

with M&A Report

Unified Regulations for Systemically Important Financial Institutions Urgently Needed

Systemically important financial institutions, or SIFIs, are considered one of the causes of the global financial crisis. Regulators are currently proposing bank reforms that would limit the systemic risk posed by these institutions. A new ZEW study, commissioned by the European Parliament, examines a variety of regulatory proposals.

ing banks the option of increasing the capital requirement by an additional percentage point is envisaged. In total, SIFIs would have to hold 10.5 per cent of common equity plus a SIFI surcharge of up to 3.5 per cent and a possible countercyclical capital buffer of up to 2.5 per cent.

Additional Surcharge for Loss Coverage

There is no doubt that a surcharge in addition to the minimum capital requirement will make it easier for banks to cover losses. But in order to reduce the procyclical effects of capital regulation, it would be better if the additional capital were placed in the capital conservation buffer. This is because banks may deplete this buffer in times of crisis but they must meet the minimum capital requirement at all times. Higher capital requirements can

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Regulation proposed for systemically important banks aims to severely reduce – if not eliminate – the burden placed on taxpayers in times of financial crisis.

SIFIs are “systemically important” because if they fail, they can create turmoil throughout the financial sector as well as in large parts of the national economy. The bankruptcy of a systemic bank can have severe effects in a variety of ways – for example, by curtailing lending and financial transactions.

After the onset of the financial crisis in 2008, state and international institutions poured considerable amounts of money into the banking sector – at the cost of the general public – in order to head off such failure. One aim of bank reform is to reduce the amount of government aid needed in the future to prop up the banking sector. Regulators are pursuing two

main reform strategies: raising the minimum capital requirements for SIFIs and introducing rules for bank restructuring and liquidation. At the G-20 summit meeting in Cannes in early November, the world’s economic leaders discussed recommendations for each strategy.

Higher Minimum Capital Requirements

The purpose of a higher minimum capital requirement for SIFIs is to help banks bearing more of their own losses when they occur. One recommendation was for SIFIs to hold 2.5 percentage points more of equity capital additional to the measures proposed by Basel III. For rapid grow-

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be expected to bring added costs for the affected banks, but the overall financial impact should be relatively small.

The resulting rise in interest rates is not likely to exceed several basis points, and the negative GDP effect is likely to be under 0.1 percentage points annually.

Separation of Retail and Investment

The recently published Vickers Report recommends a separation between the retail and investment banking operations of SIFIs with regard to capital requirements. For the retail sector, it calls for a minimum capital requirement close to that proposed by Basel III. For investment banking, it sets the minimum at 17 per

cent, more than Basel III and the SIFI surcharge combined. There is also another reason for the separation of the banking operations: In the event of crisis, investment banking operations – relatively unimportant for the national economy – can be liquidated while other banking sectors are supported with public funds.

The German Bank Reorganization Act takes a completely different strategy. So it stipulates that during a crisis the systemically important part of a financial institution first be transferred to a “bridge bank” before financial restructuring take place. Unlike the Vickers Report, the German legislation does not determine in advance which parts of a bank are to be salvaged and which parts are to be liqui-

dated. The decision is made as part of the process, which may make it more cumbersome to implement.

Own Resolutions for Crises Needed

The Financial Stability Board made recommendations for international regulations that were accepted at the summit in Cannes. The regulations require that SIFIs have to submit a plan showing how to proceed their own resolution in case of crisis. International rules like these are urgent, since SIFIs operate internationally and their reorganization always affects multiple countries at once. The study is available at: www.zew.de/expertises

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Intrinsic Work Motivation Determines the Acceptance of Pension Reforms

Despite the economic necessity of raising the German retirement age gradually from 65 to 67, this reform remains unpopular with the population at large. A recent ZEW study shows that intrinsic work motivation plays a crucial role in people's willingness to support an increase in the statutory retirement age.

Reforms, such as a higher pension age, are highly unpopular among German voters although they are a demographic necessity. Preceding studies have explored numerous important drivers of pension reform acceptance as an understanding is desirable. A recent ZEW study (Discussion Paper No. 11-045) examines the impact factors that affect voters' pension reform preferences. The ZEW study focuses especially on individual support of an increase in pension age relative to other reform options like pension cuts or higher contributions.

Economists have traditionally assumed that people prefer the reform that benefits them most. From this purely rational perspective, a person's age should be one of the key factors for pension reform preferences: retirees, for instance, should generally support a higher retirement age and reject pension cuts be-

cause the former won't affect them directly but the latter most certainly will. In addition to known determinants of pension reform preferences, the study focuses on the influence of intrinsic work motivation, a factor that has been widely neglected in this context so far.

A Person's Motivation as Key Factor

Intrinsically motivated people experience pleasure in performing tasks such as their daily work and require no additional outside incentive. These people will be less anxious about longer working years compared to people for whom work is a burden. In this way, it would appear that a high level of intrinsic motivation should lower the perceived costs that are associated with additional years of work and thereby increase the attractiveness of a higher pension age over that of pen-

sion cuts or higher pension contributions.

The empirical analysis is based on data from the German General Social Survey (ALLBUS) gathered in 2006 which is representative for the German population. ALLBUS contains valuable information for this analysis as it offers data on reform preferences, general attitudes (e.g. work ethics) as well as on socioeconomic characteristics of the respondents.

