gather distinguished policymakers and academics to discuss the key themes at the centre of Padoa-Schioppa's work: monetary policy and payment systems, financial system regulation and supervision, European integration, and the reform of the international monetary system.

The preliminary programme is available here.

On 12-13 April 2012, EIEF will host the second edition of the "Workshop on Structural Approaches to Industry Dynamics, Trade and Productivity" co-funded with COST. The aim of the workshop is to bring together researchers in industry dynamics and productivity to discuss recent developments in the field.

The Calls for papers is available here.

On 27-28 April 2012 EIEF will host a conference on "Economics of Interactions and Culture". The event is co-organized with ERC, University of Rome "La Sapienza" and CEPR. The aim of the Conference is to discuss recent research on the role of cultural traits, beliefs and social norms in shaping the functioning of institutions and legal systems. Further information will be provided on the EIEF website.

The Calls for papers is available here.

Latest working papers

No. 817: **Macroeconomic determinants of carry trade activity** (September 2011)

Alessio Anzuini and Fabio Fornari

From a financial standpoint, the mechanics of the carry trade has been recently examined in Brunnermeier et al. (2009). They showed that shocks to interest rate differentials lead to carry trade activity and to significant reactions in the bilateral exchange rates vis-a-vis the US dollar that they analyse. Starting from their paper, we take a more macroeconomic standpoint and aim to identify what kind of structural shock can generate the implications of their interest rate differential shock. To this aim we add two macroeconomic variables and two indicators of confidence to the 4-variable financial VAR of Brunnermeier et al. (2009) and use sign restrictions on the impulse responses of the resulting larger VAR to identify four macroeconomic shocks. We evidence that demand shocks and confidence shocks are associated with longer-term gains from carry trade activity, relative to supply and monetary policy shocks. This finding also supports the widely reported idea that sentiment boosts position taking. (full pdf text)

No. 818: **Leaving home and housing prices. The experience of Italian youth emancipation** (September 2011)

Francesca Modena and Concetta Rondinelli

This paper provides an explanation for the postponement of youth emancipation in the Italian context mainly characterized by a sharp increase in both house and rent prices together with stagnant disposable income over the past decade. We first assemble a unique database related to the housing and rental market which is then matched with household characteristics. We find that the probability of leaving home decreases by about half percentage point and one percentage point for males and females, respectively, for a one-standard-deviation change in house prices. Together with property prices, local labour markets play a prominent role in determining decisions by unemployed youths to postpone the transition. The youngest cohort was mainly affected by the real estate market evolution that occurred in the last decade. (full pdf text)

No. 819: **The interbank market after the financial turmoil: squeezing liquidity in a "lemons market" or asking liquidity "on tap"** (September 2011)

Antonio De Socio

After August 2007 the plumbing system that supplied banks with wholesale funding, the interbank market, failed because toxic assets obstructed the pipes. Banks were forced to squeeze liquidity in a “lemons market” or to ask for liquidity “on tap” from central banks. This paper disentangles the two components of the three-month Euribor-Eonia swap spread, credit and liquidity risk and then evaluates the decomposition. The main finding is that credit risk increased before the key events of the crisis, while liquidity risk was mainly responsible for the subsequent increases in the Euribor spread and then reacted to the systemic responses of the central banks, especially in October 2008. Moreover, the level of the spread between May 2009 and February 2010 was influenced mainly by credit risk, suggesting that European banks were still in a “lemons market” and relied on liquidity “on tap”. (full pdf text)

No. 820: **The relationship between the PMI and the Italian index of industrial production and the impact of the latest economic crisis** (September 2011)

Valentina Aprigliano

Survey data attract considerable interest as timely and reliable series for assessing the state of the economy. We investigate the relationship between the manufacturing PMI and the Index of Industrial Production (IPI) for Italy, with a special focus on the effects of the latest crisis. The manufacturing PMI tracks a medium-to-long run component of the IPI quarterly growth rate, which is estimated by a one-sided multivariate Wavelet filter. This filter provides more efficient estimates at the end of the sample than the Baxter and King method. Furthermore, the

Wavelet basis allows us to take into account the time-varying oscillations of a series caused by the large negative shocks characterizing the latest global crisis, while the non-parametric framework does not force us to conclude definitely for the occurrence of structural breaks not yet testable rigorously.
(full pdf text)

No. 821: **The sovereign credit default swap market: price discovery, volumes and links with banks' risk premia** (September 2011)

Alessandro Carboni

This paper looks into the sovereign credit default swap (CDS) market from two perspectives. First, it analyses the relation between CDS and bond spreads. The results on a single-entity basis suggest that the CDS market leads the bond market in price discovery, especially during 2010, while both markets contribute during the pre-Lehman period and in 2009. Moreover, the inclusion of the EURIBOR-EUREPO 3-month spread helps to restore the long-run relation after the Lehman bailout. An event-study, which compares the reaction of sovereign CDS and bond markets to policy announcements in Europe, suggests that both markets react in the same way, especially after the release of bad news. As for the relation between prices and volumes of sovereign CDSs, estimates do not point to any stable relation. The second perspective is the relation between CDS spreads for sovereign and corporate entities. Our estimates on an aggregate and sector-wide basis point to a leading property of the former sector, even in 2009, while the banking sector increases its leading power during 2010. (full pdf text)

No. 822: **The demand for energy of Italian households** (September 2011)

Ivan Faiella

This paper studies the impact of demographic shifts, energy prices and climate factors on Italian households' energy budget. The pattern of energy expenditure of Italian households is studied using the Italian Household Budget Survey. The expenditure for heating, private transport and electricity are jointly modelled and the relevant parameters are simulated under different scenarios. According to this exercise, the ageing of the Italian population - coupled with the increase in energy prices and surface temperature - could reduce the share of energy-related expenditure by about 2 percentage points in the next few decades and increase its polarization. Energy policies should take into consideration households' characteristics and behaviour, and in turn the impact of this heterogeneity on the demand for energy.
(full pdf text)

