

Excellent Evaluation of ZEW

Every seven years at the latest Leibniz institutions are subjected to rigorous external evaluation. In September 2009 ZEW was put to test. An independent evaluation committee visited the institute and judged the scientific quality of ZEW's work based on interviews and discussions with the institute's staff, institute's data and documents. By now the evaluation results are released: ZEW's scientific work, its mentorship programmes for doctoral candidates as well as its political advisory expertise and its knowledge transfer to the public received excellent marks.



Doctoral education at ZEW was found to be outstanding.

The Senate of the Leibniz Association (WGL) stated in its evaluation report that ZEW is an extremely successful institute for applied empirical economic research, and it enjoys a promising future. The Institute is highly visible both nationally and internationally, and is one of the leading economic research institutes in Germany. In addition, the Senate noted, ZEW has set scientific standards for economic policy advice in Germany. Therefore, the Senate of the Leibniz Association has recommended that the German federal government and states continue to support the Institute's work. In making this recommendation, the Senate cited ZEW's significance for economic policy forma-

tion and debate both nationally and across Europe.

The Senate of the Leibniz Association highlighted the successful integration of research, economic policy advice, and the training of young researchers as a particularly laudable hallmark of ZEW's work. According to the Senate, ZEW doesn't just employ an extremely large number of doctoral candidates – the training of these candidates is also very successful. ZEW's guiding mission to study the "optimal performance of markets and institutions in Europe" is fulfilled in an impressive manner, the Senate concluded. The Institute's research also gives proper attention to markets and insti-

tutions at the European level. The Senate thus fully concurs with the findings of the group responsible for conducting the evaluation – namely, that the quality of research at ZEW is excellent. The Senate also praised in particular the important and extensive databases that are maintained at ZEW, including those of the ZEW Financial Market Test, European Tax Analyzer, Mannheim Innovation Panel, and KfW/ZEW Start-up Panel. The Institute's very successful knowledge transfer to the professional and lay public was also highlighted.

The Senate of the Leibniz Association evaluates its member institutions at least once every seven years. On the basis of the opinion provided by the Senate, the federal government and states are reviewing in their Joint Scientific Conference whether the preconditions for the joint subsidy of Leibniz institutions are still fulfilled.

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RESEARCH FINDINGS

Housing Finance in the European Union

The further harmonisation of the European market for housing finance faces substantial obstacles. It seems doubtful that there can be an EU-wide approach to regulation aimed at improving the operational efficiency of these markets. This is the central conclusion of a new report on housing finance in Europe prepared by ZEW in cooperation with the Cologne Institute for Economic Research and Prof. Johannes Köndgen of the University of Bonn on behalf of German building-society associations and the Association of German Pfandbrief Banks (vdp).

By employing a range of harmonisation measures, the EU Commission is seeking to promote the expansion of the European domestic market for financial services and housing finance. However, significant differences in residential construction financing still exist between the EU's national markets. Moreover, transborder domestic housing finance remains largely the exception within the EU. Against this backdrop, the study, titled "A European Internal Market for Housing Finance" (Ein europäischer Binnenmarkt für die Wohnungsbaufinanzierung), examines how additional harmonisation efforts should be appraised from an economic perspective and what obstacles may arise to a more integrated market in housing finance.

National Idiosyncrasies

The analysis focuses on seven markets considered representative of the EU as a whole: Denmark, Germany, France, the Netherlands, Poland, Spain and the UK. By comparing these individual markets and their special characteristics, it becomes clear that differences exist not only with respect to market products for housing finance or in market volume, but also in terms of the refinancing practices of credit providers. In addition, there are significant differences between these countries with regard to the taxation of financing costs, state subsidisation of residential property, as well as in the overall legal frameworks of national real estate markets.

Given that existing structures have developed within specific historical

contexts and because social demographics and societal factors often play a significant role that cannot be entirely accounted for through objective criteria, the interpretation of available empirical data is supplemented by interviews with experts in the field.

National Strengths and Weaknesses

It is clear that no single market can be considered superior to another. Each national system exhibits both strengths and weaknesses and the

ed for structural discrepancies and risk disparities differ from one another only marginally in absolute terms and so the potential for further rate alignments among the EU member states is rather limited.

No Broad Harmonisation Desirable

In summary it can be said that, owing to national particularities, specific historical contexts, political considerations shaping individual national structures, and national consumer protection laws, the complete harmonisation of EU-wide markets in housing finance is inadvisable.

In order to increase systemic competitiveness within national markets in housing finance, to spur EU-wide, transborder markets, and to avoid the negative consequences of broad harmoni-



Housing finance differs significantly between individual EU countries.

structures present in each should be viewed within the respective national context. Furthermore, economic analyses of national mortgage interest rates during the period 2003 to 2006 reveal that the degree of integration of the individual markets has not increased. On the other hand, the results also show that interest rates as adjust-

sation, it is instead recommended that an optional European legal instrument (a "euro-mortgage") be introduced parallel to existing national legal structures. Such a measure could be accompanied by efforts to improve access to credit registries.

