

# CESifo Bulletin

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## Munich Lectures in Economics

This year's Distinguished CES Fellow is **Richard Blundell**, Ricardo Professor of Economics at University College London and Research Director at the Institute for Fiscal Studies in London. He will give the **Munich Lectures in Economics**. (page 2)

## The Education Supermarket

The Bologna agreement triggered competition among universities to attract the best international students. A lucrative business and, on top of that, world-class universities contribute disproportionately to economic growth. **Tom Van Veen** cast a critical glance at such assumptions. (page 3)

## New Department Heads at Ifo

A generational shift has occurred in the upper echelons of the Ifo Institute. Half of the departments are getting new, young heads, who are also professors at the LMU. (page 4)

## CESifo Network Member Wins Nobel Prize

**Peter Diamond**, the 2000 Distinguished CES Fellow, CES book author and a long-time member of the CESifo Research Network, was awarded the discipline's most coveted prize, together with **Christopher Pissarides** and **Dale Mortensen**, both former participants at CESifo conferences. (page 6)

## New Programme Director at CESifo

**Beatrice Scheubel** has taken over the helm at CESifo, after Silke Uebelmesser went on parental leave. (page 7)

## Genetic Testing and Health Insurance Design

The genetic bottle has been uncorked, so now we might as well try to make the best out of it. Designing health insurance plans will henceforth have to take genetic testing into account, as **Mike Hoy** shows. (page 7)

## Producing Offspring, and Seeing Them Thrive

**Marc-Andreas Muendler** and **Jim Rauch** tackled jointly, while at CES, many interesting angles regarding company spinoffs. Surprisingly, spinoffs settle closer to the parent company than the company's own subsidiaries, and are better at survival than "parentless firms". (page 8)

## Spatial Variation

Ignoring the spatial distribution of climate change impacts can lead researchers to drastically underestimate the overall impact, **Maximilian Auffhammer**'s research shows. (page 3)

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## Munich Lectures in Economics 2010

## Empirical Evidence and Tax Reform: Lessons from the Mirrlees Review

For centuries, the design of taxation has been a central question of political economy, but tax systems in practice are often higgledy-piggledy and under strain. In order to improve this state of affairs, a number of questions spring to mind. What are the characteristics of a good tax system for an open developed economy? To which extent does the reality conform to these ideals? How might it realistically be reformed in that direction?

**Richard Blundell**, this year's Distinguished CES Fellow, will attempt to shed light on these and other such questions with his three-part **Munich Lectures in Economics**, entitled "*Empirical Evidence and Tax Reform: Lessons from the Mirrlees Review*".

The first lecture will provide a broad overview of the way new evidence on employment, savings and consumer behaviour in modern open economies has changed the view of tax design. The second and third lectures, in turn, will focus in deeper detail on the key margins of adjustment to tax reform, evidence on the size of responses, and draw the implications for the reform of earnings, savings and indirect taxation.

Drawing on the expert evidence in *Dimensions of Tax Design*, based on the Mirrlees Review – a major collaborative research venture led by the Institute for Fiscal Studies, IFS – Mr Blundell will provide an integrated view of tax reform grounded in rich economic evidence and practicable in terms of law and policy.

#### On Richard Blundell

Richard Blundell is Professor of Economics at University College London, where he holds the Ricardo Chair of Political Economy. Since 1986, he has also been the Research Director of the Institute for Fiscal Studies in London.

Mr Blundell studied Economics, Statistics and Econometrics in Bristol and London (LSE) and became a Professor at the University College in 1984.



*Richard Blundell,  
2010 Distinguished CES Fellow*

By now, Mr Blundell is one of the most-cited economists and has made many important contributions in public economics and other fields. His estimators and methods have substantially changed the econometric analysis of the labour market and social reforms.

In 1995 he was awarded the Yrjö Jahnsson Prize, in 2000 the Econometric Society Frisch Prize and, in 2008, he was the 4th recipient of the Jean-Jacques Laffont Prize. In addition, he has an Honorary Doctorate of the University of St. Gallen, Switzerland. For his contributions to Economics and Social Sciences, he was awarded an Order of the British Empire (CBE) in the Queen's New Year's Honours List for 2006.