No. 823: **On the optimal size of local jurisdictions: new evidence from Italian provinces** (September 2011)

Guglielmo Barone

This paper examines the creation of some new provinces in Italy in the 1990s to assess whether the reduction in the size of the local jurisdiction led to benefits in terms of local development, human capital and road quality, which are three public goods provided by the Italian provinces in tandem with other levels of government. By employing a difference-in-differences empirical strategy, and comparing the municipalities belonging to the new provinces (treatments) with other comparable municipalities (controls), I show that the reduction of the size of a province did not generate any benefits in terms of the outcome variables. This result is robust to a number of checks, including the definition of treatment and different functional specifications.
full pdf text; only in Italian)

No. 824: **The public-private pay gap: a robust quantile approach** (September 2011)

Domenico Depalo and Raffaela Giordano

This paper investigates whether a public sector premium exists after controlling for observable characteristics and for additional motivations, other than monetary, that may induce workers to prefer employment in the public sector. We study the entire conditional wage distribution on Italian micro data, covering the period 1998-2008. The evidence under random sampling shows the existence of a wage differential averaging at about 14% for women and 4% for men, generally lower at the high tail of the wage distribution and in the Northern regions. The premium significantly increases when possible sorting is considered; the correction is particularly large above the median of the wage distribution, therefore suggesting that the additional motivations may play an important role above all at higher wage levels. When we restrict our comparison to large private firms, a differential is confirmed for women but not for men. (full pdf text)

No. 825: **Evaluating students' evaluations of professors** (October 2011)

Michela Braga, Marco Paccagnella and Michele Pellizzari

This paper contrasts measures of teacher effectiveness with the students' evaluations of the same teachers using administrative data from Bocconi University (Italy). The effectiveness measures are estimated by comparing the subsequent performance in follow-on coursework of students who are randomly assigned to teachers in each of their compulsory courses. We find that, even in a setting where the syllabuses are fixed, teachers still matter substantially. Additionally, we find that our measure of teacher effectiveness is negatively correlated with the students' evaluations of professors: in other words, teachers who are associated with better subsequent performance receive worse evaluations from their students. We rationalize these results with a simple model where teachers can either engage in real teaching or in teaching-to-the-test, the former requiring greater student effort than the latter. Teaching-to-the-test guarantees high grades in the current course but does not improve future outcomes. Hence, if students are short-sighted and give better evaluations to teachers from whom they derive higher utility in a static framework, the model is capable of predicting our empirical finding that good teachers receive bad evaluations. (full pdf text)

No. 826: **Do interbank customer relationships exist? And how did they function in the crisis? Learning from Italy** (October 2011)

Massimiliano Affinito

Using 11 years of monthly Italian bank-by-bank data, this paper correlates the bilateral amounts and the identity of each interbank borrower and lender with a long list of explanatory variables. The results show that interbank customer relationships, i.e. stable and strong relationships between pairs of borrowing and lending banks, do exist in Italy, that they persist over time, and that they functioned well during the crisis, enabling the healthier banks to provide and the troubled ones to receive funds. (full pdf text)

No. 827: **Foreign trade, home linkages and the spatial transmission of economic fluctuations in Italy** (October 2011)

Valter Di Giacinto

During the recent global recession both the export-oriented northern Italian regions and those in the far less open South experienced a sharp decline in economic activity. One of the possible explanations is the existence of strong domestic linkages propagating foreign demand shocks from North to South. To assess the scope of the spatial transmission of global and local disturbances across Italian regions, in this paper we specify and estimate a bivariate structural spatial VAR model featuring GDP and foreign exports as endogenous variables. A standard gravity equation approach is implemented to model unobserved domestic regional trade flows, while regional sales on foreign markets are related to global trade fluctuations and local shocks to competitiveness, broken down into a national and an idiosyncratic component. In line with expectations, strong domestic linkages are uncovered on the basis of model estimation results. The latter show that even less export-oriented Italian regions, although broadly unaffected on impact, may eventually experience a sharp output decline following a fall in global trade of the size observed in the recent recession.(full pdf text)

No. 828: **Healthcare in Italy: expenditure determinants and regional differentials** (October 2011)

Maura Francese and Marzia Romanelli

The aim of this work is to identify the determinants of health spending differentials among Italian regions, which could highlight the existence of potential margins for savings. The analysis exploits a dataset for the panel of the 21 Italian regions starting in the early 1990s and ending in 2006. After having controlled for standard healthcare demand indicators, spending differentials appear to be associated with differences in the degree of appropriateness of the treatments, supply structure and social capital indicators. These results suggest that savings could be achieved without reducing the amount of services supplied to citizens. This is particularly important in view of the expected rise in health spending associated with the forecast demographic developments. (full pdf text)

No. 829: **Bank heterogeneity and interest rate setting: what lessons have we learned since Lehman Brothers?** (October 2011)

Leonardo Gambacorta and Paolo Emilio Mistrulli

A substantial literature has investigated the role of relationship lending in shielding borrowers from idiosyncratic shocks. Much less is known about how lending relationships and bank-specific characteristics affect the functioning of the credit market in an economy-wide crisis, when banks may find it difficult to perform the role of shock absorbers. We investigate how bank-specific characteristics (size, liquidity, capitalization, funding structure) and the bank-firm relationship have influenced interest rate setting since the collapse of Lehman Brothers. Unlike the existing literature, which has focused chiefly on the amount of credit granted during the crisis, we look at its cost. The data on a large sample of loans from Italian banks to non-financial firms suggest that close lending relationships kept firms more insulated from the financial crisis. Further, spreads increased by less for the customers of well-capitalized, liquid banks and those engaged mainly in traditional lending business. (full pdf text)