*Prof. Dr. Felix Schindler, schindler@zew.de
Dr. Peter Westerheide, westerheide@zew.de*

RESEARCH FINDINGS

No Increase in Student Numbers from Introduction of Bachelor's Degree

The introduction of Bachelor's and Master's degree programmes has created a stir at German universities. Protest has been directed in particular at the condensed time frame of the programmes and the increased workload for the students that results as a consequence. One of the primary aims behind condensing the study curricula, however, has been to increase the number of students and thereby ease the existing shortage of trained professionals in Germany. The extent to which the Bologna reform process has been successful in attracting new students is the subject of a new study by ZEW.

The study (ZEW Discussion Paper No. 10-018) is based on representative data maintained by the German Federal Statistical Office and encompasses all currently enrolled university students in Germany. For the purpose of this empirical analysis, data were aggregated at the university departmental level and evaluated by academic discipline.

The study takes into account both the so-called STEM fields (science, technology, engineering and mathe-

sponds to the period from 1998 to 2006 during which Bachelor's programmes were being implemented.

First Results of the Reform Process

As the point in time for switching to the new degree programmes was left up to individual departments and since this process of transformation is ongoing, students included study could



The Bologna process has not drawn students into the lecture halls.

matics) – those areas most affected by shortages of trained personnel – as well as business studies, economics, and the humanities. Medical and legal studies, along with teacher certification programmes, were not included in the study, since these disciplines continue to conclude with a state civil service exam. The period under review corre-

choose between departments still offering the traditional program and those already offering Bachelor's degrees. The study should therefore be regarded as a provisional report on the first phase of the reform process. The empirical analyses undertaken at the departmental level examined variations in the number of first-year students af-

ter the adoption of a Bachelor's degree program. In addition, it also examined the dropout rate at the end of the first year of study.

No Additional Incentive to Pursue Higher Education

The results of the ZEW study show that, in most disciplines, there is no significant relationship between the Bologna process and the number of first-year admissions or the number of dropouts. Thus, while the reform process is still in an early phase, it appears to have had no effect in encouraging first-time enrolment. In fact, in certain fields of study – including electrical, mechanical, and industrial engineering, as well as in physics – the numbers of first-year students in departments in which Bachelor's degree programs have been adopted are significantly lower.

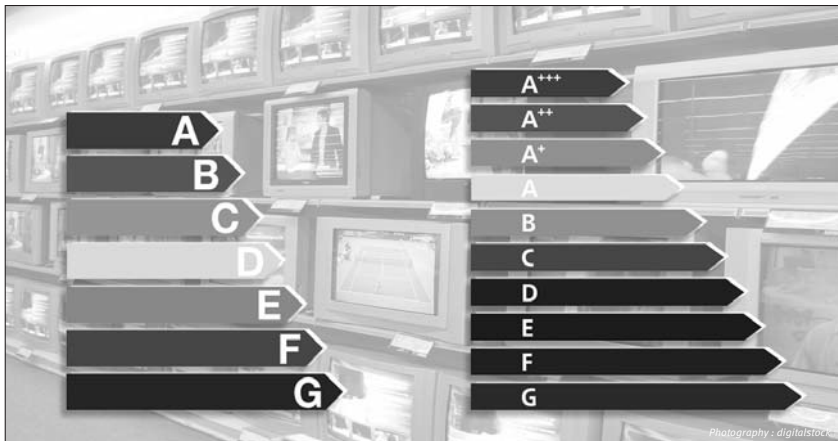
One possible interpretation of this trend is that students in these disciplines prefer the traditional "Diplom" degree programs because they are still held in high regard both nationally and internationally, particularly in the fields of engineering and the natural sciences. The current choice that students have between traditional programs and condensed programs will remain open only until the point at which all departments have converted to Bachelor's and Master's programmes. The long-term effects on first-year admissions and dropout rates, therefore, could diverge from the short-term results observed during the period of transition described in the study. Hence, as a next step we plan to integrate the 2007/2008 wave of the administrative data into the analysis in order to observe more departments awarding a Bachelor degree.

*Julia Horstschräer, horstschraeer@zew.de
Dr. Maresa Sprietsma, sprietsma@zew.de*

RESEARCH FINDINGS

EU Energy-efficiency Labelling Inhibits Sale of Energy-saving Appliances

The EU Commission is making a second attempt to introduce a new energy-efficiency label for electrical appliances. While the purpose of the label is to promote increased sales of power-saving household appliances, research indicates that the label is not effective in serving this goal. When appliances feature the new labelling, energy-efficiency tends to play a lesser role in consumer purchasing decisions and consumer's willingness to pay a premium for power-saving appliances. These are the findings of a study conducted by the University of St. Gallen as part of the research project SECO@home carried out under the auspices of ZEW.



New (right) and old (left) EU energy-efficiency labels.

The study is based on 2,244 consumer purchase decisions compiled by the Association of Consumer Research in Germany (GfK). In a computer-based simulation, test persons were given the choice of purchasing a series of different TV sets. The sets differed with respect to technical features, brand, price, and energy usage.

