Research Abstracts
No. 12, December 1999

CENTER FOR LATIN AMERICAN ECONOMICS
Research Department

Preface

The Center for Latin American Economics is pleased to present the twelfth issue of *Latin American Research Abstracts*. The issue includes 101 abstracts written by 144 authors and co-authors. The abstracts appear in alphabetical order by the lead author's surname. The authors' mailing addresses appear in these *Abstracts* so that readers interested in receiving copies of the papers can request them directly from the authors.

In preparation for our next publication, we urge you to send abstracts of your recent research, along with copies of the papers. We ask that the authors write the abstracts in English, limit the abstract to 250 words, and confine submissions to research related to Latin American monetary and economic issues. If you are not yet a member, we urge you to join by filling out the application form at the back of this publication. Please send communication to the following address:

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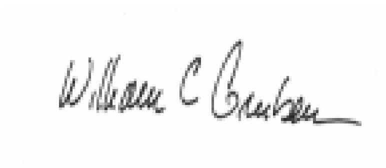

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Brazil, 1824-1957: Good or Bad Debtor?

This paper presents preliminary results from a research project dealing with the financial history of Brazil from 1824 to 1957. It examines Brazil's foreign debt, which was characterized by two long cycles of indebtedness followed by moratoriums, temporary renegotiations and permanent accords. The work specifically addresses the Funding Loans of 1898, 1914, and 1931 as well as the temporary accord known as the *Aranha* Plan, 1933-1937, and the 1937-1939 default. The paper also addresses the permanent accord of 1943 and Brazil's overall role as debtor.

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Quantification of the Welfare Loss Associated with Restrictions Imposed on the Administrators of Pension Fund Portfolios

We consider a model of investment regulation for private pension funds. This model contains exogenous constraints imposed by a central planner on the composition of the pension fund portfolio. These constraints, among others, prevent opportunistic behavior by the pension fund managers. However, their inclusion implies a loss in the welfare of the affiliates. Keeping this trade-off in mind, we propose a quantitative procedure to measure the welfare loss for a different set of constraints. We apply efficient mathematical programming techniques to obtain optimal portfolios with exogenous constraints and include numerical results to illustrate the situation.

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A Characterization of the Singular Economies of the Infinite Dimensional Models in General Equilibrium Theory

The aim of this paper is to characterize the set of singular economies, when there is a finite set of consumers with infinitely many goods in the sense that goods differ in the time which they are consumed or in the state of the world in which they become available. The number of goods in each instant or in each state of the world is finite.

Employing well-known results of the *Singularity Theory* on differentiable maps, we characterize the structure of the equilibrium set from the so-called singular economies. We introduce a continuous time economy, and we study in a limited way the dynamics along the equilibrium path. We show that if singularities exist, then the equilibrium set isn't a finite set, but it may be a continuous set of equilibrium. It is important to notice that we will not describe our models in terms of the *tâtonnement*. Because the process of endowments moves the price system, we don't need the demand law to characterize the equilibrium manifold.

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Two Policies to Face Financial Crises: The Cases of Mexico and Argentina during the Tequila

Both Mexico and Argentina suffered financial crises, known as the Tequila crisis, as a consequence of the devaluation of the Mexican peso in 1994. It is generally postulated that the two countries followed similar polices in the face of this crisis because they reformed their financial systems at the same time. At the beginning of the decade, Mexico amended its Constitution allowing the privatization of the banking sector, which was nationalized in 1982. Argentina, on the other hand, had experienced hyperinflation in the period 1989-1991, which reduced the financial system to a minimum; in 1991, the Convertibility Plan brought new rules to the financial sector. Despite the emphasis on similarities between the two experiences, differences between the structures and institutional arrangements of the financial systems in each country are the main characteristic. Not only were the conditions of the financial sectors in Mexico and Argentina different before the Tequila but the reactions to an external shock were also different. These differences help to explain the behavior of the economic authorities and the policies they implemented.

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Geography and Income Convergence among Brazilian States

The objective of the study is to identify the role of geographical variables in explaining differences in per capita income among Brazilian states. It also aims at ascertaining the degree to which such variables affect the convergence or divergence of per capita income among these states. In order to investigate these issues, it uses microdata, instead of the more traditional aggregate data, averaged up from household to birth cohort level. Both the level and the change in average household income per capita across Brazilian states are correlated to geographical and household variables. The aim is to capture not only the influence of household human capital and wealth variables on the convergence of per capita income (along the lines of the neoclassical model) but also the spatial or geographical characteristics, such as public infrastructure, health and education services. Therefore, this paper simultaneously considers data on geographical variables and repeated cross-sections of household surveys. The use of cohort level data means that we can construct cohort/state/year means for all variables of interest and control for state, life cycle and composition effects for the first time in this literature. The results indicate that the geographical variables seem to be important determinants of income levels and growth. Altogether, the results indicate that human capital and infrastructure variables are important areas for government intervention, as these are some of the main factors behind the differences in steady-state rate of growth of income in Brazil.

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Foreign Investment in Colombia's Financial Sector

This study analyzes foreign investment in Colombia's financial system by chronicling major changes in legislation, describing how investment flows evolved over time, and comparing performance of foreign-owned versus domestic banks. Panel data estimations reveal that financial liberalization in general had a beneficial impact on bank behavior in Colombia. Although the positive contribution of foreign entry may be overstated in recent studies by not controlling for other liberalization factors, foreign (and domestic) entry beginning in 1990 did improve bank behavior by enhancing operative efficiency and competition. However, this

came at the expense of deterioration in the loan quality of domestic banks.

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Economic-Social Policy and Welfare: The Case of Chile

This work presents a description of the principal features of the economic and social policies in Chile from 1980 to 1997, concentrating on the social policy of the last decade. During the eighties, the emphasis was directed towards policies of economic recovery, liberalization, decentralization and social assistance. During the nineties, an economic policy was carried out that emphasized macroeconomic stability by reducing inflation and maintaining high levels of economic growth. The social policy in turn emphasized decreasing poverty by improving equality of opportunities and the access of a better quality of life for all the population. Although income distribution has been stable for the last decade, the poverty level has been significantly reduced, thus achieving important advances in the overall well being.

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Are Market-Oriented Health Insurance Reforms Possible in Latin America? The Cases of Argentina, Chile and Colombia

The process of health care reform benefits tremendously from comparing characteristics and performance across nations. This paper studies market-oriented health insurance reforms in three Latin American countries: Argentina, Chile and Colombia. Chile allowed private health insurers to compete for workers payroll contributions in the 1980s permitting the modernization of the private health sector but relatively impoverishing the public health sector as a consequence of selection practices by private carriers. In the 1990s, Argentina and Colombia started liberalizing the health insurance sector but with policies, which avoided the adverse effects encountered in the Chilean experience. These policies are scrutinized while challenges for these and future health insurance reform processes are discussed.

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Intergenerational Mobility in Educational Attainment in Mexico

Education in Mexico expanded rapidly over the past several generations. We use data from the 1994 *Gender, Age, Family and Work* household survey to document the *anatomy* of Mexico's educational expansion. The survey is, to our knowledge, the first in Mexico that also gathered additional data on characteristics of the household of origin, including parent's education and occupation, sibship size and the birth order of the respondent. Using cohorts created from the survey, we detail patterns of educational attainment and intergenerational mobility in Mexico during the past four decades. By several measures, we find that intergenerational educational mobility has increased over time. Younger cohorts are more likely than older cohorts to have surpassed their parents' schooling levels. The correlation between the education levels of parents and their offspring has fallen in the past four decades. Overall, the correlations suggest that there is slightly less intergenerational mobility in Mexico than in the United States. Despite these gains, intergenerational mobility from the lowest to the highest schooling levels remains limited: only one-third of children born to parents with 6 or fewer years of schooling complete high school, compared to four-fifths of children born to parents with 12 or more years of schooling. This gap has narrowed only slightly since the 1960s.

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The Y2K Problem: Economic Potential Implications

The impacts of the so-called millennium bug, which is produced by a defective formal representation of dates in software, developed several decades ago and which is still used, are highly idiosyncratic of the informational technology at the firm level. There is a real problem for a country such as Argentina, which is somewhat lagging behind more developed countries. This impact is enhanced by the phasing of the business cycle hitting emerging markets due to the financial crisis, which diminishes the incentives for funding projects to face Y2k. The study analyzes the nature of the technological and inventory shock, includes some raw estimates of costs and probable impact for Argentina, and describes a simulation of the macroeconomic impact of an increase of the precautionary demand for money of the economic agents.