No. 830: **Structural reforms and macroeconomic performance in the euro area countries: a model-based assessment** (October 2011)

Sandra Gomes, Pascal Jacquinot, Matthias Mohr and Massimiliano Pisani

We quantitatively assess the macroeconomic effects of country-specific supply-side reforms in the euro area by simulating EAGLE, a multi-country dynamic general equilibrium model. We consider reforms in the labor and services markets of Germany (or, alternatively, Portugal) and the rest of the euro area. Our main results are as follows. First, a unilateral markup reduction by 15 percentage points in the German (Portuguese) labor and services market would induce an increase in the long-run German (Portuguese) output equal to 8.8 (7.8) percent. Second, cross-country coordination of reforms would add extra benefits to each region, by limiting the deterioration of relative prices and purchasing power that a country faces when implementing reforms unilaterally. In the long run German (Portuguese) output would increase by 9.2 (8.6) percent. Third, cross-country coordination would make the macroeconomic performance of the different regions more homogeneous, in terms of price competitiveness and real activity. Overall, our results suggest that while reforms implemented individually by each country in the euro area will produce positive effects, cross-country coordination produces larger and more evenly distributed (positive) effects. (full pdf text)

No. 831: **Risk measures for autocorrelated hedge fund returns** (October 2011)

Antonio Di Cesare, Philip A. Stork and Casper G. de Vries

Standard risk metrics tend to underestimate the true risks of hedge funds because of serial correlation in the reported returns. Getmansky, Lo, and Makarov (2004) derive mean, variance, Sharpe ratio, and beta formulae adjusted for serial correlation. Following their lead, we derive adjusted downside and global measures of individual and systemic risks. We distinguish between normally and fat tailed distributed returns and show that adjustment is particularly relevant for downside risk measures in the case of fat tails. A hedge fund case study reveals that the unadjusted risk measures considerably underestimate the true extent of individual and systemic risks. (full pdf text)

Forthcoming working papers

Barone G. and G. De Blasio
Local electoral rules and political participation

Blanchard O. J. and M. Riggi
Why are the 2000s so different from the 1970s? A structural interpretation of changes in the macroeconomic effects of oil prices

Buono I, R. Aeberhardt and H. Fadinger
Learning, incomplete contracts and export dynamics: theory and evidence from French firms

Bulligan G.
Forecasting economic activity with targeted predictors

Cappelletti G.
Do wealth fluctuations generate time-varying risk aversion? Italian micro-evidence on household asset allocation

Caprioli F. and S. Momigliano
The effects of fiscal Shocks with debt-stabilizing budgetary policies in Italy

Ciapanna E. and M. Taboga
Bayesian analysis of coefficient instability in dynamic regressions

Coin D.
A method to estimate power parameter in exponential power distribution via polynomial regression

Cristadoro R. and D. Marconi
Households savings in China

D'Amuri F. and J. Marcucci
"Google it!" Forecasting the US unemployment rate with a Google job search index

D'Aurizio L. and S. Iezzi
Investment forecasting with plans collected in business surveys

De Bonis R. and A. Silvestrini
The effects of financial and real wealth on consumption: new evidence from OECD countries

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

Pericoli M.
Expected inflation and inflation risk premium in the euro area and in the United States

Pinotti P.
The economic consequences of organized crime: evidence from southern Italy

Ropele T.
Implementing disinflations in a medium-scale dynamic general equilibrium model: money supply vis-à-vis interest rate rules

Sessa L.
Economic (in)stability under monetary targeting

Recently published working papers

No. 803: Amanda Carmignani and Alessio D'Ignazio,
Financial subsidies and bank lending: substitutes or complements? Micro level evidence from Italy (April 2011)

No. 804: Valter Di Giacinto and Giacinto Micucci,
Quality upgrading of Italian manufactures: evidence from firms' prices and strategies (April 2011)

No. 805: Giuseppe Cappelletti, Giovanni Guazzarotti and Pietro Tommasino,
What determines annuity demand at retirement? (April 2011)

No. 806: Sergio Santoro,
Heterogeneity and learning with complete markets (April 2011)

No. 807: Alberto Musso, Stefano Neri and Livio Stracca,
Housing, consumption and monetary policy: how different are the U.S. and the euro area? (April 2011)

No. 808: Martina Cecioni and Stefano Neri,
The monetary transmission mechanism in the euro area: has it changed and why? (April 2011)

No. 809: Massimiliano Affinito,
Convergence clubs, the euro-area rank and the relationship between banking and real convergence (June 2011)

No. 810: Vincenzo Cuciniello,
The welfare effect of foreign monetary conservatism with non-atomistic wage setters (June 2011)

No. 811: Piero Cipollone and Alfonso Rosolia, *Schooling and youth mortality: learning from a mass military exemption* (June 2011)

No. 812: Alessandro Calza and Andrea Zaghini, *Welfare costs of inflation and the circulation of US currency abroad* (June 2011)

No. 813: Giovanni Mastrobuoni and Paolo Pinotti, *Legal status of immigrants and criminal behavior: evidence from a natural experiment* (June 2011)

No. 814: Valerio Vacca, *An unexpected crisis? Looking at pricing effectiveness of different banks* (July 2011)

No. 815: Antonio Accetturo and Luigi Infante, *Skills or culture? An analysis of the decision to work by immigrant women in Italy* (July 2011)

No. 816: Michele Manna, *Home bias in interbank lending and banks' resolution regimes* (July 2011)

