

2000 2001

Annual Report



CENTRE FOR ECONOMIC POLICY RESEARCH

"...CEPR has increasingly played a leading role in European economic research by bringing together economists of different countries, inspiring the choice of issues and promoting contacts between research people and policy-makers"

Tommaso Padoa-Schioppa,
Member of the Executive Board, European Central Bank

Annual Report

2000–2001

Contents

Message from the Chair	2
Message from the President	4
Research Report 2000–2001	6
Researchers	26
www.cepr.org	32
Publications	38
Meetings	56
Accounts	60
Who Funds CEPR?	72



Message from the Chair

At the conclusion of my first full year as Chair of CEPR, I am very pleased to report that the Centre continues to deliver outstanding results in the service of its mission: to contribute and widely disseminate excellent economic research relevant to the analysis of major policy questions of concern to Europe.

As detailed in this report, CEPR has seen a significant increase in both the size of its network and its output this year. Most impressively, this has been achieved while holding staff levels constant, and reflects the returns to the investment in information technology undertaken in recent years.

The CEPR network now comprises almost 600 researchers in 25 countries. CEPR participates in 14 research and training and socio-economic research networks funded by the European Commission, up from 6 in 1999-2000. These networks cover a large range of topics, from Economic Analysis of Political Institutions to the Analysis of International Capital Markets to Trade, Inequality and European Employment. The full set is presented in the Research Report below, and spans all of our research programme areas.

With the growing network of researchers, the Centre has seen submission of Discussion Papers rise by 18%, to roughly 50 per month. This growth has been smoothly absorbed by our hard-working Publications staff, with the aid of technology for electronic submission, layout, and download. The Centre also published 11 additional reports, policy papers and conference volumes.

The Electronic Meetings Organization (EMO) facility on our website, used to set up and manage meetings, has been expanded further, and has allowed the meetings staff to deliver more meetings than ever. CEPR held a total of 87 conferences, workshops, lunchtime meetings and working meetings this year, an increase of 32% over last year.

We are also working hard to employ multimedia, and, in particular, streaming audio, on our website, to make the dissemination of the Centre's work more accessible to a broader audience. Audio interviews, conducted by veteran economics correspondent James Morgan, are now available at www.cepr.org, and include discussions with several of CEPR's researchers on topics including tax competition and harmonization, Central

Bank policy and the use of asset prices, and the potential impact of closer economic integration on the regions of Europe.

CEPR's financial accounts are in good condition, showing a £171,324 balance at March 31st, 2001, £161,549 of which is available for unrestricted uses, including core staff salaries and operational expenses. We ended the financial year with a surplus of £1,707. Particularly noteworthy, beyond the essentially flat trend in staff levels, is the large increase in project funding (restricted funding) secured. This rose from £801,165 in 1999-00 to £1,528,242 in 2000-01, and indicates, in part, the level of success CEPR has enjoyed in attracting European Commission funding. We remain committed to our goal of increasing reserves in the year ahead.

Let me recognise the valuable contribution made by the Centre's Directors and Trustees this year, in helping to guide CEPR. We are pleased to welcome Hans de Gier as a new Trustee. Most importantly, under the able leadership of Chief Executive Officer Stephen Yeo, the staff of CEPR continue to demonstrate their dedication, effectiveness and flexibility, and I thank them for their work in making 2001 such a successful year for the Centre.



Guillermo de la Dehesa

Chair

1 September 2001

Message from the President

C EPR sustained a high level of activity in 2000-2001. Research under CEPR auspices covered a remarkably wide range of topics - for example, the Centre now participates in six Research Training Networks, five networks for Training and Mobility of Researchers, and three Socio-Economic Research Networks. The themes of these large-scale collaborative activities span all seven CEPR Programme Areas, and the topics give scope for both theoretical and policy-oriented research in these domains.

A very large number of the best European economists are active in these networks, which also make special efforts to bring in promising young researchers. CEPR constitutes a vibrant European research community, which embraces many researchers who are not among its Research Fellows or Associates (who themselves now number well over 500!). This structure is flexible and open to initiatives coming from individuals and from institutions.

'a vibrant European research community that embraces a very large number of the best European economists and promising young researchers'


But CEPR cannot and should not do everything. We try to ensure that the criteria for choice are quality and relevance. Our Scientific Advisory Committee plays a key role in controlling quality. Its objectivity is reinforced by its independence - SAC members are not themselves CEPR Research Fellows or Programme Directors. We are extremely grateful to these distinguished economists for the effort they put into evaluating our work and suggesting how it can be improved. This is a service to the profession, not only to CEPR.

The output of CEPR's research activity includes Discussion Papers, reports, *Policy Papers* and conference volumes, which are widely read by policy-makers, business people and academics. Through our outreach and press activities, many key findings are made accessible to a wider public via print and broadcast media. Many Discussion Papers also appear subsequently in academic journals. CEPR reports and submissions to scholarly journals by members of the CEPR research network are typically not purely abstract: CEPR explicitly encourages theoretical and empirical work that are relevant to the analysis of economic policy. At times the connection to policy

analysis may seem obscure and the work highly technical, in contrast with our more directly policy-oriented output, but in all cases CEPR's output rests securely on rigorous academic foundations.

The research, publications, policy impact, corporate membership, and financing of CEPR and much more are set out in detail in this Annual Report. I record here my enormous appreciation of the work of the researchers, CEPR staff, and supporters of the Centre, without whom none of this would be possible.

My special thanks go to the staff, under the leadership of Stephen Yeo and Tessa Ogden, as well as to the Research Director, Mathias Dewatripont, and the Programme Directors. Our new Chairman, Guillermo de la Dehesa, is a wise and decisive leader for CEPR, and I much enjoy working with him. We shall all continue to do our best for CEPR's constituents, whose involvement and support are so strong.



Richard Portes

President

1 September 2001

Research Report

2000–2001

Introduction

In its eighteenth year CEPR has maintained its focus on both policy relevance and research excellence. The Centre is the market leader in research on all aspects of European integration and globalization. Over the past year it has continued to foster high-quality scientific analysis and to support researchers, and provide for, the application of this work to important policy issues.

The Centre now has almost 600 Research Fellows, Affiliates and Associates, based in approximately 180 different institutions in 25 countries. It provides common services for this network and for the users of its research. In so doing it plays a unique role in developing, obtaining funding for, and administering research at a pan-European level. The continued development of its innovative, and often web-based, dissemination programme ensures that decision-makers take advantage of this research. The Centre's output is consequently unrivalled in the influence it has on policy.

In 2000-01 the Centre has been involved in 14 research networks funded by the European Commission through its Training and Mobility of Researchers (TMR), Research Training Network (RTN) and Socio-Economic Research (SER) initiatives. Through these large-scale projects CEPR is collaborating with over 40 research institutions throughout Europe, North America

and elsewhere to foster frontier research, and the training and development of junior researchers. Topics covered include: international capital markets, financial architecture, economic geography, innovation, regional development and integration, European labour markets, business cycles, network industries, FDI, social exclusion and inequalities. These projects provided the chief impetus for the 52 academic conferences and workshops CEPR organized over the year in collaboration with partner institutions across Europe.

In 2000-01 the Centre has been involved in 14 research networks funded by the European Commission through its Training and Mobility of Researchers (TMR), Research Training Network (RTN) and Socio-Economic Research (SER) initiatives.

CEPR has enjoyed considerable success in running these large-scale networks which use cutting edge research to improve the understanding of important policy concerns and are therefore central to the 'mission statement' of our organization. CEPR is able to draw on its vast pool of first-rate researchers to study these topics with the latest available academic methods. This research is drawn from areas such as: industrial organization and game theory; contract economics; endogenous growth theory; time-series macroeconometrics; political economics; law and finance.

The following projects demonstrate how CEPR has taken an explicit interdisciplinary angle in a number of instances: (i) First, the important body of work on 'political economics' studies the interaction between the political process and economic outcomes. For a long time CEPR has

Research Training Networks

- **The Economic Geography of Europe: Measurement, Testing and Policy Simulations**
<http://www.cepr.org/research/networks/ITRTN/>
- **Understanding Financial Architecture: Legal and Political Frameworks and Economic Efficiency**
<http://www.cepr.org/research/networks/FERTN/>
- **Product Markets, Financial Markets and the Pace of Innovation in Europe**
<http://www.cepr.org/research/networks/IORTN/>
- **Specialisation versus Diversification: The Microeconomics of Regional Development and the Spatial Propagation of Macroeconomic Shocks in Europe**
<http://www.cepr.org/research/networks/IMRTN/>
- **The Analysis of International Capital Markets: Understanding Europe's role in the Global Economy**
<http://www.cepr.org/research/networks/IMLAN/>
- **New Techniques for the Evaluation of European Labour Market Policies**
<http://www.cepr.org/research/networks/LERTN/>

Training and Mobility of Researchers Networks

- **New Approaches to the Study of Economic Fluctuations**
<http://www.cepr.org/research/networks/NASEF/default.htm>
- **The Industrial Organisation of Banking and Financial Markets in Europe**
<http://www.cepr.org/research/networks/IOBFM/default.htm>
- **The Evolution of Market Structure in Network Industries**
<http://www.cepr.org/research/networks/EMSNI/>
- **Foreign Direct Investment and the Multinational Corporation: New Theories and Evidence**
<http://www.cepr.org/research/networks/FDIMC/default.htm>
- **Economic Analysis of Political Institutions: Coalition Building and Constitutional Design**
<http://www.cepr.org/research/networks/PolEcon/default.htm>

Continued...

been very active and influential in this area. This particular branch of our research is at the centre of our TMR on 'Economic Analysis of Political Institutions' (ii) Another important area of our research concerns the interaction between law, economics and finance. This research is central to our RTN on 'Understanding Financial Architecture'. Issues of 'corporate governance' have grown in importance since this project was established and now dominate the agendas of both policy-makers and the corporate sector. The topics covered in this area make an important contribution to the understanding of how

companies raise funds in order to invest and grow. Our RTN brings together top economic and legal specialists to analyse these issues in a truly interdisciplinary perspective. (iii) Finally, CEPR is very active in promoting research on 'behavioural economics', which combines economic research with psychology, to enrich our understanding of human behaviour beyond the simplifying assumptions of rationality embodied in the '*homo economicus*' paradigm. While these assumptions provide a very useful starting point for economic analysis in some cases, they may be too restrictive to allow practical policy recommendations. This is

...research networks continued

Socio-Economic Research Networks

- **Labour Market Effects of European Foreign Investments**
<http://www.cepr.org/research/networks/ITSER/Default.htm>
- **Trade, Inequality and European Unemployment**
- **Labour Demand, Education, and the Dynamics of Social Exclusion**
<http://www.cepr.org/research/networks/#SER1>

<http://www.cepr.org/research/networks/>

why, for the third consecutive year, CEPR organized a conference looking at the subject of 'Psychology & Economics'. Though this research agenda is at an early stage, we believe it will be influential in future policy debates. Because of this, CEPR aims to take the lead in diffusing this knowledge throughout the academic community.

During the period of this report, CEPR has published an average of 50 Discussion Papers per month, many of which are subsequently published in the leading journals, and all of which are fully downloadable from the CEPR website. We also published five Policy Reports, two conference volumes, and two issues of *Economic Policy*. The Centre's *Bulletin* was redesigned during this period when one issue was circulated, while *European Economic Perspectives*, which summarizes key research results in a non-technical format, continued to appear, with three issues appearing this year. CEPR published the tenth Report in the *Monitoring European Integration* series: 'Integration and the Regions of Europe: How the Right Policies Can Prevent Polarization'. The second Report in the *Geneva Reports on the World Economy* series, 'Asset Prices and Central Bank Policy' and a *Geneva Reports on the World Economy Special Report* No.1 'Can the Moral Hazard Caused by IMF Bailouts be reduced?' were published jointly with the International Centre for Monetary Banking (ICMB) in Geneva. The update to the *Monitoring the European Central Bank* volume No.2 *MECB Update* was published in June 2000. The third

volume in the *Monitoring the European Central Bank* series, 'Defining a Macroeconomic Framework for the Euro Area' was also published in March 2001.

The 2000-01 period saw CEPR organize seven annual symposia. These meetings play an important role in sustaining CEPR's commitment to research excellence. Each symposium brings together CEPR Research Fellows, Affiliates and other leading researchers to discuss the latest developments in their field. As always, we benefited from the generous support of a variety of organisations who hosted and funded these events, and without whom, we could not maintain our commitment to research excellence.

The European Summer Symposium in International Macroeconomics, organized by the International Macroeconomic Programme Directors Jordi Galí, Lucrezia Reichlin and Charles Wyplosz was held in Tarragona and hosted with the support of Banco de España. Bruno Biais, James Dow and Philippe Bacchetta organized the European Summer Symposium in Financial Markets, which was held in Gerzensee and hosted by the Studienzentrum Gerzensee and the New York Stock Exchange. The European Summer Symposium in Economic Theory was organized by Philippe Bacchetta, Patrick Legros, Georg Nöldeke, Xavier Vives, Mark Armstrong and Philippe Jehiel and hosted by Studienzentrum Gerzensee. This year's European Summer Symposium in Labour Economics was organized

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by Programme Director Juan Dolado and Klaus Zimmerman and was hosted by the Institute for the Study of Labour. Programme Directors Timothy Besley and Raquel Fernández organized the Public Policy Symposium, which was hosted with the generous support of Instituti Flores de Lemus, Universidad Carlos III, Madrid. The European Workshop in International Trade was organized by Jan Haaland, Pascalis Raimondos-Möller, Programme Director Anthony Venables and Richard Baldwin and hosted by the Economic Policy Research Unit. Programme Directors Erik Berglöf, Gérard Rolland with Jan Svejnar organized the International Conference in

Transition Economics that was hosted by the William Davidson Institute at the University of Michigan.

To encourage the dissemination and discussion of the Centre's policy-relevant research, we continued to organize events aimed specifically at the non-academic audience. These events also enable us to bring the concerns of policy-makers and private-sector practitioners to the attention of our researchers. Our series of Lunchtime Meetings continued during the year with 16 Lunch Time Meetings. This year also saw CEPR host Press Briefings for the launch of three

Geneva Reports on the World Economy

The *Geneva Reports on the World Economy* series was launched by the International Center for Monetary and Banking Studies (ICMB) and CEPR in 1999. Each title focuses on an aspect of the reform of the international financial and economic systems and is written by a team of internationally-known macroeconomists. The series consists of an annual report and occasional 'Special Reports'.

Asset Prices and Monetary Policy

Geneva Reports on the World Economy No. 2

Stephen G Cecchetti, Hans Genberg, John Lipsky and Sushil B Wadhvani

How should central banks view movements in equity, housing and foreign exchange markets? Can policy-makers improve economic performance by paying attention to asset prices, as well as inflation and output forecasts? Is it possible to identify asset price misalignments and bubbles? Is it possible to use non-conventional policies to address asset price misalignments? Should asset prices be included directly in measures of inflation? Do asset prices contain information about future consumer price inflation?

The second title in the ICMB/CEPR series of Geneva Reports on the World Economy addresses these questions and reaches the following conclusions:

1. A central bank concerned with stabilizing inflation can achieve superior performance by adjusting its policy instruments in response to asset prices as well as inflation forecasts and the output gap. The reaction to asset prices will, however, depend on why they have changed: appropriate responses to increases in productivity growth are very different from responses to misalignments or bubbles.
2. Asset price misalignments may be difficult to measure, but this is no reason to ignore them.
3. Most non-conventional policies, such as adjusting margin requirements, are unlikely to succeed in reducing asset price volatility.
4. Inflation measures should take better account of changes in housing prices, but stock price movements are better left out of inflation indices.
5. Asset prices have a strong effect on future inflation, although the impact differs across countries.

Published 6 July 2000

SPECIAL REPORT:

Can the Moral Hazard Caused by IMF Bailouts be Reduced?

Geneva Reports on the World Economy Special Report No. 1

Barry Eichengreen

The need to limit IMF financial rescues is a theme of the literature on how to make the world a safer financial place. IMF bailouts create moral hazard, their critics allege. They weaken market discipline and heighten crisis risk.

Those who propose to simply prohibit IMF rescues assume that it is politically feasible for the Fund to stand aside when a crisis erupts. The reality is that the costs of inaction (a severe economic contraction, an extended interruption to capital-market access, and a lengthy and difficult restructuring) are too painful for the official community to bear. In this first 'Special Report' in the ICMB/CEPR series of Geneva Reports on the World Economy, Professor Eichengreen argues that institutional reforms that address these dilemmas are needed if the international policy community is to succeed in containing moral hazard.

Two new approaches to containing and resolving financial crises are IMF-sanctioned payments standstills and the addition of renegotiation-friendly collective action clauses to loan contracts. Standstills are ideal for liquidity crises and collective action clauses for crises caused by problems with fundamentals and requiring debt restructuring. Which measure is more attractive depends, therefore, on which type of crisis is more frequent. While neither proposal is without its problems, some initiative along these lines is essential if the international financial architecture is to be reformed to limit reliance on IMF bailouts and to ameliorate the moral hazard problem.

Published 6 September 2000

publications: *Monitoring European Integration 10*, 'Integration and the Regions of Europe: How the Right Policies Can Prevent Polarization'; Discussion Paper No.2623, 'EU Reforms For Tomorrow's Europe'; *Geneva Reports on the World Economy 2*: 'Asset Prices and Central Bank Policy'. CEPR also hosted a Press Reception to allow journalists to familiarise themselves with our work and research plans, and to meet with CEPR Researchers.