The empirical findings indicate that, alongside self-interest motives and political informedness, intrinsic work motivation plays a crucial role in explaining individual pension reform preferences. Individuals who “don't work only for more money” or who are willing “to work harder to support their company” preferred a higher pension age to pension cuts or higher pension contributions.

The study's findings have numerous important implications for reform efforts. Societies in which work is mainly seen as a burden may have more difficulties in meeting the challenges of demographic change by work related reforms than societies with a high work ethic.

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Older Employees Are not Less Productive, Even in the Manufacturing Sector

In recent years the average age of the workforce has increased considerably in nearly all industrialized countries. A new ZEW study (Discussion Paper No. 11-058) investigates whether changes in the age structure of the workforce in the services, manufacturing, and metal manufacturing sectors have led to divergent impacts on productivity.

Employees over the age of 50 are considered a valuable resource in many firms. Compared to their younger counterparts, they tend to have more experience, perform their work more conscientiously, show stronger company loyalty, and have a higher degree of dedication to their work. Employers, however, typically assume that older employees are less flex-

ing. Furthermore, service sector jobs more often require social competencies as well as a high degree of self-motivation. In view of these differences in requirements as well as the various strengths and weaknesses exhibited by older employees in relation to their younger counterparts, one might assume that productivity in the manufacturing sector tends to

more than 8,500 companies in Germany were analysed. Data over a period of eight years were assessed.

Calculations were undertaken to estimate the productivity contribution made by various employee age groups in the service and manufacturing sectors. Special attention was devoted to the metal-working subsector, as Germany enjoys a big competitive advantage in this industry, which is additionally affected by particular age-related challenges.

Older Workers are Productive

ZEW's econometric calculations did not reveal any significant differences in age-productivity profiles between the various sectors. Thus, there is no confirmation for the initial hypothesis that older employees are more productive in the service sector and less productive in the manufacturing sector. Furthermore, firms which employ an increasing number of older employees do not show lower levels of productivity. The differences between firms are large, however. One possible explanation for these findings may be sector-related differences in the implementation of workplace policies for older employees. The results could be reflective of the fact that firms are successfully able to compensate for the specific challenges placed on older employees through targeted workplace policies. Another reason could be that older employees are "filtered out" of sectors that place high demands on older employees such that relatively few older employees are active in the pool of individuals suited for a given profession. Nevertheless, the study does show that on the whole, Germany has no age-related productivity problems so far. However, it remains to be seen whether this positive result is also obtained when there is a considerable fall in the percentage of employees who opt for early retirement in coming years.



A recent ZEW study shows that older employees have a similar level of productivity in the service and manufacturing sectors as their younger colleagues.

ible and innovative than their younger peers. For this reason, it's difficult to draw any straightforward conclusions concerning the labour productivity of older versus younger employees. This is all the more true when one considers that various sectors of the economy place different requirements on workers.

Manufacturing jobs typically involve monotonous responsibilities that are for example dictated by conveyor belts or production machinery. These jobs are associated with a relatively high degree of physical exertion. Service sector jobs, by contrast, are typically mentally demand-

fall with increasing worker age, while productivity in the service sector tends to increase or remain stable.

Seven Million Employees Analysed

To investigate this hypothesis, ZEW researchers drew on data from the German Institute for Employment Research (IAB). They linked firm-related data – such as the economic sector, financial performance, and investments – with characteristics of the firm's employees, including year of birth, education, and pay. A total of some seven million employees at

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Effects of Reforms Are Influenced by a High Variety of Institutional Interdependencies

Comparable reforms to labour market policy can yield different effects in different countries. Divergent outcomes are attributable to institutional factors and interdependencies between institutions, as demonstrated in a new empirical study of 17 OECD countries undertaken by ZEW.



Photo: digitalstock

Interactions determine whether the unemployment rate is low or high in a country.

Industrialised nations that are essentially comparable in terms of per capita GDP nevertheless frequently exhibit large differences when it comes to unemployment rates. Why is this? In this connection, the literature underscores the significance of interactions between various institutional factors, such as income taxes, the existence of a minimum wage, and the bargaining power of employers.

Past empirical studies, however, have had a difficult time identifying the impacts of these factors and teasing out the different interdependencies between them. A new ZEW study (Discussion Paper No. 11-057) for 17 OECD countries shows how interactions between various labour market institutions impact the particular harmonised unemployment rates.

Many Interdependencies are Possible

The study examines 12 institutional factors in labour markets over a period extending from 1982 to 2005 – namely, payroll, income, and consumption tax rates;

dismissal protections for regular and temporary working relationships; indicators related to minimum wage regulations; the coordination of wage negotiations, and the degree of union organisation; wage-replacement benefit measures during the first, second and third, and fourth and fifth years of unemployment; as well as an indicator for the coverage of the unemployment benefit system.

Furthermore, the study takes into account the degree of state control as well as an indicator for the barriers to market entry, as these factors have been shown in previous research to be of high relevance to the labour market.

On the basis of these 14 institutional factors, the study analyses 91 possible interdependencies. In an initial step relevant interactions to the unemployment rate are determined. The results obtained applied to all of the countries under examination overall, 22 significant interactions have been identified.

A significant degree of interdependency was demonstrated, for instance, be-

tween wage tax rates and income tax rates, minimum wages, benefits in the second and third years of unemployment, and transfer payments in the fourth and fifth years of unemployment.