Latest occasional papers

No. 101: **Does aid buy votes?** (July 2011)

Paolo Pinotti and Riccardo Settimo

We use data for 143 developing countries during the period 1980-2004 to study empirically the relationship between multilateral aid (as proxied by IDA flows) and support for US foreign policy, as measured by voting alignment at the United Nations General Assembly. Our identifica¬tion strategy exploits exogenous variations in international commodity prices and natural disasters to address causality from aid to voting. Our results suggest that, even though multilateral and bilateral aid flows are both associated with greater voting alignment, the causal effect of multilateral aid is not significantly different from zero. This result is robust to controlling for other determinants of voting patterns, for unobserved heterogeneity at the country level and for common time trends. (full pdf text)

No. 102: **Unconventional monetary policy in theory and in practice** (September 2011)

Martina Cecioni, Giuseppe Ferrero and Alessandro Secchi

In this paper, after discussing the theoretical underpinnings of unconventional monetary policy measures, we review the existing empirical evidence on their effectiveness, focusing on those adopted by the European Central Bank and by the Federal Reserve. These measures operate in two ways: through the signalling channel and through the portfolio-balance channel. In the former, the central bank can use communication to steer interest rates and to restore confidence in the financial markets; the latter hinges on the hypothesis of imperfect substitutability of assets and liabilities in the balance sheet of the private sector and postulates that the central bank's asset purchases and liquidity provision lower financial yields and improve funding conditions. The review of the empirical literature suggests that the unconventional measures were effective and that their impact on the economy was sizeable. However, a very large degree of uncertainty surrounds the precise quantification of these effects. (full pdf text)

No. 103: **Is there a role for funding in explaining recent US bank failures**? (October 2011)

Pierluigi Bologna

This paper tests the role of different banks' liquidity funding structures in explaining the bank failures that occurred in the United States between 2007 and 2009. The results highlight that funding is indeed a significant factor in explaining banks' probability of default. By confirming the role of funding as a driver of banking crisis, the paper also recognizes that the new liquidity framework proposed by the Basel Committee on Banking Supervision appears to have the features needed to strengthen banks' liquidity conditions and improve financial stability. Its correct implementation, together with closer supervision of banks' liquidity and funding conditions, appear decisive, however, if such improvements are to be achieved. (full pdf text)

No. 104: **Is your money safe? What Italians know about deposit insurance** (October 2011)

Laura Bartiloro

The recent financial crisis has revived the debate on deposit insurance. Public awareness of its existence is essential in order to prevent a bank run. Analysing the results of three questions on this topic introduced in the last Survey on Household Income and Wealth, this paper investigates knowledge of the existence of the Italian deposit insurance scheme and its main characteristics among a sample of households. Evidence shows that knowledge of deposit insurance is poor: 70 per cent of the households in the sample are completely unaware of its existence, 23 per cent possess only basic knowledge, and just 7 per cent have detailed information. The available data allow us to outline possible determinants of deposit insurance awareness: the results highlight the importance of the Internet and of income and education, as expected; in addition, men seem to be better informed than women. (full pdf text)

No. 105: **Mutual guarantee institutions and small business credit during the crisis** (October 2011)

Paolo Emilio Mistrulli, Valerio Vacca (coordinators), Gennaro Corbisiero, Silvia Del Prete, Luciano Esposito, Marco Gallo, Mariano Graziano, Maurizio Lozzi, Vincenzo Maffione, Daniele Marangoni, Andrea Migliardi, Alessandro Tosoni

The recent economic and financial crisis has drawn attention to how mutual guarantee institutions (MGIs) facilitate small and medium enterprises in accessing bank financing. The aim of this paper is twofold. First, we describe the structural features of the Italian market for mutual guarantees and its significance for small business credit. To this end, we use extensive databases (the Central Credit Register and the Central Balance Sheet Register) as well as specific surveys, which allow us to fill information gaps about this industry and to quantify regional diversity. Second, we investigate whether MGIs' support to small firms continued to be effective in 2008-09, when credit constraints to Italian firms peaked. We find that MGIs played a role in avoiding a break-up in credit flows to affiliated firms, which also benefited from a lower cost of credit. However, this came at the cost of a deterioration in credit quality, which was more intense for customers with guarantees from MGIs. (full pdf text - only in Italian)

No. 106: **Organised VAT fraud: features, magnitude, policy perspectives** (October 2011)

Fabrizio Borselli

The European Union's VAT system has become vulnerable to organised fraud schemes. In recent years, these schemes, undergoing a change in structure, have affected services and imports of goods from third countries and may also have shifted trade in goods among EU countries. Within the EU-27, organised VAT fraud is estimated to amount to between €20 billion and €35 billion a year. The EU institutions and Member States have put forward several measures to tackle this problem, although some of these have placed a disproportionate burden on businesses. The article shows that need to maximise the effectiveness of anti-VAT-fraud strategy cannot be separated from a broad view of the problem and of the functioning of the VAT system as a whole. A drastic change in the VAT system might provide a robust defence against fraud but produce uncertain effects. Enhancing risk management and exchange of good practices is essential. Technology-based solutions appear to be a pragmatic and politically feasible approach to new challenges, with good prospects of success. (full pdf text)

No. 107: **Retail sector concentration and price dynamics in the euro area: a regional analysis** (October 2011)

