
William Davidson Institute Research Update

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1. WDI forecast highlighted in EBRD report

The Davidson Institute Emerging Market Forecasts (DIEMF) is a new project led by Jan Svejnar, Jan Kmenta and Juriy Gorodnichenko. The distinguishing feature of our forecasts is that they are based on quarterly data and generated quarterly, in addition to the usual annual, forecasts. As such, the DIEMF provides more timely indicators of change in economic performance. Each of our forecasting models is tailored to a particular country to predict accurate economic indicators: GDP, inflation, money supply (M2), exchange rate, and unemployment rate. Each model is a synthesis of carefully collected data sets, various time series modeling approaches and expert input. WDI will initially provide the quarterly and annual forecasts for the Czech Republic, Hungary, Poland, Russia, Slovak Republic, Slovenia and Ukraine.

The DIEMF are already being recognized as an excellent resource and are used by many business and policy leaders. As such, the DIEMF are featured in the 2002 EBRD Transition Report along with forecasts from other major data providers such as the IMF, OECD and EIU. The link to the DIEMF website will be available in the next month's edition of the WDI Research Update.

2. Calls for Papers

WDI/Upjohn Institute/IZA sponsored Research Conference on Microeconomic Analyses of Labor Reallocation; August 21-23, 2003 in Kalamazoo, MI. Please submit paper proposals (preferable as electronic PDF files) to Joanne Lowery at lowery@upjohn.org by April 15, 2003. Either full papers or abstracts may be submitted, but the former will be given priority, and accepted papers in final form must be sent to discussants by August 1. Notification of acceptance will be given by May 15, 2003. More information is available at

http://www.wdi.bus.umich.edu/events/Microeconomic_Analyses_Labor_Relocation_Call_for_papers.doc

WDI/ZEI Political Economy of Transition: Job Creation and Job Destruction; 14-17 August 2003 in at the Center for European Integration Studies (ZEI) in Bonn Germany. Please submit an extended abstract of approximately 500 words by email to Jan Fidrmuc (jfidrmuc@uni-bonn.de). You may also submit a complete paper in addition to the extended abstract. The deadline for the receipt of abstracts is 28 February 2003. The authors of selected papers will be notified by 15 April, 2003. Finished papers will be due by 1 August 2003. More information is available at http://www.wdi.bus.umich.edu/events/CallForPapers_Political_Economy_of_Transition.doc

3. Upcoming Conferences

Trust, Institutions, and Globalization: The final part of this two-part conference, sponsored by the William Davidson Institute and Aspen's Initiative for Social Innovation through Business, and led by Bernard Yeung, WDI Area Director for Foreign Investment and Professor of International Business at New York University, will be held in Aspen, Colorado March 14-16. It will again focus on identifiable trust exhibited in managerial behavior, including corporate governance, employer-employee relationships, and firm-to-firm behavior (with competitor firms, with suppliers, and customer firms). More information is available at <http://www.wdi.bus.umich.edu/events/>

Share Price Accuracy and Transition Economies: WDI and the University of Michigan Law School will be sponsoring this conference in Ann Arbor, MI, May 9-11. The conference, led by WDI Area Directors Michael Heller, Merritt Fox and Bernard Yeung, will focus on recent studies that suggest that share price accuracy promotes growth, and if so, the mechanisms that link the two. It will also look at factors, such as the regulation of corporate insider behavior, that determine share price accuracy. These factors are extremely important for equity markets in transition economies which are largely marked by low share price accuracy and high volatility. More information is available at <http://www.wdi.bus.umich.edu/events/>

4. Madeleine Albright to visit WDI in March

WDI is looking forward to a visit by our distinguished scholar, Madeleine Albright, to Ann Arbor, March 19- 21. Although the schedule is still tentative, plans include a forum on Iraq and North Korea, moderated by Kenneth Lieberthal. It is sure to be an interesting and timely event.

4. Welcome Janez Prasnika and Alexander Dyck to WDI this month

Janez Prasnikar, Professor of Economics at the University of Ljubljana and WDI research fellow, is visiting WDI February 10-16. He will be presenting a lecture to a MBA class on Transition Economics and will work on individual research. We are happy to have Janez with us!

Alexander Dyck, Associate Professor of Business Administration at the Harvard Business School visited WDI on February 6. He presented a talk as part of our Comparative Economic Development Seminar (CEDS) Series entitled *Private Benefits of Control: An International Comparison*. The paper is available at <http://www.wdi.bus.umich.edu/events/ceds.htm>

If you would be interested in presenting a paper as part of CEDS series or visit WDI for another purpose please contact Kelly Janiga at janigak@umich.edu.