He was elected Fellow of the Econometric Society in 1991, Fellow of the British Academy in 1996, Honorary Fellow of the American Economic Association in 2001, Honorary Member of the American Academy of Arts

and Science in 2002, Honorary Fellow of the Institute of Actuaries in 2003, President of the European Economic Association for 2004, and President of the Econometric Society for 2006. He is currently the President of the Royal Economic Society and the Society of Labour Economics.

Richard Blundell is author or editor of many prestigious journals. In his scientific career he has published nine books and many articles in the leading journals. The variety of his publications underlines his heterogeneous research interests, which concern the analysis of consumer behaviour as well as studies of the labour market and social reforms.

#### The Distinguished CES Fellow Award

Every year the Center for Economic Studies (CES) of the Ludwig Maximilian University of Munich (LMU) awards a prize to an outstanding economist who has greatly contributed to the understanding of economic policy problems.

Richard Blundell follows in the footsteps of previous prominent awardees such as Avinash Dixit (1994), Anthony Atkinson (1995), Jean Tirole (1996), Paul Krugman (1997; Nobel Laureate 2008), Rudiger Dornbusch (1998), Guido Tabellini (1999), Peter Diamond (2000; Nobel Laureate 2010), Oliver Hart (2001), Nicholas Stern (2002), James Poterba (2003), Andrei Shleifer (2004), Bruno S. Frey (2005), Alberto Alesina (2006), Philippe Aghion (2007), Olivier Blanchard (2008), and Robin Boadway (2009). The winners give the Munich Lectures in Economics 2010 as part of the ceremony. The prize is endowed with 10,000 euros.

The award ceremony and first lecture, which enjoys the generous support of Munich Re, will start on Tuesday, 16 November 2010 at 6 p.m. in the Great Hall of the Ludwig Maximilian University of Munich. The entire lecture series will also be published at a later date by MIT Press.

## The University Education Supermarket

Van Veen

After the Bologna agreement opened up the international market for students, competition among universities to attract the best international students shot up. After all, filling some university places with foreign students is thought to be a fairly good business. But is it, really?



**Tom van Veen**, of Maastricht University and the Nyenrode Business University, will delve into this and other related question while at CES, where he will be a guest for most of November.

In countries such as the US, the UK and Australia, education is a major export product. In continental Europe, the market is just developing. The French and German governments, for one, are investing heavily in creating elite universities, with the idea that world-class universities can make a disproportionate contribution to economic growth.

But the continental European business model differs from that of the Anglo-Saxon countries. European students pay a low tuition fee, wherever they study within Europe: the European governments subsidise all European students in their own country. This does not hold for non-European students.

In Anglo-Saxon countries, by contrast, all foreign students pay the same cost-based and non-subsidised tuition fees. This raises the question of whether the net export of education is beneficial if the price is below cost. Why should taxpayers subsidise foreign students? And how else does the Anglo-Saxon business and education model differ from the continental model?

There is another side to international education as well. International programmes attract international staff and enable international companies to locate research centres and laboratories in the exporting coun-

tries. Research has shown that the impact of education and research on economic growth is substantial. Hence, if international education attracts innovative capacity to the exporting country, this should be taken into account in a cost-benefit analysis.

This is even more relevant if the students remain in the host country after finishing their studies. Thus, the question is: Does international education contribute to economic growth?

Tom van Veen was one of the founding members of the Faculty of Economics that started at Maastricht University in 1983.

Mr van Veen studied economics at Erasmus University Rotterdam and at the University of Groningen. He received his M Sc degree from Groningen in 1983, with distinction, and in 1997 he obtained his PhD from Maastricht.

He is currently an associate professor of economics at the School of Business and Economics at Maastricht University, and full professor of economics at the School of Accountancy and Controlling at Nyenrode Business University. In Maastricht he is also the associate dean for internationalisation and strategic development.