Emanuela Ciapanna and Concetta Rondinelli

We conduct a regional analysis of the relationship between market concentration and price dynamics in the grocery retail sector, focusing on a sample of five categories of goods belonging to the 12 COICOP aggregation and on a panel of countries that includes Germany, Spain, Finland, Italy, Austria and Portugal. Using a unique census-type dataset on retailers, we construct Herfindahl-Hirschman indices of concentration at the buying group, parent company and individual shop level for a sample of 118,540 large grocery stores and we study the association between these measures and regional price changes. Our results point to a positive association between retail market concentration and price growth in food and beverages, alcohol and tobacco and miscellaneous goods in the time span 2003-2010 at the buying, parental group and store level for the pooled sample of countries. The relation reverses sign for clothing and footwear and household equipment. This evidence is robust to different specifications of concentration indices.
(full pdf text)

Recently published occasional papers

No. 90: Paolo Sestito and Marco Tonello,
Quality differentials in Italian Universities' freshmen: the case of Medical and Dental Surgery schools (April 2011)

No. 91: Roberta Occhilupo, Giuliana Palumbo and Paolo Sestito,
Siting public facilities: a theoretical and empirical analysis of the Nimby syndrome in Italy (April 2011)

No. 92: Paolo Fantini, Silvia Giacomelli, Giuliana Palumbo and Gianluca Volpe,
Small claims litigation in Italy (April 2011)

No. 93: Luigi Cannari, Giovanni D'Alessio and Alessandra Mori,
Economic and financial conditions of households in Lombardy (June 2011)

No. 94: Silvia Fabiani and Roberto Sabbatini,
Wage setting and adjustment by Italian firms: any difference during the crisis? A survey-based analysis (June 2011)

No. 95: Giuseppe Cappelletti, Antonio De Socio, Giovanni Guazzarotti and Enrico Mallucci,
The impact of the financial crisis on inter-bank funding: evidence from Italian balance sheet data (July 2011)

No. 96: Giorgio Gomel, Fabio Bernasconi, Margherita Laura Cartechini, Veronica Fucile, Riccardo Settimo and Roberto Staiano,
Financial inclusion - G20 initiatives and the role of the Bank of Italy (July 2011)

No. 97: Valeria Pellegrini and Enrico Tosti ,
Finding lost capital: an estimate of undeclared assets held abroad by Italians (July 2011)

No. 98: Mariagrazia Granturco and Maria Grazia Miele,
The Italian private equity funds: an analysis of the portfolio companies' economic and financial conditions (July 2011)

No. 99: Marco Rocco,
Extreme value theory for finance: a survey (July 2011)

No. 100: Silvia Magri, Raffaella Pico and Cristiana Rampazzi,
Which households use consumer credit in Europe? (July 2011)

Economic history working papers

No. 6: **A comparative perspective on Italy's human capital accumulation** (October 2011)

Giuseppe Bertola and Paolo Sestito

This paper reviews the evolution of educational institutions and outcomes over the 150 years since Italy's unification, and discusses their interaction with national and regional growth patterns. While initial educational conditions contributed to differentiate across regions the early industrial take off in the late 19th century, and formal education does not appear to have played a major role in the post-war economic boom, the slowdown of Italy's economy since the 1990s may be partly due to interactions between its traditionally low human capital intensity and new comparative advantage patterns, and to the deterioration since the 1970s of the educational system's organization. (full pdf text)

No. 7: **Innovation and foreign technology in Italy, 1861-2011** (October 2011)

Federico Barbiellini Amidei, John Cantwell and Anna Spadavecchia

The paper explores the long run evolution of Italy's performance in technological innovation as a function of international technology transfer, reconstructing the different phases and dimensions of Italian innovative activity, tracking the transfer of foreign technological knowledge through a number of channels, analysing the impact of imported technology. The study is based on a newly constructed dataset, over the 1861-2009 period, composed of variables related to: innovation activity performance; foreign technology transfer; domestic absorptive and innovative capability. The analysis highlights, also by econometric assessment, the significant contribution of foreign technology both to innovation activity results and to productivity growth. Differences across channels of technology transfer and historical phases emerge, also in connection with the evolution of human capital endowment and domestic innovative capacity. Machinery imports contributed positively both to innovation activity and to productivity growth; inward FDI contributed positively to productivity

growth, but not to indigenous innovation activity; the accumulation of technical human capital fuelled both. In the long Italian Golden Age, for the first time the association of foreign technological knowledge with indigenous innovation processes strengthened productivity significantly. More recently instead the dismal productivity growth is negatively associated with formalised innovation activity under-performance and reduced imports of disembodied technology.
(full pdf text)

No. 8: **Outward and inward migrations in Italy: a historical perspective** (October 2011)

Matteo Gomellini and Cormac Ó Gráda

This work focuses on some economic aspects of the two main waves of Italian emigration (1876-1913 and post-1945) and of the immigration of recent years. First, we examine the characteristics of migrants. Second, for the period 1876-1913 we investigate the determinants of emigration using a new dataset that allows us to control for regional fixed effects. In this context, the role of the networks formed by once migrated in shaping early twentieth-century Italian emigration results enhanced (30 per cent higher than previously found). Third, we analyze the consequences of emigration for those left behind. A particular concern is whether emigration as a whole raised the living standards of those who stayed and whether it promoted interregional convergence within Italy. Our simulation exercises suggest that in the long run emigration accounted for a share of 4-5 per cent of the total per capita GDP growth; the contribution at the South was twofold with respect to the North. In the recent past Italy has become a country of net immigration. We explore nowadays' immigration in the light of our findings on earlier Italian emigration, focusing on the links with the economic activity, the labor market, the balance of payments, crime and public opinion, on the other.
(full pdf text)

No. 9: **Comparative advantages in Italy: a long-run perspective** (October 2011)