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Central Bank Participation in Currency Options Markets

This paper analyzes whether and how central banks can use currency options to lower exchange rate volatility and maintain (implicit) target zones in foreign exchange markets. It argues that selling rather than buying options will result in market makers dynamically hedging their long option exposure in a stabilizing manner, consistent with the first objective. Selling a *strangle* allows a central bank to increase the credibility of its commitment to a target zone, and could have a lower expected cost than spot market interventions. However, this strategy also exposes the central bank to an unlimited loss potential.

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Regulation of Gas Marketing Activities in Mexico

We study linking the Mexican market for natural gas with the North American market and the implications of these links on efficient marketing of gas in Mexico. We argue that PEMEX should be permitted to enter into spot contracts or future contracts to sell gas. However, the price of gas should always be the net back price based on the Houston Ship Channel at the time of delivery. PEMEX should not be permitted to discount the price of gas from the Houston netback price even in a nondiscriminatory fashion. This arrangement is transparent. It is easy to enforce and does not eliminate any legitimate market options for any of the parties involved. PEMEX or consumers of gas can use the Houston market for hedging of speculative transactions.

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The Effects of Social Security Reform on Various Generations

This work analyzes the impact of the social security reform of 1995 on the various generations. The analysis illustrates the impact of the reform in terms of which generations obtained a net benefit and which did not. The study looks at persons of the same generation, the same sex and the same income level. It finds that for persons of the same generation, there are variations due to gender and social status. The simulation also takes into account factors such as the age at retirement, the future evolution of real wages, and interest rates.

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When Capital Inflows Come to a Sudden Stop: Consequences and Policy Options

In this paper we present evidence that capital account reversals have become more severe for emerging markets. Because policy options are limited in the midst of a capital market crisis and because so many countries have already had crises recently, we focus on some of the policies that could reduce the incidence of crises in the first place or at least make the sudden stop problem less severe. In this regard, we consider the relative merits of capital controls and dollarization. We concluded that while the evidence suggests that capital controls appear to influence the composition of flows skewing flows away from short maturities, such policies are not likely to be a long-run solution to the recurring problem of sudden capital flow reversals. Yet, because of fear of floating, many emerging markets are likely to turn to increased reliance on controls. Dollarization would appear to have the edge as a more market-oriented option to ameliorate, if not eliminate, the sudden stop problem.

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The Effects of the U.S. Business Cycle on the Argentinean Economy

The objective of the paper is to study at the empirical level the characteristics of the channels of transmission of the international business cycle. We concentrate on the study of the relationship of the United States' business cycle (the main determinant of the international cycle) and Argentina's (a peripheral country), working under the hypothesis that the relevant shocks happen in the United States while they hit the Argentinean economy through different channels of transmission.

For this task, we differentiate between two kinds of channels of transmission: the financial channel (approximated by the international interest rate) and the trade channel (mainly, commercial flows and the terms of trade).

Using a variety of instruments (correlation, causality and regression analysis, and later VEC modeling), we concentrate on the study of the direction, magnitude and velocity of transmission of macroeconomic fluctuations between both countries through the different channels.

The results indicate that the business cycle of Argentina is influenced significantly by the United States' business cycle. We also find important evidence that the financial channel is the most significant, with the trade channel having reduced magnitude.

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The Measurement of the Equilibrium Real Exchange Rate: A New Econometric Approximation

To determine the deviation of the real exchange rate (RER) with respect to some equilibrium level is of great importance for economic policy. However, the measurements of the RER as well as the determination of its equilibrium level are controversial matters.

In this work, we present the two main approaches in the literature of the Equilibrium Exchange Rate: the Purchasing Power Parity hypothesis and the theory of the *fundamentals*.

We propose a VECM methodology for the determination of the equilibrium RER in the framework of the *fundamentals* approach. Then, we suggest a methodology (a *rolling* VECM estimation) to check the stability of the parameters that at the same time improves on the VECM estimation.

Finally, we suggest proposals to improve the theory of fundamentals giving greater weight to the disequilibrium in the labor market.

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Unit Roots and Cycles in the Main Macroeconomic Variables for Argentina

In this paper we study the integration properties of some of the main macroeconomic series of Argentina. We present a robust methodology for the analysis of persistence of shocks affecting macroeconomic series and its consequences on the modeling of the cyclical and permanent components.

Our strategy consists on testing the stationarity of the series by using a sequence of indicators in such a way that we can analyze the problem from three converging points of view: persistence of the series, unit root (UR) and UR with structural breaks. In such a way, we reach robust results regarding the integration properties of the main 14 Argentinean macroeconomic time series.

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Mexico's Monetary Policy Framework Under a Floating Exchange Rate Regime

The currency and financial crises experienced by the European Monetary System in 1992, by Mexico in 1994-95 and the recent emerging market crisis of 1997-1999 have re-ignited the debate on the viable exchange rate regimes for small open economies and, in particular, for emerging markets. After more than four years with the floating exchange rate regime, the Mexican experience provides an interesting case of study for other emerging economies considering the possibility of moving towards a more flexible exchange rate regime. In this paper we provide an overview of the transition towards the floating exchange rate regime, the functioning of this system in Mexico, the current monetary policy framework and the behavior of the economy in recent years.

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Labor Demand in Uruguay before and after Re-Unionization

This paper examines a unique situation in Uruguay where before-after comparisons of the impact of collective bargaining can be made. During the period under study, there were three distinct regimes: (1) 1975-1984 when bargaining was banned, (2) 1985-1991 when there was tripartite bargaining, and (3) 1992-1997 when there was bargaining without government involvement. During the third regime, the economy became much more open, which would presumably also have an effect on bargaining results.

Strong evidence of a change in economic behavior after 1985 is reported. Based on this evidence, a standard labor demand model, derived from a neoclassical framework for 1975-1984 and a right-to-manage bargaining model for 1985-1997 are estimated. The results show that the long run wage elasticity of labor demand and the employment-output elasticity fell sharply, while there was no overall change in the amount of time needed for employment to adjust to its equilibrium level. The bargaining model results indicate that unions significantly raised wages in 1985-1992. Afterwards, the change in the bargaining structure and the increased openness had a pronounced effect on bargaining outcomes. The overall impact of unions has been a much higher level of wages at the cost of a lower level of employment.

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Non-Wage Costs in the Uruguayan Labor Market

The purpose of this document is to present a series showing the evolution of non-wage costs that a factory has to pay when hiring a worker, which are: the employee and employer's contributions to social security, medical insurance, and bonus and vacation packages. This additional amount to be paid is calculated as a percentage of non-wage costs, which vary according to the different groups of workers. Accordingly, the calculations are made separately by public and private sectors, buildings and manufacturing sectors and for the total of the economy, in all cases between 1975 and 1997 except for some sectors that were calculated since 1968.

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Determinants of Argentina's External Trade

This paper presents new estimates of export and import equations for Argentina, using a broader set of variables than previous studies and distinguishing between intra and extra MERCOSUR trade. It measures the importance of relative price versus income effects in accounting for the higher trade deficit during the 1990s and examines whether foreign trade elasticities have increased as a result of structural changes in the economy. It finds that the high-income elasticity of imports and the responsiveness of exports to changes in world commodity prices, domestic absorption, and economic activity in Brazil have been key determinants of Argentina's trade balance.

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Efficiency Structure Hypothesis: An Application to the Argentine Banking Sector

The Convertibility Plan has been accompanied by significant changes in banking policy: opening of the banking sector to foreign competition, bank privatization, and tighter regulation. As a result, the solvency and the liquidity of the banking system have improved, but the degree of concentration has increased while bank profitability has declined. The latter two facts are consistent with the Efficiency - Structure Hypothesis in the sense that the increase in concentration and decrease in profitability can be viewed as an increase in efficiency.

Burdisso (99), however, presents evidence that in Argentina not only are banks which are more X-efficient less profitable but also that banks, which operate in more concentrated (less competitive markets), have higher profitability. This evidence, on the other hand, lends weight to the Conduct Structure Performance Hypothesis in the sense that profitability is driven by market power and not by efficiency.

We develop a partial equilibrium model of the banking sector with perfect competition and heterogeneous banks in the vein of the efficiency structure hypothesis that can explain the evidence above:

> If foreign banks are more X-efficient than local banks and banking reform leads to lower opportunity costs of entry for large banks, entry into the banking sector results in higher concentration, lower profits and a more efficient banking sector.
>
> If the opportunity costs of entry are relatively lower in regions with more developed financial markets, we will observe that banks which operate in such regions might earn lower profits even if they are more X-efficient.