International Macroeconomics (IM)

Jordi Galí (Universitat Pompeu Fabra), Lucrezia Reichlin (ECARES, Université Libre de Bruxelles) and Charles Wyplosz (Graduate Institute of International Studies, Geneva) served as Programme Directors during 2000-01.

EMU is an experiment without precedent. It presents European policy-makers with formidable challenges and the research community with fascinating and little understood analytical puzzles.

Key research themes in the IM Programme include:

- European Monetary Union
- Macroeconomic policy design
- Economic fluctuations in Europe
- Exchange rate policies for the Euro zone

· The international financial system
European Monetary Union: EMU is an experiment without precedent. It presents European policy-makers with formidable challenges and the research community with fascinating and little understood analytical puzzles. EMU naturally forms an important part of the research agenda for many of our

IM Fellows and Affiliates, and features prominently in our activities.

In 1999 we were awarded contracts to carry out studies on the single currency for the Directorate General for Economic and Financial Affairs (DG EcFin) of the European Commission. One of the studies, completed in late 2000, examines the impact of EMU on portfolio adjustment, focusing on the indirect effect of the Euro (in terms of transaction costs and changing investment opportunities) on portfolio allocations. 'EMU and Portfolio Adjustment', by Jean-Pierre Danthine *et al*, was published in December 2000 as CEPR *Policy Paper* No. 5. It examines the principal factors influencing the portfolio reallocation process following the introduction of the euro, analysing three aspects of portfolio allocation: domestic versus non-domestic investment, debt versus equity investment, and public debt versus private debt investment. The paper was launched at a London lunchtime meeting in January 2001. Details of the Paper and an interview with Danthine and Laura Bottazzi can be found on <http://www.cepr.org/pubs/books/cepr/booklist.asp?cvno=PP5> and <http://www.cepr.org/press/audio/PP5/>

The institutional structure and the policies pursued by the European Central Bank (ECB) have also been an important focus for the IM programme. *Monitoring the European Central Bank (MECB)*, launched in 1998, plays an important role in establishing the accountability of the ECB and ensuring that its actions receive thorough and detailed scrutiny. The *MECB* Update published in June 2000 discussed the weakening of the euro, assessing both the 'implausible' explanations for the falling euro as well as those better grounded in observable facts. 'Defining a Macroeconomic Framework for the Euro Area', the third *MECB* Report, was published in March 2001. The authors are Alberto Alesina, Olivier Blanchard, Jordi Gali, Francesco Giavazzi and Harald Uhlig. The Report reviews the operation of the ECB and its track record so far: the failure to meet the inflation target, the weakening euro, and the rationale for interest rate decisions. It highlights elements of ECB policy that remain opaque, including the role and significance of the published inflation projections. The authors explain why 'inflation targeting' is an employment-friendly way of running monetary policy, and make the case for

abandoning the 'two-pillars' strategy and moving to inflation targeting. They also discuss the challenges facing the euro area in the years ahead: what attitude should the ECB take *vis-à-vis* the EMU fiscal authorities? How can EMU cope with the inflation differentials among some of its members?

If the location of economic activity changes as a result of EMU and the Single Market, so will the propagation mechanisms for European macroeconomic policy.

The ECB's stance on these questions will affect its reputation and the macroeconomic performance of the euro area for many years to come. We will publish the next *MECB* Update in July 2001.

We also launched two new research projects focusing on monetary union during 2000, 'Budgetary Consolidation and EMU', and 'Empirical Macro Models of the Euro Economy', and in 2002 we plan to hold a conference in New York on 'Unilateral versus Multilateral Forms of Monetary Union'.

Economic fluctuations in Europe: Our TMR network on 'New Approaches to the Study of Economic Fluctuations' began work in 1998, and is carrying out fundamental research on the sources of economic fluctuations in Europe. During the past year we have launched a variety of new initiatives in this area, involving a mixture of fundamental research as well as policy-relevant activities.

If the location of economic activity changes as a result of EMU and the Single Market, so will the propagation mechanisms for European macroeconomic policy. In order to understand these new mechanisms, we need to model the spatial pattern of European economic activity at a deeper structural level, and then to evaluate the implications of these 'structural' findings for the synchronization of regional cycles and for European macroeconomic policy. Researchers in the IM programme, led by Programme Co-Director Lucrezia Reichlin, launched a new Commission-funded Research and Training Network (RTN) on 'Specialization Versus Diversification: The Microeconomics of Regional Development and The Spatial Propagation of Macroeconomic Shocks in Europe'. The network

will address issues that include the synchronization of regional and national business cycles in Europe and the propagation mechanisms for European macroeconomic policy. In 2000 we also launched a smaller research project (also led by Reichlin) and funded by the Fondation Banque de France, on 'The Impact of Financial Variables on European Cyclical Fluctuations'. A September 2001 conference with the Banca d'Italia will address these issues, and will advance the analysis of European business cycles.

The international financial system: In early 2000 we launched a new RTN led by Philip Lane that attempts to analyse the relationship between the European economy and international capital markets, from a number of perspectives. The many proposals for the reform of the global financial architecture cannot be adequately evaluated in the absence of a rigorous theory of the roles played by national governments and international organizations in stabilizing international financial markets and the network's research should provide such a rigorous foundation. In 2000 we also launched a study for the European Commission (DG EcFin) on 'Sustainable Regimes of Capital Movements in Accession Countries', which will assess the vulnerability of the accession economies to financial crises, given the regimes of capital movements and monetary and fiscal policies currently in place.

In 1999 we resumed our collaboration with the International Center for Monetary and Banking Studies (ICMBS) in Geneva on a series of conferences and reports on international financial issues. 'Asset Prices and Central Bank Policy', the second in the series of *Geneva Reports on the World Economy*, was published in July 2000. The Report, by Stephen G Cecchetti, Hans Genberg, John Lipsky and Sushil B Wadhvani, examined how central banks should view movements in equity, housing and foreign exchange markets, and asked whether policy-makers can improve economic performance by paying attention to asset prices (as well as to inflation and output forecasts) Asset price misalignments and bubbles can be identified, the authors argue, and asset prices should indeed play a role in the formulation of monetary policy. The Report was launched at a July meeting hosted

Asset prices should indeed play a role in the formulation of monetary policy.

by Moore Capital in London, at which the four authors spoke. The Report subsequently received extensive media coverage. Details of the Report can be found at www.cepr.org/pubs/books/P135.asp, with an audio interview with the authors of the Report at www.cepr.org/press/audio/P135/P135_contents.htm

In September 2000 we also published 'Can the Moral Hazard of IMF Bailouts be Reduced?', a supplement to the *Geneva Reports on the World Economy*. Since the Asian crisis, policy-makers have been searching for better ways of managing financial crises. This Report, written by Barry Eichengreen, considers two leading proposals: empowering the IMF to impose or endorse a standstill on payments to protect countries hit by a financial panic, and using collective action clauses (CACs) to help resolve crises resulting from inconsistent policies and disappointing performance. The third *Geneva Report* will be entitled 'How do Central Banks Talk?' and will be published in the autumn of 2001.

International Trade (IT)

Richard Baldwin (Graduate Institute of International Studies, Geneva) and Tony Venables (LSE) remained as co-directors of the Programme in 2000/1. Research in the IT Programme currently focuses on topics such as:

- Economic geography
- Foreign direct investment and the behaviour of multinationals
- Trade and development
- The world trading system

Economic geography: We know relatively little about the impact of economic integration on location (especially the impact of the single market programme), and even less about how Europe's various policies affect the spatial distribution of economic activity. The IT Programme has pioneered research in this field, and economic

Monitoring the European Central Bank (MECB)

Monitoring the European Central Bank (MECB) aims to play a role in establishing the accountability of the ECB and ensuring that its actions receive thorough and detailed scrutiny and reach a broad audience, including the European Parliament and the media.

Defining a Macroeconomic Framework for the Euro Area

***Monitoring the European Central Bank* No. 3**

Alberto Alesina, Olivier Blanchard, Jordi Galí, Francesco Giavazzi & Harald Uhlig

The CEPR *Monitoring the European Central Bank* team has an independent pan-European perspective and brings the research of distinguished academic economists to bear on the issues facing the ECB, while retaining the incisive edge of a more policy-oriented outlook.

The third report in this series reviews the operation of the ECB and its track record so far: the failure to meet the inflation target, the weakening euro, and the rationale for interest rate decisions. It highlights elements of ECB policy which remain opaque, including the role and significance of the published inflation projections. The authors explain why 'inflation targeting' is an employment-friendly way of running monetary policy, and make the case for abandoning the 'two-pillars' strategy and moving to inflation targeting. They also discuss the challenges facing the euro area in the years ahead: what attitude should the ECB take *vis-à-vis* the EMU fiscal authorities? and how can EMU cope with the inflation differentials among some of its members? The ECB's stance on these questions will affect its reputation and the macroeconomic performance of the euro area for many years to come.

Published 30 March 2001

Details of the Report can be found at www.cepr.org/pubs/books/P146.asp

An audio interview with Jordi Galí is available at www.cepr.org/press/audio/P146/P146_contents.htm.

MECB Update: June 2000

Carlo Favero, Xavier Freixas, Torsten Persson and Charles Wyplosz

The Update discusses the decline in the value of the euro. It analyses the key issues and rejects a number of commonplace explanations of the new currency's weakness, concluding that:

'... the euro's misfortunes may have no easily identifiable rationale ... Freely floating exchange rates are known to follow wide and prolonged swings which are very hard to justify by economic fundamentals.'

Euro depreciation is, however, accompanied by rising inflation. Even though the two phenomena may have no serious long-term repercussions, they do pose a serious challenge to the ECB.

geography features prominently in the Programme's ongoing research as well, in particular through a new RTN network. Researchers in the new network, on 'The Economic Geography of Europe: Measurement, Testing and Policy Simulations', which started work in June 2000, will collaborate in research to develop the microfoundations of agglomeration theory, in order to provide more precise guidance for testing, measurement, and computer simulation of the location effects of European

integration; to test econometrically the theory's predictions using European data; to enhance our understanding of empirical observations via industry case studies and computer simulations, and to assess the impact of existing policies and evaluate proposals for new policy initiatives. The network held a kick-off meeting in Copenhagen in June 2000, and their first full workshop in January 2001.

During 2000 we completed a study for the

European Commission (DG EcFin) on the impact of market integration in Europe; 'Factors Affecting the Location of Activities within the EU' drew on the IT Programme's work on location and the new economic geography, and was led by IT Programme Co-Director Tony Venables. The results of the study will be published in European Economy.

The tenth *Monitoring European Integration* report, which was published in April 2000, draws on the new economic geography literature, exploring the factors influencing the location of economic activity in Europe. The report, entitled 'Integration and the Regions of Europe: How the Right Policies Can Prevent Polarization', was prepared

by Pontus Braunerhjelm, Frances Ruane and Research Fellows Riccardo Faini, Victor Norman, and Paul Seabright. Details of the report and an audio interview with Paul Seabright can be found at <http://www.cepr.org/pubs/books/CEPR/booklist.asp?cvno=P118> and <http://www.cepr.org/press/audio/P118/>.

Foreign direct investment and the behaviour of multinationals: Our TMR network on 'Foreign Direct Investment and the Multinational Corporation' began work in 1998. The main research results of the Network will be brought together in a handbook that aims to provide a definitive statement on what we know about FDI in the European context. It will contain selected papers from team members, plus a substantial overview paper drawing out the current state of knowledge about FDI, and the implications of FDI for the EU. First drafts of the chapters have been prepared and were discussed at a meeting in London in March 2001.

We are also a partner in a network on 'The Labour Market Effects of European Foreign Investments', funded by the European Commission's Socioeconomic Research Programme. This network, launched in early 2000, examines the labour market effects of both outward and inward FDI, focusing on five European countries, Great Britain, Ireland, Italy, Sweden and Spain (as both home and host economies). The empirical analysis envisaged by the project will make use of firm level panel data, and will construct comparable harmonized databases for the five countries. Using

firm level data is essential, as the nature of the relationship between home and foreign employment cannot be assessed using only aggregate or sectoral data. Researchers in the IT programme also launched, in late 2000, a new study for the Commission's Directorate General for Trade, on 'Multinational Corporations, Global Production, Company Networks and Intra-firm Trade: the Implications for Trade Policy'.

Is the old industrialisation sequence still appropriate, or have new technologies fundamentally changed the nature of the industrialisation process?

Trade and Development: Plans are already underway for a new research initiative in the IT Programme on 'Trade, Industrialisation and Development'. Many countries have achieved radical opening of trade flows in the last two decades.

For some this has resulted in higher growth and improved economic performance, while in others there has been only a limited supply response and disappointing results. Whereas the trade and development literature of the 1960s and 1970s contended that 'getting prices right' would result in improved economic performance, it is now recognized that these reforms may be necessary, but are by no means sufficient to generate growth. Some developing countries have been successful in attracting some industries, thus generally raising demand for labour and raising wages in these countries. Other countries have been left out of this process. This new programme of research will seek to illuminate the conditions under which countries succeed in participating effectively in the world economy, and are able to gain from attracting new economic activities.

The first part of the research will establish the effects of trade liberalization and the wider forces of globalization on the pattern of international trade flows, on foreign direct investment flows, and on the location of production. What has been happening to the location of industry in the world economy, and what activities have relocated to what countries? What are the characteristics of mobile industries and of the host countries? How much of these changes can be explained by the factor intensities of industries and endowments of countries, how much by geography, and how much by institutional factors? Why do some industries appear to be locationally 'sticky' while others are footloose? Is the old industrialisation sequence - through textiles to apparel, light engineering and

Nice Try: Should the Treaty of Nice be Ratified?

Monitoring European Integration 11

Richard Baldwin, Erik Berglöf, Francesco Giavazzi and Mika Widgrén

EU Member nations must decide whether to ratify the Nice Treaty. This Report, written by a team of distinguished academics to inform these decisions, is highly critical of the Treaty but argues that it should be passed since it is 'repairable' and rejecting it would delay Eastern enlargement. The Report proposes two 'emergency repairs' to the Treaty that could be implemented at or before the next Intergovernmental Conference in 2004.

The authors marshal the best available empirical evidence and analytic techniques to show that the Treaty fails to meet its goal of adjusting EU decision-making to the realities of a Union with 27+ members. Far from maintaining the EU's ability to act after enlargement, the authors argue that the Nice reforms reduce EU27 decision-making efficiency below what it would have been with no reform. This in turn will dry up the flow of new legislation, thus stripping the Commission and European Parliament of power and the Community Approach of its viability. The Report argues that unless the Treaty is mended to restore efficiency, future integration will be guided by intergovernmental initiatives in which large members play a large role due to their economic dominance.

The Treaty also fails to solve a problem that the Report identifies as the ECB's 'numbers problem' – enlargement without reform would damage the ECB's decision-making capacity, hindering it from making hard choices at the right time. The Treaty does include an 'enabling clause' to help solve this problem before IGC2004; the report analyses the possible solutions and proposes a specific reform.

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then more sophisticated products - still appropriate, or have new technologies fundamentally changed the nature of the industrialisation process? How do developing country exports evolve through time? Even for countries with rapidly growing exports it is clear that exporting is complex, involving a lengthy learning process. We know little about this process, for example the extent to which growth is driven by increased volumes, by the introduction of new products, or by reaching new markets. The second part of the research turns the focus onto countries. How disadvantaged are countries by geography - being landlocked or remote? How important is regional clustering - as in East Asia - to the spread of industry? What is the role of propensity to disease in reducing economic performance?

At the policy level, it is now recognised that trade reform is not just concerned with border measures, but also with broader economic reforms, including deregulation, the improvement of governance and clarification of property rights.

This has several implications. First, that reform is easily frustrated by vested interests. This makes it essential that we understand the gainers and losers from reform, the impact on inequalities, and the adjustment costs involved. More work is needed on the political economy of reform, on the role of relations between government, private sector, and civil society, and on the design and implementation of adjustment assistance. Second, reform requires considerable investment in activities ranging from infrastructure to regulatory institutions. It is important to identify priorities in this area. How large an obstacle to trade is bad infrastructure, and what is the value of investment in this area? What are the costs and benefits of compliance with WTO procedures, and how should these be better tailored to the needs of developing countries?

The world trading system: The issues likely to arise in the new WTO Round were the focus of the 1999 International Seminar on International Trade (ISIT). In 2000 we engaged in further research initiatives which address these issues in

collaboration with other partners, including an initiative with the World Bank led by Bernard Hoekman and a conference in July 2000 in Brussels on the governance of the WTO, a topic of prime importance following the fiasco of the Seattle conference. The next ISIT, to be held in 2002, will deal with 'The Challenges to Globalization'.

Our fourth *Policy Paper*, by Zhen Kun Wang and L. Alan Winters was published in April 2000 and entitled 'Putting "Humpty" Together Again: Including Developing Countries in a Consensus for the WTO'. The Paper argues that an effective coalition in favour of the world trading system must be put together before starting another serious round of talks and that this requires both paying greater attention to the substantive needs of developing countries and procedural reform of the WTO. The authors propose an eight-point plan to balance the needs of the developing and developed worlds, and conclude that the best strategy for developing countries is not to resist a Round and liberalization, but to embrace them, and focus them on their development needs.

Details of the Report can be found at <http://www.cepr.org/pubs/books/cepr/booklist.asp?cvno=PP4>

Public Policy (PP)

Raquel Fernandez (New York University) joined Tim Besley (LSE) as co-director of the programme in 1999. The programme's first annual symposium took place in September 2000, in Madrid.