Giovanni Federico and Nikolaus Wolf

The history of Italy since her unification in 1861 reflects the two-way relationship between foreign trade and economic development. Its growth was accompanied by a dramatic increase in the country's integration with European and global commodity markets: foreign trade in the long run grew on average faster than the overall economy. Behind the dynamics of aggregate trade, Italy's comparative advantage changed fundamentally over the last 150 years. The composition of trade, in terms of both commodities imported and exported and in terms of trading partners, developed from a high concentration of a few trading partners and a handful of rather simple commodities into a wide diversification of trading partners and more sophisticated commodities. In this chapter we use a new long-term database on Italian foreign trade at a high level of disaggregation to document and analyze these changes. We will conclude with an assessment of Italy's prospects from a historical perspective.
(full pdf text)

No. 10: **Real exchange rates, trade, and growth: Italy 1861-2011** (October 2011)

Virginia Di Nino, Barry Eichengreen and Massimo Sbracia

What is the relationship between real exchange rate misalignments and economic growth? And what effect, if any, did undervaluations or overvaluations of the lira/euro have on Italy's growth? We address these questions by presenting, first, three main facts: (i) there is a positive relationship between undervaluation and growth; (ii) this relationship is strong for developing countries and weak for advanced countries; (iii) these results tend to hold for both the pre- and the post-World War II period. Building a simple analytical model, we explore channels through which undervaluation may exert a positive effect on real GDP. We assume that productivity is higher in the tradeable-goods than in the non-tradeable-goods sector, and examine the roles of market structure, scale economies and wage flexibility in channelling resources from the latter to the former sector, increasing exports and real GDP. We then turn to Italy and verify empirically that, as the theory suggests, undervaluation has positively affected its exports. Undervaluation has been helpful, in particular, to increase the exports of high-productivity sectors, such as most manufacturing industries. Finally, we describe the misalignments of the lira/euro since 1861, analyze their determinants and draw the implications for Italy's economic growth. (full pdf text)

No. 11: **Public debt and economic growth in Italy** (October 2011)
Fabrizio Balassone, Maura Francese and Angelo Pace

In this paper we investigate the link between government debt-to-GDP ratio and real per capita income growth in Italy over 1861-2009. We model our regression analysis on a standard production function. Our results support the hypotheses of a negative relation between public debt and growth and of a stronger effect of foreign debt compared to domestic debt before World War I. The effect of public debt on growth appears to work mainly through reduced investment. These results help explain the different reaction of per capita GDP growth to the debt-ratio over 1880-1914 (when the negative correlation between the two variables is particularly strong) and 1985-2007 (when the correlation appears to break down when debt starts declining). A descriptive analysis of fiscal policy in these two periods suggests that differences in the timing of fiscal consolidation as well as in the size and composition of the budget are additional explanatory factors. (full pdf text)

No. 12: **Internal geography and external trade: regional disparities in Italy, 1861-2011** (October 2011)
Brian A'Hearn and Anthony J. Venables

This paper explores the interactions between external trade and regional disparities in the Italian economy since unification. It argues that the advantage of the North was initially based on natural advantage (in particular the endowment of water, intensive in silk production). From 1880 onwards the share of exports in GDP stagnated and then declined; domestic market access therefore became a key determinant of industrial location, inducing fast growing new sectors (especially engineering) to locate in regions with a large domestic market, i.e. in the North. From 1945 onwards trade growth and European integration meant that foreign market access was the decisive factor; the North had the advantage of proximity to these markets.
(full pdf text)

No. 13: **Italian firms in history: size, technology and entrepreneurship** (October 2011)
Franco Amatori, Matteo Bugamelli and Andrea Colli

The economic performance of a country depends, among other things, on the strategies and structures of its firms. In the framework that is designed by institutions and policies and determined by technology and macroeconomic cycles, entrepreneurs decide how to allocate available resources in order to face off competitors and to hook up with demand cycles.
This paper looks at the evolution of the Italian economy across the last 150 years from a business history perspective. Analyzing Italian firms over the long-term cycles of the global economy and with respect to the different paradigms of the three industrial revolutions, we identify some structural features that explain successes and failures of the Italian economy. In doing this we explicitly connect the micro level of the business enterprise to the macro one of the national business system and explain the comparatively good performance of the Italian economy from the end of the 19th century to the 1970s. Over the last three decades this performance has turned negative, highlighting the role played by the small average size of firms and the failure of institutions to provide incentives for growth. (full pdf text)

No. 14: **Italy, Germany, Japan: from economic miracles to virtual stagnation** (October 2011)
Andrea Boltho

Over the last six decades, economic developments in the three countries that were defeated in World War II look strikingly similar. First came rapid reconstruction. Then followed the economic miracles of the Golden Age. The years that went from the first oil shock to the mid-1990s still saw fairly robust, and relatively similar, economic developments. Finally, during the last 15 years, the three countries held the dubious record of having the lowest output growth rates in the OECD area. The paper looks primarily at Italy, using the examples of Germany and Japan to search for parallels and contrasts. Among similarities, the main one lies in overall macroeconomic trends. The main differences are in economic policies (where Germany and Japan followed a much more orthodox stance than Italy), in institutional set-ups (with Italy much less efficient than Germany and Japan), in labour market relations (with much greater conflict in Italy than in the other two countries), and in regional developments (where Italy was handicapped by the presence of the Mezzogiorno, while Germany and

Japan were hardly touched by regional differentials, at least until unification in Germany. Indeed, had Italy's government institutions, labour market relations and regional differentials been less problematic, Italy's growth performance might well have been superior to that of both Germany and Japan. (full pdf text)

No. 15: **Old and new Italian multinational firms** (October 2011)