Different Test Groups

Subjects in the first test group were provided with information on energy usage based on the current standard energy-efficiency labels. These labels display energy efficiency categories A through G, with a dark red "G" indicating highest power usage and a dark green "A" designating the most energy-efficient appliance.

Subjects in the second test group were presented with the EU's proposed

energy-efficiency label, which supplements the efficiency categories A through D with the categories A+, A++, and A+++, whereby A+++ indicates the most efficient appliances.

Power Consumption Less Important

The results show that consumers who must choose between appliances bearing the new label attach less importance to power consumption in making their purchasing decisions than do consumers in the first test group. While price was the most important criteria in both groups (followed by energy-efficiency, technical options, and brand), the study results unmistakably demonstrate that for the group presented with the current labels, energy-consumption had a more than ten percentage point greater degree of influence on purchas-

ing decisions than it did in the group presented with the proposed labels. In the group shown the proposed labels, price had an eight percentage point greater degree of influence on the purchase decision than it did in the group shown the standard labels currently in use. The willingness of consumers to pay more for an energy-saving television was also greater among those in the first group than it was among those presented with the new labels. Consumers in the first group were willing to pay on average 133 euros more for a TV in energy-efficiency category A over one classified in category B. Consumers in the second group, on the other hand, were prepared to pay only 49 Euros more for a television in energy-efficiency category A+++ over one in category A++.

First Proposal also Counterproductive

These results correspond to large extent with the results of a study produced last year by the University of St. Gallen and ZEW that examined the first EU proposal for revised labelling. This proposal also envisioned the adoption of new, supplementary categories, which at that time were to be denoted as A-20%, A-40%, and A-60%. The European Commission withdrew the proposal and decided to propose the categories A+ to A+++ instead. The prior study demonstrated that the new categories watered down the effect of the labels and that consumers preferred the existing A to G system. The EU Commission then withdrew the proposed change in favour of the A+ through A+++ scale. The latest survey result now indicates that the European Commission's second proposal is not better than the first one.

Dr. Klaus Rennings, rennings@zew.de

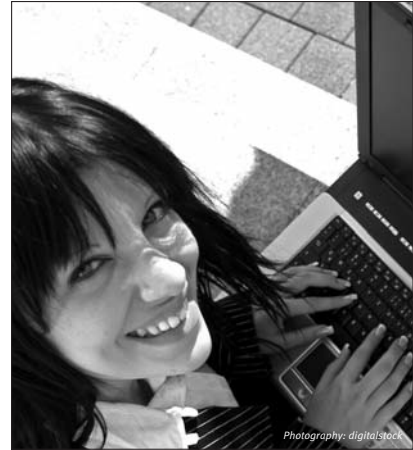
RESEARCH FINDINGS

Social Software Users More Innovative

The use of social software applications has been a topic of heated debate. Some claim that Wikis, blogs, and social networking sites distract employees from their responsibilities at work. Others consider social software as a significant driving force for corporate success. The latter point-of-view is substantiated by a study conducted by the Centre for European Economic Research (ZEW) in Mannheim, which indicates that service industry firms that use social software applications are more innovative than those that do not.

The study (ZEW Discussion Paper No. 09-046) is based on data from 505 information and communications service providers as well as knowledge-intensive professional service firms, including tax consulting, accounting, management consulting, and architectural firms, along with companies engaging in technical consultation, planning, research, and development as well as marketing. In the service sector, innovation consists of, among other things, product differentiation and the acquisition of new customer groups or mar-

ket segments. Since the knowledge that a company draws on serves as a significant source for innovation, it's precisely in this domain that the potential of Wikis, blogs, and social networks comes to the fore. Companies employ these applications primarily for knowledge management and for networking with customers and suppliers. Social software can improve a company's access to internal and external knowledge, thereby bolstering its innovation activities. Several ZEW studies conducted in 2009 show that a large num-



Companies often employ social software to network with customers and suppliers.

ber of service sector firms are insufficiently familiar with social software applications to employ them productively for the company's benefit.

Jenny Meyer, meyer@zew.de

POLITICO-ECONOMIC ANALYSIS

Living with Climate Change

The UN climate conference in Copenhagen demonstrated the difficulties associated with instituting globally binding CO₂ reduction targets. For this reason, adjusting to unavoidable changes in climate is all the more important. Yet how should Germany prepare itself for climate change? And when should the government intervene in the adjustment process?

Developing countries will be hit particularly hard by the negative effects of climate change – this much is beyond dispute. Yet many climate scientists believe that rising temperatures, the shifting of rainfall from summer to winter months, and periods of extreme weather will also lead to flooding and droughts in Germany. Consequently, Germany's federal government recently presented a strategy for adjusting to the effects of climate change. The declared goal of

the strategy is to “preserve and enhance the adaptability of natural, social, and economic systems”.