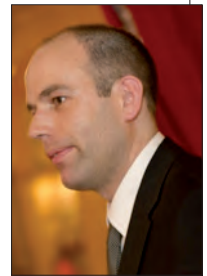
He has taught many courses in the areas of macroeconomics, labour economics and financial economics. In addition, he has taught courses in economics in a number of MBA programmes.

His research covers labour economics (union behaviour, labour market institutions), international economics (exchange rates) and macroeconomics (new Keynesian models). His research has been published in international journals such as *Applied Economics*, *Scandinavian Journal of Economics*, *British Journal of Industrial Relations*, *Journal of Comparative Economics*.

## Climate Change Impacts

Auffhammer

Climate change will over time affect pretty much everything. Some of its heavier effects could be on the energy and agricultural sectors.



This are some of the areas that **Maximilian Auffhammer**, of the University of California at Berkeley, will examine during his stay at CESifo. Casting a glance upon the distributional impacts of climate change, he will build on his recent work, which showed that changes in electricity consumption are heterogeneous across space.

Using detailed household level data for California, he has shown that in areas near the coast electricity consumption does not increase significantly during hot days, while it skyrockets during those days in the interior areas of the state. Coupled with the fact that the interior areas of California are predicted to experience the highest degree of warming, he shows that ignoring spatial variation in temperature response has led previous researchers to drastically underestimate the impacts of climate change on residential electricity consumption.

Maximilian Auffhammer is an associate professor of Agricultural and Resource Economics at UC Berkeley. He is also the director of the International Area Studies teaching program, a faculty research fellow at the National Bureau of Economic Research and was recently named lead author as part of the fifth assessment report by the International Panel on Climate Change.

He has won Berkeley's highest honor for teaching, the Distinguished Teaching Award, as well as the National Academy of Sciences' Cozzarelli Prize for work on the impacts of air pollution and climate change on rice yields in India (with V. Ramanathan and J. Vincent). His research has focused on forecasts of greenhouse gas emissions as well as the quantitative assessment of future impacts of climate change. He has also worked extensively on assessing the effectiveness of environmental regulations.

# ifo News

## New Department Heads at Ifo

The past few weeks have seen major changes in the top echelons of the Ifo Institute. After an international selection process conducted jointly by Ifo and the Ludwig Maximilian University of Munich (LMU), half of the eight institute's departments received new heads. Some of the departments were rechristened as well.

The new heads started service at the Ifo Institute on 1 October. With one exception, all department heads now also hold professorships at the LMU.

The Energy, Environment and Exhaustible Resources Department will be headed by Prof. **Karen Pittel**. She came to Ifo from the ETH Zurich, where she had worked as an economist since 2003.



K. Pittel

With her research focus firmly on environmental and resource economics issues, she brings needed expertise on the supply-side interaction of the climate and energy fields, an additional area that the Ifo Institute intends to focus on.



P. Poutvaara

Professor **Panu Poutvaara**, in turn, will chair the International Institutional Comparisons Department. Previously, Mr Poutvaara was Professor of Economics at the University of Helsinki. He has published extensively on tax, social, educational and labour market policies, as well as on migration and political competition. Mr Poutvaara already had a close relationship with the CESifo Group as Editor-in-Chief of the *CESifo Economic Studies* refereed journal and as a prolific writer of CESifo Working Papers. He is also a former recipient of the IIPF Peggy and Richard Musgrave Prize.



G. Felbermayr

The International Trade Department will henceforth be chaired by Prof. **Gabriel Felbermayr**. Mr Felbermayr is currently a Professor of International Economics at the University of Stuttgart Hohenheim, and will not move to the economics faculty of the LMU until April 2011. His research has primarily dealt with questions of foreign trade and migration, and their effects on economic growth, unemployment and climate change.