Researchers in the Programme have been busy focusing on issues that include:

- Political economy and the reform of European institutions
- Tax competition and tax harmonization in Europe
- The welfare state

PP researchers focus on political economy and European institutions, taxation, and the welfare state

- Behavioural economics: economics and psychology

- The economics of education

Political economy and the reform of European institutions: EMU has greatly increased the scope and depth of European integration. As a result, the range and the specificity of common policies adopted by the member states have also increased. The EU has developed a complex institutional framework for developing and implementing common policies, which ranges from policies decided and implemented at the EU level to common rules for policies implemented at the national level and the development of common guidelines for policies decided and implemented by the national governments. This common framework meets with very different political institutions at the national level: even a cursory review of the EU member states reveals large differences in mechanisms of democratic accountability, mechanisms of electoral competition and the organization of government decision-making across countries. A growing body of modern research in political economics suggests that such political institutions have important effects on the quality and the outcomes of public policies. This implies that differences in national political institutions may lead to differences in the quality of implementation and the outcomes of the common economic policies adopted by EU member states. Effective economic policy-making at the EU level, therefore, demands an understanding of the importance of institutional environments and constraints at the national level. At the same time, involving European citizens more actively in participating in collective decision-making processes at the European level must take account of the different channels and traditions of citizen participation in different countries.

To address these issues requires a comparative analysis of political institutions, and this will form an important part of the research agenda in the PP Programme in coming years. This research will emphasize theoretical and empirical research comparing political institutions across countries and time periods. The project will concentrate on the relevance of political institutions for the performance of

governments and for economic policy outcomes. Based on a principal-agent paradigm of policy-making, with voters being the principals and policy-makers being the agents, the project's overarching theme is the role of political institutions in the link between the principals' (the voters') preferences and the agents' performance, i.e. the orientation and efficiency of government policies. The project will focus on three main areas: political accountability, in particular how alternative institutional mechanisms create accountability and how this affects policy outcomes; electoral competition, how party systems and electoral systems and the availability of information to the voter determine the form and intensity of such competition and how this affects economic policy outcomes; government decision-making, how economic policy outcomes depend systematically on the institutional design of decision-making processes within governments. Methodologically, the research will combine formal modelling of political and economic processes with quantitative analysis.

Tax competition and tax harmonization in Europe: In Europe there is a fear that countries will compete over tax policy and set taxes too low. This has been seen as a threat to public finances and to employment. Therefore there have been calls for harmonization of capital taxes, and in particular a lower limit on capital taxation. In order to assess these proposals, it is essential to have a good understanding of the welfare effects of capital taxes, and how they interact over time with the rest of the tax system, in order to make any policy recommendations. It is also essential to employ a dynamic perspective, which takes into account the long run and intergenerational consequences of policy changes. This is an area where research in Europe has lagged behind the United States. We are organizing a series of High Level Scientific Conferences (HLSCs) funded by the European Commission, on 'The Dynamic Aspects of Taxation and Public Expenditure'. The first conference, organized by Thomas Renström, took place at Tilburg University in September, with another conference scheduled for autumn 2001.

The welfare state: Researchers in the PP programme have also joined the FE programme to

apply for funding for a third network, which will examine 'Financing Retirement in Europe: Public Sector Reform and Financial Market Development'. The Programme has also launched a small research project, funded by the Fondation Banque de France, on 'Pension Provision, Risk and Capital Flows'.

New research in the Public Policy programme enriches our understanding of economic behaviour by bringing psychology and economics closer together

Behavioural economics: economics and psychology: During the last two decades a growing number of empirical studies have revealed widespread violations of one or more of the key assumptions that underlie conventional economic theory, violations which result in outcomes that are markedly different from those generated by the conventional theory. This has led to a search for psychological principles that complement or, if necessary, replace these conventional assumptions in order to improve the explanatory power of economic models. Important empirical and theoretical issues are, however, still unresolved. New research in the Public Policy programme enriches our understanding of economic behaviour by bringing psychology and economics closer together, through: the generation of robust evidence on the psychological determinants of economic behavior; the incorporation of these behavioural principles into rigorous economic models, and the elaboration and empirical testing of the economic implications of these models. The aim is to explore three areas: incentives, dynamic choice, and institutions and aggregate outcomes of social interaction. These areas represent fundamental issues which economic theory aims to address, and there is evidence from both psychology and experimental economics that these are particularly promising lines of research at this moment.

The economics of education: The programme will hold its first meeting on this topic in Bergen in May, and will explore issues that include the political economy of school systems; school quality; the market consequences of education and training; sorting and inequality, and the relationship between education, growth and development.

Labour Economics (LE)

Juan Dolado (Universidad Carlos III, Madrid) and Klaus Zimmermann (IZA, Bonn) served as co-directors of the Programme during 2000/1. Researchers in the LE Programme are currently focusing on research areas that include:

- Regulation and deregulation in European labour markets
- Evaluating the effectiveness of European labour market policies
- Education, training and labour market outcomes
- Migration and social exclusion in Europe
- Personnel economics

Regulation and deregulation in European labour markets: Researchers in the LE Programme will explore the relationship between discrimination and inequality, and the changing structure of European labour and product markets resulting from deregulation and liberalization. The first conference will be held in Le Mans in 2002.

Evaluating the effectiveness of European labour market policies: Although there has been a revolutionary shift in the methodology used in evaluating social programmes in recent years, little is known about the effectiveness of these programmes in Europe. We need to deepen our quantitative knowledge of European labour markets and, in particular, how policies and institutions affect the behaviour of these markets. A number of researchers in the LE programme are collaborating in developing new policy evaluation techniques, through an RTN network on 'New Techniques for the Evaluation of European Labour Market Policies' led by Per Anders Edin. Research in the network, launched in the spring of 2000, examines the evaluation of labour market policies such as youth programmes and transition from school to work, training programmes and adult education, unemployment insurance, subsidies and tax breaks for the less skilled, and

working time reductions.

Later in 2000, the LE Programme also launched a new research project, funded by the Commission's Socioeconomic Research Programme (SER) on 'A Dynamic Approach to Europe's Unemployment Problem'. The project adopts a dynamic approach to the analysis of unemployment, based on the search and matching framework. The research aims to improve our understanding of unemployment and policies that would act to reduce it, by focusing on the roles of 'flexible' employment forms, labour market frictions, labour market regulation, welfare provision, taxation, active labour market policies, macroeconomic policy and innovation.

Migration and social exclusion in Europe: The project on migration and social exclusion, led by Klaus Zimmermann and funded by the European Commission's Targeted Socio-Economic Research (TSER) programme, continued in 2000-01. This research programme explores the post-1970 effects of technological change and market integration on the demand for labour with different levels of education and skills, and on unemployment and the process of social exclusion across Europe, and brings together teams from Ireland, the UK, Denmark, Sweden, Germany, France, Italy, Spain, Portugal and Israel.

Personnel economics: European firms are currently facing significant changes to their environment. Globalization is putting companies under increasing competitive pressure. As European markets integrate, the dislocation of firms is being facilitated, and firms are lobbying for more flexible European labour market institutions. At the same time, human resources are becoming an increasingly important source of competitive advantage. While looking for greater employment flexibility, companies are thus realising that they need a highly motivated, creative, and loyal workforce, especially in high technology industries where European companies tend to lag behind Japanese or US counterparts. European employees are highly skilled, but appropriate personnel policies are needed to take advantage of this potential. Recent advances in

theoretical microeconomics, particularly in the fields of incentive theory and behavioural economics, and the development of powerful micro-econometric tools are allowing economists to better understand how large organizations manage their human resources and what consequences these practices have on workers' welfare and enterprise efficiency. 'Personnel Economics' and the theory of organizations are attracting the interest of many economic theorists, who realise that their approach can provide useful insights to problems traditionally studied by management scholars, sociologists, or psychologists.

The LE Programme will launch a new research initiative in this exciting new area, with a series of High Level Scientific Conferences on the theme of 'Incentives and Beyond: The New Economics of Personnel', which will place between 2002 and 2004. The first conference will examine topics that include firm-level studies of incentives, matched worker-firm data, the impact of the business environment on personnel policies, the personnel policies of firms in transition economies, and new forms of employment. Subsequent conferences will focus on a slightly different set of issues, including career concerns, incentives and psychological determinants of behaviour, cooperation in organisations, the internal structure of the firm, and organisational change and innovation.

Financial Economics (FE)

Bruno Biais (Université des Sciences Sociales, Toulouse) and Marco Pagano (Università di Salerno) served as Directors of the Programme during the period under review. Activities in the FE Programme have grown steadily in the past year, with a variety of initiatives underway in areas that include:

- The impact of EMU on European financial markets
- Banking and liquidity provision

- Equity markets
- Corporate governance
- Legal institutions and the performance of financial systems
- Geography and finance
- Population Ageing, pensions and European financial markets

A new RTN network is working in areas relevant to corporate governance

The European Summer Symposium in Financial Markets held its eleventh highly successful meeting in Gerzensee in July 2000. It involved around 80 participants from Europe, the US and Israel. The Symposium's 'focus sessions' were devoted to 'Competition and Performance of Exchanges'; 'Insolvency Procedures'; 'Lessons from the Past: Emerging Financial Markets, Past and Present'; and 'Experimental Financial Markets and Psychology'.

The impact of EMU on European financial markets: Our fifth *Policy Paper*, 'EMU and Portfolio Adjustment' addresses this issue. The Paper, published in December 2000, is described in more detail on page 11.

Banking and liquidity provision: Our fourth TMR network, on 'The Industrial Organization of Banking and Financial Markets in Europe', began work in 1998 and continued during 2000. The network has already allowed participating institutions to hire a number of young researchers and to exchange young doctoral students and post-doctoral fellows. The second workshop of the network, on 'New Approaches to Modelling Financial Transactions', took place in February 2000 in London.

Equity markets: In June 2000 Ron Anderson and Marco Pagano organized the second of a series of Euroconferences on 'The Design of Primary Equity Markets'. Until early 2000 William Perraudin also coordinated a series of ESRC workshops in London, on credit risk management, financial regulation, and real options, as part of the activities of the ESRC Resource Centre



SNS and CEPR



In 1994, CEPR launched a series of public discussion meetings in Stockholm jointly with the Swedish Center for Business and Policy Studies (Studieförbundet Näringsliv och Samhälle (SNS)). CEPR and SNS agreed during 1995/96 to deepen and intensify this collaboration; the agreement is now in its fourth year.

CEPR and SNS now collaborate in a variety of ways:

- public discussion meetings
- collaborative research projects
- joint marketing of CEPR and SNS publications

The first joint collaborative research project by CEPR and SNS focused on a series of reports on liberalization and regulation in European 'network industries'. These reports are prepared by a team of researchers selected by CEPR and SNS, and draw on the experience of both CEPR and SNS in encouraging good researchers to apply the latest research techniques to important issues of public policy. The reports also adopt the idea of a 'Reference Group', which has been used very successfully by SNS for a number of years. The Reference Group is drawn from practitioners in the industry under study and is chaired by a leading figure from the industry. Members of the Reference Group are responsible for providing financial support for the project as well as intellectual input into the work of the researchers writing the report. In the early stages of the report's preparation, members of the Reference Group help identify the key issues from the perspective of both the industry and the policy-maker. The Group then comments on drafts of the report. It may also, if it wishes, issue its own comment or public statement on the final version, but the research team enjoys complete academic freedom in writing the report. The writing team find it valuable to have access to a group of high-level practitioners with first-hand knowledge of the industry under study. The industry practitioners find it worthwhile participating in the discussions of the draft report as well, since it gives them an opportunity to learn about recent research in the industry.

The first report in the Monitoring European Deregulation series, Europe's Network Industries: Conflicting Priorities (Telecommunications) examined the conflicting priorities that European policy-makers face in defining an appropriate and regulatory policy framework for the telecommunications sector in Europe. The second report of this joint collaborative research project was published in December 1999 and focused on the electricity industry in Europe. The third report will discuss European banking. CEPR and SNS are exploring further opportunities for joint research collaboration.

CEPR and SNS also have an agreement to market and promote each others' publications. CEPR publications are sold by SNS throughout Scandinavia (including Finland).

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established at CEPR. This role has been taken on by Henri Servaes and Antoine Fauré-Grimaud.

Corporate governance: We have joined the European Corporate Governance Network

(ECCGN) in an extension of its activities to Central and Eastern Europe. We have been successful in obtaining funding from Phare-ACE for a project on 'Corporate Governance and Disclosure in the Accession Process'. This project is extending the

work of the European Corporate Governance Network into the Associated Countries, compiling information on patterns of corporate ownership and governance in the Czech Republic, Hungary, Poland, Romania and Slovenia. The European Corporate Governance Institute, the successor to ECGN, was launched in the spring of 2001: CEPR acted as a founding institutional member. A new RTN network, launched in 2000 (described below), is also working in areas relevant to corporate governance.

Legal institutions and the performance of financial systems: Work also continues on the Banque de France project supported by the research foundation of the Banque de France on 'Judicial Enforcement and Information Sharing in Credit Markets', led by Tullio Jappelli (Università di Salerno). This project falls within a new and exciting area of research for the FE Programme - 'law and finance'. Enterprises cannot raise sufficient capital without corporate and bankruptcy laws; markets for goods and services require well-specified contracts and efficiently functioning courts to enforce them; and financial markets must be supported by adequate regulation. Increasing our understanding of the complex interrelationship between the legal system and the financial sector is essential: micro-oriented, theory-based comparative research with a strong local empirical base and interaction between economists and lawyers is needed. A number of researchers in the Financial Economics programme are currently active in this burgeoning field and in 2000 we launched a new RTN network on this topic, funded by the Commission. The network on 'Understanding Financial Architecture' will devote particular attention to laws and regulations governing the operation of financial markets, and to the role played by the legal enforcement of creditors' and shareholder rights.

Geography and finance: Work continued on a project supported by the research foundation of the Banque de France, on 'Where to List: The Geography of Equity Issuance and Trading' (led by Marco Pagano). Pagano spoke at a lunchtime briefing in London in June 2000, where an audience of financial market participants and policy-makers discussed these issues.

Population ageing, pensions and European financial markets: The financing of retirements is

one of the most significant medium to long-term issues of economic and social policy that Europe faces. If long-established demographic and labour market trends continue, major changes to the existing national systems of retirement are inevitable. Still there is considerable debate among economists and policy-makers as to the most appropriate form for new institutions, and there is very little willingness of the population to contemplate any changes that might reduce benefits from current publicly funded systems.

New research, undertaken jointly by the FE and PP programmes, aims to combine the latest techniques of financial economics and public economics to address these issues of institutional design. This allows a better definition of the competencies of markets, representatives of specific group interests such as occupational pension funds, and the representatives of the population as a whole. The research will consider issues which include the distributive incidence of pension reform, pension reform and age of retirement, the management and regulation of risks of pension finance, the governance of 'second pillar' institutions, pension fund development and investor activism, the impact of changes in pensions on capital market development in Europe, and asset and liability allocation criteria for funded pensions.

Industrial Organization (IO)

Phillipe Aghion (Harvard University and UCL) served with Lars-Hendrik Röller (Wissenschaftszentrum Berlin für Sozialforschung) as co-directors of the Programme. Activities in the Programme currently focus on themes that include:

- Innovation
- Liberalization and regulation in 'network' industries
- Competition policy
- Market integration

Many of these themes have been addressed over the years at ESSET, the annual European Summer

Symposium in Economic Theory, hosted by the Swiss National Bank at its study centre in Gerzensee. CEPR was instrumental in launching the theory symposium, which is now in its tenth year.

We are also eager to encourage the growth of high quality empirical work in Industrial Organization. We were therefore particularly pleased with the award of Commission funding for a series of Euroconferences on 'Competition and the Evolution of Markets: New Empirical Approaches to the Study of European Industry' and more recently a series on 'Competition and the New Economy'. Funding from these grants has been used to launch an annual conference on Empirical Industrial Organization. The first, on 'The Econometrics of Price and Product Competition', was held in October 1999 in Toulouse and organized jointly with the Institut d'Economie Industrielle. The second conference in this series took place in Lisbon in July 2000.

Innovation: We are still far from a full understanding of the main sources of - and obstacles to - innovation, and how these obstacles can be successfully overcome through appropriate policy and/or institution design. These questions are crucial for Europe, which suffers from a low rate of innovation relative to the United States, with no apparent tendency to catch up. Innovation is therefore a key theme of the IO Programme, and one that will play a growing role in the future.

In order to understand innovation, it is essential to look at the environment facing firms, in particular product markets and financial markets. Researchers in the IO programme are therefore collaborating in research on the interaction between the organization of product and financial markets and the pace of innovation in Europe. We launched a new RTN network in mid 2000, led by Philippe Aghion, on 'Product Markets, Financial Markets and the Pace of Innovation in Europe'. The network will address issues such as: what is the impact of product market competition and of bank-versus-market finance on the rate of

innovation? How should we design competition policy in high-tech, innovative sectors? What is the impact of financial regulation on innovation? How can we measure the impact of economic institutions on innovation and productivity growth?

Liberalization and regulation in 'network' industries: Our TMR network on 'The Evolution of Market Structures in European Network Industries', led by Programme Co-Director Lars-Hendrik Röller, began work in 1998. The network allows participating institutions to hire a number of young researchers and to exchange young doctoral students and post-doctoral fellows, and has an active programme of research and meetings.

The TMR network fosters basic research on the structure of network industries, but policy-makers in Europe and elsewhere need advice immediately! The regulation of 'network industries' has, for example, emerged as a key issue on the European policy agenda, yet there is little high quality research capable of informing European policy debates on this issue. In 1998 we therefore joined the Swedish Center for Business and Policy Studies (SNS) in launching a new series of reports on *Monitoring European Deregulation* (MED), which examine issues in the regulation of network industries in Europe. The first Report, published in September 1998, had two themes: it first examined the general analytical issues that arise in the regulation of network industries; and second applied these analytical tools in an examination of the European telecommunications industry. The second MED Report was published in November 1999. It examines the European electricity industry. The third MED Report will deal with European banking.