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Fundamentals Based Contagion: Financial and Terms of Trade Shocks in Mercosur

The huge size of Brazil in Mercosur and the apparently large concentration of trade of Argentina, Paraguay and Uruguay with Brazil make these countries prone to adverse macro-economic developments in Brazil as the 1999 devaluation of the real seems to show. As the contagion literature has forcefully argued, however, macro-economic conditions in developing countries seem to fluctuate more than is warranted by changes in fundamentals, which are specific to the country in question or those of their dominant trade partner.

This paper contributes to the literature on fundamentals based contagion by investigating the two most likely sources of contagion in Mercosur: terms of trade shocks (caused either by developments specific to Brazil or fall in commodity prices) or financial shocks (due to the fact that sovereign spreads in the region are highly correlated).

We develop a neo-classical three good inter--temporal small open economy model with an upward sloping supply of funds (in the sense that the risk premium charged to the economy is increasing in the net external position of the economy).

Numerical simulations show that: 1) For reasonable parameter configurations, vulnerability to financial shocks can be as important as vulnerability to terms of trade shocks and 2) Commercial and financial shocks are observationally different in the sense that they have different quantitative effects on different macro--economic variables.

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Capital Flows, Debt and Liquidity: Assessing Capital Market Interventions to Mitigate Balance Sheet Channel Effects

The past two years or so of economic crises in many major emerging countries and the more Latin American oriented 1995 Tequila crisis, have attracted significant debate over the causes and propagation mechanisms of crises and how they may best be resolved. Perhaps the two most repeated recommendations from analysis of the various emerging countries that have fallen into deep recession is that countries should adopt more flexible exchange rate arrangements and prudential arrangements to reduce risk should be improved. Our focus in this paper is on the prudential aspects. We analyze the role of capital inflow taxes or other interventions on capital flows for a prudential motive.

Our view is that if capital inflow taxes or other capital market interventions are to play a prudential role, then it is to prevent the build-up of excessive debt levels and hence make the economy less prone to the perils of high debt collaterized on falling asset prices. A recent analytical model by Kyotaki and Moore (1997) on credit cycles shows the potential propagation of a small shock to fundamentals through the credit market causes a sharp decline in real output. In this framework, we analyze a spectrum of potential capital market interventions and attempt to rank these in some meaningful way. Our results indicate that renumerated liquidity requirements may be a superior intervention over non-renumerated requirements or pure inflow taxes.

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Liquidity Crises in Emerging Markets: Theory and Policy

We build a model of financial sector illiquidity in an open economy. Illiquidity—defined as a situation in which a country's consolidated financial system has potential short-term obligations in foreign currency that exceed the amount of foreign currency it can have access to on short notice—can be associated with self fulfilling bank and/or currency crises. We focus on the policy implications of the model. We study the role of capital inflows and the maturity of external debt, the way in which real exchange rate depreciation can transmit and magnify the effects of bank illiquidity, options for financial regulation, the role of debt and deficits, and the implications of adopting different exchange rate regimes.

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Regulation for Competition in the Telecommunication Market of Argentina

The objective of this paper is to analyze in what measure regulatory rules recently approved in Argentina foster the development of a competitive market. After a first and a second best analysis, it indicates that a natural monopoly is not a sufficient base to justify price setting through regulation since competition for the market can be developed enough—through proper regulatory rules—to guarantee contestability. A key for reaching that purpose in telecommunications is composed by interconnection access charges to foster contestability. It is concluded that several issues remain to be solved to strengthen competition.

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Financial Integration, Financial Development and Economic Growth

This paper analyzes the relationship between international financial integration and economic growth. Recent literature, surveyed in this paper, emphasizes the role of financial deepening on economic growth. Less attention has been paid, however, to the role of international financial integration in promoting a deep domestic financial market than through the channel fostering economic growth. Financial integration also permits portfolio diversification, allowing higher profitability of investment and hence, a higher rate of economic growth. These issues are examined in this paper. In particular, after reviewing the theory and evidence, this paper analyzes empirically the relationships between financial integration and financial development, and between financial development and economic growth.

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Education and Income Distribution: New Evidence from Cross-Country Data

This paper presents empirical evidence on how education is related to income distribution in a panel data set of a broad range of countries between 1960 and 1990. The findings indicate that education factors—higher attainment and more equal distribution of education—play a significant role in making income distribution more equal. The result also confirms the Kuznets inverted-U curve for the relationship between income level and income inequality. We also find that government social expenditure contributes to more equal distribution of income. However, a significant proportion of cross-country and

over-time variations of income inequality still remain unexplained. Simulation exercises on income distribution show that growth of income and education on their own cannot make income distribution more equal in the short and medium term.

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Regional and National Economic Cycle in Argentina, 1961-1995

In a heterogeneous context as in Argentina, the economic problems that arise from interaction between the regional and national dimensions are important. This work's results suggest the existence of asymmetric regional shocks, which demonstrate the relevance of considering regional factors in designing and implementing measures of economic policy.

The national and regional economic cycle is analyzed for the periods 1961-1995 and 1970-1995, using the method of Hodrick-Prescott, to obtain the regional structure of the economic cycle in Argentina.

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Banking Crises: Some Causal Factors and Features for their Adequate Management and Prevention

The purpose of this paper is to compile the main internal and external causal factors of banking crises in Latin American countries with the aim of building an early warning system.

Some macroeconomic internal factors are (1) interest rate shocks (monetary and fiscal policy), (2) exchange rate shocks (exchange rate policy), (3) credit booms (liberalization programs) and (4) speculative bubbles (real estate and stock exchange). External factors are: (1) interest rate, (2) terms of trade, (3) capital flows and (4) contagion.

The design of an early warning system is based on three specific points: (1) macroeconomic analysis, (2) financial analysis, and (3) macro-financial analysis. Each group includes some indicators that serve to monitor the performance of certain elements, which cause financial crises in the banking system.

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Industrial restructuring of the Electronics Industry in Guadalajara, Mexico: From Protectionism to Free Trade

This report is divided into five sections. Section 1 discusses the strategic significance of the electronics industry for Mexico in the switch from an economic model based on protectionism to one based on trade liberalization. Section 2 analyzes the impact of governmental industrial policies designed to promote exports in the modernization of the electronics industry in Mexico in the 1980s. Section 3 studies the significance of the economic integration of Mexico with Northern and Southern countries in expanding foreign markets for the electronics industry in Mexico in the 1990s. Section 4 identifies urban economics and local policies that were key in the agglomeration of the electronics industry in Guadalajara. Section 5 presents some conclusions and suggests future research directions.

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The Chilean Infrastructure Concessions Program: Evaluation, Lessons and Prospects for the Future

This paper describes and evaluates the Chilean infrastructure concessions program, which is one of the main economic innovations carried out by the center-left coalition of political parties that has governed Chile since the return to democracy in 1990. The main principles underlying the economics of franchising are discussed and used to evaluate the program. The privatizations of highways and seaports are reviewed in detail. Compared with experiences in other countries, the results are promising. The infrastructure deficit has been greatly reduced, innovative ideas have been used successfully and several pitfalls have been avoided. However, since franchise terms are long, the final verdict will not be in for at least a decade. We offer various suggestions to increase the likelihood of a positive outcome. We believe implementing these suggestions would lead to important savings for taxpayers and users.

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Barriers to International Capital Flows: Who Should Erect Them and How Big Should They Be?

Until recently, the trend in world capital markets has been toward increasing globalization. Recent events in Latin America and Asia have caused many in policy-making circles question whether this trend should be wholly, or at least partially, reversed. It is commonly argued that -at a minimum - countries should be given the discretion to erect such barriers, at least in certain circumstances. Recent events, then, have forced a rethinking of the desirability of unrestricted world capital flows. The general presumption appears to be that the *victims* of highly volatile capital flows should be allowed to limit or restrict inflows and outflows of funds. But outflows of funds from smaller and less developed economies often represent inflows of funds to larger and more developed economies. This raises the issue of whether there would be benefits associated with larger and wealthier economies taking actions to limit capital mobility. This paper presents a formal analysis of erecting barriers to international capital flows. We find that, in contrast to conventional thinking, when there are substantial differences in per capita GDP across countries, long-run output in all countries can be increased by having wealthier economies erect some partial barriers to capital mobility. Interestingly, wealthier economies need not persuade poorer economies to cooperate: by implementing an appropriately selected tax on capital flows, it will often be the case that the wealthy economy can unilaterally obtain a higher steady state welfare level for all agents in all economies. We also show that these same barriers need not eliminate endogenously arising volatility in income, capital flows, and asset returns. Under some circumstances, then, if it is desirable to reduce such volatility, this must be accomplished by other means. However, and this bears emphasis, the case for imposing barriers on capital flows does not depend critically on the ability of these barriers to eliminate excess volatility.