Professor **Tobias Kretschmer**

will assume the direction of the Industrial Organisation and New Technologies Department, in addition to his professorship of Business Administration at LMU that he has held since 2006. His research interests lie in particular in the areas of empirical industrial economics, organisational design and strategy. He is the first business economist to head a department at the Ifo Institute.



T. Kretschmer

*"I am very pleased that we were able to recruit economists of international repute for the Ifo Institute. They will contribute to a broadening and strengthening of the scientific profile of the Institute,"* commented Prof. Hans-Werner Sinn, President of the Ifo Institute.

Now only the Public Sector Department head position is still vacant. Prof. Thiess Buettner chaired this department until he left to join the University of Erlangen-Nuremberg on 1 October. The process for filling this position is underway.

## Economic Upswing in Germany

The German economy is experiencing an upswing. The institutes forecast a growth in real GDP of 3.5% for 2010 and 2.0%

for 2011. The situation on the labour market will continue to improve. The number of unemployed in 2011 will fall below the 3-million mark for the first time since 1992. The budget deficit will fall to 2.7% of GDP. Economic policy in Germany must continue along the proclaimed consolidation path. At the European level, insolvency procedures are necessary for states and banks, supplemented by a stricter Stability and Growth Pact. An extension of the rescue measures for euro countries or the introduction of pooled government bonds should be rejected as well as the mechanism proposed by the EU Commission on preventing and correcting macroeconomic imbalances.

During the course of 2010 the recovery of the world economy slowed down. The dynamic growth pace of world trade in the winter half year gradually lost speed. In the United States and in Japan economic activity, after strong expansion in the winter half year, clearly slowed already in the spring. For the euro area it is evident that the quite high increase in output in the second quarter will clearly abate in the second half year. Also in the newly industrialised countries, the expansion in output has been weaker since the spring. However, industrial production in Asia returned to the growth path of recent years already in the spring whereas in the advanced economies it is still far from the pre-crisis levels.

The structural problems made evident by the financial crisis have still not been overcome. In the US the indebtedness of private households is still high. The real-estate sector has shrunk considerably, and also the financial sector has not yet completely recovered. Unemployment remains at a high level. West European countries in which housing bubbles collapsed, such as Spain, the UK and Ireland, are in a similar situation as the US. Due to the drastically worsened budget situation, fiscal policy in most advanced economies is forced to pursue a consolidation course. In major newly industri-

alised countries, economic recovery is already so far advanced that economic policy is now concerned with preventing the economies from overheating.

In most advanced economies economic growth will be weak in the forecast period. In the US the investments in plant and equipment will continue to be stimulated by high profits and low interest rates, and consumption will remain on a moderately upward path. However, a robust upswing is not yet in sight since structural problems persist. Also in the European Union the recovery remains reserved, especially because of the dampening effects of the decidedly restrictive fiscal policy. In most newly industrialised countries, the pace of expansion remains relatively high but it will be slower than in the first half of 2010. Since there will not be a robust recovery in the world economy overall, inflationary pressure will be weak. All in all world output will expand by 3.7% this year and by 2.8% next year. World trade will grow by 12% over 2010. Next year expansion will amount to 6.8%, which roughly corresponds to the average of the past two decades.

### The German Economy

The German economy is experiencing an upswing. It is well on its way to recover its losses from the crisis, and the recovery has become broader. Unlike during the previous year, the expansion is no longer being borne by an increase in exports and by a boom in inventory investments alone. This year domestic consumption has also strengthened; both private consumption spending as well as corporate investment have clearly expanded. Although many leading indicators show that the pace of economic expansion, after the spurt witnessed in the second quarter, will now slow down, the confidence indicators are still at a very high level and new orders in manufacturing are on an upward course.

The institutes expect the economic recovery to continue over the forecast period, but the speed will be clearly slower than in the first half of this year. The main reason for this is that the expansion of the world economy will lose momentum. Consequently domestic demand will determine the speed of the expansion. A supporting factor here is that monetary conditions in Germany

remain very favourable. Domestic demand will also be stimulated by the further improvement of the situation on the labour market.