----- **5. Aspen ISIB Social Innovation through Business Faculty Award** -----

The Aspen Institute's Initiative for Social Innovation through Business (Aspen ISIB) and World Resources Institute (WRI) invite nominations for our 2003 Faculty Pioneer Awards. The Beyond Grey Pinstripes report highlights the most innovative MBA programs and exceptional faculty who are infusing environmental and social impact management into the business school curriculum. To find out more about the 2001 Faculty Pioneers, please visit http://www.beyondgreypinstripes.org/faculty_pioneer_interviews.html

If you would like to submit a nomination for a Faculty Pioneer Award this year, or to learn more about the Faculty Pioneer Award selection process, please visit <http://www.beyondgreypinstripes.org/nominatepioneer.html>. The submission deadline for nominations is February 18, 2003.

----- **6. Please send us published copies of your WDI Working Papers** -----

Please send us **published copies of your working papers which have appeared in the Davidson Institute Working Paper Series**. We would like to display them at some of our events, including the upcoming eighth annual Conference on Transition to be held in Budapest. We would greatly appreciate it if you could send us copies or bring them along with you when you come to visit!

----- **7. New Working Papers** -----

No. 522: Wages and International Rent Sharing in Multinational Firms
John W. Budd, Jozef Konings and Matthew J. Slaughter
<http://eres.bus.umich.edu/docs/workpap-dav/wp522.pdf>

No. 521: Gross Job Flows in Ukraine: Size, Ownership and Trade Effects

Jozef Konings, Olga Kupets and Hartmut Lehmann

<http://eres.bus.umich.edu/docs/workpap-dav/wp521.pdf>

No. 520: Entrepreneurial Networking in China and Russia: Comparative Analysis and Implications for Western Executives

Bat Batjargal

<http://eres.bus.umich.edu/docs/workpap-dav/wp520.pdf>

No. 519: Agriculture and Income Distribution in Rural Vietnam under Economic Reforms: A Tale of Two Regions

Dwayne Benjamin and Loren Brandt

<http://eres.bus.umich.edu/docs/workpap-dav/wp519.pdf>

No. 518: Property Rights, Labour Markets, and Efficiency in a Transition Economy: The Case of Rural China

Dwayne Benjamin and Loren Brandt

<http://eres.bus.umich.edu/docs/workpap-dav/wp518.pdf>

No. 517: Bank Discrimination in Transition Economies: Ideology, Information or Incentives?

Loren Brandt and Hongbin Li

<http://eres.bus.umich.edu/docs/workpap-dav/wp517.pdf>

No. 516: Ex-ante Evaluation of Conditional Cash Transfer Programs: The Case of Bolsa Escola

François Bourguignon, Francisco H. G. Ferreira and Phillippe G. Leite

<http://eres.bus.umich.edu/docs/workpap-dav/wp516.pdf>

No. 515: Missed Expectations: The Argentine Convertibility

Sebastian Galiani, Daniel Heymann and Mariano Tommasi

<http://eres.bus.umich.edu/docs/workpap-dav/wp515.pdf>

Abstracts of Recent Working Papers

No. 522: Wages and International Rent Sharing in Multinational Firms

John W. Budd, Jozef Konings and Matthew J. Slaughter

We use a unique firm-level panel data set of multinational parents and their foreign affiliates to analyze whether profits are shared across borders within multinational firms. Using both fixed-effects and generalized method-of-moments estimators, affiliate wage levels are estimated to respond to both affiliate and parent profitability. The elasticity of affiliate wages to parent profits per worker is approximately 0.03, which can explain over 20 percent of the observed variation in affiliate wages. These results reveal a previously ignored aspect of labor-market rent sharing. They also reveal an important micro-level linkage with potential macro-level implications. International rent sharing can transmit economic conditions across national borders, and can thereby provide an implicit cross-country risk-sharing mechanism.

No. 521: Gross Job Flows in Ukraine: Size, Ownership and Trade Effects

Jozef Konings, Olga Kupets and Hartmut Lehmann

This paper documents and analyses gross job flows and their determinants in Ukraine using a unique data set of more than 2200 Ukrainian firms operating in both the manufacturing and the non-manufacturing sector for the years 1998-2000. There are several important findings in the paper. Job destruction is dominating job creation in both 1999 and 2000. In connection with other evidence we infer from this that Ukraine is only at the beginning of the restructuring process. The most clear-cut result of our analysis is the strong positive effect of new private firms on net employment growth, a finding established for other transition economies as well. At the same time, we do not find differences in the employment growth of state-owned and privatised firms. Apart from ownership effects we also find, at the firm level, an inverse correlation of size and net employment growth and of size and job reallocation. Finally, we establish that strong foreign trade links force firms to shed labour more aggressively and to engage in more restructuring when trade is directed to and originating from Western economies. This disciplining function is absent when the trade flows are confined to CIS countries.

No. 520: Entrepreneurial Networking in China and Russia: Comparative Analysis and Implications for Western Executives

Bat Batjargal

In this article, I compare personal networks of Chinese and Russian entrepreneurs in terms of network structure, relationships and resources accessed in networks. The Chinese data is composed of longitudinal phone interviews with 94 Internet entrepreneurs in Beijing, and the Russian data is comprised of longitudinal face-to-face interviews with 75 entrepreneurs in Moscow, Ekaterinburg and Petrozavodsk. Implications for Western executives are discussed.