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The Slippery Slope: Explaining the Increase in Extreme Poverty in Urban Brazil, 1976 – 1996

Despite tremendous macroeconomic instability, Brazil's urban income distributions in 1976 and 1996 appear, at first glance, deceptively similar. Mean household income per capita was stagnant, with a minute accumulated growth of 4.3% over the two decades. The Gini coefficient hovered just above 0.59 in both years, and poverty incidence (with respect to a poverty line of R$60/month in 1996 prices) was effectively unchanged at 22%. Yet, behind this apparent stability, a powerful combination of labor market, demographic and educational dynamics were at work, one effect of which was to generate a substantial increase in extreme urban poverty. Using a micro-simulation-based decomposition methodology, which endogenizes labor incomes, individual occupational choices and education decisions, we show that the distribution of incomes was being affected. It was affected on the one hand by a decline in average returns to both education and experience, a negative *growth* effect and immiserizing changes in the structure of occupations and labor force participation (all of which tended to increase poverty). And on the other hand, it was affected by an increase in educational endowments across the distribution and a progressive reduction in dependency ratios (both of which tended to reduce poverty). The net effect was small (and negative) for overall measured inequality and negligible for poverty incidence with respect to *high* poverty lines. But it was substantially positive (increasing) for extreme poverty, suggesting the creation of a group of urban households excluded from any labor market and trapped in indigence.

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Trade Barriers and Productivity Growth: Cross-Industry Evidence

This article investigates the impact of trade protection on the evolution of labor productivity and total factor productivity (TFP) of the Brazilian manufacturing sector. An annual panel dataset of 16 industries for the years 1985 through 1997, a period that includes a major trade liberalization, was used. The regressions reported here are robust to openness indicator (nominal tariffs and effective protection rate were used), control variables and time period and suggest that barriers to trade negatively affect productivity growth at the industry level: those sectors with lower barriers experienced higher growth. We were also able to link the observed increase of industry productivity growth after 1991 to the widespread reduction in effective protection experienced in the country in the nineties.

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The Effects of Trade Liberalization on R&D Investments: The Case of the Uruguayan Manufacturing Industry

In this paper we study the effects of increasing imports and foreign firm supply, as a consequence of trade liberalization policies, on the innovative activities of firms in a small developing economy. This is an interesting case as very little research exists on the R&D investments of firms in developing countries. The results show that foreign presence has a positive but not always significant effect, while import competition has a negative and significant effect on R&D investments. Firms that are able to export are also more innovative. The process of reallocation of resources from import substituting industries towards export-oriented industries, caused by the opening of the economy, seems to have reduced the incentives for R&D investments for firms in traditional industries while increasing those for export-oriented firms. Taking into account the defensive and imitative nature of innovative activities of firms in developing countries, these results contrast the evidence from developed countries, where foreign direct investments and imports seem to show positive effects on innovative activities.

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The Effects on Savings of the Uruguayan Social Security Reform

The reform of the Uruguayan social security system approved in 1995 might raise national savings in the median and long run if it induces increases in mean retirement ages or causes a substantial reduction of evasion. Otherwise, the reform might cause a reduction of national savings. Simulations of the reform show that the effects of the reform on national savings in the median and long run depend basically on its effect on public savings. Effects of the reform on national savings through both families' voluntary savings and savings in pension funds (AFAP) are less important, particularly in the long run.

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The Fiscal Effects of the Uruguayan Social Security Reform

This paper summarizes our simulations of the fiscal effects of the recent reform of the Uruguayan pension system for the 1996-2050 period. According to our results, fiscal effects of the reform crucially depend on what happens with the retirement age and with evasion in the new regime. We get permanent increases of the fiscal deficit and public debt if average retirement age does not change significantly and if there is no reduction in evasion. The reform can cause sustainable fiscal deficit and public debt reduction if average retirement age rises in at least two years or if evasion is substantially reduced. In this sense, we conclude that fiscal success of the reform rests on its ability to reduce evasion or to induce retirement postponement.

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A Simulation Model of the Uruguayan Social Security Reform

The goal of this paper is to present the simulation model used in a research on the macroeconomic effects of the law 16.713 that reforms the Uruguayan social security system. It is a version of the overlapping generation models that have been extensively used for the analysis of fiscal and social security policies (Auerbach and Kotlikoff, 1987; Falkinghan and Johnson, 1993; Obstfeld and Rogoff, 1996, among others). The value added in the present version should be the adaptation of the general model to the particular conditions of Uruguay and the reform to be analyzed.

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The Balance between Adjustment and Financing

When inflows change to outflows, a country often has less than a year in which to take steps to adjust, through some combination of expenditure-switching policies such as devaluation and expenditure-reducing policies such as higher interest rates. If it chooses to finance rather than adjust, then it is likely to find, when the crisis comes, that there does not exist any combination of policies that preserves internal balance -- i.e., avoids a recession -- while simultaneously meeting the external financing constraint.

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International Lender of Last Resort

This comment discusses the issues regarding the scale of conditional finance offered by the International Monetary Fund in recent rescue packages and the related issues regarding a true lender of last resort. It reviews critiques of the Fund's performance in recent emerging-market crises, noting that they come from opposite directions.

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No Single Currency Regime is Right for All Countries or at All Times

This essay considers some prescriptions that are currently popular regarding exchange rate regimes: a general movement toward floating, a general movement toward fixing, or a general movement toward either extreme and away from the middle. The whole spectrum from fixed to floating is covered (including basket pegs, crawling pegs, and bands), with special attention to currency boards and dollarization. One overall theme is that the appropriate exchange rate regime varies depending on the specific circumstances of the country in question (which includes the classic optimum currency area criteria, as well as some newer criteria related to credibility) and depending on the circumstances of the time period in question (which includes the problem of successful exit strategies). Latin American interest rates are seen to be more sensitive to US interest rates when the country has a loose dollar peg than when it has a tight peg. It is also argued that such relevant country characteristics as income correlations and openness can vary over time and that the optimum currency area criterion is accordingly endogenous.

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Verifiability: A Rationale for the Failure of Intermediate Exchange Rate Regimes

This paper offers a possible theoretical rationale – currently lacking – for the proposition that intermediate exchange rate regimes are no longer viable. According to this proposition, countries are being pushed to the *corners*, the extremes of either free floating or firm fixing. We introduce the notion of verifiability, by which we mean the ability of a market participant to infer statistically from observed data that the exchange rate regime announced by the authority is in fact in operation. Verifiability is a means to credibility. Our point is that a simple regime may be more verifiable by market participants than a complicated intermediate regime. We study the verifiability of exchange rate regimes by analyzing the case of Chile and by performing Monte Carlo simulations. Simple pegs and basket pegs are relatively easy to verify. As the case of Chile helps illustrate, a band around a peg makes the verification more difficult. Under a narrow band the weights on the central parity can be estimated correctly. However, wider bands make impossible the verification of the central parity. The amount of data that would be required may well exceed the length of the time period during which a given regime is typically maintained. The Monte Carlo exercise shows that the amount of information necessary to verify the exchange rate regimes increases with the complexity of the regime, including the width of the band and the number of currencies in the basket.

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Latin American Trade Elasticities

An important issue in applied international economics is the extent to which trade flows adjust to changes in income, relative prices, and exchange rates. While there have been numerous surveys regarding merchandise trade elasticities in industrial economies such as Japan and the United States, relatively little work has been completed with respect to developing regions of the world. Material in this article examines the literature on empirical estimates of import and export elasticities published for Latin America.

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Patterns of Crime Victimization in Latin America

In this paper we draw a profile of the victims of crime in Latin America. We show that at least for the case of property crime, the typical victims of crime in Latin America come from rich and middle class households and tend to live in larger cities. We also show that households living in cities experiencing rapid population growth are more likely to be victimized than households living in cities with stable populations. We offer various explanations to these facts, and while we cannot yet provide definite answers to some of the questions raised by this paper, we are at least able to reject some plausible hypotheses. On the whole, our results imply that urban crime in Latin America is, to an important extent, a reflection of the inability of many cities in the region to keep up with the increasing demands for public safety brought about by a hasty and disorderly urbanization process.