Provision of Public Goods

The key question for economists is when, if at all, the government should intervene in the adjustment of households and the economy to climate change. In many cases, intervention is not necessary – economic actors adapt

automatically to changed circumstances. This is known as “autonomous adjustment”, and occurs, for example, when farmers alter the time periods for sowing or harvesting crops, or planting new crop types. Yet other forms of adjustment, particularly those that are collective in nature, require government intervention. The need to provision public goods represents the most important justification for government-directed adjustment to climate change. One good example in this regard is the protection of coastal regions subject to flooding. The strengthening of dikes in some areas is required due to rising sea levels. Because markets have been shown to fail in the provisioning of

POLITICO-ECONOMIC ANALYSIS

dikes, however, government intervention is necessary. In many cases the government should strive to facilitate autonomous adjustment by providing information. Knowledge concerning anticipated climate change is essential for private actors such as farmers, property owners, and power plant operators to make informed decisions. Information can help actors adapt autonomously to the negative effects of climate change. It can be used, for example, to purchase insurance against crop losses or weather-related damage. Such private precautionary measures would reduce the need for government aid in the event of serious flooding or drought.

Clouds of Conflict on the Horizon

Issues related to the equitable distribution of burdens will likely play a role in government adjustment measures, as illustrated by the example of coastal flood protection. If measures to improve dikes are planned and carried out under considerations of efficiency, it may be necessary to leave some areas unprotected when the costs of building coastal defences are excessive. In such a case, legal conflicts are extremely probable, as the residents left unprotected, citing their right to equal treatment, would sue in order to have coastal defences constructed. The need for lawmakers to clearly define public rights to protection from flooding would therefore be unavoidable.

Energy, food, and drinking water are necessary for survival. Yet the economic sectors that provide these goods are among the most susceptible to the negative effects of climate change.



Climate change is often held responsible for crop damage.

Even when market failure does not occur in the provisioning of these private goods, governments regularly intervene in times of crisis in order to ensure all citizens have access to them. This intervention is predicated on the enormous negative effects to the economy and public welfare when an essential good is not available for any considerable period of time. Climate models for eastern Germany, for example, predict that summer rainfall quantities will drop considerably in the future. If bottlenecks develop in the supply of water due to long periods of drought, government intervention can be expected – for example, in the form of investment in infrastructure or the setting of an upper limit on prices.

Intervention Justified

Climate change sheds new light on old questions related to security of supply: Which goods are so essential as to justify government intervention to

ensure their supply? What is an acceptable level of security of supply – for example, in the case of drinking water? Government adjustment policy will have to find the right answers to these questions.

Germany's Adjustment Strategy

The German federal government has recognised that adjusting to climate change falls within the scope of its responsibilities. Yet a clear definition of the parameters for public and private action is still lacking. The German National Adaptation Strategy is rather vague and cautious regarding specific adaptation measures. Many of the questions posed above have not yet been addressed or answered. Policymakers require overarching economic guidelines that define the rules for government intervention and create the right incentives for necessary adjustment measures to be undertaken by private actors.

Daniel Osberghaus, osberghaus@zew.de

PROFESSIONAL TRAINING

ZEW runs its own continuing professional development area. The department makes the institute's practice-related research work available to experts and managers in business and institutions.

Expert Seminar in English:
25. – 27.10.2010
Recursive Methods and
Simulations in Macroeconomics,
 ZEW Mannheim

ZEW-Expert Seminars online:
www.zew.de/professionaltraining
 Contact: Vera Pauli,
 Phone +49 621/1235-240,
 E-Mail pauli@zew.de

INTERVIEW

Questions & Answers: Is a Weak Euro a Problem?

Budget Discipline Strengthens the Euro

The euro has come under intense pressure due to debt levels in several European countries. In recent weeks the euro has lost a great deal of value in relation to the U.S. dollar. Prof. Dr. Dr. h.c. mult. Wolfgang Franz, director of the research group "Growth and Business Cycles" at ZEW, speaks about the effects of a weakened euro on the German economy. He advocates strict budget consolidation efforts in euro countries in order to stabilise the common currency.

Is the depreciation of the euro a problem for the German economy?

There are winners and losers. Exporters who sell their products in dollars rather than euros have been profiting from the stronger dollar, at least for now. If the euro remains weaker for some time, this will boost exports to countries outside of the euro zone. Although 58 percent of German exports are to countries outside of the euro zone, the benefits of a weaker euro for economic growth should not be overestimated. The losers are importers who do not pay in euros. This impacts companies who purchase inputs outside of the euro zone, as well as consumers, who now have to pay higher prices for petrol and trips to the U.S. or Asia. To the extent that these consumers reduce their consumption of domestic goods, this will be a drag on the economy.

Who bears responsibility for the euro's recent depreciation?

Blame is often cast in the direction of "evil speculators", but this overlooks the key problem. Financial markets are merciless in exposing economic policy

mismanagement. Poor economic decisions are now being punished with increased risk premiums on bonds and a correction in the euro's exchange rate.

What should euro-zone countries do to stabilise the euro?

Member states must develop targeted and far-reaching programmes for the reduction of the dramatic increase in deficit levels and implement these programmes as soon as possible for numerous years into the future. The best course of action would be for members states to enact budget consolidation measures with defined deficit targets and automatic sanctions in the event these targets are not met. In this connection, the German Council of Economic Experts previously presented recommendations in its 2009–10 annual assessment.

The euro countries recently enacted a 750-billion-euro rescue package for over-indebted member states. Will this contribute to the recovery of the euro?