Competition policy: The IO programme has for nearly a decade played a leading role in the analysis of competition policy in Europe, and the Programme has recently made important contributions to policy in this area. Researchers from the IO Programme, led by Lars-Hendrik Röller, carried out a study on 'Efficiency Gains

from Mergers' for the Directorate General for Industry in the Commission (DG Industry). This study, completed in late 1999, proposed a methodology to measure and evaluate efficiency gains from mergers, and suggested ways in which such measures could be used in the design and implementation of European competition policy. The proposals put forward in the report have been welcomed by the Commission, which has already taken steps to implement some of the proposals. Work by the researchers continues.

By September 2000 the European Merger Regulation had been in operation for ten years. It represents the most ambitious attempt yet made at a systematic supranational allocation of powers to deal with cross-border merger cases, as well as the development of a streamlined procedure to minimise delays, avoid uncertainty and minimise jurisdictional conflict. Researchers in the IO Programme have launched a study of the operation of the merger control during its first decade, which will culminate in a Report to be published during 2002.

In addition, researchers in the IO Programme have received funding for a series of Euroconferences on 'Competition and the New Economy'. The steady progress of international economic integration, and the dramatic changes in technology in the past decade have raised new and difficult issues for the design and implementation of competition policy. The IO Programme therefore plans to focus more on the analysis of competition policy in international markets. This research will explore a number of themes. The assessment of firms' conduct is more delicate in new and international markets where innovation, natural monopolies, network externalities, and standard setting play important roles. The research will thus seek to gain a better understanding of competition in these markets and to develop improved guidelines for policy. Economic integration and the spread of new technology have brought about a dramatic increase in trade, FDI and cross-border M&A activities. There has also been renewed activity in competition enforcement and at times simultaneous enforcement by several agencies. This part of the project explores the implications of international economic integration for the architecture of competition policy enforcement and the allocation of competence

between different jurisdictions. Finally the research will examine the political economy of competition policy. Competition policy is an area where enforcers have important discretion. The influence that can be brought to bear on civil servants and the characteristics of the institutions in which they operate can then be instrumental for the policy outcome. The research will thus analyse the decision making of antitrust agencies by explicitly modelling political economy interactions

Market integration: The extent of national segmentation in European product markets, and the likely impact of the Single Market and the Single Currency on product market integration in Europe are a key research theme in both the IO and IT Programmes. Researchers from these Programmes were awarded a contract by Directorate General II to examine 'EMU and the Integration of European Product Markets'. The study was completed in late 2000.

Transition Economics (TE)

Gérard Roland (ECARES, Université Libre de Bruxelles) and Jan Svejnar (University of Michigan) remain as co-directors of the Programme. Research in the TE Programme currently focuses on issues such as:

- The economic implications of eastern enlargement
- Monetary and exchange rate policies in Central and Eastern Europe
- Corporate governance in Central and Eastern Europe
- Building Research Capacity in Central and Eastern Europe and the CIS
- The role of institutions in economic transition

The Centre, in collaboration with the William Davidson Institute, held the third annual conference on Transition Economics in Moscow

in July 2000: this serves as the TE Programme's annual symposium. The 2001 symposium will be held in Slovenia.

The economic implications of Eastern enlargement: Enlargement is the focus of a study for the European Commission (DG Employment), involving researchers drawn from a number of European research institutes. The study, completed during 2000, examined the impact on employment, wages and income distribution of integrating the accession candidates from Central and Eastern Europe into the European Union's goods, labour and capital markets.

Monetary and exchange rate policies in Central and Eastern Europe: In 2000 we launched a study for the European Commission (DG EcFin) on 'Sustainable Regimes of Capital Movements in Accession Countries'. The study will consider the special considerations introduced by the accession process for the design of regimes of capital movements, and in particular, how to design sustainable regimes of capital movements under alternative assumptions about the evolution of monetary, fiscal and regulatory policies and also the accession process itself.

Corporate governance in Central and Eastern Europe: We were successful in obtaining funding from Phare-ACE for a project on 'Corporate Governance and Disclosure in the Accession Process'. This project is compiling information on patterns of corporate ownership and governance in the Czech Republic, Hungary, Poland, Romania and Slovenia.

Building research capacity in Central and Eastern Europe and the CIS: Many of the activities in the TE Programme are aimed at strengthening research capacity in economics in Central and Eastern Europe and the CIS. Our new 'Transition Economics Summer Workshop for Young Academics', launched in 1998 with funding from the EU's Phare-ACE Programme, aims, for example, to promote the research of young economists from Central and Eastern Europe (and the EU) who are working in the field of transition

economics. The second workshop took place in May 1999 in Budapest. These workshops allowed young researchers to receive feedback on their research and to develop contacts with each other and with established academics in the field. A 2001 workshop will be held in Portoroz, Slovenia. We have in addition organized, with Mark Schaeffer, a regular series of workshops on transition economics in London and elsewhere in the UK. Work was completed on 'Inside the Transforming Firm: A Study of Enterprise Restructuring in the CIS', a project funded by the TACIS-ACE programme. The project used firm-level survey data for Russia, to identify how the structure and the behaviour of firms is affected by factors such as the economic environment, state policies, harder budget constraints, new private owners and governance structures.

Capacity building was also one of the primary objectives of the Russian European Centre for Economic Policy (RECEP) in Moscow, funded by the EU's TACIS Programme. The contract to administer RECEP was held by a consortium involving the Stockholm Institute for Transition Economics (SITE), CEPR and DELTA in Paris from 1997 to 2000. During this time RECEP was highly successful in attracting back a number of Russians who have recently received doctorates from leading American and European universities. Its work continues in the new Center for Economic and Financial Research (CEFIR), Russia's first homegrown, independent think tank, where CEPR is a founding institutional member.

The role of institutions in economic transition: Differences across countries in institutions and processes of institutional change can generate useful new insights. Institutions emerge, adjust, interact with other institutions and sometimes change through political intervention. Researchers in the TE programme have therefore devoted considerable attention to analysing the interplay between institutions (and institutional change) and the process of economic development, and this is likely to remain as an important theme in the programme's research agenda. The new research agenda aims to integrate research in development and transition economics, using a unified

Researchers in the TE programme have therefore devoted considerable attention to analysing the interplay between institutions (and institutional change) and the process of economic development,

institutional approach recognizing the common methodological issues faced by research in both areas.

This line of research will analyse financial institutions, labour market institutions, and differences in legal systems, asking, for each of them, three fundamental questions: What kind of (decentralized) contractual arrangements made those institutions emerge and/or adjust over time? How do those institutions interact with one another within each particular type and across types? To what extent is institutional change shaped or facilitated by initial conditions in the political sphere, and by (changes in) the political process in general?

Understanding the interactions between different institutions is also important, in several respects. Take, for example, ownership reform and product market competition. If they are complements, then lack of progress in ownership reform should have negative effects on product market competition. If they are substitutes, then a lack of progress in ownership reform can be compensated for by progress in the establishment of competition policy institutions. And even if corporate governance and competition are substitutes they may both complement hardening of financial and, more generally, legal constraints. Finally, some broader forms of institutional change must go through the political process. Recent theoretical and empirical work has emphasized the importance of regulatory capture, corruption, and interest group lobbying as potential obstacles to efficiency-enhancing reforms. This project intends to build on that literature to develop a more systematic and unified theoretical apparatus to analyse the interplay between development, innovations and the political process, and to use this framework to formulate hypotheses that would be tested using large cross-country/cross industry data sets.

Innovations in Dissemination/Web developments

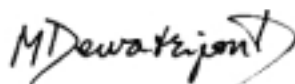
Since November 2000, it has been possible to purchase and download CEPR Discussion Papers on the web. And continued developments have been implemented to enable electronic 'online' registration for CEPR meetings. Work began on the

Electronic Meetings Organization (EMO) initiative during 1998, and we began using it to organize meetings in February 2000. The EMO facility has evolved since then and now allows us to electronically manage larger and more complex conferences. More details are provided in the www.cepr.org developments section of this report.

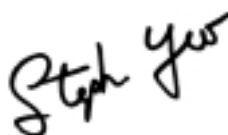
Staff

In the projects area, Reuben Almeida took over from Alison Ferguson and Ricarda O'Driscoll took over Tessa Ogden's project work during her maternity leave. Brian Leitch started in Programmes in January as Assistant Programme Officer taking over from James Pollard. Janet Seabrook took over the leadership of the Meetings Department from Monique Muldoon in October. In the Accounts Office, Alan Wraight was appointed Finance Officer in February, replacing Tania Lake.

During the period 2000-01 Tony Atkinson left CEPR's Scientific Advisory Committee (SAC). Jean-Jacques Laffont took over the role of Chair and Richard Blundell joined the Committee. The SAC is an independent body of senior academics that report annually to the Centre's Executive Committee on the activities of the seven research Programmes. The Committee meets every two years with the Directors of each Programme Area to discuss the activities of their Programme over the preceding two years, and to discuss future directions and strategy.



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Anke Kessler, Universität Bonn (IO)
Lutz Kilian, European Central Bank (IM)
Yuko Kinoshita, CERGE-EI, Prague (IT/TE)
Evzen Kocenda, CERGE-EI, Prague (TE)
Jozef Konings, Katholieke Universiteit Leuven (TE)
Katerina Kyriazidou, University of California, Los Angeles (IO)
Eliana La Ferrara, IGIER, Università Bocconi, Milano (PP)
Philip Lane, Trinity College, Dublin (IM/IT)
Dermot Leahy, University College Dublin (IT)
Martin Lettau, Federal Reserve Bank of New York (FE)
Gilat Levy, London School of Economics (PP)
Wei Li, Duke University (TE)
Francesco Lippi, Banca d'Italia (IM)
Lubomir Lizal, CERGE-EI, Prague (TE)
Alexander P Ljungqvist, Stern School of Business, New York University (FE)
Teresa Lloyd-Braga, Universidade Católica Portuguesa (IM)
François Longin, ESSEC, Cergy-Pontoise (FE)
Gyöngyi Lóránth, Birkbeck College, London (TE)
Hamish Low, University of Cambridge (PP)
Pedro L Marín Uribe, Universidad Carlos III de Madrid (IO)
José María Marín Viguera, Universitat Pompeu Fabra, Barcelona (FE)
Ian W Marsh, City University Business School, London (FE)
Robin Mason, Southampton University (IO)
Mathilde Maurel, Université de Paris I (TE)
Nour Meddahi, Université de Montreal (FE)
Pierre Mella-Barral, London Business School (FE)
Alice Mesnard, Université des Sciences Sociales de Toulouse (LE)
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Claudio Michelacci, CEMFI, Madrid (LE)
Karen-Helene Midelfart Knarvik, Norwegian School of Economics and Business Administration, Bergen (IT)
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Eugenio J Miravete, University of Pennsylvania (IO)
Omer Moav, Hebrew University of Jerusalem (IM)
Holger Müller, Universität Mannheim (FE/IO)
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Massoud Mussavian, Credit Suisse First Boston (FE)
Edward Nelson, Bank of England (IM)
Marcelo Olarreaga, World Bank (IT)
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François Ortalo-Magné, London School of Economics (PP)
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Gianmarco I P Ottaviano, Università di Bologna (IT)
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Fausto Panunzi, Università Bocconi, Milano (FE/IO)
Tuvana Pastine, Bilkent University (IM)
Ivan Pastine, Bilkent University (IM)
Lubos Pástor, University of Chicago (FE)
Lars Persson, Research Institute for Industrial Economics (IUI), Stockholm (IO)
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Diego Puga, University of Toronto (IT)
Patrick A Puhani, Universität St Gallen (LE/TE)
Vincenzo Quadrini, Duke University (IM)
Sven Rady, Universität Munchen (FE)
Michael Raith, University of Chicago (IO)
Morten Ravn, London Business School (IM)
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Fernando Restoy, Banco de España (IM)
Hélène Rey, Princeton University (IM)
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Nathalie Rossiensky, J P Morgan (FE)
Ralph Rotte, Aachen University of Technology (LE)
Jean-François Ruhashyankiko, Ernst & Young LLP (IT)
Emmanuel Saez, Harvard University (PP)
Patrik Sandås, University of Pennsylvania (FE)
Michele Santoni, Università degli Studi di Milano (LE)
Paola Sapienza, Kellogg Graduate School of Management, Northwestern University (FE/IO)
Lucio Sarno, Warwick Business School (IM)
Kimberley Ann Scharf, University of Warwick (PP)
Stephanie Schmitt-Grohé, Rutgers University (IM)
Pierre Sicsic, CDC IXIS Capital Markets, Paris (IM)
Ralph Siebert, Wissenschaftszentrum Berlin für Sozialforschung (IO)
Frank Smets, European Central Bank (IM)
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Johan Stenneck, Research Institute for Industrial Economics (IUI), Stockholm (IO)
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David Strömberg, Institute for International Economic Studies (IIES), Stockholm University (PP)
Per Johan Strömberg, Graduate School of Business, University of Chicago (FE)
Javier Suárez, CEMFI, Madrid (IM/FE)
George Symeonidis, University of Essex (IO)
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Alessandro Turrini, UNCTAD, Geneva (IT)
Masako Ueda, Universitat Pompeu Fabra, Barcelona (FE)
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Nikolaos Vettas, Duke University (IO)
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Melanie Ward, IZA, Bonn (LE)
Etienne Wasmer, ECARES, Université Libre de Bruxelles (LE)
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Christian Wey, Wissenschaftszentrum Berlin für Sozialforschung (IO)
Volker Wieland, Johann Wolfgang Goethe-Universität Frankfurt (IM)
Peter Wright, University of Nottingham (IT)
Paolo Zaffaroni, Banca d'Italia (IM)
Peter Zemsky, INSEAD, Fontainebleau (IO)
Ekaterina Zhuravskaya, Centre for Economic and Financial Research, Moscow (TE)
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Fabrizio Zilibotti, Institute for International Economic Studies (IIES), Stockholm University (IM/LE)
Gylfi Zoega, Birkbeck College, London (PP/LE)

CEPR Research Associates

NEW APPROACHES TO THE STUDY OF ECONOMIC FLUCTUATIONS

Marco Lippi, Università di Roma La Sapienza
Helmut Lütkepohl, Humboldt Universität zu Berlin

FDI AND THE MULTINATIONAL CORPORATION

Frank Barry, University College Dublin
Bruno Cassiman, Universidad de Navarra
Helen Louri, Athens University of Economics and Business
Giorgio Barba Navaretti, Università di Ancona

LABOUR DEMAND, EDUCATION AND THE DYNAMICS OF SOCIAL EXCLUSION

Tommy Bengtsson, Lunds Universitet
Pedro Telhado Pereira, Universidade Nova de Lisboa

EUROPEAN MIGRATION

Tommy Bengtsson, Lunds Universitet
Barry R Chiswick, University of Illinois, Chicago
Slobodan Djajic, Graduate Institute of International Studies, Geneva
Ulrich Kohli, Université de Genève
Alexander H Sarris, University of Athens

Gert Georg Wagner, Deutsches Institut für Wirtschaftsforschung, Berlin

UNDERSTANDING FINANCIAL ARCHITECTURE NETWORK

Marco Becht, ECARES, Université Libre de Bruxelles

PRODUCT MARKETS, FINANCIAL MARKETS AND THE PACE OF INNOVATION IN EUROPE

Bruno van Pottelsberghe, Université Libre de Bruxelles

EVOLUTION OF MARKET STRUCTURE IN NETWORK INDUSTRIES

Christopher Doyle, Charles River Associates Limited
Leonard Waverman, London Business School

ECONOMIC TRANSFORMATION IN CENTRAL AND EASTERN EUROPE

István Abel, National Bank of Hungary
Cristina Corado, Universidade Nova de Lisboa
Irena Grosfeld, DELTA, Paris

Paul G Hare, Heriot-Watt University
Mark Schankerman, London School of Economics

ECONOMIC POLICY INITIATIVE

Istvan Székely, International Monetary Fund
Katherine Terrell, University of Michigan

Full Names of Institutions

CEMFI – Centro de Estudios Monetarios y Financieros, Madrid
CentER – Center for Economic Research, Tilburg
CERAS – Centre d'Enseignement et de Recherche et Analyse Socio-économique, Paris
CERGE-EI – Centre for Economic Research and Graduate Education-Economics Institute, Prague
CNRS – Conseil National de la Recherche Scientifique, Paris
CONSOB – Commissione Nazionale per le Società e la Borsa, Roma
CORE – Centre for Operations Research and Econometrics, Louvain-la-Neuve
CREST – Centre de Recherche en Economie et Statistique, Paris
DELTA – Département et Laboratoire d'Economie Théorique et Appliquée, Paris
EBRD – European Bank for Reconstruction and Development, London
ECARES – European Centre for Advanced Research in Economics and Statistics, Bruxelles
ENS – Ecole Normale Supérieure, Paris
EPRU – Economic Policy Research Unit, Copenhagen
ESSEC – Ecole Supérieure des Sciences Economiques et Commerciales, Cergy-Pointoise
HWWA – Hamburg Institute for Economic Policy Research
IDEI – Institut d'Economie Industrielle, Toulouse
IESE – Instituto de Estudios Superiores de la Empresa, Barcelona
IGIER – Innocenzo Gasparini Institute for Economic Research, Milano
INRA – Institut National de la Recherche Agronomique, Paris
INSEAD – Institut Européen d'Administration des Affaires, Fontainebleau
INSEE – Institut National de la Statistique et des Etudes Economiques, Paris
IZA – Institute for the Study of Labour, Bonn
LIFE – Limburg Institute of Financial Economics, Maastricht
OFCE – Observatoire Français des Conjonctures Economiques, Paris
RECEP – Russian European Centre for Economic Policy, Moscow
SITE – Stockholm Institute of Transition Economics and East German Economics

www.cepr.org

Developments

VED

It is CEPR's intention to take advantage of the remarkable growth of wide-area computer networking and the falling cost of telecommunications in order to create Europe's first 'Virtual Economics Department' (VED). VED comprises a set of related initiatives that aim to 'virtualize' many of the Centre's activities and allow the members of CEPR's Research Networks to interact as easily and effectively as do economists in the same physical department. This will allow them to plan workshops and conferences; produce and disseminate the results of their research; and discuss ideas and proposals for new research initiatives as well as work in progress. In due course, the aim is for this to enable them to do the research itself, for example by floating new ideas and reacting to ideas of other researchers and even writing research papers 'online'. In order to create a successful Virtual Department, we need first to understand how economists interact in their traditional departments. We must then make it easy and natural for VED members to recreate these forms of interaction electronically. Economists typically interact to discuss the following:

- the planning and organization of workshops and conferences;
- drafts of work in progress, working papers, etc.;
- ideas and proposals for new research initiatives, projects and networks;
- research itself, for example by floating new ideas, reacting to papers they have read, participating in seminars, etc.