No. 519: Agriculture and Income Distribution in Rural Vietnam under Economic Reforms: A Tale of Two Regions

Dwayne Benjamin and Loren Brandt

This paper exploits the panel dimension of the Vietnam Living Standards Survey (VLSS) in order to analyze the main changes occurring in agriculture in Vietnam over the period 1993- 1998. This period was marked by a continuation of the reforms that began in 1988 with the implementation of Resolution 10, Vietnam's own version of the Chinese Household Responsibility System. We focus on the impact of two main policy changes: first, the increase in the rice export quota and the significant increase in the price of rice, especially in the south; second, liberalization of the fertilizer market and the sharp drop in the price of fertilizer. To this end, we document changes in the empirically observable "institutional environment," exploring changes in rice and other crop prices as well as fertilizer prices. With this as background, we explore changes in rice production, consumption and marketing, and their links to changes in prices and incomes. We also estimate the degree to which these increases can be "explained" by increased use of inputs like fertilizer, cropping intensity, and increased yields. Finally, we investigate the distributional impacts of these changes, including a detailed examination of the linkages between rice marketing and income distribution using nonparametric econometric techniques. We find that the agricultural reforms had a largely beneficial impact on the well being of rural households throughout Vietnam, but that farmers in the south gained most, consistent with expectations given the policy changes. More generally, our conclusions suggest that market

reforms can have a significant impact on incentives, without adverse consequences for income distribution.

No. 518: Property Rights, Labour Markets, and Efficiency in a Transition Economy: The Case of Rural China

Dwayne Benjamin and Loren Brandt

This paper investigates the consequences of imperfect and uneven factor market development for farm efficiency in rural China during transition. In particular, we estimate the extent to which an inverse relationship in farm productivity can be attributed to the administrative (instead of market) allocation of land, and the extent of unevenly developed non-agricultural opportunities. Using a recently collected household survey, we show that a considerable amount of inefficiency exists in the countryside, especially in the employment of labour. Our results show that this inefficiency is alleviated by the development of external labour markets, and that in the context of the current imperfect market environment, administrative reallocations help improve on the margin both efficiency and equity. They do not go far enough, however, which raises important questions about constraints on rental activity, the link between administrative reallocation and decentralized land exchange, and property rights formation more generally.

No. 517: Bank Discrimination in Transition Economies: Ideology, Information or Incentives?

Loren Brandt and Hongbin Li

We study bank discrimination against private firms in transition countries. Theoretically, we show that banks may discriminate for non-profit reasons, but this discrimination diminishes with a bank's incentives and human capital. Employing matching bank-firm data from China, we empirically examine the extent, sources and consequences of discrimination. Our unique survey design allows us to disentangle sample truncation, omitted variable bias, and endogeneity issues. Our empirical findings confirm the theoretical predictions. We also find that as a result of discrimination, private firms resort to more expensive trade credits.

No. 516: Ex-ante Evaluation of Conditional Cash Transfer Programs: The Case of Bolsa Escola

François Bourguignon, Francisco H. G. Ferreira and Phillippe G. Leite

Cash transfers targeted to poor people, but conditional on some behavior on their part, such as school attendance or regular visits to health care facilities, are being adopted in a growing number of developing countries. Even where ex-post impact evaluations have been conducted, a number of policy-relevant counterfactual questions have remained unanswered. These are questions about the potential impact of changes in program design, such as benefit levels or the choice of the means-test, on both the current welfare and the behavioral response of household members. This paper proposes a method to simulate the effects of those alternative program designs on welfare and behavior, based on micro-econometrically estimated models of household behavior. In an application to Brazil's recently introduced federal Bolsa Escola program, we find a surprisingly strong effect of the conditionality on school attendance, but a muted impact of the transfers on the reduction of current poverty and inequality levels.

No. 515: Missed Expectations: The Argentine Convertibility

Sebastian Galiani, Daniel Heymann and Mariano Tommasi

This paper studies the process that led to the Argentine crisis. The crisis is understood as a major disappointment of previous expectations, indicated by widespread insolvencies and abrupt declines in consumption. The analysis concentrates on the sequence of public and private decisions, and the varying perceptions and policy incentives that motivated them. In the nineties Argentina searched for a new growth trend. During much of the period, the behavior of agents seemed to be based on the anticipation that current and future incomes could sustain a value of domestic spending much higher than in the past. The government was motivated to reinforce those expectations, for signaling and political economy reasons. The convertibility monetary regime not only provided a very visible nominal anchor, but also operated as a basic framework for financial contracts, mostly denominated in dollars. Dollar contracting implicitly presumed that the dollar value of incomes would support the servicing of debts. Despite precautionary measures, the reliance on the sustainability of the real exchange rate increased over time. In the late nineties exports stopped rising and the foreign supply of credit tightened. Facing these constraints, the economy contracted and the solvency of the government was put into question. The financial system was vulnerable both in the event of devaluation and that of a (large) deflation-cum-adjustment. As was implicit in its design and management, convertibility proved to have very large exit costs.