I can understand the arguments against the rescue package. The danger that the euro zone could turn into a fiscal transfer union should not be un-

derestimated. Germany is not in a position to support such a system, as we already have enough problems domestically with financial equalisation between our 16 states. Nevertheless, I am a reluctant advocate of the rescue package, as I view the risks associated with the alternatives as more significant than do the package's opponents. In light of the fact that the financial market crisis has not been fully resolved, a need to restructure the debt of the so-called PIGS countries (Portugal, Italian, Greece, and Spain) could potentially have triggered a crash of far worse severity than that witnessed in the wake of the Lehman Brothers bankruptcy. The operative word here is "potentially", however, as counterfactual scenarios are inherently speculative.

Furthermore, in the current financial crisis we learned that ultimately a large bailout package and guarantees – as opposed to a series of smaller measures – is necessary to calm markets. In Germany, for example, the situation was eased by the passage of the Financial Market Stabilisation Act, which created a large rescue fund, and not with the bailout of individual banks, such as Hypo Real Estate.

The ECB has greatly expanded the money supply during the financial and sovereign debt crises. Is the euro zone threatened by the potential for inflation in coming years?

At the present time I do not see a danger in this regard. From my perspective, the ECB has made credible assurances that it will drain excess liquidity from the system while pursuing a stabilising monetary policy through the purchase of government bonds. Nevertheless, the ECB will potentially have to resist political pressure to ease up on its key mission of preserving price stability.

*Prof. Dr. Dr. h.c. mult. Wolfgang Franz,
franz@zew.de
Kathrin Böhmer, boehmer@zew.de*



Photo: ZEW

Professor Dr. Dr. h.c. mult. Wolfgang Franz has been the President of ZEW since 1997 and is a professor of economics at the University of Mannheim. He also directs the research group "Growth and Business Cycles" at ZEW. His main fields of activity are macroeconomics, labour markets, and empirical economic research. Since 2003, Franz has once again been a member of the German Council of Economic Experts, which advises the German government on questions of economic policy. Since 2009, Franz has been the chairman of this body.

ZEW SUMMER WORKSHOP

Expectations and Expectation Formation in Financial Markets

On June 15 to 17, ZEW held its 12th annual “Summer Workshop for Young Economists”. This year, the ZEW research department of International Finance and Financial Management was responsible for organising the event. Financial support for the workshop, which was titled “Expectations and Expectation Formation in Financial Markets,” was provided by the foundation “Stiftung Geld und Wahrung”.



Participants at the ZEW Summer Workshop 2010.

The ZEW Summer Workshop offered 14 young economists the opportunity to present their research for discussion. Economists from around the world participated in the event. Three internationally renowned economists lectured

at the Summer Workshop: Christian Gollier of the University of Toulouse, France, Peter Norman Sørensen of the University of Copenhagen, Denmark, and Kajal Lahiri of the State University at Albany SUNY, United States.

The three guest lecturers offered insights into their current research. Peter Norman Sørensen gave a talk on strategic prognoses, commenting in great detail on forecast exchanges, in which the object of exchange is, for example, the prognosis of a given index. Christian Gollier offered a presentation on his research on ambiguity aversion. Decision makers are said to be “ambiguity averse” when they systematically avoid risky courses of action in which the probability of potential outcomes is uncertain. In addition, Gollier reported on the optimum expectation bias. According to Gollier, individuals heighten their anticipation by choosing to consider preferable chance outcomes as more likely to occur than those which are less preferable. Kajal Lahiri completed the lecture programme with presentations on methods that can be used to deal with heterogeneous expectation formation, which manifests itself in surveys such as the ZEW Financial Market Test or in the calculation of probability forecasts for binary variables.

The presentations given by the attending young economists explored the topic of “Expectations and Expectation Formation in Finance Markets” from a variety of perspectives. Several examined how information is processed by financial markets. Others took a look at the influence that stylised forms of expectation formation have on the effectiveness of monetary policy or explored market outcomes in simulated and experimental financial markets. Still other presentations dealt with the empirical analysis of heterogeneity in expectation formation, with methodologies for the use and analysis of expectation data, or analysed the influence of expectations on macroeconomic and financial market parameters.

Frieder Mokinski, mokinski@zew.de

Xuguang Sheng Receives Heinz König Young Scholar Award



The seventh Heinz König Young Scholar Award was granted at this year’s ZEW Summer Workshop. The prize, which is endowed this year by Deutsche Telekom was granted to Xuguang Sheng from the United States. In his prize-winning research, Sheng explored the connections between economic uncertainty and variance in expert forecasts. Sheng is an assistant professor at American University in Washington, D.C. His paper concentrates on why economic experts so frequently are of such different opinions, and what the relationship might be between their lack of unanimity and the risk of an economic downturn. The Heinz König Young Scholar Award is granted on an annual basis in memory of Professor Heinz König, the founding director of ZEW. The award winners receive a 5,000 euro prize and are also offered a research stay of several months at ZEW.