The VED initiative aims to 'virtualize' each of these forms of interaction. We have made further

significant progress during 2000/1, and have largely completed work on electronic Discussion Papers (eDPs) and electronic meetings organization (EMO). eDPs went 'live' in January 2000, and we organized our first two workshops in February 2000 using our new web-based electronic meetings organization (EMO) software.

Electronic Meetings Organization (EMO)

The objective of EMO is to go beyond just allowing participants to obtain information about meetings or download papers. CEPR decided to create a fully interactive service in which participants could respond to calls for papers and invitations via the web, record their willingness to present papers and act as discussants, and inform us of their travel plans, dietary and other preferences. The aim was simple: to provide a convenient, web-based, interactive tool for participating in our workshops and conferences and to make recording participation in our meetings quick and easy.

Work began on the EMO initiative during 1998, and we began organizing meetings using it in February 2000. The EMO facility has evolved since then and now allows us to manage electronically larger and more complex conferences.

We have now successfully introduced a system that allows:

- electronic notification that a meeting is being organized, so researchers can register their interest;

- electronic invitations to meetings, with a convenient (electronic) way of responding;
- academic (and local) organizers to collaborate with CEPR online;
- electronic availability of papers (and other documents, such as programmes) for meetings.

This completes the most important stages of the EMO project. We expect to introduce the final stage, electronic reimbursement of participants' expenses, later in 2001.

Electronic Discussion Papers (eDPs)

Our objective here was to move to an electronic, paper-free system for distributing and selling our Discussion Papers, *Policy Papers*, and (in due course) our Reports.

We have successfully introduced a system in which:

- all new Discussion Papers (since January 1999) are available as PDF files and can be downloaded;
- reliable 'authentication' procedures allow subscribers and other 'authorized' users (such as CEPR Research Fellows and Affiliates) to download individual Discussion Papers from our website;
- other visitors to the website can download individual Discussion Papers and pay for these papers using their credit card by means of a secure payments facility.

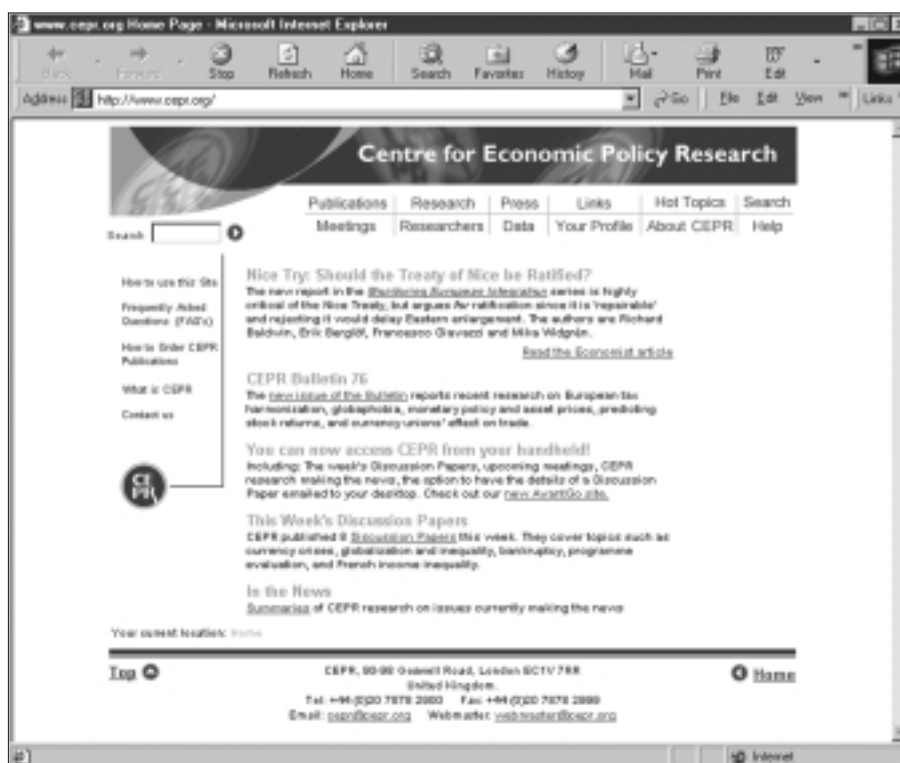
In December 2000 we also concluded an agreement with the Social Science Research Network (SSRN) to make CEPR Discussion Papers available through the SSRN website (www.ssrn.com).

During the summer of 2001 we plan to introduce a 'tracking system' on our website so that our Fellows and Affiliates can check on the current status of Discussion Papers they have recently submitted. We are also uploading information on the subsequent republication of older Discussion Papers and researchers are encouraged to update this information online themselves to ensure it is always current and accurate.

Email Dissemination

In early-2000 we introduced a weekly email service to notify all CEPR researchers and subscribers of Discussion Papers, in areas of interest to them, which have been uploaded onto our website during the previous week. We also introduced a weekly notification service designed for journalists, which lists the CEPR Discussion Papers published that week. A special introduction to this weekly list is written, which identifies those Discussion Papers (and other CEPR publications) that will be of particular interest to journalists. Journalists can then download the papers. The weekly press summaries are also available on the CEPR website, as are summaries for the previous month. Journalists can subscribe to the weekly summaries by email from the top press page on the site. This has resulted in a significant increase in press coverage of CEPR Discussion Papers. No. 2583 by Daniel Cohen, for example, was uploaded to our web site on December 10th 2000 and featured in the Financial Times on December 19th. Journalists find instant access to CEPR research an extremely useful resource, and an increasing number are taking advantage of this facility.

We plan to expand this service to other users and include a weekly email notification of Lunchtime Meetings, workshops and conferences.



www.cepr.org version 3.0

Website Developments

The third version of the CEPR website, launched in November 2000, has a variety of features designed to increase the ease with which visitors to the site can access and use our research. For example, we abandoned the use of 'frames' in order to simplify the use and maintenance of the site.

We introduced a new 'Data' section, which aims to encourage empirical work, as well as make it possible to replicate and test the results appearing in the Discussion Paper series. If a Discussion Paper has used an interesting dataset which is available either online or on request from the authors, we add this information to our publications database. The page on the CEPR website which displays information about that Discussion Paper indicates that the underlying data is available and includes a link to our Data page (which contains a brief description of the dataset). From there, users can go directly to the dataset itself on the web.

We simplified and improved our search engine. Straightforward searches can now be carried out from a Search box on the left of the screen. More complex searches can be conducted using the Search button.

In order to make it easier for users to order and download books and reports online, we radically altered the configuration of our web servers. This has resulted in significantly faster download speeds.

We have linked our online ordering section with the secure payments section at the Royal Bank of Scotland, to allow online purchases of CEPR publications in a secure fashion. This service was introduced in November 2000, and its use has increased steadily since then. By March 2001 50% of our publications sales took place online.

The urls for CEPR publications have been simplified. It is now easier for Fellows and Affiliates to add the urls of CEPR Discussion Papers to their CVs or home pages and for other researchers to cite the CEPR Discussion Paper in their work.

We have also added a new feature that allows a visitor browsing the Discussion Paper abstracts to automatically send a quick email to a colleague with the abstract and details of a paper of interest.

Streaming Audio Over the Web

In the spring of 2001 we introduced a new tool for disseminating our research results: streaming audio over the web. James Morgan, who has extensive experience with radio journalism through his work as the World Service economics correspondent, interviews the authors of selected CEPR Reports and Discussion Papers.

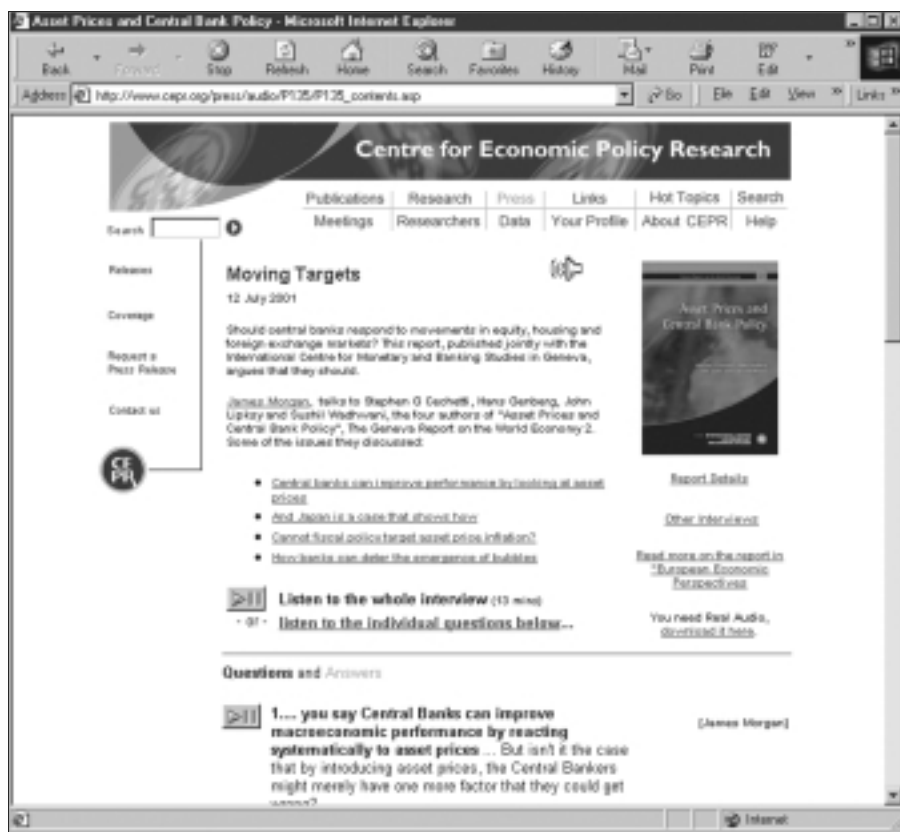
The interviews, recorded on a digital audio recorder, are converted to an audio format which can be accessed from the CEPR website by listeners throughout the world. The audio files are large, and so we have made them available in 'streaming audio format'. Users do not have to download the entire file in order to listen to the interview: instead, they can listen to the interview as the audio file is downloaded to their computer.

Visitors to the website can listen to the entire interview (typically eight to twelve minutes in length), or to specific questions and answers which particularly interest the listener. An excerpt from each question and answer is available on the web page, to give a flavour of the issues raised by that

question: the listener can then click on this text on the web page in order to listen to that specific question.

James Morgan has recorded five interviews so far:

- with Richard Baldwin, the author of 'Agglomeration, Integration and Tax Harmonisation' (Discussion Paper No 2630), who talks about tax competition and tax harmonization in the presence of agglomeration. The interview can be found at http://www.cepr.org/press/audio/DP2630/DP2630_contents.htm
- with Laura Bottazzi and Jean-Pierre Danthine, two of the authors of 'EMU and Portfolio Adjustment' (*Policy Paper* No 5). This interview can be found at http://www.cepr.org/press/audio/pP5/PP5_contents.htm
- with the four authors of 'Asset Prices and Central Bank Policy', the second *Geneva Report on the World Economy*. James Morgan talks to Stephen G Cechetti, Hans Genberg, John Lipky and Sushil Wadhvani, about their controversial conclusion that central banks should sometimes take asset prices



Streaming Audio – Interviews with Researchers on the web

into account when setting monetary policies. This interview can be found at http://www.cepr.org/press/audio/P135/P135_contents.htm

- with Paul Seabright about 'Integration and the Regions of Europe: How the Right Policies Can Prevent Polarization', the tenth *Monitoring European Integration* Report. Seabright discusses the potential impact of closer economic integration on the regions of Europe. He also examines how regional policy should be designed at the European and national levels. How did policy in Ireland succeed while Italy failed? The interview with Seabright can be found at http://www.cepr.org/press/audio/P118/P118_contents.htm
- with Jordi Galí, one of the authors of the third *MECB* Report, 'Defining a Macroeconomic Framework for the Euro Area'. This interview can be found at http://www.cepr.org/press/audio/P146/P146_contents.htm.

A summary of all these audio interviews by James Morgan can be found at: <http://www.cepr.org/press/audio/Default.htm>.

We are now in the process of adding (still) video images and other visual effects to the interview streams, in order to enhance the listener's experience. These new developments will be introduced later this spring.

We have also introduced an AvantGo channel, so

Avant Go



'CEPR This Week' on PDAs

that users can access key information from www.cepr.org at any time. The (free) AvantGo service gives access to websites directly from a Palm OS, Windows CE or Pocket PC handheld device (and from Web-enabled phones). AvantGo enables the user to browse websites on a mobile device or download over 400 content channels that have been optimized for the device's small screen, from major content providers such as *The Financial Times*, *The New York Times*, *Business Week*, *The Wall Street Journal*, *The Economist*, and now CEPR. Websites that have been selected by the AvantGo user are downloaded or updated on the handheld device every time it is synchronized with the user's desktop computer. The downloaded pages can then be browsed while the handheld is disconnected.

The CEPR Avantgo channel contains several key features from www.cepr.org, including:

- the week's new Discussion Papers
- future meetings
- CEPR research that has made the news

Full information concerning the use of the CEPR AvantGo Channel can be found at :

<http://www.cepr.org/aboutcepr/avantgo.htm#avantgo1>.

The Next Steps

During 2001/2 we expect to develop the potential of 'profiles' on our web site, in order to improve the services we provide to our researchers and the users of their research.

We initially devised the profile system for two purposes: to allow access to eDPs, and to allow registration for CEPR electronic meetings. Over 3,750 people have already registered profiles on the site.

Profiles allow us to customize the visitor's home page at www.cepr.org to show particular 'What's

New' items, the selection depending on the user group to which they belong. If the visitor is a purchaser of publications, for example, we could show the four most recent CEPR Reports or Discussion Papers. If the visitor is a journalist we will show the four most recent press releases.

Profiles will allow us to make the CEPR site more 'customer-centred', by allowing browsers to choose what they see on the site based on past activity. Users can therefore help design the content of their site at www.cepr.org.



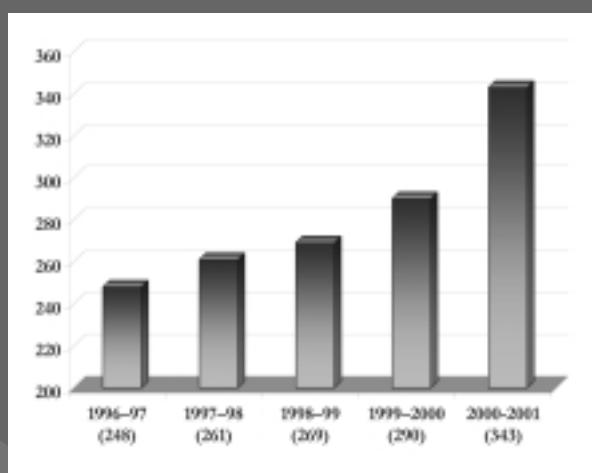
Profiles on the CEPR Website

Publications

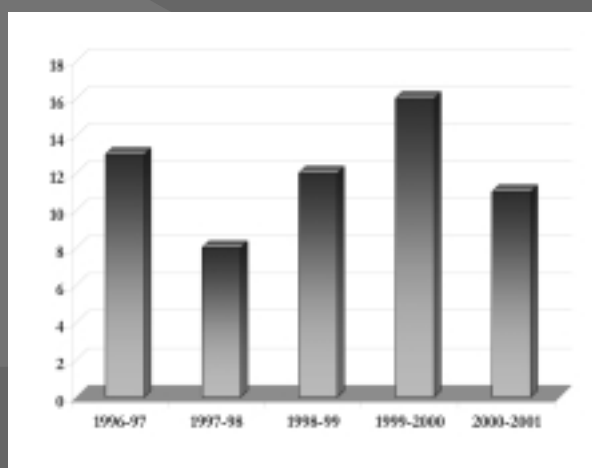
Overview

Publications

2000-2001 has been a busy time for the Publications Team at CEPR. We produced 343 Discussion Papers (an 18% increase on last year) within this financial year as well as 4 Policy Reports, 1 *MECB* Update, 2 conference volumes, 2 *Policy Papers* and 2 issues of *Economic Policy*. We also produced 3 issues of our newsletter *European Economic Perspectives* and the first issue of our new-design *Bulletin*.