In a second step, the interactions between various factors and their impacts on unemployment rates were calculated. In 2005, for example, payroll tax rates in Germany represented 15.29 per cent of the compensation of employees. An increase in the payroll tax of one per cent in Germany would lead to a rise in the unemployment rate of 0.13 per cent.

By contrast, due to different modes of interaction, this reform would have a totally different effect in the U.S. While payroll tax revenues only compromised 6.41 per cent of the compensation of employees in the same year in the U.S., a wage payroll tax increase of one percentage point would have led to a decrease in the unemployment rate of 0.44 per cent.

Yet reforms can lead to opposing effects in different countries even when the situation at the outset is comparable. While the income tax rate in 2005 was around 14 per cent in France and 13 per cent in the U.S., an increase in this tax of one percentage point would have led to a slight rise in unemployment in France and a slight fall in the U.S.

Institutional Environment is Important

These findings underscore the considerable importance of interdependencies between institutional factors. Comparable institutional reforms can have divergent effects depending on the institutional environment in which they are implemented. The study not only shows which institutional factors are interdependent. It also demonstrates that the harmonisation of labour market policies does not always lead to the same outcomes in different countries. In this way, the same reform in two different countries can lead to both desired and undesired effects.

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Success Factors in Establishing an Air Transport Network – The Case of JetBlue Airways

The success of a new airline depends to a large extent on its decisions to enter various city connections. These decisions are driven by factors such as the size and competition intensity of these connections as well as available airport capacity. This is the main result of a study of the US low cost carrier JetBlue Airways.



A recent ZEW study investigates successful factors in establishing an air transport network.

In a number of industries, the success and sustainability of a new firm's business strategy is tied to its sequential decisions to enter multiple markets. In all these industries, firms face the key challenge to optimize the sequence of entries in a number of different markets - taking into account possible internal resource constraints and external barriers to entry - in order to operate properly and to build-up a sustainable market presence. In designing such a sustainable entry pattern, a new entrant typically has to decide on the optimal mixture of two distinct entry strategies: entering existing markets and facing competition of incumbent firms and entering new markets which can be expected to contribute to the overall profitability and success of the company.

Focusing on the US low cost carrier JetBlue Airways, ZEW Discussion Paper 11-052 investigates the factors for successfully establishing an air transport network from the foundation of the company in 2000 up to the end of 2009. Jet-

Blue Airways is particularly suited as an investigation object because until now it is the only market entrant that operates profitably and shows a clear growth trend. JetBlue is also notable for its innovative business concept which is rather comparable to a traditional airline than a low cost carrier. For instance, the company has entered into alliances with foreign airlines and its fleet has a high

standard of passenger comfort with features such as in-flight entertainment, more leg room and leather seats. Based on the assumption that the development of an air transport network arises from a multitude of entry and exit decisions with regard to different city connections, all of JetBlue's market entries between 2000 and 2009 are subdivided into one of two categories: a) entries into new markets, i.e. routes which no other airline serves directly, and b) entries into existing markets, i.e. routes already operated by at least one competitor.

Concentrated Airports are Avoided

The results of the study show that JetBlue consistently avoided concentrated airports and targeted concentrated routes; network economies also affected entry positively. For non-stop entry into a route that has not been served on a non-stop basis before, our analysis reveals that the carrier focused on thicker routes and secondary airports, thereby avoiding direct confrontation with network carriers. Non-stop entry into existing non-stop markets, however, shows that JetBlue concentrated on longer-haul markets and avoided routes already operated by either other low cost carriers or network carriers under bankruptcy protection.

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INSIDE ZEW

17th Spring Meeting of Young Economists (SMYE 2012)

ZEW is hosting the annual "Spring Meeting of Young Economists" (SMYE2012) from April 26 to April 28, 2012. This internationally established conference aims at providing young researchers the opportunity to present and discuss their current ideas and research. The conference is run "by young economists for young economists", such as PhD Students, Post-Doctoral Researchers, Assistant Professors, etc. Keynotes will be held by Mary Amiti, Federal Reserve Bank of New York, Armin Falk, University of Bonn, and Ayhan Kose, International Monetary Fund.

For more information visit www.smye2012.org



POLITICO-ECONOMIC ANALYSIS

Q&A: Current conditions on the German real estate market

No Bubble in the Broad German Real Estate Market

ZEW's International Finance and Financial Management department regularly investigates questions concerning international real estate markets. Past topics of investigation include the dynamic interactions between real estate and capital markets. Prof. Dr. Felix Schindler speaks about current conditions in the German real estate market.

Why is German real estate in such favour among investors today?

We have recently seen a large demand for real estate investments, and especially for residential real estate, particularly among private investors and small investors in Germany.

On the one hand, this strong demand may be ascribed to investors' continuing low confidence in stock and bond markets as a result of the turbulent events of recent years. Furthermore, growing concerns about inflation, particularly on the part of private investors, have promoted a run on real estate assets, or "concrete gold" (Betongold), as one says in German. In addition, the volume of available investments is very high.

On the other hand, interest rates are at historical lows. Consequently, households that could not afford real estate previously, when mortgage costs were higher, are now in a position to think about purchasing a home.

In view of rising demand, do you see any risk of a price bubble forming in the German residential real estate market?

Currently, there is no evidence of a price

bubble at the national level. Overall, the German real estate market has experienced only moderate nominal price increases, if any, during the past 15 years, and in terms of real prices, we even witnessed price decreases. Over the long term, it is most important to take demographic changes into consideration, especially for residential real estate. Despite a shrinking population, the number of households in Germany has increased recently.