In the second half of 2010 the growth in output will lose momentum. The dynamic growth of investments in plant and equipment is also not likely to continue. Construction investment will also grow at a slower pace. However, a turnaround is becoming evident in private consumption; for the first time in several years a perceptible increase is to be expected. For 2010 the institutes forecast an increase in real GDP of 3.5%. The number of unemployed persons will fall to 3¼ million. With the strong economic recovery, the increase in the budget deficit will be restrained. However, at 3.8% of GDP the budget deficit will be much higher than in 2009, especially because fiscal policy will still be expansive during the current year. In the coming year the pace of economic expansion will be noticeably slower than this year; total capacity utilization will increase only slightly. In the latter course of the year economic activity could speed up slightly, especially since the growth pace of the world economy will be somewhat faster. On average for 2011 the institutes expect an increase in total output of 2.0%.

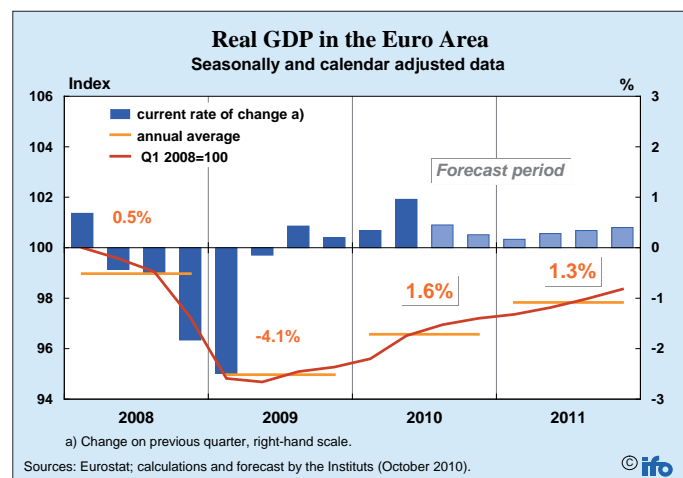
The situation on the labour market will continue to improve. The number of unemployed, on average for the year, is expected to fall below the 3-million mark for the first time since 1992. The unemployment rate will thus fall to 7.0%, in the definition of the Federal Labour Agency. The inflation rate will increase next year, probably to 1.6%. The budget deficit will decline as a result of the consolidation measures and the expiration of the economic stimulus programmes, but also because of economic activity. The budget deficit is expected to be 2.7% of GDP next year.

This forecast is marked by considerable risks. The probability is by no means

small that the US will fall into another recession. In China, the distortions in the real-estate market could lead to massive corrections. Also the debt and confidence crisis in some states of the euro zone has by no means been resolved. A worsening of the crisis, with generally higher risk premiums for euro-zone bonds or even the use of the European Financial Stabilisation Mechanism by a highly indebted country, would also have an impact on the German economy.

### The EMU Front

At the level of the European Monetary Union, the debt and confidence crisis has revealed that considerable action needs to be taken. The Stability and Growth Pact obviously failed in its goal of ensuring a sound fiscal policy in all member states. In May the member states attempted, with an initially time-limited rescue package, to overcome the crisis in Greece, which was threatened by insol-



veny. This action has serious disadvantages in the long term, especially if the time limit is abandoned. Then fiscal claims on the net contributing countries in the EU would become permanent.

### The Joint Forecast Group

The Joint Economic Forecast is prepared on a half-yearly basis by the **Ifo Institute** in co-operation with the Swiss Institute of Business Cycle Research (KOF), ETH Zurich; the **Kiel Institute for the World Economy** for the medium-term forecast, in co-operation with the Zentrum für Europäische Wirtschaftsforschung (Centre for European Economic Research, ZEW) Mannheim; the **Halle Institute for Economic Research (IWH)** in co-operation with Kiel Economics, and **RWI Essen** in co-operation with the Institute for Advanced Studies, Vienna.