Total Number of Discussion Papers Published each Financial Year



Total Number of Titles (reports, conference volumes, etc) Published each Financial Year

Bulletin

The new CEPR *Bulletin* was launched in late-summer 2000. We streamlined the content to make it more readable and research-oriented by including accessible summaries of key research advances and highlights from each Programme Area. In addition, some of the content (e.g. lists of Discussion Paper abstracts) was moved to our website.

Web

CEPR's Publications Team has also played a major role in the development of the website – in particular the shopping cart and online Discussion Papers. It has been possible to place online orders for CEPR publications since November 2000, a move that has clearly been popular since they already account for approximately half of total monthly sales.

Distributors

CEPR publications are sold in the US via the Brookings Institution and in Scandinavia by SNS Forlag (see box on p. 20). In addition, since January 2001 CEPR Discussion Papers have been available via the Social Science Research Network (SSRN)'s online service. This gives added exposure to CEPR papers and our researchers, whilst also increasing sales of Discussion Papers.

Economic Policy

The *Economic Policy* journal (published by Blackwells, jointly with CEPR, CES and DELTA) has experienced significant changes this year - three new Managing Editors have taken up the reins and a new website (www.economic-policy.org) is currently under construction.

Exhibitions

The CEPR Publications Team promote the output of the Centre at numerous events throughout the year - selling publications and distributing leaflets and other free material to attendees. This year, in addition to the ESEM/EEA conference in Bolzano, August 2000, we also exhibited in New Orleans at the ASSA conference in January 2001.

Publications Staff Changes

In January 2001, Lisa Moss was promoted to Publications Manager from within the team. Lisa has continued to implement the marketing of CEPR publications as well as taking on overall responsibility for the Centre's published output. At the same time, Jane Linekar joined the team as Publications Assistant. Among her many responsibilities, Jane has taken over the coordination of *Economic Policy*. The Publications Team was joined later in the year by Khadeja Gordon as Sales and Subscriptions Administrator, and Michael Kelly as Publications Administrator (responsible for managing the production of the Discussion Papers series).

Titles Published

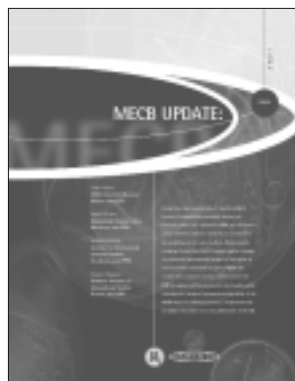
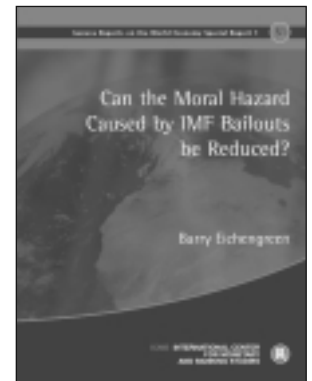
April 2000–March 2001

Reports



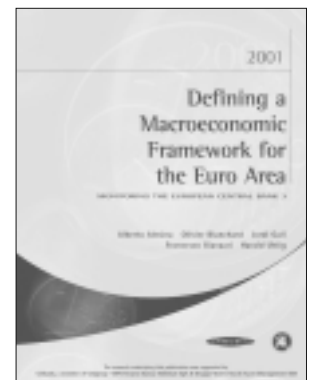
Integration and the Regions of Europe: How the Right Policies Can Prevent Polarization
Monitoring European Integration No. 10
Pontus Braunerhjelm, Riccardo Faini, Victor Norman, Frances Ruane and Paul Seabright
CEPR, April 2000

Can the Moral Hazard Caused by IMF Bailouts be Reduced?
Geneva Reports on the World Economy Special Report No. 1
Barry Eichengreen
CEPR/ICMB, September 2000



MECB Update
Monitoring the European Central Bank No. 2
Carlo Favero, Xavier Freixas, Torsten Persson and Charles Wyplosz
CEPR, June 2000

Defining a Macroeconomic Framework for the Euro Area
Monitoring the European Central Bank No. 3
Alberto Alesina, Olivier Blanchard, Jordi Galí, Francesco Giavazzi and Harald Uhlig
CEPR, March 2001



Asset Prices and Central Bank Policy
Geneva Reports on the World Economy No. 2
Stephen G Cecchetti, Hans Genberg, John Lipsky and Sushil B Wadhvani
CEPR/ICMB, July 2000

Conference Volumes

The World Bank: Structure and Policies
Edited by Christopher L. Gilbert and David Vines
(Global Economic Institutions / Oxford Policy Unit / CEPR)
Cambridge University Press, August 2000

Fiscal Policy Imbalances, the Monetary Transmission Mechanism and Prudential Supervision: Issues facing Central Bankers
Edited by Sylvester Eijffinger, Kees Koedijk and Stephen Yeo
European Summer Institute/CEPR, May 2000

Policy Papers

Putting 'Humpty' Together Again: Including Developing Countries in a Consensus for the WTO

Policy Paper 4

Zhen Kun Wang and
L. Alan Winters
CEPR, April 2000

EMU and Portfolio Adjustment

Policy Paper 5

Kpate Adjaoute,
Laura Bottazzi, Jean-
Pierre Danthine,
Andreas M. Fischer, Rony Hamoui, Richard
Portes and Michael R Wickens
CEPR, November 2000



Journals

Economic Policy is published
by Blackwell Publishers
Ltd for CEPR, CES and
DELTA in collaboration

with Maison des Sciences de l'Homme. and also
in association with the EEA.

***Economic Policy* Issue 30**

Edited by:

David Begg, Kai Konrad and Charles Wyplosz

'One Money, One Market: The Effect of
Common Currencies on Trade' by Andrew K.
Rose

'Unemployment, Growth and Taxation in
Industrial Countries' by Francesco Daveri and
Guido Tabellini

'Labour Market Implications' by Torben M.
Andersen, Niels Haldrup and Jan Rose Sørensen

'The Netherlands and the United Kingdom: a
European Unemployment Miracle?' by Stephen
Nickell and Jan van Ours

'Economic Reforms and Labour Markets: Policy
Issues and Lessons from Chile' by Sebastian
Edwards and Alejandra Cox Edwards

April 2000

***Economic Policy* Issue 31**

Edited by:

David Begg, Kai Konrad and Charles Wyplosz

'Corporate Governance in Germany: the Role of
Banks and Ownership Concentration' by Jeremy
Edwards and Marcus Nibler

'Currency Boards: More than a Quick Fix?' by Atish
R. Ghosh, Anne-Marie Gulde and Holger C. Wolf

'Factor Mobility and Fiscal Policy in the EU: Policy
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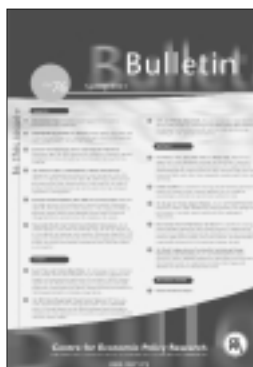
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Issue: No. 75



European Economic Perspectives

Issues: No. 26, 27, 28



Discussion Papers

April 2000–March 2001

DP No.	Author(s)	Title of Paper	Area	Date Pub
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DP2624	Hylke Vandenbussche, Xavier Wauthy	European Anti-dumping Policy and Firms' Strategic Choice of Quality	IT	11/2000
DP2625	Marcus Asplund, Volker Nocke	Imperfect Competition, Market Size and Firm Turnover	IO	11/2000
DP2626	Christian Keuschnigg, Soren Bo Nielsen	Tax Policy, Venture Capital and Entrepreneurship	FE, IO, PP	11/2000
DP2627	Ramón Caminal	Personal Redistribution and the Regional Allocation of Public Investment	PP	11/2000

DP2628	Rob Euwals, Melanie Ward	What Matters Most: Teaching or Research? Empirical Evidence on the Remuneration of British Academics	LE	11/2000
DP2629	André Sapir	EC Regionalism at the Turn of the Millennium: Towards a New Paradigm?	IT	11/2000
DP2630	Richard Baldwin, Paul Krugman	Agglomeration, Integration and Tax Harmonization	IT, PP	11/2000
DP2631	Jeffrey A Frankel, Andrew K Rose	An Estimate of the Effect of Currency Unions on Trade and Output	IM	12/2000
DP2632	Daniel Cohen	The HIPC Initiative: True and False Promises	IM	12/2000
DP2633	Daniel Cohen, Olivier Loisel	Why was the Euro Weak? Markets and Policies	IM	12/2000
DP2634	Olivier de Bandt, Philipp Hartmann	Systemic Risk: A Survey	FE, IM	12/2000
DP2635	Eugenio J Miravete	Estimating Demand for Local Telephone Service with Asymmetric Information and Optional Calling Plans	IO	12/2000
DP2636	Jan Boone	Competition	IO	12/2000
DP2637	David Begg	Beyond the Design of Monetary Policy Alone: Fiscal Commitment, Macro Coordination and Structural Adjustment	IM, TE	12/2000
DP2638	Alan Bevan, Saul Estrin	The Determinants of Foreign Direct Investment in Transition Economies	TE	12/2000
DP2639	Rafael Repullo	A Model of Takeovers of Foreign Banks	FE	12/2000
DP2640	Enrique Sentana	Did the EMS Reduce the Cost of Capital?	FE	12/2000
DP2641	Jan Fidrmuc, Jarko Fidrmuc	Disintegration and Trade	IT, TE	12/2000
DP2642	Jean Imbs, Romain Wacziarg	Stages of Diversification	IM	12/2000
DP2643	Andres Almazan, Javier Suárez	Managerial Compensation and the Market Reaction to Bank Loans	FE	12/2000
DP2644	Konstantine Gatsios	Capital Mobility, the Real Exchange Rate and the Rate of Return to Capital in the Presence of Non-Traded Goods	IT	12/2000
DP2645	Tomoya Mori Mori, Alessandro Turrini	Skills, Agglomeration and Segmentation	IT, LE	12/2000
DP2646	Alberto F Alesina, Eliana La Ferrara	Who Trusts Others?	PP	12/2000
DP2647	Gilles Chemla	Downstream Competition, Foreclosure and Vertical Integration	IO	12/2000
DP2648	David B Audretsch, A R Roy Thurik	Impeded Industrial Restructuring: The Growth Penalty	IO	12/2000
DP2649	Paul A Geroski	Exploring the Niche Overlaps Between Organizational Ecology and Industrial Economics	IO	12/2000
DP2650	Paul A Geroski, Mariana Mazzucato	Modelling the Dynamics of Industry Populations	IO	12/2000
DP2652	Gregor Irwin, David Vines	Government Guarantees, Investment And Vulnerability To Financial Crises	IM	12/2000
DP2653	Jody Overland, Kenneth Simons, Michael Spagat	Political Instability and Growth in Dictatorships	PP, TE	12/2000
DP2654	Nauro F Campos	Back to the Future: The Growth Prospects of Transition Economies Reconsidered	TE	12/2000
DP2656	Janine Aron, John Muellbauer	Personal and Corporate Saving in South Africa	IM	12/2000

DP2651	Per Krusell, Anthony A Smith Jr	Consumption-Savings Decisions with Quasi-Geometric Discounting	IM	1/2001
DP2655	Pierpaolo Benigno, Francesco Giavazzi, Alessandro Missale	How is the Debt Managed? Learning from Fiscal Stabilizations	IM	1/2001
DP2657	Fredrik Andersson, Kai A Konrad	Globalization and Human Capital Formation	PP	1/2001
DP2658	David Peel, Lucio Sarno, Mark P Taylor	Non-Linear Mean-Reversion in Real Exchange Rates: Towards a Solution to the Purchasing Power Parity Puzzles	IM	1/2001
DP2659	Charles M Engel, Andrew K Rose	Currency Unions and International Integration	IM	1/2001
DP2660	Jan Haaland, Ian Wooton	Multinational Firms: Easy Come, Easy Go?	IT	1/2001
DP2661	Karl-Martin Ehrhart, Roy J Gardner, Claudia Keser, Jürgen von Hagen	Budget Processes: Theory and Experimental Evidence	PP	1/2001
DP2662	Ralf Hepp, Jürgen von Hagen	Regional Risksharing and Redistribution in the German Federation	IM, PP	1/2001
DP2663	Gian Maria Milesi-Ferretti	Good, Bad or Ugly? On the Effects of Fiscal Rules with Creative Accounting	IM	1/2001
DP2664	Neil Rankin	Time Consistency When Open Market Operations are the Monetary Policy Instrument: Is There Really a Deflation Bias?	IM	1/2001
DP2665	Berthold Herrendorf, Akos Valentinyi	Determinacy with Capital Adjustment Costs and Sector-Specific Externalities	IM	1/2001
DP2666	Edward Nelson	Direct Effects of Base Money on Aggregate Demand: Theory and Evidence	IM	1/2001
DP2667	Alessandra Casella	Market Mechanisms for Policy Decisions	IM, PP	1/2001
DP2669	Joseph Francois, Ian Wooton	Market Structure, Trade Liberalization and the GATS	IT	1/2001
DP2670	Patrick A Puhani	On the Identification of Relative Wage Rigidity Dynamics: A Proposal for a Methodology on Cross-Section Data and Empirical Evidence for Poland in Transition	LE, TE	1/2001
DP2671	Andrew Hughes Hallett, Nicola Viegi	Credibility, Transparency and Asymmetric Information in Monetary Policy	IM	1/2001
DP2672	Mukarram Attari, Antonio S Mello	Arbitrage with Inelastic Liquidity Demand and Financial Constraints	FE	1/2001
DP2673	Antonio S Mello, Martin Ruckes	Diversity in Organizations	FE, IO	1/2001
DP2674	Gilles Saint-Paul	The Economics of Human Cloning	IM, LE	1/2001
DP2675	Estelle Cantillon	The Effect of Bidders' Asymmetries on Expected Revenues	IO	1/2001
DP2676	Leandro Arozamena, Estelle Cantillon	Investment Incentives in Procurement Auctions	IO	1/2001
DP2677	Karolina Ekholm, Karen-Helene Midelfart Knarvik	Relative Wages and Trade-Induced Changes in Technology	IT	1/2001
DP2678	Simon Messner, Xavier Vives	Allocative and Productive Efficiency in REE with Asymmetric Information	IO	1/2001
DP2680	Juan D Carrillo, Mathias Dewatripont	Promises, Promises...	IO, PP	1/2001
DP2681	Marco Pagano, Ailsa A Röell, Josef Zechner	The Geography of Equity Listing: Why Do Companies List Abroad?	FE	1/2001
DP2682	Marco Pagano, Paolo Volpin	The Political Economy of Corporate Governance	FE	1/2001

DP2683	Marco Pagano, Otto Randl, Ailsa A Röell, Josef Zechner	What Makes Stock Exchanges Succeed? Evidence from Cross-Listing Decisions	FE	1/2001
DP2684	Jordi Galí, Mark Gertler, J David López Salido	European Inflation Dynamics	IM	1/2001
DP2685	Ventzislav Ivanov, Lutz Kilian	A Practitioner's Guide to Lag-Order Selection for Vector Autoregressions	IM	1/2001
DP2668	Bernardino Adao, Isabel Horta Correia, Pedro Teles	Gaps and Triangles	IM	2/2001
DP2679	Stephanie Rosenkranz, Patrick Schmitz	Joint Ownership and Incomplete Contracts: The Case of Perfectly Substitutable Investments	IO	2/2001
DP2686	Sergei M Guriev, Igor Makarov, Mathilde Maurel	Debt Overhang and Barter in Russia	TE	2/2001
DP2687	Nancy H Chau, Ravi Kanbur	The Race To the Bottom, From the Bottom	IT, PP	2/2001
DP2688	Stephanie Schmitt-Grohé, Martin Uribe	Optimal Fiscal and Monetary Policy under Imperfect Competition	IM	2/2001
DP2689	Henrik Jensen	Optimal Degrees of Transparency in Monetary Policymaking	IM	2/2001
DP2690	Lucio Sarno, Mark P Taylor	Official Intervention in the Foreign Exchange Market: Is It Effective and, If So, How Does It Work?	IM	2/2001
DP2691	Sylvester C W Eijffinger, Wolf Wagner	The Feasible Gains from International Risk Sharing	IM	2/2001
DP2692	Antonio Fatás, Andrew K Rose	Do Monetary Handcuffs Restrain Leviathan? Fiscal Policy in Extreme Exchange Rate Regimes	IM	2/2001
DP2693	Per Krusell, Burhanettin Kuruscu, Anthony A Smith Jr	Equilibrium Welfare and Government Policy with Quasi-Geometric Discounting	IM, PP	2/2001
DP2694	Giacomo Corneo, Hans Peter Grüner	Individual Preferences for Political Redistribution	PP	2/2001
DP2695	Kai A Konrad	Repeated Expropriation Contests and Foreign Direct Investment	PP, TE	2/2001
DP2696	Cláudia Costa, Paul De Grauwe	Monetary Policy in a Cashless Society	IM	2/2001
DP2697	Marc Ivaldi, Frank Verboven	Quantifying the Effects from Horizontal Mergers in European Competition Policy	IO	2/2001
DP2698	Stephanie Rosenkranz, Patrick Schmitz	Optimal Allocation of Ownership Rights in Dynamic R&D Alliances	IO	2/2001
DP2699	Eugenio J Miravete	Quantity Discounts for Time-Varying Consumers	IO	2/2001
DP2700	David Martimort, Thierry Verdier	Monopolies Life Cycle, Bureaucratization and Schumpeterian Growth	IM, IO	2/2001
DP2701	Oded Galor, Omer Moav	Das Human Kapital	IM	2/2001
DP2702	Christian Dustmann, Christoph M Schmidt	The Wage Performance of Immigrant Women: Full-Time Jobs, Part-Time Jobs and the Role of Selection	LE	2/2001
DP2703	Ernst Fehr, Klaus Schmidt	Theories of Fairness and Reciprocity - Evidence and Economic Applications	IO	2/2001
DP2704	Barry Eichengreen	The EMS Crisis in Retrospect	IM	2/2001
DP2705	Sven-Olof Fridolfsson, Johan Stennek	Should Mergers Be Controlled?	IO	2/2001
DP2706	Wolfgang Keller	Geographic Localization of International Technology Diffusion	IT	2/2001