Giuseppe Berta and Fabrizio Onida

After a quick profile of Italian foreign direct investments since 1900 and a short review of the main explanations of the lagged multinational growth by Italian manufacturing companies, a quick glimpse of business histories is given to the only two still today living "old protagonists" (Pirelli, Fiat) and to three old corporate groups (Olivetti, SNIA Viscosa, Montecatini-Montedison) who had also reached a significant degree of full internationalization early in the XX century, but during the second postwar period underwent profound dismantling of their original business mission. Finally the paper focuses on few cases of "new protagonists", mid-size family companies who undertook a true multinational strategy only in the most recent decades and today represent the core of the Italian "fourth capitalism". (full pdf text)

No. 16: **Italy and the first age of globalization, 1861-1940** (October 2011)

Harold James and Kevin O'Rourke

The paper presents trade policy as in line with that of other continental European powers, with a move to moderate levels of tariff protection for politically sensitive sectors such as steel and textiles and clothing, but also in agriculture, with levels of protection falling slightly before the First World War. Monetary policy was similarly driven by the constraints of capital scarcity, and by the political priority attached to reducing the cost of funding government debt. The most innovative area was probably in industrial policy, where after the 1880s and again in the 1930s in response to sever shocks, quite creative institutional policies were adopted. In particular financial restructuring was used as an opportunity to reshape the structure of industry. (full pdf text)

No. 17: **The golden age and the second globalization in Italy** (October 2011)

Nicholas Crafts and Marco Magnani

After the Golden Age, Italy experienced increasing difficulties in adjusting its economy to the changing external context and to the requirements for sustaining catch-up growth at a higher level of economic development. The adjustment issue is common to advanced countries but the difficulties experienced in Italy look particularly severe. Cushioned by inflation and devaluation, growth remained relatively high in the 1970s. In the subsequent decade, in spite of improved conditions for addressing macroeconomic disequilibria structural adjustments were neglected. Major supply side reforms were eventually implemented in the aftermath of the 1992 crisis. Nevertheless, in the second half of the decade growth fell below the EU average. These necessary reforms fell however short of what was required. Participation in EMU did not help as far as the improvement of growth prospects was concerned. In the last section some of the economic and metaeconomic factors explaining the ineffectiveness of the reform process are briefly explored. (full pdf text)

No. 18: **Italian national accounts, 1861-2011** (October 2011)

Alberto Baffigi

A great deal of new quantitative research has been produced over the last three decades which has radically changed the received interpretation of Italian economic development. Against this backdrop, the Bank of Italy, Istat and the University of Rome "Tor Vergata", together with academics from other institutions, developed a project to estimate new historical national accounts time series. Our reconstruction covers the 150 years following the political unification of Italy and is based on the most up-to-date results in the literature. It provides estimates of supply and uses at constant and at current prices. The documentation could not be reported fully in the following few pages. The details will be presented in full in a book to be published in the coming months, coauthored by all who contributed to the enterprise. In this paper I draw a general picture of the new time series. I focus on historically

significant periods, using them as case studies in order to illustrate some features of the new data, both technical and substantial. A detailed, if incomplete, methodological account of our work is given in the appendices.
(full pdf text)

No. 19: **The well-being of Italians: a comparative historical approach** (October 2011)

Andrea Brandolini and Giovanni Vecchi

The paper describes the evolution of the well-being of the Italians during the 150 years since the country's unification. The progress in material standard of living was substantial, with GDP per capita growing 13 times between 1861 and 2010 and hours of work (and hence effort) falling considerably, but was roughly in line with that experienced by most other European countries. By relying on a novel database on household budgets, the paper shows that economic growth was accompanied by a long-run reduction of inequality that appears however to have been reversed in the last two decades. Progress was not limited to the economic domain: educational attainment improved considerably, although less than in other countries; on the other hand, the increase in life expectancy was spectacular and brought Italians to lead the international ranking.
(full pdf text)

No. 20: **A sectoral analysis of Italy's development, 1861-2011** (October 2011)

Stephen Broadberry, Claire Giordano and Francesco Zollino

Italy's economic growth over its 150 years of unified history did not occur at a steady pace nor was it balanced across sectors. Relying on an entirely new input (labour and capital) database by us built and presented in the Appendix, together with new Banca d'Italia estimates of GDP by sector, this paper evaluates the different labour productivity growth trends within the Italian economy's sectors, as well as the contribution of structural change to productivity growth. Italy's performance is then set in an international context: a comparison of sectoral labour productivity growth rates and levels within a selected sample of countries (UK, US, Germany, Japan, India) allows us to better time, quantify and gauge the causes of Italy's catching-up process and subsequent more recent slowdown. Finally, the paper analyses the proximate sources of Italy's growth, relative to the other countries, in a standard growth accounting framework, in an attempt also to disentangle the contribution of both total factor productivity growth and capital deepening to the country's labour productivity dynamics. (full pdf text)

No. 21: **The Italian economy seen from abroad over 150 years** (October 2011)

Marcello de Cecco

Since it became a united country, Italy was looked at with keen eyes by foreign economists, economic historians and policy makers. They wanted to see whether it would be possible for the economy of a country which had in the XVIIth and XVIIIth century regressed to the role of agricultural raw material exporter after having been the premier site of European industry, trade and especially, finance, in the middle ages and the Renaissance, to redress itself and join the industrial revolution making good use of its population and territory, which gave it the potential to be among the great powers of Europe. In this paper several instances of this are considered, focussing on foreign observers who concerned themselves with the Italian economy at defferent stages of its development. An attempt is made to see what influence their opinions had on Italian economic debate and Italian policy making.
(full pdf text)

No. 22: **Convergence among Italian regions, 1861-2011** (October 2011)