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Financial Market Contagion in the Asian Crisis

This paper tests for evidence of contagion between the financial markets of Thailand, Malaysia, Indonesia, Korea, and the Philippines. Cross-country correlations among currencies and sovereign spreads are found to increase significantly during the crisis period, whereas the equity market correlations offer mixed evidence. A set of dummy variables using daily news is constructed to capture the impact of own-country and cross-border news on the markets. After controlling for own-country news and other fundamentals, the paper shows evidence of cross-border contagion in the currency and equity markets.

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Monetary Policy in the Aftermath of Currency Crisis: The Case of Asia

This paper evaluates monetary policy and its relationship with the exchange rate in the five Asian crisis countries. The findings are compared to previous currency crises in recent history. The paper finds that there is no evidence of overly tight monetary policy in the Asian crisis countries in 1997 and early 1998. There is also no evidence that high interest rates led to weaker exchange rates. The usual trade off between inflation and output when raising interest rates suggested the need for a softer monetary policy in the crisis countries to combat recession. However, in some countries, corporate balance sheet considerations suggested the need to reverse overly depreciated currencies through firmer monetary policy.

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The Impact of Monetary Policy on Exchange Rates During Financial Crises

One of the most controversial issues that has emerged in the aftermath of the Asian financial crisis has been the appropriate response of monetary policy to sharp, destabilizing declines in currency values. Some observers have argued that a significant tightening of monetary policy is necessary in order to stabilize the exchange rate, restore confidence, and lay the groundwork for an eventual recovery of economic activity. Others have argued that raising interest rates, by reducing the ability of borrowers to repay loans and thereby weakening the banking system, may further reduce investor confidence and lead to further weakening-not strengthening-of domestic currencies.

Roughly a year and a half after the Asian financial crisis started, this debate remains unresolved. A key reason for this is that because of the endogeneity of interest rates with respect to exchange rates and investor expectations, it is extremely difficult to use statistical analysis to identify the impact of monetary policy on the exchange rate. In our paper we use measures of international credit spreads and of domestic stock prices as proxies for investor concerns about credit worthiness and country risk in order to better identify the impact of monetary policies on the exchange rate. These measures are included,

along with domestic interest rates, in error correction models for the real exchange rate, using weekly data from Indonesia, Korea, Malaysia, the Philippines, Thailand, and Mexico. We find that movements in credit spreads and in stock prices exert significant impacts on exchange rates during financial crises. Notwithstanding the care we have taken to identify the effect of monetary policy shocks, however, changes in interest rates still are not estimated to have significant impacts on the exchange rate. We conclude that while monetary policy probably does have important effects on exchange rates, they probably take place more slowly and over longer periods of time than the episodes examined in our study.

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Bending the Paradigm: How Brazil Got Itself into a Currency Crisis and Out

Since Brazil's late 1990s fiscal policy was a virtual primer on how to invite speculative attacks, the nation's 1999 devaluation was widely anticipated. In contrast, the effectiveness of subsequent currency stabilization programs was a surprise. Brazil's exchange rate and inflation rate stabilized far more quickly than Mexico's did after its 1994 devaluation or than Indonesia's and Thailand's did after their 1997 devaluations. This paper outlines why. Brazil had established capitalization and other rules that strengthened the banking system before the January 1999 devaluation. As a result, Brazilian central bankers could pursue a brutally tight monetary policy without creating or aggravating a banking crisis and they did. We outline the trajectory to and away from Brazil's currency crisis of early 1999, emphasizing the role that bank health (instead of bank sickness) plays in establishing currency and price stability.

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Financial Turmoil and the Choice of Exchange Rate Regime

This paper attempts to assess the performance of alternative exchange rate regimes in Latin America relative to the benefits they are theoretically supposed to deliver. We will test empirically whether flexible systems allow for better cyclical management, more monetary autonomy and improved control of the real exchange rate. We find that flexible exchange regimes have not permitted a more stabilizing monetary policy but instead have tended to be more pro-cyclical. In addition, flexible regimes have resulted in higher real interest rates, smaller financial systems and greater sensitivity of domestic interest rates to movements in international rates. We also find that flexible regimes tend to promote wage indexation. We show that the revealed preference of Latin America is to allow very little exchange rate movement, even in periods of large real shocks such as 1998. We explain this preference as a consequence of de facto wage indexation and the high proportion of dollar-denominated financial liabilities. The paper then discusses the problems with fixed exchange rates and reviews the current interest in supra-national currencies, including full dollarization.

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Central Banking Without Central Bank Money

Given the rapidly declining demand for central bank reserves and their gradual replacement in wholesale payments by alternative forms of money-clearinghouse money and treasury money-this paper discusses whether the complete extinction of base money could undermine monetary control. It argues that such concerns are misplaced since central banks can target interest rates and inflation even in the absence of base money. The paper explores implications for current and future central banking, including monetary and foreign exchange operations, lender of last resort, coordination between public debt and monetary management, and design of operating rules in currency boards.

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Business Cycle Fluctuations in a Small Open Economy: The Case of Uruguay

This paper provides an empirical description of the business cycle regularities of the Uruguayan economy between 1975 and 1994. The method of estimation of the cyclical components is based on the application of the Hodrick-Prescott filter to the unobservable trend-cycle components estimated from reduced-form univariate models. The method used to derive cyclical components offers two advantages over the procedures usually used in the literature. First, the cyclical component is extracted from time series that have been previously seasonally-adjusted using a method which explicitly takes into account the specific characteristics of the estimated data generating process. Second, given that irregular components are excluded from the estimation of the final cyclical components, correlations considered in the characterization of the business cycle are not affected by non-systematic oscillations (noise) in the series. The pattern observed in the cyclical comovements of the aggregate supply and demand components as well as their levels of relative variability are similar, in general, to those observed in other economies. However, some characteristics seem to be specific to the Uruguayan economy: procyclical and low-volatility public sector expenditure, cyclical lag of monetary aggregate fluctuations and counter cyclical interest rates. Exports, ex-ante real interest rates in local currency and the GDP of neighboring countries Argentina and Brazil behave as leading indicators of the reference cycle of the Uruguayan economy.

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Bank Lending and Contagion: Evidence From the Asian Crisis

This paper analyzes how the crisis in Asia spread during the second half of 1997. We cast our net wide and investigate several possible trade and financial linkages among the Asian economies. We construct a series of *contagion vulnerability indices*, which capture the various manifestations of exposure through trade and finance to the initial crisis country and contrast the predictions of this index to actual outcomes during the Asian crisis. We pay attention to the reversal in bank lending of Japanese and European banks, which were lending heavily to emerging Asia on the eve of the crisis. Daily interest rate and exchange rate data for Indonesia, Malaysia, the Philippines, South Korea, and Thailand are used to assess whether the patterns of causality and interdependence changed as the crisis spread, as well as to examine whether interdependence among the Asian economies has changed as the result of the crisis.

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Unexpected Privatizations: Politics and Social Security Reform in the Southern Cone

As populations age, governments in many countries are considering social security privatization. This policy experiment first became politically viable in Latin America. It threatens to reduce benefits for traditionally powerful constituencies and thus generates fierce political opposition from labor, pensioners, and professional groups with a stake in the old system. This article explores pluralist and institutionalist explanations of the divergent paths of social security reform in Argentina, Brazil, and Uruguay. The degree to which political institutions provided interest groups with opportunities to act as veto players was a fundamental determinant of policy outcomes.

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Capital Account Liberalization, Financial Depth, and Economic Growth

We show a statistically significant and economically relevant effect of open capital accounts on financial deepness and economic growth in a cross-section of countries from 1986 to 1995. Countries with open capital accounts over some or all of this period had a significantly greater increase in financial depth than countries with continuing capital account restrictions, and they also enjoyed greater economic growth. These results, however, are largely driven by the developed countries included in the sample. The observed failure of capital account liberalization to promote financial deepness among developing countries suggests potentially important policy implications concerning the desirability of opening up the capital account.