DP2707	Helmut Bester, Emmanuel Petrakis	Wages and Productivity Growth in a Dynamic Monopoly	IO	2/2001
DP2708	Mike Burkart, Fausto Panunzi	Agency Conflicts, Ownership Concentration and Legal Shareholder Protection	FE	2/2001
DP2709	John Fingleton, Michael Raith	Open Covenants, Privately Arrived At	IO	2/2001
DP2710	Michelle Haynes, Richard Upward, Peter Wright	Estimating the Wage Costs of Inter- and Intra-Sectoral Adjustment	IT	2/2001
DP2711	Thorsten Lehnert, Christian C Wolff	Modelling Scale-Consistent VaR with the Truncated Lévy Flight	FE	2/2001
DP2712	Pierre Mohnen, Lars-Hendrik Röller	Complementarities in Innovation Policy	IO	2/2001
DP2713	Olivier J Blanchard, Francesco Giavazzi	Macroeconomic Effects of Regulation and Deregulation in Goods and Labour Markets	IM, LE	2/2001
DP2714	Jaime de Melo, Jean-Marie Grether, Tobias Müller	The Political Economy of International Migration in a Ricardo-Viner Model	IT	2/2001
DP2715	Eric Maskin, Chenggang Xu	Soft Budget Constraint Theories: From Centralization to the Market	TE	3/2001
DP2716	Timothy Frye, Ekaterina Zhuravskaya	Rackets, Regulation and the Rule of Law	TE	3/2001
DP2717	Maria Concetta Chiuri, Tullio Jappelli	Financial Market Imperfections and Home Ownership: A Comparative Study	FE, IM	3/2001
DP2718	Pierre Mella-Barral, Paolo Vitale	Equilibrium Exchange Rate Policies: Complicit Renegotiation-Proof Outcomes	IM	3/2001
DP2719	Giacomo Corneo, Rafael Rob	Working in Public and Private Firms	PP	3/2001
DP2720	Pascal Courty, Gerald Marschke	Performance Incentives with Award Constraints	IO	3/2001
DP2721	Timothy Besley, Robin Burgess	The Political Economy of Government Responsiveness: Theory and Evidence from India	PP	3/2001
DP2722	Charles Wyplosz	Do We Know How Low Inflation Should Be?	IM	3/2001
DP2723	Charles Wyplosz	Exchange Rate Regimes: Some Lessons from Postwar Europe	IM	3/2001
DP2724	Charles Wyplosz	How Risky is Financial Liberalization in the Developing Countries?	IM	3/2001
DP2725	Timothy Besley, Maitreesh Ghatak	Government Versus Private Ownership of Public Goods	IO, PP	3/2001
DP2726	Alan Sutherland	Inflation Targeting in a Small Open Economy	IM	3/2001
DP2727	Oded Galor, Omer Moav	Natural Selection and the Origin of Economic Growth	IM	3/2001
DP2728	Luigi Guiso, Monica Paiella	Risk Aversion, Wealth and Background Risk	IM	3/2001
DP2729	Olof Åslund, Per-Anders Edin, Peter Fredriksson	Ethnic Enclaves and the Economic Success of Immigrants - Evidence from a Natural Experiment	LE	3/2001
DP2730	Olof Åslund, Per-Anders Edin, Peter Fredriksson	Settlement Policies and the Economic Success of Immigrants	LE	3/2001
DP2731	Dermot Leahy, Peter J Neary	Robust Rules for Industrial Policy in Open Economies	IT	3/2001
DP2732	Peter J Neary	Competition, Trade and Wages	IT	3/2001
DP2733	Enrico C Perotti, Ernst-Ludwig von Thadden	Outside Finance, Dominant Investors and Strategic Transparency	FE	3/2001

DP2734	Lars Persson	Predation and Mergers: Is Merger Law Counterproductive?	IO	3/2001
DP2735	Pehr-Johan Norbäck, Lars Persson	Privatization and Foreign Competition	IO	3/2001
DP2736	Alexander P Ljungqvist, William J Wilhelm Jr	The Seven Percent Solution? An International Perspective On Underwriting Spreads	FE	3/2001
DP2737	Pierre-Olivier Gourinchas, Jonathan A Parker	The Empirical Importance of Precautionary Saving	IM	3/2001
DP2738	Kjell Erik Lommerud, Lars Sørqard, Odd Rune Straume	Merger Profitability in Unionized Oligopoly	IO	3/2001
DP2739	David Genesove, Wallace P Mullin	Rules, Communication and Collusion: Narrative Evidence from the Sugar Institute Case	IO	3/2001
DP2740	Ramon Faulí-Oller, Joel Sandonís	To Merge or to License: Implications for Competition Policy	IO	3/2001
DP2741	Torsten Persson, Guido Tabellini, Francesco Trebbi	Electoral Rules and Corruption	IM, PP	3/2001
DP2742	Gian Maria Milesi-Ferretti, Roberto Perotti, Massimo Rostagno	Electoral Rules and Public Spending	IM, PP	3/2001
DP2743	Thorvaldur Gylfason, Gylfi Zoega	Natural Resources and Economic Growth: The Role of Investment	IM	3/2001
DP2744	Francesco Caselli, Wilbur John Coleman II	Cross-Country Technology Diffusion: The Case of Computers	IM	3/2001
DP2745	Fabrizio Coricelli, Alex Cukierman, Alberto Dalmazzo	Economic Performance and Stabilization Policy in a Monetary Union with Imperfect Labour and Goods Markets	IM	3/2001
DP2746	Manuel Arellano, Olympia Bover	Learning About Migration Decisions from the Migrants: Using Complementary Datasets to Model Intra-Regional Migrations in Spain	LE	3/2001
DP2747	Bernard Hoekman, Francis Ng, Marcelo Olarreaga	Tariff Peaks in the Quad and Least Developed Country Exports	IT	3/2001
DP2748	Carlo A Favero, Federico Mosca	Uncertainty on Monetary Policy and the Expectational Model of the Term Structure of Interest Rates	IM	3/2001
DP2749	Eran Yashiv	Macroeconomic Policy Lessons of Labour Market Frictions	IM	3/2001
DP2750	Gil S Epstein, Tikva Lecker	Multi-Generation Model of Immigrant Earnings: Theory and Application	LE	3/2001
DP2751	Gianluca Femminis, Luigi Ruggione	'Crony Capitalism', Bail Outs and Bank Runs	FE, IM	3/2001
DP2752	Bennett T McCallum, Edward Nelson	Timeless Perspective Versus Discretionary Monetary Policy in Forward-Looking Models	IM	3/2001
DP2753	Hans Jarle Kind, Karen-Helene Midelfart Knarvik, Guttorm Schjelderup	Corporate Taxation, Multinational Enterprise and Economic Integration	IT	3/2001

Meetings

2000–2001



Meetings

During 2000–2001, the Meetings team organized 52 conferences and workshops, 16 lunchtime public discussion meetings and 19 working meetings – a total of 87 meetings in 34 different cities throughout Europe and further afield.

Staff Changes

Janet Seabrook joined CEPR as Meetings Manager in November 2000 and Sarah McBride also joined the team as Meetings Administrator in May 2001. Alice Warr continued as Assistant Meetings Manager.

Meetings April 2000–March 2001

Conferences and Workshops

- 06/07 April 2000 **The Transparency of Monetary Policy: Theory and Empirical Evidence**
(with the Bank of Finland, Helsinki)
- 10/14 April 2000 **Labour Markets, Work and Welfare During the Transition and Integration Processes**
(with Zentrum für Europäische Integrationsforschung (ZEI), Universität Bonn, Vilnius)
- 14/15 April 2000 **Economic Policy Thirty-First Panel Meeting**
(hosted by Banco de Portugal, with CES and DELTA, Lisbon)
- 28/29 April 2000 **Inequalities, Labour Market Regulation and Redistribution**
(hosted by Centro de Estudios Monetarios y Financieros (CEMFI), Madrid)
- 05/06 May 2000 **New Approaches to the Study of Economic Fluctuations**
(hosted by the Athens Institute of Economic Policy Studies (IMOP), Hydra)
- 05/06 May 2000 **Reforming the Architecture of Global Economic Institutions**
(with the ESRC Global Economic Institutions Programme, London)
- 05 May 2000 **Asset Price Inflation: What to Do About it?**
(with the International Center for Monetary and Banking Studies (ICMB), Geneva)
- 19 May 2000 **CEPR/ESRC Industrial Organization Workshop**
(supported by the Economic and Social Research Council (ESRC), London)
- 19 May 2000 **CEPR Economic Policy Roundtable**
(hosted by Grupo Banco Comercial Português, Lisbon)
- 19/20 May 2000 **FDI and the Multinational Corporation**
(with Centro Studi Luca d'Agliano, Turin)
- 25/27 May 2000 **Industrial Structure and Input Markets**
(with Deutsche Forschungsgemeinschaft (DFG) and Zentrum für Europäische Wirtschaftsforschung (ZEW), Mannheim)
- 29/30 May 2000 **Exchange Rates and Prices in General Equilibrium: Theories, Evidence and Policy Implications** (with Research Centre for Industrial Economics (CREI), Universitat Pompeu Fabra, Barcelona)
- 31 April/04 May 2000 **European Summer Symposium in Macroeconomics**
(hosted by Banco de España, Tarragona)
- 09/11 June 2000 **Psychology and Economics**
(hosted by European Centre for Advanced Research in Economics and Statistics (ECARES), Université Libre de Bruxelles, Brussels)
- 09/10 June 2000 **Mergers and Competition**
(with the Research Institute for Industrial Economics, Stockholm)
- 11/12 June 2000 **International Finance and Economic Activity**
(with the Bank of Greece, LIFE and the Weiss Center of the Wharton School, Vouliagmeni)
- 16/18 June 2000 **The Design of Primary Equity Markets**
(supported by the New York Stock Exchange and the Centre for Studies in Economics and Finance, Università di Salerno, Capri)
- 17/20 June 2000 **European Research Workshop in International Trade (ERWIT)**
(with the Economic Policy Research Unit (EPRU), University of Copenhagen, Copenhagen)
- 24/29 June 2000 **The Political Economy of Economic Policy - Euro Conference on the Institutions of Restraint**
(with the Institut d'Economie Industrielle (IDEI), Toulouse)
- 26 June 2000 **CEPR/ESRC Labour Economics Workshop - Health and Labour Economics**
(supported by the ESRC, London)
- 02/05 July 2000 **CEPR/WDI International Conference in Transition Economics**
(with the European Bank for Reconstruction and Development (EBRD), the Economics Education and Research Consortium, the New Economic School, the Russian European Centre for Economic Policy (RECEP) and the William Davidson Institute, University of Michigan (WDI), Moscow)

03/14 July 2000	European Summer Symposium in Economic Theory (with Studienzentrums Gerzensee and with travel funding from the <i>Review of Economic Studies</i>)
06/08 July 2000	Second CEPR Conference on Applied Industrial Organization (hosted by Universidade Nova de Lisboa, Lisbon)
10/13 July 2000	CEPR Policy Session on Deregulation in European Network Industries at the Annual Conference of the Royal Economic Society (Fife, Scotland)
14/15 July 2000	The World Trading System Post-Seattle: Institutional Design, Governance and Ownership (with ECARES, Université Libre de Bruxelles, and with the World Bank, Brussels)
17/28 July 2000	European Summer Symposium in Financial Markets (with Studienzentrums Gerzensee and supported by the New York Stock Exchange, Gerzensee)
24/25 August 2000	CEPR/ESRC Transition Economics and Chinese Economy Conference (hosted by CERT, Heriot-Watt University, with University of Surrey, Edinburgh)
08/10 September 2000	Dynamic Aspects of Taxation (hosted by CentER, Tilburg University, Tilburg)
15/16 September 2000	CEPR/ESI Annual Conference: Vivent Les Differences? Heterogeneous Europe (with European Summer Institute (ESI) and hosted by Nederlandsche Bank, Amsterdam)
22/23 September 2000	Manresa Conference on Finance (with Institut d'Anàlisi Econòmica (IAE), Barcelona and with Caixa Manresa and the <i>European Economic Review</i> , Manresa)
22/23 September 2000	Public Policy Symposium (with Instituto Flores de Lemus, Universidad Carlos III Madrid, and sponsored by Instituto de Estudios Fiscales, Colmenarejo)
26/30 September 2000	European Summer Symposium in Labour Economics (with the Institute for the Study of Labor (IZA), Ammersee)
13/14 October 2000	Economic Policy Thirty-Second Panel Meeting (hosted by Banque de France, with CES and DELTA, Paris)
20/22 October 2000	Labour Market Effects of European Foreign Investments (hosted by Universidad Carlos III, Madrid)
27/28 October 2000	Evolution of Market Structure in Network Industries (Heidelberg)
03/04 November 2000	Understanding Financial Architecture: Legal and Political Frameworks and Economic Efficiency (with the Center for Financial Studies, Frankfurt)
09 November 2000	CEPR/ESRC Financial Economics Workshop - Bank Equity Ownership (supported by the ESRC, London)
10 November 2000	CEPR Economic Policy Roundtable (hosted by Société Générale, Paris)
13 November 2000	CEPR/ESRC Labour Economics Workshop - Family, Children and Demand (supported by the ESRC, London)
20/22 November 2000	Technology, Policy and Innovation: Historical and Economic Perspectives (with Conseil National de la Recherche Scientifique (CNRS), Commissariat Générale du Plan, National Bureau for Economic Research (NBER) and Centre de Recherche en Economie et Statistique (CREST), Paris)
23 November 2000	CEPR/ESRC Industrial Organization Workshop: Regulation and Competition (supported by the ESRC, London)
26/27 November 2000	The Analysis of International Capital Markets: Understanding Europe's Role in the Global Economy (with the Bank of Israel and with the Eitan Berglas School of Economics, Tel Aviv)
30 October/ 02 November 2000	9th Annual WZB Conference on Industrial Organization: 'Antitrust Issues in International Markets' (with Wissenschaftszentrum Berlin für Sozialforschung (WZB))
15/16 December 2000	Thirteenth Annual CEPR/NBER/TCER Conference: Unemployment (with NBER and the Tokyo Center for Economic Research (TCER), Tokyo)
11/14 January 2001	The Economic Geography of Europe: Measurement, Testing and Policy Simulations (with the Graduate Institute of International Studies (GIIS), Geneva and the Norwegian School of Economics and Business Administration, Villars)

- 18/20 January 2001 **The Economics of the Software and Internet Industries**
(with IDEI, Toulouse)
- 09 March 2001 **CEPR/ESRC Industrial Organization Workshop: Empirical Work in Industrial Organization**
(supported by the ESRC, London)
- 15/16 March 2001 **Moral Hazard Issues in Banking**
(with the Bank of Finland, Helsinki)
- 17/18 March 2001 **Recent Economic Issues in Japan and Europe**
(hosted by the Nissan Institute and supported by the European Institute of Japanese Studies, the Japan Foundation and the Said Business School, Oxford)
- 19/23 March 2001 **Labour Markets, Work and Welfare During the Transition and Integration Process**
(with Eurofaculty, Riga, the University of Latvia, the University of Vilnius, ZEI and the University of Tartu, Riga)
- 23/25 March 2001 **The Firm and Its Stakeholders: The Evolving Role of Corporate Finance**
(with Fondazione ENI Enrico Mattei, Fondazione Courmayeur and the Centre for Research on Pensions and Welfare Policies, Courmayeur)
- 31 March 2001 **Second Workshop of the ACE Project on Corporate Governance and Disclosure**
(hosted by ECARES, Université Libre de Bruxelles, Brussels)

Lunchtime Meetings and Briefings

- 06 April 2000 **Putting 'Humpty' Together Again: Including Developing Countries in a Consensus for the WTO** (L Alan Winters; London)
- 10 April 2000 **Integration and the Regions of Europe: How the Right Policies can Prevent Polarisation**
(Victor D Norman; hosted by Studieföbundet Näringsliv och Samhälle (SNS), Stockholm)
- 11 April 2000 **One Money, Many Countries. Monitoring the European Central Bank (MECB) No. 2**
(Xavier Freixas; hosted by Banco Pastor, Madrid)
- 14 April 2000 **Integration and the Regions of Europe**
(Paul Seabright; London)
- 23 May 2000 **One Money, Many Countries: Monitoring the European Central Bank**
(Carlo Favero; with MPS Finance Banca Mobiliare SpA and Università Bocconi, Milano)
- 08 June 2000 **Integration and the Regions of Europe**
(Paul Seabright; hosted by ECARES, Université Libre de Bruxelles, ECARES)
- 29 June 2000 **The Geography of Equity Listing: Why Do European Companies List Abroad?**
(Marco Pagano; London)
- 06 October 2000 **How Much will European Trade Grow because of EMU?**
(Andrew K Rose; London)
- 12 October 2000 **Ireland in EMU: Straitjacket or Skateboard?**
(Patrick Honohan; supported by Allied Irish Bank, London)
- 22 November 2000 **The Open Market Operations of the European Central Bank**
(Rafael Repullo; London)
- 07 December 2000 **In the Beginning - The Early Life of New Markets**
(Paul A Geroski)
- 18 January 2001 **The Outlook for the Euro and the Dollar**
(C Fred Bergsten and Richard Portes; London)
- 25 January 2001 **The Euro: A Watershed for Portfolio Investors?**
(Laura Bottazzi and Jean-Pierre Danthine; London)
- 25 January 2001 **Russia's Recovery from the Financial Crisis: A Windfall or a More Permanent Cure?**
(Dalia Marin; hosted by ECARES, Université Libre de Bruxelles)
- 13 February 2001 **Must Europe Harmonize Taxes?**
(Richard Baldwin; London)
- 20 March 2001 **The Geography of Equity Listing: Why do European Companies List Abroad?**
(Marco Pagano; with Banque de France, Paris)

Accounts

April 2000–March 2001

Legal & Administrative Information

Directors and Trustees

Guillermo de la Dehesa
Quentin Davies
Bernard Dewe Mathews
Francesco Giavazzi
Hans De Gier (*appointed 14 July 2000*)

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Report of the Trustees

The Trustees have pleasure in presenting their report and financial statements for the year ended 31st March 2001.