However, we should expect a long-term reversal of this trend, which will in turn have an impact on the real estate market. Yet, we should not forget that the patterns of change are by no means universal throughout Germany. Rather, there are large regional differences. Southern German metropolitan areas and the greater Hamburg area are among the more expensive locations that have experienced some very steep price increases in recent years.

What is the outlook for the German office and commercial real estate market?

The steep fall in transaction volumes in the wake of the Lehman Brothers collapse in 2008 was followed by a rapid

recovery, and international investors showed particular interest in finding attractive investment options in large German office centres. However, unlike before the financial markets crisis, we can see that investors are more risk-conscious, and demand is focused on premium properties in top locations. One



Especially in Southern German cities like Freiburg, housing is very expensive.

reason for the high demand is the fact that the German real estate market experienced no major price increases in times when prices increased considerably in many other countries. By this the German real estate market proved to be relatively stable even during the crisis.

However, it is important to point out that many investors have sufficient liquidity on hand, but have been holding back from larger commitments in stocks and bonds because of the uncertain situation in international capital markets. These investors continue to seek alternative investment opportunities.

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Prof. Dr. Felix Schindler studied economics at the University of Freiburg and at the University of Wisconsin. His major fields of study were econometrics and real estate economics. He received his doctorate degree from the University of Freiburg in 2008 with a dissertation on the subject of "Real estate markets: A global analysis of their capital market behaviour".

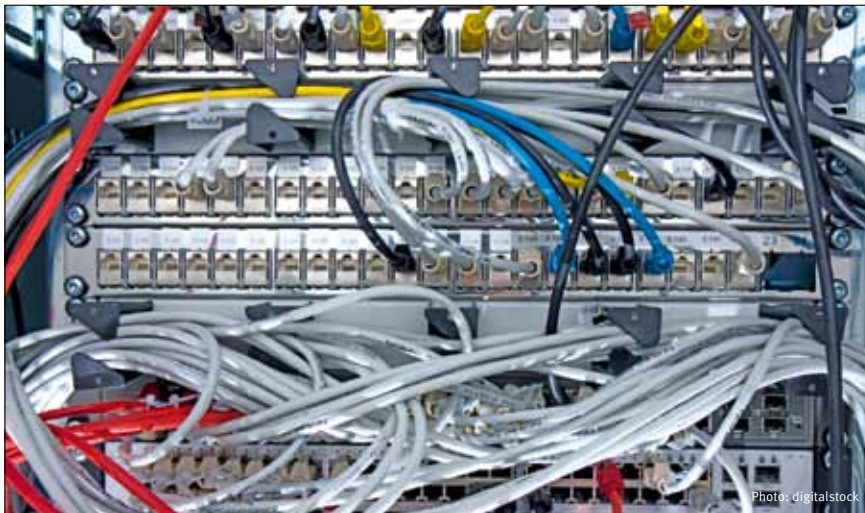
Since 2009, Schindler has been conducting research at the ZEW about diverse questions related to international real estate markets. His main research focus concentrates on real estate investment and on real estate finance. In 2010, Schindler was additionally appointed Assistant Professor of Real Estate Finance and Economics at the Steinbeis University Berlin (SHB).



Photo: ZEW

The Contribution of Green IT to Protection of Climate, Environment, and Resources

Green IT – i.e. environmental and climate protection with and through IT – has been the focus of increasing attention in recent years. An analysis of cost structures in various sectors as well as a company survey carried out by ZEW provides us with an initial picture of the actual potential of green information and communication technologies.



The digital world has a great appetite for energy. Green IT could make a contribution to the more efficient use of electricity and other resources.

Around the world, computer systems and networks consume enormous quantities of electricity. The question is thus raised as to how much energy could be saved through energy-efficient technological innovation. Green IT, however, is not just about improving the energy efficiency of IT end-user devices, but also about developing intelligent software for reducing energy expenditure in other sectors.

Rare Metals are Used in the IT Sector

Alongside actual energy consumption, the use of raw materials to manufacture IT products is another area of environmental interest. In addition to plastics, large quantities of rare metals are used in microchips and laser equipment, computers and mobile telephones.

In the face of rising costs for raw materials, recycling old devices has thus become increasingly lucrative. The term

“Green IT” refers to a broad range of potentials for conserving scarce resources in connection with information and communications technology, from production and use to later recycling. The efficient use of scarce resources and the avoidance of toxic substances in production processes are certainly possible forms of technological progress.

Accordingly, the buzzword “Green IT” refers to innovations in or by means of information and communication technologies that enable an increase in energy and resource efficiency. Shortages of certain resources required for the production and use of IT hardware (and therefore, rising costs) have been an important engine for technological progress.

A series of empirical studies have shown, for example, that increases in energy prices lead to inventions and innovations associated with decreased energy consumption. Government regulations

can also promote innovation. This was one finding of 2009 Mannheim Innovation Panel (MIP). The MIP surveys some 120 manufacturers of information and communications technologies and around 240 service providers from the information and communications sector. Of these 360 firms, 47 indicated that they had introduced innovations of environmental significance because of regulations. Furthermore, the responses from 40 of these firms permitted the laws and regulations that were relevant to their activities to be precisely itemized.