## CESifo Network Member Wins Nobel Prize

### Diamond

**Peter A. Diamond**, from the MIT Department of Economics and a CESifo Research Network member since 2000, has won the Nobel Prize in Economic Sciences for 2010, together with Dale T. Mortensen of Northwestern University and Christopher A. Pissarides of the London School of Economics. He is the seventh CESifo member to receive the prize. Mr Diamond was also the 2000 Distinguished CES Fellow at the University of Munich's Center for Economic Studies (CES), which is part of the CESifo Group. He published the book "Taxation, Incomplete Markets and Social Security" in the Group's book series with MIT Press in 2003.



to many other markets in which buyers and sellers do not always make contact with one another immediately, including in particular the housing market.

Both Mr Diamond and Mr Pissarides have published their research through CESifo as part of its Working Paper series, or participated in some of the many conferences it organises, including Mr Diamond as one of the keynote speakers in the 6th Munich Economic Summit in 2007, and Mr Pissarides as one of the speakers at a CESifo Venice Summer Institute conference in 2006. This last conference was organised by Edmund S. Phelps who, incidentally, went on to win the Nobel Prize in Economics of that year.

Mr Diamond's thesis adviser, Robert M. Solow, also a CESifo Research Network member, won the Nobel Prize in Economic Sciences in 1987.

The other CESifo members who are Nobel laureates, in addition to Messrs Diamond, Phelps and Solow, are Thomas Schelling (2005), James J. Heckman (2000), Reinhard Selten (1994), and Gary S. Becker (1992).

The Nobel Foundation announced this morning that the three scholars had won the award, officially known as the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, in part "for their analysis of markets with search frictions." Mr Diamond formulated a theoretical framework for search markets, while his two colleagues expanded it and applied it to the labour market.

The resulting search theory has been applied, in addition to the labour markets,

## Munich Seminars



Chaired by Hans-Werner Sinn (CESifo) and Marc Beise (Süddeutsche Zeitung)  
Monday, 6 pm, CESifo Conference Centre,  
Ludwig-Erhard-Hall, Poschingerstr. 5,  
Munich

18 November 2010

### Franz-Christoph Zeitler

Vice-President of the German Bundesbank  
*Ein Ordnungsrahmen für die Finanzmärkte  
'Basel II plus' und die nächsten Schritte  
(A Framework for the Financial Markets  
'Basel II Plus' and the Following Steps*

22 November 2010\*

### Charles Bean

Vice-President of the Bank of England

13 December 2010\*

### Max Otte

Director of the IFVE Institute for Asset  
Formation

31 January 2011\*

### Andrew Haldane

Director of Financial Stability of the Bank  
of England

\* Topic to be announced. For details, please check  
the Munich Seminars webpage at

[www.cesifo-group.de/link/0010-MUNICHSEMINARS](http://www.cesifo-group.de/link/0010-MUNICHSEMINARS)

## Hans-Möller Seminars

Seminar for International Economic Relations  
Library, Ludwigstr. 28/II, Tuesdays, 4:30 - 6:00 pm

28 October 2010

### Stephen Jenkins

University of Essex

*The Dynamics of Social Assistance  
Benefit Receipt in Britain*

2 November 2010

### Frank Riedel

University of Bielefeld

*Intertemporal Equilibria with Knightian  
Uncertainty*

9 November 2010\*

### David Laibson

Harvard University

23 November 2010\*

### Andrea Ichino

University of Bologna

30 November 2010\*

### Imran Rasul

University College London

7 December 2010\*

### Dezső Szalay

University of Bonn

14 December 2010\*

### Francis Kramarz

National Institute of Statistics and  
Economic Studies

21 December 2010\*

### Ralph Ossa

University of Chicago

\* The subject for these seminars will be posted at  
[www.hans-moeller-seminar.vwl.uni-muenchen.de/programm/index.html](http://www.hans-moeller-seminar.vwl.uni-muenchen.de/programm/index.html)

## Pharma Market Dynamics

Strøm

What with longer-living, ageing populations in the developed countries, and teeming less developed ones which rightly demand better access to medicines, the pharmaceutical industry can look forward to sizable, ever growing markets. It clearly pays to devote some analysis to such markets.