The Centre for Economic Policy Research is a registered charity (No. 287287). It is also a company registered in England (No. 1727026) and limited by guarantee. The activities of the Centre are governed by its Memorandum and Articles of Association and the Trustees of the charity are elected by the company law members.

The Centre's Memorandum of Association provides that the Centre is not permitted to attempt to influence legislation by propaganda or otherwise, and is not permitted to participate directly or indirectly or intervene in any political campaign on behalf of, or in opposition to, any candidate for public office.

Objects of the Charity

The Centre for Economic Policy Research was established in 1983 to 'promote and advance education for the public benefit in the efficient functioning of the national and international economy by conducting and promoting studies and research into open economies and the relations between them'. The Centre aims to be pluralist and non-partisan, and promotes independent, objective analysis and public discussion of open economies and the relations among them, bringing economic and social research to bear on the analysis of medium and long term policy questions.

Policies Adopted to Further the Objects

In order to advance these objectives the Centre has established a network of researchers based widely, mainly throughout Europe, who collaborate through the Centre in research and its dissemination. The Centre has over 550 Research Fellows, Affiliates and Associates, based in approximately 250 different institutions in 27 countries. These researches carry out research in areas ranging from open economy macroeconomics to economic history and demography, with particular emphasis currently on all aspects of European integration.

The Centre provides common services for its network of researchers and for the users of its research, and it obtains funding for the activities it develops. In particular, the Centre undertakes the following activities:

- Development of projects and obtaining funding for them, both in the UK and abroad;
- Administration and execution of projects once funding has been obtained for them, and reporting to the donors on the activities undertaken and expenditures incurred under the projects;
- Dissemination of the results of the research to a wide audience in the private sector and the research and policy communities.

There has been no change in these policies during the current financial year.

Organization

The Trustees appoint an Executive Committee, which meets periodically to provide advice on management and policy issues.

The Trustees also appoint the President of the Centre, who has responsibility for external representation of the Centre, is involved in major strategic decisions and policies and acts as chairman of the Appointments Committee discussed below. Reporting to the President is a Chief Executive Officer, responsible for overall CEPR policy and administration, who is Chairman of the Centre's Management Committee, and a Research Director, responsible for the development of the Centre's research programme and for maintaining the scientific quality of the Centre's research.

At the end of the 2000-01 financial year, the Centre employed 25 full-time staff at its offices in London; these staff provide the services described above to the research network and to the users of the Centre's research. The research carried out by the Centre falls within seven programme areas:

- Financial Economics
- Industrial Organization
- International Macroeconomics
- International Trade
- Labour Economics
- Public Policy
- Transition Economics

An Appointments Committee, comprising the President, Chief Executive Officer and Research Director, appoints one or more Programme Directors in each of these programme areas in order to advise them on the content of the programme's research agenda and the appointment of new researchers. The Trustees appoint a Scientific Advisory Committee, which is responsible for evaluating and reporting to the Trustees on the quality of the research carried out in each programme area.

Development, Activities and Achievements during 2000-01

The Centre organizes workshops and conferences so that its researchers may meet with fellow researchers (and users of the research) in order to discuss and compare research findings. During the period from 1st April 2000 to 31st March 2001 the Centre's meetings staff organized 52 conferences and research workshops. The Centre also distributes the results of this research in the first instance through its Discussion Paper series. These Discussion Papers are circulated widely to specialists in the research and policy communities and the private sector so that the results of the research receive prompt and thorough professional scrutiny. During 2000-01 the Centre published 343 CEPR Discussion Papers. The key results in each Discussion Paper are also reported in the quarterly *Bulletin*, which is circulated to over 8,000 members of the research and policy communities.

Dissemination also takes place through other CEPR publications and through meetings. Highlights of the Centre's research are disseminated through the Centre's bi-monthly newsletter, *European Economic Perspectives*, which is distributed to over 14,000 individuals in the private sector and the policy community.

In 2000-01 CEPR produced two conference volumes, four Reports, two Policy Papers and one journal special issue. Research results were presented at public meetings, including 3 lunchtime briefings (held in London) and 13 lunchtime meetings held in Brussels, London, Paris and Stockholm. In addition the Centre organized two meetings of its Economic Policy Roundtable, in Paris and Stockholm. The semi-annual Roundtables bring together members of the Centre's network of researchers with decision makers from the private sector and the policy community to address the issues on the agenda of each European Council meeting.

Research results were also presented to the media at four press dinners.

Since 1995, the Centre has organized public discussion meetings in Stockholm jointly with SNS. The Centre agreed during 1995-96 to deepen and intensify this collaboration by increasing the number of public discussion meetings to be held in Stockholm and by launching collaborative research projects on issues of common concern.

The Financial Position

At 31st March 2001 the Centre held funds totalling £171,324. Of this, £9,775 represented funds donated for specific projects, with the remaining £161,549 being available to support the general activities of the Centre. During the year there has been a net increase in the total funds of £1,707, which comprised a decrease in restricted funds of £16,037 and an increase in general funds of £17,744.

Reserves Policy

The Centre plans to build up unrestricted reserves to a level sufficient to fund three to six months' core expenditure. This target should be achieved by 2003.

Changes in Trustees

Hans de Gier was appointed a trustee on 14 July 2000. There were no other changes in the year.

Trustees' Responsibilities

Company law requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the affairs of the Company and of the net incoming resources of the Company for that period. In preparing those financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Kingston Smith have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

Small Company Rules

These accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities.

On behalf of the Trustees



Guillermo de la Dehesa
Chair

90-98 Goswell Road, London EC1V 7RR, UK
Date: 26th July 2001

Auditor's Report

to the Members of the Centre for Economic Policy Research for the year ended 31st March 2001

We have audited the financial statements of the Centre for Economic Policy Research for the year ended 31st March 2001 which comprise the Statement of Financial Activities, the Balance Sheet and the related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein.

Respective Responsibilities of Trustees and Auditors

As described in the Statement of Trustees' Responsibilities, the charity's trustees are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Trustees' Report is not consistent with the financial statements, if the charity has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding trustees' remuneration and transactions with the charity is not complied with.

We read the Trustees' report and consider the implications for our report if we become aware of any apparent mis-statements within it.

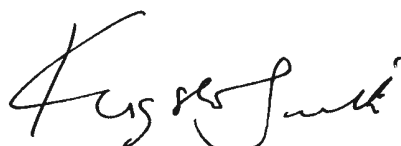
Basis of Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the charity's affairs as at 31st March 2001 and of the incoming resources and application of resources, including its income and expenditure, in the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KINGSTON SMITH

Chartered Accountants and Registered Auditors
Devonshire House, 60 Goswell Road, London EC1M 7AD, UK

Date: 14 July 2000

Statement of Financial Activities

for the year ended 31st March 2001

Income and Expenditure	Note	Unrestricted Funds	Restricted Funds	Total 2001	Total 2000
		£	£	£	£
Incoming Resources					
Income from donors	3	685,802	1,528,242	2,214,044	1,438,900
Income from publications sales		357,763	-	357,763	386,108
Bank interest receivable		7,984	-	7,984	3,793
Other income		975	-	975	-
Total Incoming Resources		1,052,524	1,528,242	2,580,766	1,828,801
Resources Expended					
Direct charitable expenditure:					
Research and dissemination		822,776	1,625,595	2,448,371	2,077,178
Other expenditure:					
Fundraising and publicity		100,293	-	100,293	107,944
Management and administration		30,395	-	30,395	34,158
Total Resources Expended	4	953,464	1,625,595	2,579,059	2,219,280
Net Movement in Funds before transfers		99,060	(97,353)	1,707	(390,479)
Transfer between Funds		(81,316)	81,316	-	-
Net Movements in Funds after transfers		17,744	(16,037)	1,707	(390,479)
Balance brought forward at 1st April 2000		143,805	25,812	169,617	560,096
Balance carried forward at 31st March 2001	11	161,549	9,775	171,324	169,617

Continuing Operations

None of the company's activities were acquired or discontinued during the above two financial years.

Statement of Total Recognised Gains and Losses

The company has no recognised gains or losses other than the surplus for the year.

Balance Sheet

at 31st March 2001

	Note	2001 £	2001 £	2000 £	2000 £
Fixed Assets					
Tangible	8		80,587		92,167
Current Assets					
Debtors	9	395,014		415,345	
Cash at bank and in hand		248,411		120,567	
		<u>643,425</u>		<u>535,912</u>	
Creditors: Amounts falling due within one year	10	<u>(552,688)</u>		<u>(458,462)</u>	
Net Current Assets			<u>90,737</u>		<u>77,450</u>
Total Assets less Current Liabilities			<u>171,324</u>		<u>169,617</u>
Net Assets			<u><u>171,324</u></u>		<u><u>169,617</u></u>
Funds					
Unrestricted	11		161,549		143,805
Restricted	11		9,775		25,812
			<u>171,324</u>		<u>169,617</u>

These accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities.

Approved by the Board of Directors on 26th July 2001
and signed on its behalf by:

Guillermo de la Dehesa



Bernard Dewe Mathews



Notes to the Accounts

for the year ended 31st March 2001

1. Status

The Centre for Economic Policy Research is a non profit-making company limited by guarantee incorporated on 26th May 1983 and is registered as a charity (No. 287287). The liability of each member is restricted to one pound.

2. Accounting Policies

Accounting Convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards and the Statement of Recommended Practice: Accounting by Charities.

Leased Assets

Assets held under lease arrangements that transfer substantially all the risks and rewards of ownership to the company are capitalized. The capital element of the related rental obligations is included in creditors. The interest element of the rental obligations is charged to the Statement of Financial Activities so as to produce a constant periodic rate of charge. Rentals in respect of all other leases are charged to the Statement of Financial Activities.

Depreciation

Depreciation is provided on all tangible fixed assets at rates which will write off the cost of each asset evenly over its expected useful life as follows:

Office furniture and equipment	20%
Computer equipment	33%
Improvements to leasehold premises	Duration of Lease

Incoming Resources

Restricted income and income from donors is recognized in the period in which it becomes due. Income from subscription publication sales is accounted for on an accruals basis. Any unexpired subscriptions are deferred to future accounting periods.

Grants for general funding are spread evenly over the period which they are intended to finance.

Resources Expended

Expenditure is accounted for on the accruals basis and allocated within the Statement of Financial Activities to one of the the following headings.

Research and Dissemination

The direct costs of research undertaken, and the dissemination of that research through meetings and publications, and the proportion of the overheads of CEPR required to support those activities.

Fundraising

The direct costs of fundraising activities and the proportion of the overheads of CEPR required to support them.

Management and Administration

The costs of those activities necessary to the running of CEPR as an organization not directly attributable to Research and Dissemination or to Fundraising.

Foreign Exchange

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

All differences are taken to the Statement of Financial Activities.

Investment Income

Interest is accounted for on a receivable basis.

Pensions

The Centre makes contributions to the pensions of staff members based on qualifying periods of service.

Funds policy

All income and expenditure related to project based activities is treated as restricted funds. All other income and expenditure is deemed to be unrestricted.

3. Income from Donors

	2001	2001	2000	2000
	Unrestricted	Restricted	Unrestricted	Restricted
	Funds	Funds	Funds	Funds
	£	£	£	£
Income from Donors	685,802	1,528,242	637,735	801,165

4. Analysis of Total Resources Expended

	Staff	Other	Depreciation	Total
	£	£	£	£
Direct charitable expenditure:				
Research and dissemination	984,192	1,426,600	37,579	2,448,371
Other expenditure:				
Fundraising	62,178	35,122	2,993	100,293
Administration	22,928	6,007	1,460	30,395
	<u>1,069,298</u>	<u>1,467,729</u>	<u>42,032</u>	<u>2,579,059</u>

5. Salaries and Consultancy Fees

	2001	2000
	£	£
Salaries and related costs	617,718	624,025
Social security costs	50,398	57,840
Other pension costs	27,385	23,885
	<u>695,501</u>	<u>705,750</u>
Consultancy fees and salary costs of project-related staff	373,797	345,800
	<u>1,069,298</u>	<u>1,051,550</u>

The average monthly number of employees, excluding the directors, of the Centre during the year was 24 (2000 – 25).

The Centre paid a fee to Professor Richard Portes, and also paid London Business School a portion of the salary and associated charges of Professor Portes, in respect of his part-time secondment as President of the Centre. The total cost to the Centre for the year amounted to £20,450 (2000 – £12,822).

The Centre had one employee who was paid between £40,000 to £50,000 and one between £50,000 and £60,000.

Trustees received no remuneration. Travel expenses of £180 were reimbursed to one trustee (2000) £1,075 reimbursed to two trustees.

6. Pension Costs

The Centre contributes to the personal pension schemes of 12 members of staff. The pension cost charge represents contributions payable by the Centre to the schemes and amounted to £27,385 (2000 – £23,885). Arrears of contributions at the year end amounted to £8,873 (2000 – £4,242).

7. Net Movement in Funds

	2001 £	2000 £
This is stated after charging:		
Audit fees	4,100	4,100
Depreciation - owned tangible fixed assets	42,032	27,825
- assets held under finance leases and hire purchase contracts	-	3,856
Operating leases rentals	97,977	97,499
	<u>144,109</u>	<u>133,280</u>

8. Tangible Fixed Assets

	Leasehold Improvements £	Computer Equipment £	Office Furniture & Equipment £	Total £
Cost				
At 1st April 2000	45,154	89,916	48,689	183,759
Additions	-	17,239	13,213	30,452
Disposals	-	-	-	-
At 31st March 2001	<u>45,154</u>	<u>107,155</u>	<u>61,902</u>	<u>214,211</u>
Depreciation				
At 1st April 2000	9,099	60,769	21,724	91,592
Charge for the year	4,807	26,599	10,626	42,032
Disposals	-	-	-	-
At 31st March 2001	<u>13,906</u>	<u>87,368</u>	<u>32,350</u>	<u>133,624</u>
Net Book Value				
At 31st March 2001	<u>31,248</u>	<u>19,787</u>	<u>29,552</u>	<u>80,587</u>
At 31st March 2000	<u>36,055</u>	<u>29,147</u>	<u>26,965</u>	<u>92,167</u>

All fixed assets are for use by the charity.

Included within the net book value of office furniture and equipment is an amount totalling £NIL (2000: £11,567) relating to assets held under finance leases and hire purchase contracts.

9. Debtors

	2001	2000
	£	£
Trade debtors	5,154	13,067
Prepayments and accrued income	101,556	119,523
Special project debtors	143,110	50,129
Core income debtors	139,216	168,406
Other debtors	5,978	64,220
	<u>395,014</u>	<u>415,345</u>

10. Creditors: Amounts falling due within one year

	2001	2000
	£	£
Trade creditors	186,353	134,846
Taxes and social security costs	13,447	16,480
Other creditors	67,546	67,546
Accruals and deferred income	285,342	233,896
Obligations under finance leases and hire purchase contracts	-	5,714
	<u>552,688</u>	<u>458,482</u>

11. Analysis of Net Assets between Funds

	Tangible Fixed Assets	Net Current Assets	Total
	£	£	£
Restricted funds	-	9,775	9,775
Unrestricted funds	<u>80,587</u>	<u>80,962</u>	<u>161,549</u>
	<u>80,587</u>	<u>90,737</u>	<u>171,324</u>

12. Restricted Funds

Restricted funds comprise funds donated towards the cost of specific economic research projects which are used to finance research, meetings and publications. These projects are classified into one of CEPR's seven Programme Areas (International Macroeconomics; International Trade; Public Policy; Labour Economics; Industrial Organization; Financial Economics and Transition Economics). In the 2000-01 financial year approximately 111 such projects were in progress. Any amounts not spent by the year end are carried forward. The movement in these funds is shown in the Statement of Financial Activities on page 63.

13. Financial Commitments

Operating Leases

The Centre has annual financial commitments in respect of non-cancellable operating leases as follows:

	2001 £	2000 £
Leases expiring:		
Within one year		
Office equipment	-	4,257
In the second to fifth years inclusive		
Office equipment	2,136	2,243
More than five years		
Premises	91,477	90,943
	<u>93,613</u>	<u>97,443</u>

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CEPR gratefully acknowledges the financial support provided by the following organizations:

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