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Delaying the Inevitable: Optimal Interest Rate Policy and BOP Crises

The classical model of balance of payments crises implicitly assumes that the central bank sits passively as international reserves dwindle. In practice, however, central banks typically defend pegs aggressively by raising short-term interest rates. This paper analyzes the feasibility and optimality of raising interest rates to delay a potential BOP crisis. Interest rate policy works through two distinct channels. By raising demand for domestic, interest-bearing liquid assets, higher interest rates tend to delay the crisis. Higher interest rates, however, increase public debt service and imply higher future inflation, which tends to bring forward the crisis. We show that, under certain conditions, it is feasible to delay the crisis, but raising interest rates beyond a certain point may actually hasten the crisis. A similar non-monotonic relationship emerges between welfare and the increase in interest rates. It is thus optimal to engage in some active interest rate defense but only up to a certain point. In fact, there is a whole range of interest rate increases for which it is feasible to delay the crisis but not optimal to do so.

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Emerging Market Risk and Sovereign Credit Ratings

In principle, the sovereign credit rating industry could help mitigate the congestion externalities common to world capital markets that arise from the failure of market participants to internalize the social cost of external borrowings. This would require that modifications in ratings on government bonds convey new information to market participants, with changes in credit ratings leading to changes in country risk premia. Using panel data analysis and event studies, this paper presents econometric evidence that changes in credit rating have a significant impact on international financial markets. In line with earlier studies, our event study finds a highly significant announcement effect when emerging-market sovereign bonds are put on review with negative outlook. Our findings imply that the sovereign rating industry has the potential to help dampen excessive private capital inflows into the emerging markets with negative rating announcements.

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Political Economy of Income Distribution: A Comparative Study of Taiwan and Mexico

Both Taiwan and Mexico have experienced remarkable economic growth since the 1960s. Taiwan demonstrates that higher income levels can be accompanied by falling income inequalities. However, unlike Taiwan, the course of economic growth in Mexico has left the country with a very unequal distribution of income. This paper compares the government policies of income distribution in Mexico and Taiwan and identifies the factors contributing to the success of Taiwan and the highly uneven income distribution in Mexico. The paper concludes that market-oriented growth does not automatically reduce inequality or poverty, and that the prospects for better income equity and sustainable economic development would be greatly enhanced through implementation of policies aimed at redistributing land, building skills, facilitating small enterprises and increasing domestic saving.

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Economic Integration and Output Fluctuations in Mexico and the U.S.

The implementation of NAFTA represents a radical departure from the traditional relationship between Mexico and the U.S. The correlation of economic activity in both countries would reflect the adaptation of Mexican output fluctuations to the U.S. business cycle. On an *ex ante* basis, the merger of the theoretical approaches to business-cycle behavior and trade theory provide a consistent explanation of the expected consequences of economic integration. However, the effectiveness of this approach largely depends on the description of bilateral spillovers based on a single functional form of integration.

This paper suggests that the nature of economic integration in North America is more complex than what conventional wisdom indicates. Our work attempts to develop a methodology that can offer a better explanation of the actual integration process. Principal-component analysis suggests that economic integration between Mexico and the U.S. is the result of a variety of mixed responses at the sector-specific level rather than the outcome of a one-to-one relationship between the same industry on both sides of the border. Our findings indicate that the high incidence of intra-industry bilateral trade is the consequence of integration being driven by regional complementarities rather than by country-specialization.

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Income Distribution and the Public-Private Mix in Health Care Provision: The Latin American Case

Recent literature on Latin-American countries shows that private expenses as a share of the total expenditures on health tend to be higher the lower the level of economic development of the nation. This paper explains this fact by considering a discrete choice model of product differentiation, where consumer choice is based on a price-quality tradeoff. Physicians are involved in a dual-job holding structure, working as agents in the official sector while they maximize profits in a fragmented private sector. The model, which characterizes a significant number of systems within Latin-America, shows the linkages between consumer choice and physician behavior and also the interaction between public and private systems in the face of external macroeconomic shocks and investments in health. The paper concludes that the lack of incentives in the public sector generates a decline in health coverage. It not only reduces the quality of public services but also generates negative spillovers in the rest of the system, provoking a loss of quality in the entire health care sector. In addition, the model simulates how changes in income distribution affect the selection of quality and prices in the private sector, determining individuals' choices among different providers.

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Is the Central Bank Interest Rate a Guide for the Banking System?

The objective of this paper is to evaluate whether there is a close relationship between the interest rate that reflects the monetary policy stance and the variety of deposit and loan rates that prevail in the market.

We use monthly data for the period of 1988-1999. Three analysis methods are applied: graphic observation, leading indicators and vector autoregressions (VAR).

Empirical results indicate that both deposit and loan rates have a quick response to changes in six-month BEM (the main monetary policy instrument) rates. However, the degree of response is somehow weaker since the bonds' joint auction (between the Central Bank and Ministry of Finance) was introduced.

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Monetary Policy Transmission Channel: Conceptual Framework

This paper presents the most important theoretical aspects of the main monetary policy transmission channels generally mentioned in the literature: the interest rate channel, the credit channel, exchange rate channel, asset price channel and economic agents expectations channel.

In the first part, we refer to the discussion that prevails about the way monetary policy actions are transmitted to some intermediate variables and to the final objectives. We also discuss why it is so important for the monetary authority to know the transmission channel with some detail in order to evaluate the effectiveness of monetary policy to reach the established goals.

Then, we develop theoretically each of the five transmission channels and outline the most relevant functional relations established between the variables involved.

Finally, we address the relevance of the monetary policy transmission channels, whatever the monetary policy framework adopted by the authorities, and how they should understand and take into account the diversity of possible direct, indirect, and even undesirable effects, which are derived from their policy decisions.

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Concentration Risk in Bank Loan Portfolios: Measurement, Single Obligor Limits, and Capital Adequacy

Formal work on credit concentration risk has focused mainly on applying portfolio theory to portfolios of traded fixed income assets. No comparable counterpart has emerged however for dealing with portfolios of everyday bank loans for which information compatible with portfolio theory is difficult or too costly to obtain. Based on the default behavior of the portfolio, as represented by default probabilities of the loans and their covariance matrix, a model is developed which relates a measure of concentration of the loan portfolio with value at risk in order to guarantee capital adequacy within a specified confidence level. It is seen that the Herfindahl-Hirshman index emerges naturally as a measure of concentration and that there is a direct relation between this index and the *single obligor limit*, which is explored in detail. The results show how individual limits can be set on loans, along different dimensions of concentration, so as to ensure capital adequacy for the risk structure of the portfolio. Throughout the paper, the implications for risk management and regulation are discussed.

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Private Order under Dysfunctional Public Order

People's concern for their own reputation can support contracting between a pair of trading partners when one or both are locked in and among multiple trading partners in close-knit communities where information flows freely. In communities where people can hide behind their anonymity, however, private order, if it is to operate at all, must be organized. Private-order organizations in notably diverse settings, from medieval Europe to present-day Mexico, work in similar ways. An organization such as a market intermediary or a trade association disseminates information about contractual breaches and coordinates the community's response. The usual sanction is to boycott the offender. While private order fosters economic efficiency by making gains from trade realizable, it sometimes also generates inefficiency via exclusion or collusion. Private order can cause discrimination. Some private-order organizations' enforcement techniques overflow into criminal violence. Private order can usefully supplement public law, but cannot replace it.

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Historical Analysis of Chile's Economic Literature

Santiago is one of the few Latin American cities that has had for more than a decade four specialized economic journals with highly distinguished academic economists as authors. This paper examines the evolution of these academic publications from 1963-1996. The type of issues and their distribution among the papers constitute the focus of the analysis. Which areas have the largest academic research concentration? How do the priorities change through time?

Considering the 1963-1996 period, the articles have the following subject distribution: (1) Macroeconomics and microeconomics have a share of 29% and 15% respectively. (2) Labor and distributive issues (including poverty and social policies) have a participation of 13% and 9% respectively. (3) International trade, industrial organization and environment have the following percentages:

9%, 5%, and 2% respectively. (4) Economic development and institutions have shares of 8% and 4% respectively.

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Official Dollarization of an Economy

The purpose of this paper is to discuss full dollarization and the foreseeable consequences that its implementation would have on the real and financial sectors as well as on the scope of the traditional functions of the central bank and economic policy.

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Viability and Convenience of Full Dollarization in Costa Rica

This paper explains official dollarization and the main differences between it and other systems such as a fixed exchange rate with issuance of a national currency by a central bank and a currency board. The paper also addresses the pros and cons and pre-requisites for an effective dollarization process. In this context, we assess the current conditions of the Costa Rican economy to arrive at some conclusions on how viable and desirable official dollarization would be in Costa Rica in the short or medium term.