TNF-alpha inhibitors in Norway. To date, TNF-alpha inhibitors are the most important treatment for arthritis and other autoimmune diseases. Three blockbusters related to these drugs account for 8% of total pharmaceutical sales in Norway. Using a unique natural policy experiment in Norway,

the paper examines to what extent the identity of the third-party payer affects doctors' choice between the three available drugs, and to what extent the price responsiveness of prescription choices is affected when the identity of the third-party payer changes. The three dominating drugs in this market, Enbrel, Remicade, and Humira, are substitutes, but have had different and varying funding schemes. The authors find that treatment choices are price responsive, and that the price response is higher when the doctor's affiliated hospital covers the cost instead of a traditional fee-for-service insurance plan.

This is precisely what **Steinar Strøm**, a Professor of Economics at the University of Turin, is doing. He devoted part of his stay at CES to econometric analyses of the pharmaceutical markets. His aim is to estimate jointly market shares for pharmaceuticals (the demand side) and pricing equations (the supply side). The joint probability distribution for the endogenous variables (market shares and prices) are derived from the assumed distribution for the random terms present in the market shares equations and pricing equations. Models are estimated on data from a selection of European countries, including Germany. He addresses the policy of how to change payment rules so that expenses on the use of pharmaceuticals are reduced.

In a recent paper (joint with Dag Morten Dalen and Enrico Sorisio), he analyses the

Steinar Strøm is a Professor in Economics at the University of Turin, and senior research fellow at the Ragnar Frisch Centre for Economic Research, Oslo. He is a member of the Norwegian Academy of Social Science and Letters.

## Genetic Testing and Health Insurance

Hoy

Advances in genetic testing have raised many questions, from the ethical to the practical, and also created many opportunities. One of such opportunities, which comes loaded with both kinds of questions, pertains to the design of health insurance plans.



**Mike Hoy**, of the University of Guelph, will work on this issue while at CES. He will explore the efficiency and equity implications of new genetic tests, and how health insurance plans can best take advantage of such tests and the accompanying knowledge and treatments for their clients. Tough decisions lie ahead regarding what tests and technologies to support through either private or public health insurance, and how best to provide the appropriate incentives for take-up of these new technologies.

Mr Hoy will also be working with Ray Rees from CES to develop models for comparing different methods of private and public health-care funding.

In addition to health care design, Mr Hoy is working with Buhong Zheng and Brennan Thompson to characterise how one should measure lifetime poverty in a manner that includes sensitivity to chronic and early poverty concerns. Another project of his involves trying to understand the growing gender imbalance in university participation. In Canada, for example, over the period 1977 to 2005, females have increased their university participation rate relative to males to the point where currently the ratio of females to males now attending university is approximately 1.5 to 1. The research suggests that much of this growing gap is the result of a higher and increasing university wage premium for females that has developed over this time period.

Mike Hoy is a professor in the Department of Economics at the University of Guelph, Ontario, Canada. He is currently on the editorial boards of several journals.

## NEW CESIFO PROGRAMME DIRECTOR WINS AWARD

CESifo's new Programme Director, **Beatrice Scheubel**, has been awarded the DIA Future Prize for her highly topical paper "*Don't Raise the Retirement Age! An Experiment on Public Opposition to Pension Reforms*", which she wrote jointly with Daniel Schunk and Joachim Winter. The prize is awarded by the Deutsches Institut für Altersvorsorge (DIA, German Institute for Retirement Provision).

Beatrice has an M.A. in Economics from the Ludwig Maximilian University of Munich (LMU) and is working on her doctorate at

the Center for Economic Studies, which is part of the CESifo Group.