ZEW CONFERENCE

Conference on Platform Markets

ZEW recently hosted a conference on the implications of platform markets for competition and regulation. Eighty-five academics and practitioners from 16 countries attended the conference, which was held from 31 May through 2 June 2010 in cooperation with the University of Mannheim, the Mannheim Centre for Competition and Innovation, and the Transregional Collaborative Research Network "Governance and Efficiency of Economic Systems".

Firms in platform markets are confronted with various groups of participants whose demands are interdependent. A good illustration of a platform market is the market for credit cards. On the one side, this market consists of retailers and restaurants, who accept a certain credit card as means of payment. On the other side, there are customers who use credit cards to purchase goods. In order to be successful, firms must take into account the "multifaceted" nature of platform markets when formulating business strategies – in setting prices, for example. The specific characteristics of platform markets raise important microeconomic questions related to whether and how these characteristics should be taken into consideration in the assessment of competition policy, and in how potential regulatory intervention should be designed.

Price-setting in Platform Markets

In his lecture, Marc Rysman of Boston University addressed the issue of price-setting at sports-card conventions. Using a comprehensive data set on sports-card conventions in the United States, Rysman examined whether the theory of price-setting in platform markets was confirmed by this specific market. The organizers of the conventions function as the platform, setting, on the one hand, the admission fees for collectors and, on the other, the participation fees for vendors. Rysman showed that admission fees for collectors are dependent on the intensity of competition between conventions. Furthermore, he discovered that the participation fees paid by vendors are de-

termined based on a complex pattern; they are not affected by the presence of competition in close or medium proximity, and they actually tend to rise in cases of competition involving greater distances (greater than 100 miles). These results accord with the theory of price-setting in platform markets.

Price-setting in Media Markets

Simon Anderson of the University of Virginia examined the question of optional price-setting in media markets. Using the example of the news maga-

zine market, Simon Anderson started from the observation that some customers purchase one magazine while others demand several different magazines. In principle, the degree of such single- or multi-homing depends upon the price as well as quality of the respective magazines.

At first glance, one supposes that the superior quality of the articles in the respective magazines would increase the likelihood of multi-homing. Anderson has shown, however, that the opposite can also prove true. This is due to the fact that while higher quality increases the attractiveness of the magazine, at the same time it also reduces the need for inquisitive readers to purchase both magazines.

*Assistant Professor Kai Hüschelrath,
hueschelrath@zew.de*

Gordon Klein, klein@zew.de

ZEW CONFERENCE

Second ReCapNet Conference

On October 11th and 12th 2010 the ZEW will host the second interdisciplinary conference of the Leibniz Network on Real Estate Markets and Capital Markets (ReCapNet). The network focuses on the interactions between real estate markets and capital markets. Researchers from different disciplines, and with different methodological approaches, analyse the importance of international capital markets for real estate markets. Aims of the network include, but are not limited to: assessing the consequences of financial market conditions for housing and commercial real estate markets; development opportunities and financial markets; and the stability of real estate and capital markets.

For further information visit www.recapnet.org

Quantitative Analysis in Competition Assessments

On October 21st to 23rd 2010 the ZEW, the Mannheim Centre for Competition and Innovation (MaCCI) and WHU Otto Beisheim School of Management in Vallendar are jointly organising a conference on Quantitative Analysis in Competition Assessments. The conference aims to discuss the recent developments in the empirical techniques – covering simple as well as most advanced and state-of-the-art quantitative techniques – and their practical application in competition casework and market studies inquiries. The conference will focus on Price Tests, Price-Concentration Analysis, Merger Simulations, Market Screening Techniques/Predicting Cartels as well as Econometric Models to Measure Market Power.

For further information visit www.zew.de/compquant2010

INSIDE ZEW

Friedrich Heinemann: Habilitation Completed

PD Dr. Friedrich Heinemann, head of ZEW department Corporate Taxation and Public Finance received professorship for economics by the University of Heidelberg from July 2010 onwards. In his habilitation thesis, Heinemann analysed the members of parliaments' influence on decisions regarding taxation policy. His habilitation speech is dedicated to the question to what extent the tax payers' and welfare recipients' behaviour is influenced by self interest or social norms.

Andreas Löschel: Co-author of UN Global Climate Report

PD Dr. Andreas Löschel is one of 36 climate researchers from Germany who will bring their expertise to bear in the next United Nations global climate report, set to appear between June 2013 and March 2014. Head of research in environmental and resource economics at ZEW, Dr. Löschel has been appointed chief author of the fifth status report of the Intergovernmental Panel on Climate Change (IPCC). Over the coming years, some 830 authors from across the globe will contribute to the fifth IPCC status report. ZEW expert Andreas Löschel is lead author of Working Group III, Preventing Climate Change, and will contribute primarily to the chapter assessing transitional scenarios.

Felix Schindler Appointed Assistant Professor

Prof. Dr. Felix Schindler, ZEW researcher at the Department of International Finance and Financial Management was appointed assistant professor at Steinbeis University Berlin. Schindler now holds an assistant professorship at the SMI Centre for Finance, Banking and Real Estate at the School of Management and Innovation. Schindler's research focuses on real estate finance and investments.