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Female Labor Supply in Chile

The aim of this study is to analyze female labor supply in Chile and explain its Peculiarities: in other words, the differences from male labor supply and the way female participation rates vary according to household income levels. In Chile the top income decile has a female participation rate of 53%, in contrast to 18% in the poorest decile.

To analyze the factors that affect the behavior of the female labor participation rate, we first estimate a labor supply function for men and women and then a female labor supply equation with additional variables that might explain the differences in behavior between women from different socioeconomic levels.

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Argentina: The Political Economy of Stabilization and Structural Reform

In the 1990s, Argentina became known as a paradigm of neo-liberal policies.

President Carlos Menem was lauded for his ideological zeal in implementing radical economic reforms. Yet, how much of his behavior was motivated by ideology? How much of it was spurred by political necessity? We argue that President Menem was a political entrepreneur who used the Convertibility Plan for expedient purposes to mobilize untapped social forces.

We argue that the old division of the tradable sector, mainly comprised of agricultural exporters, against the non-tradable sector, mainly consisting of import-substitution industries and organized labor unions, was broken by the negative effects of protracted economic instability and hyperinflation. The rapid stabilization of the Argentine economy through the Convertibility Plan allowed the formation of a new coalition that broke the grip of groups that traditionally dominated Argentine politics.

The coalition pushed through important political and economic reforms. Unfortunately, the new political power was not used to consolidate the reforms and allow the Argentine economy to enter into a sustainable path of development and growth. Specifically, the government did not push through the labor reforms needed to ensure the sustainability of the Convertibility Plan. Instead, the government focused its resources on amending the constitution and securing a second presidential term.

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Recent Dynamics of the Formal Labor Market in Brazil

This paper investigates and quantifies the changes in the labor market for formal workers in Brazil from the beginning of the 90s up to June 1999. In this period, Brazil goes from a country with a closed and protected economy into an open and competitive one. The impacts on the job market are significant and are analyzed considering the size, the sectors and the geographic region of the units that hire and dismiss. Our results indicate that the new jobs are created in small units and basically in the service sectors. Large industrial units are responsible for most of the job dismissals.

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An Employment Demand Model: Methodology and Results

The purpose of the paper is to describe an instrument capable of quantifying, in the short and medium run, the jobs necessary to meet exogenous increase in demand in different sectors of the economy. Its methodology is based on an extended version of the Leontief's Matrix, in which endogenous equations represent the behavior of both intermediate and private consumptions. The paper also examines which sectors in the Brazilian economy have the potential of creating more jobs, assuming an equal increase in demand for each of the 41 sectors analyzed. Among the top 10 sectors, 7 were related to agrobusiness. The leader of the rank was clothing.

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The Phasing Out of Government Banking in Brazil

Government banks have been established at the federal and state government levels in Brazil for many decades. This paper will examine how their inherent instability and lack of financial viability and competitiveness have created pressures for their demise and consequent *desestatization*. The second part of this paper shows the importance achieved by government banks in the Brazilian financial system. In the third part, the deterioration of the government financial institutions will be analyzed through their past instability and operational structure. How the *Real* economic stabilization program intensified their difficulties will be examined in the fourth part. The fifth part describes the efforts and the results of the Brazilian government to reduce the presence of state government banks in the economy, while the sixth part differentiates the Federal Government's attitude to date with respect to its own (Federal) financial institutions. Finally, the results and obstacles to date of the *desestatization* program for government banks will be summarized.

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Collective Bargaining Systems in Six Latin American Countries: Degrees of Autonomy and Decentralization (Argentina, Brazil, Chile, Mexico, Peru, and Uruguay)

This paper characterizes the collective bargaining systems in six Latin American

countries focusing on their effects on labor market flexibility. The institutional arrangements are analyzed along two dimensions: (1) the degree of centralization v. decentralization and (2) the degree of state intervention v. collective autonomy. They are also analyzed at three levels: (1) collective association, (2) collective bargaining, and (3) conflict resolution. Table A compares the collective bargaining systems of the countries studied. Table B sets forth a list of questions that guided the analysis. Table C provides detailed analysis of the collective bargaining systems. The information summarized in this paper was collected from a review of labor laws, literature, and observations by experts in the field. The paper also describes the overall setting within which the collective bargaining systems operate. The paper briefly summarizes arguments on the effects of institutional arrangements on labor market flexibility and economic performance but does not seek to draw conclusions on this relationship.

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The Role of Family Networks, Coyote Prices and the Rural Economy in Migration from Western Mexico: 1965-1994

The Mexico-U.S. wage gap alone cannot explain the large increases in migration from Mexico to the U.S. in the last three decades. This paper explores three alternative migration determinants: family migrant networks, the Mexican migrant-smuggling (coyote) industry, and the rural economy. The premise of this paper is that successive cohorts of migrants and an expanding coyote industry have led to declines in the costs of migration partly through the formation of networks, while the long-term decline of the rural economy has led to increases in the gains to U.S. migration. Using unique, source-country data collected by the Mexican Migration Project from both migrant and non-migrant households in western Mexico, this paper estimates how the probability of migrating is influenced by the above determinants in two ways. First, the effect of coyote prices and economic output are estimated using an instrumental variables strategy in which coyote prices are instrumented for using border enforcement hours. Second, family network effects are estimated controlling for individual fixed effects. My findings suggest that sibling networks are by far the most significant determinant of initial migration, although falling coyote prices and worsened economic conditions have also been significant push/pull factors in out migration from western Mexico over this time period.

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The Effect of Migration Costs on Length of Stay: The Case of Return Migrants from Mexico

Increased illegal immigration from Mexico has been accompanied by rising enforcement along the Mexico-U.S. border. There is also the perception that migrant stays are becoming more permanent. This paper explores whether border enforcement has simply 'trapped' would-be return migrants inside the U.S. or if lengthened spells are the result of other dimensions of migration costs such as migrant access to networks. First, a theoretical model is formulated in which I demonstrate that rising fixed costs of migration should lead to increased durations of stay among return migrants. In the empirical section, the estimates from a Cox proportional hazard model suggest increased linewatch hours have contributed to longer spell lengths among both documented and undocumented immigrants on first trips, but have had no impact on undocumented migrants on higher-order trips. Increased access to sibling and father networks has led to longer durations of stay for both groups.

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Openness, Reform and the Labor Market: The Experience of a Decade of Structural Changes in Peru

This study examines the labor situation in Peru and finds evidence of a profound transformation in the labor market during the 90s.

First, the creation of jobs in the private sector grew enormously beginning with 1992. Secondly, although the unemployment rates of the 90s are greater than the second half of the 80s, the labor market of the 90s re-employs displaced workers more rapidly. Thirdly, wages of jobs similar in nature have become more uniform. Also there has been an increase of women and young people in the formal sector thus causing less of a difference in the labor composition between sectors traditionally classified as informal and formal sectors.

As a whole, employment growth, the larger capacity of re-employment of displaced workers, and the fall in the differences between the formal and informal sectors, all have resulted in a more efficient performance of the Peruvian labor market. However, this transformation is not void of difficulties. It presents new challenges for responsible policies regarding labor, education and the economy.

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Job Security and the Age-Composition of Employment: Evidence from Chile

This paper develops and tests a mechanism by which job security affects the age-composition of employment. This mechanism is based on the relative costs of dismissing young versus older workers resulting from job security provisions that are related to tenure. Using 39 consecutive annual household-surveys from Chile, we find that job security is associated with a substantial decline in the wage employment-to-population rate of young workers. In contrast, we do not find such a decline in young self-employment rates or in the wage employment rates of older workers. Our results also indicate that the negative effect on youth wage employment is driven by the slope of the severance pay-tenure profile. Regarding aggregate employment rates, we find that a raise in tenure-based severance pay reduces long-run employment, while a raise in a flat severance pay will marginally increase it.

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Work Sharing and the Dynamic Demand for Workers and Hours

In this paper, we investigate whether a reduction in standard hours has a positive impact on the employment level, an effect known in the literature as work-sharing The innovation here is to include employment adjustment costs in the theoretical model. This feature introduces interesting dynamic aspects, which allow us to study optimal paths of employment and average hours both in the short and the long run. The main result is that work sharing does not occur even in the presence of employment adjustment costs.

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Environmental Assets: Do They Constitute a Luxury?

In environmental literature there has been an increasing interest in analyzing the income elasticity of environmental amenities and particularly the willingness to pay for an environmental improvement (see Kristrom and Riera, 1996). In this paper, we are only concerned with estimating the income elasticity of environmental amenities, leaving aside the discussion about its use as an approximation to the elasticity of willingness to pay.