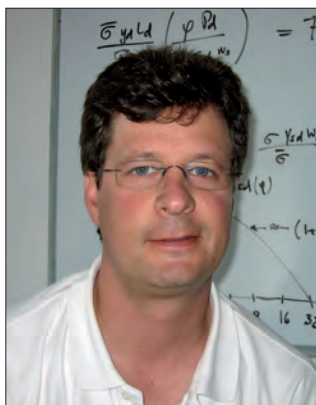
She is a research assistant at the LMU's Economics Faculty, and her research interests range from labour economics through demographic change to monetary policy. She started her CESifo duties on October 1st.



## Where the Offspring Come From...

Muendler

When workers move from job to job, they cannot help but carry with them the knowledge they have gained. This basic tenet is at the core of **Marc-Andreas Muendler's** new research project on employee spinoffs, startups, and industry agglomeration.



This project is part of a joint research agenda on firm and worker competencies he is carrying out with his colleague Jim Rauch, who visited CES at the same time Mr Muendler did.

Their project starts with an old question: Where do new firms come from? And with one answer: from other firms. Employees with special knowledge and skills spin off to form their own businesses. Messrs Muendler and Rauch have analysed rich linked employer-employee data from Brazil, which offer especially comprehensive job-level information to explore alternative spinoff definitions, and document that employee spinoffs account for between one-sixth and one-third of the new firms in Brazil's private sector.

During his stay at CES, Mr Muendler followed up on empirical indications for Brazil that employee spinoffs play a special role in initiating regional clusters. Employee spinoffs locate even closer to their parents than the parents' own new plants. For parents and spinoffs that both export, combined Brazilian employer-employee data and exports data show that a spinoff mostly serves the same export destinations as its parent when the spinoff was born.

Interestingly, the average parent subsequently diversifies away from its spinoff's export markets while the typical spinoff sticks to its initial export destina-

tions. This finding is consistent with spinoffs that learn about clients from their parents and suggests that observing competitors' customers may be one of the reasons that keep spinoffs close to parents.

Mt Muendler hopes to ultimately gain an insight into disparities between laggards that industrialise slowly and fail to break into global markets, and faster growing industries and locations with successful export-market penetration.

Marc-Andreas Muendler is an Associate Professor of economics at the University of California, San Diego. His fields of interest include globalisation and its interaction with local industries and labor markets, international trade, international finance, and development economics. He has worked as a researcher and consultant in developing and industrialised countries, including Brazil, Germany and the United States.

During an earlier visit to CES four years ago, Mr Muendler worked on the formation of multinational enterprises and their impact on labor markets in Germany and Sweden. While that research was concerned with employment losses and workers' moves to new jobs, Mr Muendler's recent line of research on firm and industry capabilities will clarify how firms and industries can successfully engage in globalisation. *"It is motivating to now look at the other other side of the reallocation picture and work on firm entry and job creation in the context of globalisation,"* he says.

Mr Muendler obtained his MSc in Economics at the LMU in 1998, and his PhD at the UC Berkeley in 2002.

## ...And Why they Survive Longer

Rauch

**James E. Rauch**, of the University of California at Berkeley, is working with Marc-Andreas Muendler (see left) in analyzing and quantifying the impact of intrafirm learning, as revealed by employee entrepreneurship. They visited CES simultaneously last month.



Employees learn about their firm's technology, customers, and suppliers. As a result, employee spinoffs are larger and survive longer on average than new firms without identifiable "parents." Another result is that employee spinoffs locate near their parent firms, thereby contributing to the initiation and expansion of industry clusters.

Mr Rauch is also studying the issues that employee spinoffs raise for government policy. It is common for employers to ask key employees to sign contracts that restrict their ability, in the event of separation, to compete with their former employers. Governments must decide whether to enforce these "covenants not to compete." No consensus has been reached, and in the United States such enforcement varies widely from state to state and has even changed within states over time.

Interestingly, Mr Rauch has established that the workers who move to the spinoff from the parent firm survive with the spinoff significantly longer than the other workers hired by the spinoff firm.

The unifying theme of the research carried out by Mr Rauch, who is a co-editor of the *Journal of International Economics*, is how non-market interactions such as interpersonal relationships affect market outcomes.