Regulations for Innovations

Although we cannot conclude outright that the findings of this survey are universally valid, they do permit us to state a key conclusion: German environmental regulations lead to process innovations that reduce the use of toxic chemicals in the production process. The EU RoHS Directive, for example, restricts the use of certain dangerous substances in electrical and electronic devices, while the REACH Directive defines general standards for dealing with and limiting the use of certain chemicals. In addition, the WEEE Directive for reduction of electronic wastes as well as the Electronics and Electrical Equipment Act, and the Ordinance on Used Electrical Equipment have all led to innovations in production processes.

Effectiveness of Energy Regulations

At first glance it might come as a surprise that energy efficiency regulations have not been cited as a driver of innovation, at least not in the area of IT. This argues against the effectiveness of energy efficiency regulation in the IT sector. Energy efficiency standards also turn out to be a rather dubious instrument from the perspective of environmental economics, as greenhouse gas emissions arising from electricity generation are already regulated through the Europe-wide emissions

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In order to produce computers and mobile phones, for instance, resources like copper, tin, and coltan are needed. Their deposits are limited.

trading system. Green IT also encompasses resource conservation in other sectors by means of new or optimised software. Compared to ICT hardware manufacturers and firms in other sectors, few IT service providers have introduced innovations intended to create energy savings for end users. In other words, up to the present time, our findings suggest that green product innovations through IT have not played an important role in most sectors. How might we explain this?

Increased Energy Prices

Economists assume that increasing the cost of a production factor should lead to innovations in the production process so that this production factor is used more efficiently. Increased electricity prices in IT-intensive areas of business should thus lead to the use of hardware that is more energy efficient, and in energy-intensive sectors, to the introduction of energy-conserving devices with improved software. The investment costs involved in these changes are a decisive factor, and involve not only capital costs but also costs for personnel. As long as the adoption of energy-efficient IT technologies is not facilitated by improved efficiency standards, decision-making will be governed by the cost-effectiveness of such technologies. However, when it comes to innovations that have a positive effect upon environmental resources, there is frequently a conflict between the target of environmen-

tal friendliness and the costs of technical innovation. This conflict is particularly acute in the case of sizeable investment costs that, compared to a conventional solution, can only be amortised over many years.

Since the research and development of newer, more energy-efficient technologies is associated with an expenditure of resources, from an economic point of view such expenditures make most sense in areas where the greatest use can be anticipated, that is, in sectors where energy consumption plays a relatively large role. In IT-intensive sectors, including broad segments of the service sector, it is personnel costs that account for the largest proportion of costs, whereas energy and ICT capital play a rather insignificant role. This means that when compared to other sectors, there is less savings potential to be anticipated in IT-intensive sectors by means of energy efficiency or through Green IT.

Energy Intensity has Declined

In recent years, energy intensity – that is, the amount of energy used per output – has declined more markedly in energy-intensive production sectors such as the manufacturing, energy, water utility, and transport industries. Whether this change is attributable to the use of Green IT or to other new technologies cannot be definitively determined. Unfortunately, we have to throw some more cold water on the hopes pinned to green IT. Whether in

terms of energy or resource efficiency, increases in efficiency through green technologies do not end up fully benefiting the environment. Especially when they are associated with lower costs, increases in efficiency in production or consumption processes often lead to increased utilisation or intensified use of energy services. Thus, net value may certainly be added, but energy or resource use actually decreases to a somewhat smaller extent. In this regard, economists speak of a so-called “rebound effect”.

The Rebound Effect

The rebound effect may also apply to the use of IT hardware – for example, in electrical power consumption – and this can lead to a situation where the energy efficiency of each device improves, but total consumption continues to increase. This does not mean that all efforts to promote environmental protection in or through IT are in vain. However, it remains to be demonstrated whether Green IT can truly make a substantial contribution to climate protection.

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ZEW DISCUSSION PAPERS

No 11-063, Andrew Toole: The Impact of Public Basic Research on Industrial Innovation: Evidence from the Pharmaceutical Industry.

No 11-062, Christian Dick, Ronald MacDonald, Lukas Menkhoff: Individual Exchange Rate Forecasts and Expected Fundamentals.

No 11-061, Julia Horstschräer: University Rankings in Action? The Importance of Rankings and an Excellence Competition for University Choice of High-Ability Students?

No 11-060, Claas Menny, Daniel Osberghaus, Max Pohl, Ute Werner: General Knowledge About Climate Change, Factors Influencing Risk Perception and Willingness to Insure.

No 11-059, Kai Hüsichelrath, Kathrin Müller: Patterns and Effects of Entry in U.S. Airline Markets.

INSIDE ZEW

David Reiley Speaks at the ZEW Research Seminar

A special highlight of September's ZEW Research Seminar was the guest appearance of David Reiley, a principal research scientist at the Internet company Yahoo!. During his talk with ZEW economists, he discussed his recent study on



David Reiley presents his findings at the ZEW Research Seminar.

how online advertising affects sales. Ad banners informing us about current deals or new products and services appear everywhere online. Yet despite the economic significance of online advertising, it has proven difficult to demonstrate a causal relationship between ad campaigns and revenues – that is, until now. In an experimental study of over one million Yahoo! customers, David Reiley and his co-author, Randall Lewis, were able to show that advertising has a statistically significant positive effect on sales.