INSIDE ZEW

ZEW Trains Financial Experts from Asia in Macroeconomics

Financial experts from China and Vietnam will be guests at the Centre for European Economic Research (ZEW) in Mannheim from September 13, 2010 until November 19, 2010. The 19 experts will expand their knowledge in the field of macroeconomics. Cooperating with external academics and practitioners, ZEW's researchers impart further knowledge of monetary and fiscal policy, financial markets, trade policy and regional integration, as well as development strategies in transition countries. In addition to economic competences, the financial experts will be trained in writing and presenting in English. The course at the ZEW is part of the training programme "Strengthening Macroeconomic Policies" which is organised by InWEnt on behalf of the Federal Ministry for Economic Development and Cooperation. The ZEW service department Knowledge Transfer and Qualification Programmes is responsible for the concept and implementation of the seminars at the ZEW.

ZEW DISCUSSION PAPERS

No 10-059, Wolfgang Buchholz, Michael Schymura: Expected Utility Theory and the Tyranny of Catastrophic Risks.

No 10-058, Andreas Sachs: A Bayesian Approach to Determine the Impact of Institutions on the Unemployment Rate.

No 10-056, Victoria Alexeeva-Talebi: Cost Pass-Through in Strategic Oligopoly: Sectoral Evidence for the EU ETS

No 10-055, Simon Koesler: Pollution Externalities in a Schumpeterian Growth Model.

No 10-054, Nicole Gürtzgen, Anja Heinze: Should Low-wage Workers Care about where they Work? Assessing the Impact of Employer Characteristics on Low-wage Mobility.

No 10-053, Irene Bertsek, Jenny Meyer: IT is Never too Late for Changes? Analysing the Relationship Between Process Innovation, IT and Older Workers

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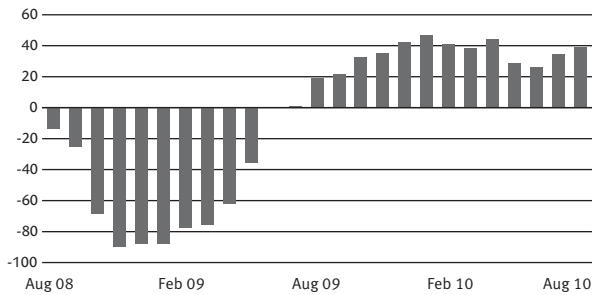
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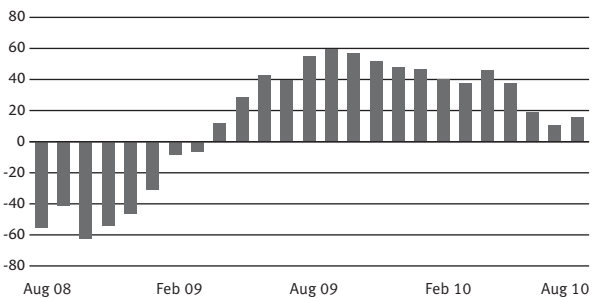
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FACTS AND FIGURES

ZEW Financial Market Test August 2010



Balance of positive and negative assessment concerning short-term interest rates. Source: ZEW



Balance of positive and negative assessment concerning economic expectations for the Eurozone. Source: ZEW

ECB: No Increase In Interest Rates Expected

The majority of the 284 financial market experts surveyed by ZEW in August expect that there will not be any increasing interest rates by the European Central Bank (ECB). The latest inflation figures do not indicate an increase in interest rates. In July, the inflation rate in the euro zone was 1.7 percent. In Germany it was 1.2 percent, thus standing below the euro zone average. For the next six months, most experts hold the opinion that the inflation rate will remain stable in the euro zone as well as in Germany.

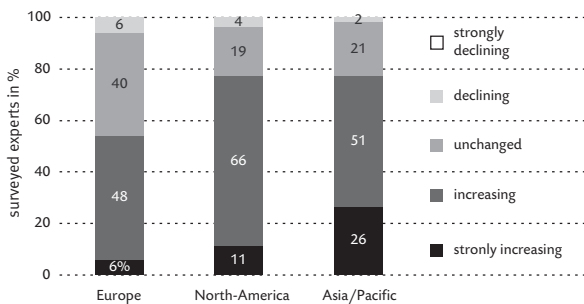
Christian D. Dick, dick@zew.de

Euro Zone: Economic Locomotive Germany

The experts assess the economic situation in the euro zone with minus 13 points, compared to a positive assessment of the economic situation in Germany (plus 44.3 points). The Economic Sentiment for Germany for the next six months and the expectations for the euro zone have been approaching each other again. The Economic Sentiment for the euro zone standing at 15.8 points is slightly above the German Economic Sentiment at 14.0 points. Germany is currently emerging as the “economic locomotive” pulling other countries upwards.