Giovanni Iuzzolino, Guido Pellegrini, Gianfranco Viesti

In 150 years, the trends in regional disparities in economic development within Italy have differed depending on whether they are gauged by longitude or by latitude. The disparities between western and eastern regions first widened and then closed; the North-South gap, by contrast, remains the main open problem in the national history of Italy.This work focuses on the underlying causes of the turning points in regional disparities since national unification in 1861. The first came in the late nineteenth and early twentieth century, with the industrialization of the so-called "industrial triangle". This was followed by the "failed new turn" during the interwar years: not only were the beginnings of convergence blocked but the North-South gap, until then still natural, inevitable, was transformed into a fracture of exceptional dimensions. The second turning point, in the twenty years after the World War, produced the first substantial, lasting convergence between southern and northern Italy, powered by rising productivity and structural change in the South. The last turning point was in the mid-1970s, when convergence was abruptly halted and a protracted period of immobility in the disparity began. (full pdf text)

No. 23: **Democratization and civic capital in Italy** (October 2011)

Luigi Guiso and Paolo Pinotti

We document a sharp reversal in electoral participation between the North and the South of Italy after the 1912 enfranchisement which extended voting rights from a limited élite to (almost) all adult males. When voting was restricted to the élite, electoral turnout was higher in the South but falls significantly below that in the North after the enfranchisement. Furthermore the new gap is never bridged over the following century and participation remains lower in the South despite the enrichment of democratic institutions and further extension of voting rights to the female population during the post war democratic republic. This pattern in the data is consistent with a simple model where individuals' voting in political elections is affected by private benefits and by civic duty, only elites can grab private benefits from participation in politics and civic culture differs across communities. We also find that extension of voting rights to non-elites results in a significant transfer of power to their political organizations only among populations with a high sense of civic duties. Together with the very persistent gap in participation between North and South our findings suggest that democratization – a process of concession of democratic rights – can benefit non-elites only when the latter have already a high sense of civic capital and is unlikely to be a viable avenue for inducing norms of civic behavior.
(full pdf text)

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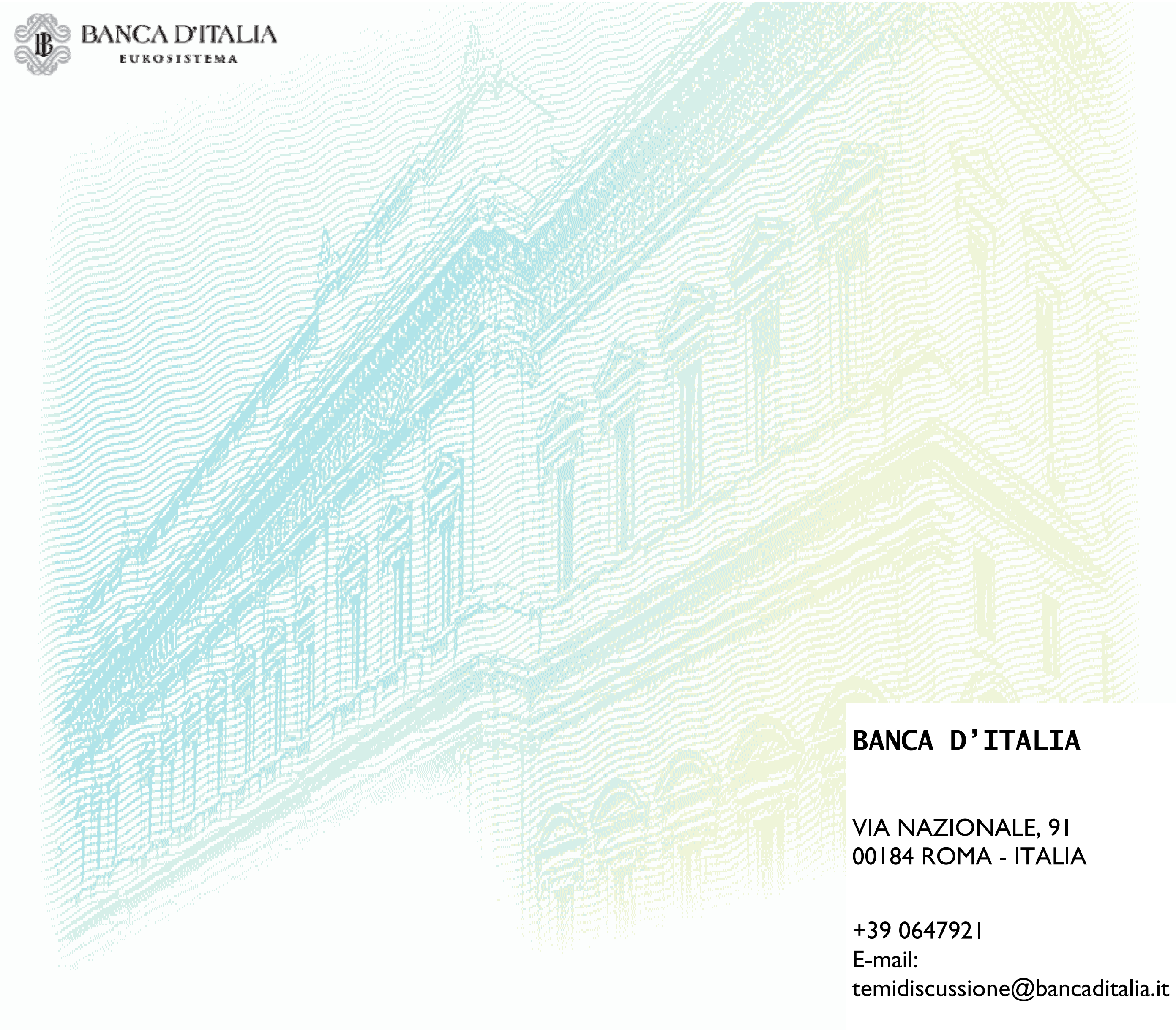

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