The study analysed the purchase decisions of customers who had registered at both a nationwide retailer in the United States and at Yahoo!. Randomly selected customers from this pool were then shown advertising from the retailer while surfing at Yahoo!. The subsequent purchases of these customers were then compared with those of customers who

did not receive the advertising. Reiley and Lewis found that customers who saw the advertising were more likely to purchase the advertised product, leading to a 5 per cent rise in revenue for the national retailer. This amounted to revenues that were seven times greater than the cost of the ad campaign.

David Reiley was a professor at the University of Arizona from 2006 to 2009. Since 2007, he has been working as an economist for Yahoo!. In addition to studies on the effectiveness of online advertising, he studies a host of other Internet-related subjects, including auctions, donations, and electronic commerce.

The ZEW Research Seminar brings together ZEW economists and external speakers to explore research findings from a variety of fields. Talks delivered by renowned scientists from Germany and abroad are a particular highlight of each session.

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ZEW Environmental Economist Andreas Löschel Appointed by the German Government as Chairman of the Expert Group for the Supervision of Germany's Energy Transition

Prof. Dr. Andreas Löschel will monitor the change in Germany's energy policy and critically analyse its development.

As head of the research department Environmental and Resource Economics, Environmental Management at ZEW and Professor of Economics at Heidelberg University, he has been appointed by the German government as chairman of an expert group. This expert group will regularly evaluate the state of Germany's energy transition.

Together with Löschel, Georg Erdmann from the TU Berlin and Frithjof Staiß from the Centre for Solar Energy and Hydrogen Research in Stuttgart as well as Hans-Joachim Ziesing from the Arbeitsgruppe Energiebilanzen (Working Group on Energy Balances) will join the expert group for the supervision of Germany's energy transition.

As head of the expert group, Löschel benefits from his longstanding economic research in energy supply and climate change economics.

He is the leading author for the Fifth Assessment Report (2010-2014) of the In-

tergovernmental Panel on Climate Change (IPCC) and research associate at the Centre for Climate Economics and Policy, Crawford School of Economics & Government, Australian National University (ANU) in Canberra.

Löschel has advised the European Commission, the European Parliament and German federal and state ministries on economic issues in the field of environmental economics, especially concerning energy and climate policy. Since 2006, he is member of the committee for Environmental and Resource Economics of the Verein für Socialpolitik (leading association of German speaking economists) and he also has been member of the European Union's delegation at the World Climate Conference at Bali in 2007.

Löschel's latest research projects in the area of energy policy range from an analysis of long-term aims of Europe's energy and climate policy for the European Commission, to the interdisciplinary Helmholtz Alliance for future infrastructure and

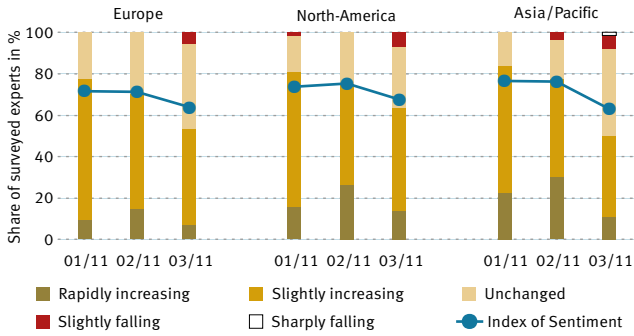


Prof. Dr. Andreas Löschel

energy supply and an investigation on behalf of The Voice of German Industry (BDI), examining indicators for the monitoring of Germany's energy transition and evaluating the availability of the required data. In addition to the BDI, the project is joined by other stakeholders, such as environmental organisations.

FACTS AND FIGURES

Experts Expect Air Cargo Prices to Decline Within the Next Half Year

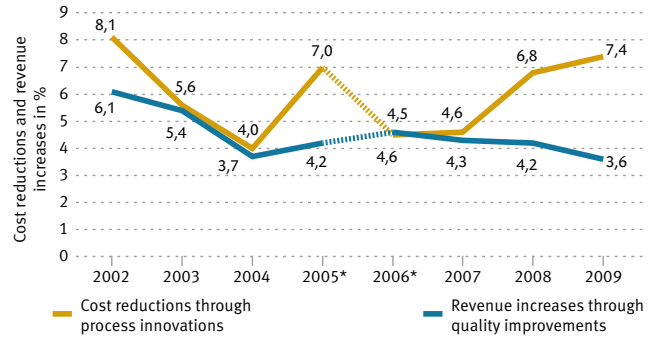


Source: ZEW

Air cargo prices increased considerably in 2010, reaching in most subsectors at the beginning of 2011 the levels witnessed during the boom phase of 2008. However the experts surveyed by ZEW and ProgTrans expect considerably slower growth in air cargo prices. The sentiment indicator fell by eight points for European cargo, by six points for the North-Atlantic route, and by 14 points for the Asia-Pacific route. The large divergence in the surveyed forecasts indicates a relatively high degree of uncertainty among experts concerning future developments.