Christian D. Dick, dick@zew.de

Experts Expect Air Cargo Volumes to Increase

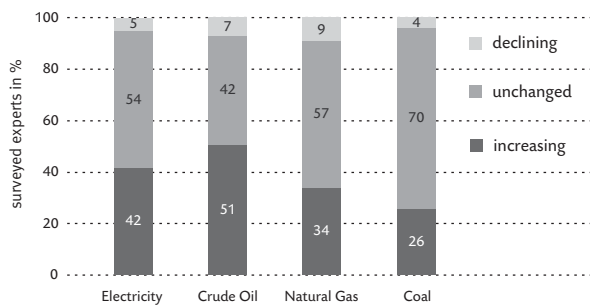


Source: ZEW

Air cargo volumes in Germany are anticipated to increase over the next six months, particularly on intercontinental routes. Over three-quarters of the experts surveyed for the ProgTrans/ZEW Transportation Market Barometer believe air cargo volumes will increase in coming months for the U.S. and in the Asian-Pacific routes. Some 300 transportation and logistics companies are surveyed for the Transport Market Barometer. They are asked about the transport volume and price trends they expect within Germany and internationally. The results from the most recent survey are based on data gathered in second quarter of 2010.

Dr. Claudia Hermeling, hermeling@zew.de

Stable Energy Prices Anticipated over the Short Term



Source: ZEW

According to the experts surveyed for ZEW’s Energy Market Barometer, wholesale energy prices will remain largely stable over the next six months. 70 percent of the experts indicated coal prices will remain steady in the period ahead. In the case of natural gas and electricity, however, the experts were less unanimous. 57 percent and 54 percent, respectively, foresee stable prices over the next six months. With regard to crude oil, only 42 percent believe prices will remain stagnant. The ZEW Energy Market Barometer is a biannual survey of some 200 energy market experts. The results are based on data gathered in May 2010.

Dr. Tim Mennel, mennel@zew.de

OPINION



Financial Market Analysis

Some take pleasure in the misfortune of others. This is a regrettable fact – and one that the profession of economics has had to learn first-hand in recent months. Economists have been accused of failing to foresee the financial crisis; some, in fact, go so far as to proclaim that the entire edifice of modern economic theory has collapsed. Free-market skeptics grasp that this is the right moment to settle old scores. It has been said that neoliberalism is in its death throes. For some, the main postulate of neoliberalism – that efficient markets improve the general welfare – has been disproved, and not only for financial markets, but in general. As a result, many in Germany have argued that efforts to reform the labour market and government pension system should be stopped. Calls for a generous minimum wage and tax hikes to “soak the rich” have increased.

Yet are mainstream economists now obliged to bow their heads in penance and join forces with social romantics and the proponents of big government? By no means. Admittedly, the so-called “Great Moderation” was temporary in nature; the hope that economic volatility had been consigned to history a mere illusion. A number of textbooks will certainly have to be rewritten concerning the function of financial markets. But economists – even of the orthodox neoliberal pedigree – have always understood the necessity of financial market regulation. The crisis has not taught us that financial markets are in need of regulation, as some have proclaimed – we have known this all along. Financial markets are regulated – regulatory structures merely need to be improved. Those who would insinuate that economic theory has failed to take notice of the potential for false incentives and instabilities in financial markets are simply ill-informed, and would be advised to sample the extensive economic literature addressing such issues.

The literature on the principal-agent problem has demonstrated that it is difficult for stockholders to monitor executives acting on their behalf. Executives possess incentives to

make short-term operative decisions at the expense of long-term health of a firm. Such literature can in no way be described as marginal in the profession of economics – indeed, Nobel prizes were awarded for work in this area.

Information economics has firmly established itself in the field of macroeconomics, particularly in relation to the problem of “adverse selection”, which refers to the asymmetries in information held by two parties to a transaction. In the case of lenders and borrowers, the lender generally has less information about the ability of the borrower to repay a loan than the borrower himself. When interest rates are high, this can lead to a situation in which particularly risky borrowers are the ones most likely to be granted loan approval.

The term “moral hazard” has been employed with a great deal of frequency as of late. In the case of financial markets, actors may take greater risks when investing the money of others or when they can plausibly expect to be bailed out by the government. If those responsible for the regulation of financial markets had taken a closer look at the literature on moral hazard, this might have led to alternate economic outcomes.

This list of research could be considerably extended. The field of behavioural economics has taught us that investors often do not act rationally; numerous studies have been conducted on the procyclical effects of the Basel II minimum capital requirements; and many economists warned about the impending implosion of the real estate bubble in the U.S. – to name but a few examples how economists have in fact regularly “gotten it right”. However, if one is not willing to invest the time and energy to engage with such research and would rather listen to the parade of political ideologues, management gurus, would-be scholars who pose as experts on all matters, one should not complain about one’s ignorance.

Wolfgang Franz

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L 7, 1 · 68161 Mannheim · P.O. Box 10 34 43 · 68034 Mannheim · Germany · Internet: www.zew.de · www.zew.eu

President: Prof. Dr. Dr. h.c. mult. Wolfgang Franz · Business and Administration Director: Thomas Kohl

Editors: Kathrin Böhmer, Phone +49/621/1235-103, Telefax +49/621/1235-222, E-Mail: boehmer@zew.de

Gunter Grittmann, Phone +49/621/1235-132, Telefax +49/621/1235-222, E-Mail: grittmann@zew.de

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