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IT and Telecommunication Firms Focus on Cost Reductions

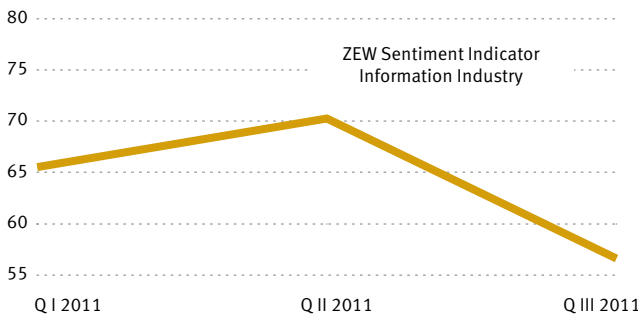


* Dashed line indicates change in calculatory methods in the time series. Source: ZEW, Mannheim Innovation Panel

In recent years, IT and telecommunication firms have increasingly focused their R&D activities on reducing production costs. In 2009, for example, process innovations led to a sector average reduction in costs of 7.4 per cent. In 2010, IT and telecommunication firms continued their efforts to rationalise activities. By contrast, the implementation of quality improvements (often a second goal of process innovations) fell somewhat in importance. Firm success in developing novel products and services was also lower in 2010 than in previous years.

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Sentiment in the German Information Industry Declines

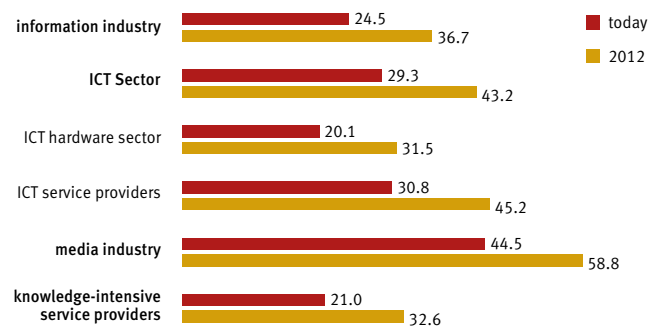


Source: ZEW/Creditreform

After having peaked during the second quarter of 2011, the ZEW Sentiment Indicator Information Economy for Germany dropped by 13.6 points to 56.6 points in the third quarter. This is mainly caused by the decrease of sentiment in the information and communication technology (ICT) sector. This is shown by a newly designed ZEW-survey among enterprises in the German information economy, conducted in September 2011. The information economy comprises the ICT sector, the media sector, and the knowledge-intensive service providers.

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Rapid Diffusion of Tablet PCs in the German Information Industry



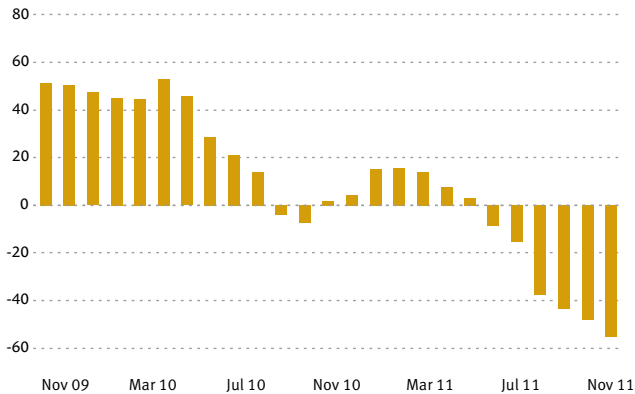
Source: ZEW

The use of tablet PCs in companies of the information industry is growing rapidly. Already 25 per cent of the companies provide their staff with tablets. This number is expected to increase until the end of 2012 as tablets make it possible to access data and e-mails anywhere and at any time. This is shown by a survey among enterprises of the information industry conducted by ZEW in cooperation with Creditreform in September 2011. The information economy comprises the ICT sector, the media sector, and the knowledge-intensive service providers.

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FACTS AND FIGURES

ZEW Financial Market Test November 2011

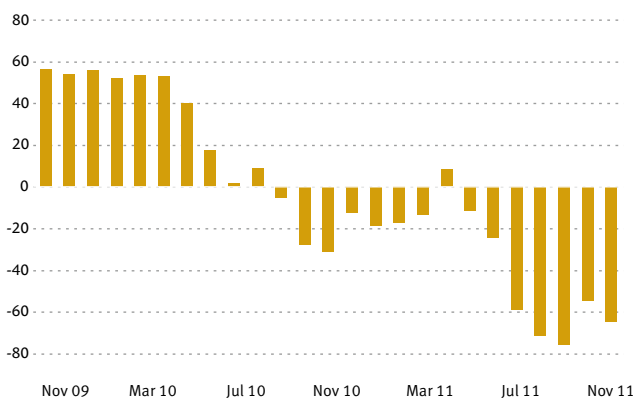


Balance of positive and negative assessments concerning economic development in Germany.
Source: ZEW

Germany: Expectations Deteriorate Once More

The ZEW Indicator of Economic Sentiment for Germany has decreased by 6.9 points in November 2011. This is the ninth decline in a row. The indicator now stands at minus 55.2 points. This value is below the indicator's historical average of 25.0 points. A lower value of the indicator was last seen in October 2008. Government crises in Italy and Greece have further increased the uncertainty about the economic development in the Eurozone. This might have contributed to this month's decline of the ZEW Indicator of Economic Sentiment. The assessment of the current economic situation in Germany is still in the positive territory, but it has once again worsened compared to the previous month. The corresponding indicator has dropped by 4.2 points to the 34.2 points-mark.

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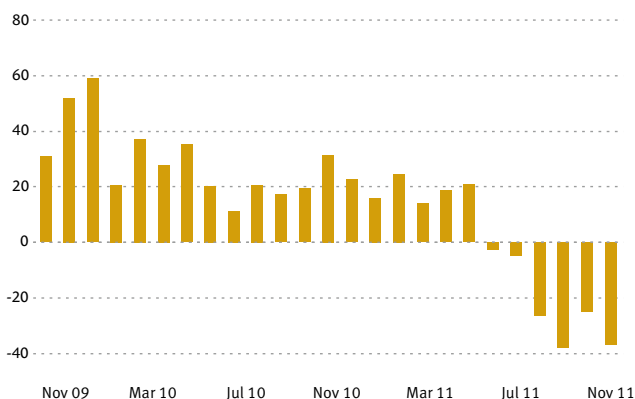


Balance of positive and negative assessments concerning economic development in Switzerland.
Source: ZEW, Credit Suisse

Switzerland: Expectations Remain Dampened

In the wake of registering a temporary improvement from low levels last month, Economic expectations for Switzerland decreased in November 2011. The relevant ZEW-CS Indicator dropped by 9.9 points to the minus 64.3 threshold. Merely 9.5 per cent (up 1.0 percentage points) of the financial market experts surveyed this month still forecast a brighter economic climate ahead, while a clear majority of 73.8 per cent (up 10.9 percentage points) foresees the Swiss economy deteriorating on a six-month horizon. The ZEW-CS Indicator is calculated monthly by the Centre for European Economic Research (ZEW) in cooperation with Credit Suisse (CS). The indicator reflects the expectations of the surveyed financial market experts regarding the economic development in Switzerland on a six-month time horizon.

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Balance of positive and negative assessments concerning economic development in the CEE region.
Source: ZEW

CEE Region: Pessimism Returns

The ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe including Turkey (CEE) has decreased in November 2011 by 11.8 points to a level of minus 36.8 points. Economic expectations for the Eurozone have slightly declined by 6.2 points to a level of minus 55.3 points. The decline of economic expectations for the CEE region is mainly due to an increase of the pessimism for Turkey and Poland. The respective indicators have dropped by 22.6 points and 22.3 points respectively. It is likely that experts' sentiments on the CEE region are affected as well by the fading of the economic prospects in the Eurozone. The Economic Sentiment Indicator has been surveyed monthly by the Centre for European Economic Research (ZEW), Mannheim, with the support of Erste Group Bank, Vienna, since 2007.

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Fear Mongering

Economists are currently being taken to task for the inaccuracy of their forecasts. Some of their most critical voices have come from the natural sciences, where the commentary has been mocking and at times malicious, especially when it comes to assessing re-

search activities in the field of economics. Yet it's easy to turn the tables: erroneous predictions in the natural sciences are legion and their consequences are, in all likelihood, much more costly than those caused by the misjudgements of economists.

Some of the criticism directed at economists was sparked during the severe recession of 2009. At the time, a number of economists in academics and in the field made predictions that in retrospect would seem needlessly pessimistic. For instance, they projected an L-shaped recession, but the actual recession turned out to be more V-shaped. Yet when it comes to pessimism, natural scientists beat the pants off economists. Epidemiologists are a great example. As Walter Krämer writes in *Die Angst der Woche/The Fear of the Week* (2011), epidemiologists have become "a self-service store for fear mongers."

To forestall potential misunderstandings from the start: the examples I will provide below involve, fortunately, nothing more than erroneous predictions, no different in principle from faulty economic forecasts. My point is not to stigmatize natural scientists for making errors, but to call their attention to the glass houses from which they throw stones at economists.

Surely the reader will recall the E. coli (EHEC) outbreak some months ago when the highly respected Robert Koch Institute in Berlin warned people against eating cucumbers, tomatoes, and lettuce. Soon after, the health and consumer protection agency in Hamburg announced that the city's Institute for Hygiene and Environment had identified the culprit: cucumbers from Spain. Within days, though, cucumbers were exonerated. Still, the losses suffered by farmers in Germany alone amounted to millions and millions of euros.

To provide another example: In 2000 news that mad cow disease had been discovered in the United Kingdom reached Germany and triggered hysterical reactions. Healthy animals in both countries were slaughtered en masse. According to a subsequent hearing, German agencies ultimately spent some 1.5 billion euros during the outbreak – on culling, on unneeded testing, and on measures to stabilise the beef market. Yet the number of documented cases of mad cow disease, or BSE, were minimal, and, fortunately, there were no fatalities in Germany. "Perhaps," as Walter Krämer put it in the *Handelsblatt*, "the hysteria surrounding BSE, which the media were mainly responsible for but which some natural scientists also helped flame, killed more people than the disease itself. Consider, say, farmers in the United Kingdom who committed suicide after their livelihoods were ruined by the BSE panic."

The bird flu discovered in Asia also set off global panic. The World Health Organization issued a pandemic alert and one of its prominent experts was reported as predicting anywhere between 5 and 150 million fatalities. The real number of deaths came to 300 worldwide, and zero in Germany. The 2009 swine flu pandemic was more serious, but far less severe than officials – and scientists – initially feared. In Germany there were around 250 fatalities. The costs of protective measures in Germany amounted to more than several hundred million euros. Up to 40 million vials of the vaccination Pandemrix, valued at 250 million euros, had to be destroyed because only a fraction of the vials stockpiled were ever used. This is not the fault of politicians. Had they not taken these measures, and things had turned out as bad as epidemiologists predicted, they would have been accused of reckless negligence.

Wolfgang Franz

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