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Inflation and Business Cycles

This work shows some of the harmful effects of inflation for the case of Mexico. The analysis is focused in the short run dynamics of different macroeconomic variables and their relationship with inflation. The Hodrick-Prescott filter is applied to derive the cyclical components of the variables under study. The contemporaneous correlations between the cyclical components of the variables show that when inflation is above its trend, the level of economic activity, employment, investment and the real wage rate tend to be below their trend. Furthermore, rates of inflation above their trend are associated with nominal and real rates of interest above their trend. Correlations between leads and lags of the cyclical components point out that inflation has a harmful effect on the examined variables. The results are corroborated with impulse-response functions estimated through vector auto regressions. In the presence of these results, every effort should be done to lower the inflation rate definitively.

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Fiscal Decentralization and Voters' Choices as Control

This paper investigates, empirically, the voters' choices as a mechanism of control of the municipal governments in Argentina. In particular, the paper explores the question of whether voters choose to support the political party in office based on its fiscal performance while in office. After a learning period, citizens vote considering the fiscal performance. The smaller the jurisdiction, the more sensitive the citizens. Voters, in evaluating fiscal performance to make voting decisions, consider the performance in the recent past. Municipal elections are not a mere rehearsal of national or provincial elections. We conclude that we can trust in fiscal decentralization and voting. Perhaps, it is a better option than fiscal centralization.

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Average Revenue Regulation and Uncertainty

We examine profit-maximizing pricing under a stylized version of the price-cap plan used by the Mexican Regulatory Commission (CRE) to regulate transportation and distribution in the natural gas industry. When average revenue in each period is calculated as the ratio of total revenue to output in that period (as in the CRE's plan), incentives for strategic non-linear pricing may be created. However, in spite of its drawbacks, we also show that this regulatory regime can be efficient under stochastic-demand environments because it allows an intertemporal growth in consumer surplus. This is proved by a simulation exercise with data from the natural-gas distribution projects in Mexico.

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The Relation between the Level and Uncertainty of Inflation

This paper focuses on the problems faced in the empirical investigation of the relation between the level and volatility of inflation. Monthly inflation series seem to be affected by both the presence of outliers and conditional heteroscedasticity. First, the paper illustrates the implications that the presence of outliers and conditional heteroscedasticity have on the usual residual diagnostics. Then, estimates of the level and volatility of inflation are obtained for each of the countries of the G-7 group. Empirical evidence for the majority of the inflation series for these countries indicates both the presence of outliers and conditional heteroscedasticity, and that estimates of the latter are sensitive to the presence of outliers. Finally, the temporal dependence found in the conditional variance is enduring.

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An Analysis of the Costs of Disinflation

In this study we analyze the empirical regularities of the disinflationary processes implemented in different countries during the period 1970-1997. The analysis focuses on the determinants of the costs associated with the reduction of the rate of inflation. We also present a model that attempts to capture the elements relevant to the disinflationary process and the costs associated with it.

In the first part of the paper we present a methodology, based on Ball (1992), for the estimation of the sacrifice ratio. Next we analyze the relationship between the sacrifice ratio and the speed of disinflation for the disinflationary episodes in a sample of 24 countries during the period 1970-1997. In the second part we propose a model that attempts to capture the relevant elements in the disinflationary process. The model allows us to illustrate the role played by the different factors that determine the costs of disinflation. We calibrate the parameters of the model to be consistent with Mexico's recent inflationary experience. Thus, we obtain an estimate of the cost, in annual GDP terms, of reducing Mexico's inflation rate from the current moderate level to a one-digit level. We find that under reasonable assumptions, the resulting range of sacrifice ratios is consistent with the empirical evidence of the first part of the paper. This we take as evidence that Banco de Mexico's 1999 monetary program is not out of line with recent experience in other countries. Finally, we explore the effect that a reduction of nominal wage inertia through the expectations formation process of laborers has on the sacrifice ratios resulting from the calibrated model. In the end we present some conclusions.

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Pension Funds' Foreign Portfolio Investment and the Development of Local Capital Markets

This document discusses the connection between foreign investment made by pension funds and the development of local capital markets. We begin by focusing on the issues shown in the international experience and close with remarks about the Uruguayan case. The topic makes clear the tension between the development of domestic capital markets as a positive externality of the social security reform and foreign investment as a response to population aging and lack of local investment opportunities for investments in real and financial assets. Alternatively, we could raise the question: Is the development of domestic capital markets a complement or a substitute of financial globalization? Although, in the Uruguayan case, we can make the reasonable conjecture that foreign assets in local pension fund portfolios can improve the combination risk-return to the extent of practically achieving a free lunch. The timing

and uncertainty of funding the transition to a system with a fully funded pillar impose constraints on a sudden lift to the limitations of domestic pension funds' portfolio investment abroad.

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Pension Systems, their Reforms, and Capital Markets

This paper explores the connection between the rise of the fully funded private pension plans and the development of capital markets. So far there is no formal theory on the subject. For this reason, we proceed to analyze distinguished international experiences and organize the material by broad issues and themes. The most apparent trends are as follows: a) Wealthy countries with highly developed capital markets and highly skilled and professional fund managers (such as Holland, UK, and USA) developed private pension plans in the 70s and 80s. b) Chile is the only country whose social security reform resulted in the development of local capital markets, which were previously nonexistent. c) The wealthy country model is characterized by its flexible regulation and capacity for voluntary sponsorship of pension plans (employers, trade unions) while the Latin American model features a more rigid regulation and compulsive affiliation to sponsors rigidly defined by law and licensed by public agencies. d) It is well known that financial innovations are geared to the reduction of tax burdens; in a parallel fashion, private pensions in wealthy countries have been fostered by tax advantages. e) In spite of the widespread tendency toward privatization of retirement income provisions, the state still guarantees or insures, directly or indirectly, against the possible default of pension plan sponsors.

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Social Security Reform and Capital Markets: a Description of the Uruguayan Case

The article tries to identify the initial impacts of the Uruguayan social security reform of 1995 on the incipient local capital markets. Since the institutions of capital markets are the outcome of long run processes, a definite assessment is out of the question. Rather, we outline some broad trends, review what has been done, and identify standing problems. The highlights are as follows: a) While the degree of financial intermediation resists comparisons with wealthy countries (with total assets about 100 % of GDP), the weight of institutional investors is still quite modest (total assets are about 5 % of GDP). b) The very high growth of trading in local formal securities markets is not only due to pension fund participation but also to the dynamic effects of the dramatic improvements of international credit ratings of Uruguayan public debt and the adoption of other financial innovations. c) The high degree of dollarization of pension fund portfolios raises the issue of *short-termism*, not a very suitable strategy for this type of institutional investor. d) The regulatory framework does not leave much room for product differentiation in the industry, which is confirmed by the low dispersion and high correlations of rate of returns across pension funds. e) The brief history of the system does not furnish enough data to estimate with any degree of reasonable confidence the combinations risk-returns offered by pension funds. f) The regulation of special reserves in effect hides potential conflict of interests between pension funds and their clients, which a forthcoming law could help to overcome. g) The presence of negative accounting profits for the whole system, although subject to natural qualifications, could be a harbinger of changes in the future market structure.

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Economic Reform and the Effects on the Agricultural Sector in Argentina (1989-1998)

Structural transformation in the Argentine economy began in August 1989 with the sanction of the State Reform Law and was strengthened in 1991 with the stabilization plan and the Convertibility Law. This transformation encompassed all sectors of production in an environment characterized by deregulation, a modern and full market economy, and a system of production with a renewed emphasis on competition. The economic policy was aimed at consolidating the fiscal balance; pursuing scientific and technological development; improving market operations for goods and services; and increasing savings, investments and exports. Liberalization of trade (July 1989 and October 1992), incentives for production, and deregulation and privatization were the key means used. Particularly in the agricultural sector, economic reform had substantial effects such as the gradual technical change based on the introduction of innovations and technologies in capital goods and inputs as well as the adoption of management capacity to deal with the business aspect of agriculture. The new economic policy also influenced land value and the allocation of resources as well as modified traditional patterns of land use. A selective growth in the scale of farms, higher productivity and new ways of organizing the production and trade of commodities were the main results of agricultural transformation in the present decade.

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Household Structure, Gender, and the Economic Determinants of School Attendance in Argentina

This paper explores the role played by household structure and gender on the decision to send children to school in Argentina. We explore the determinants of the education patterns of boys and girls based on the gender of the individuals who make (or influence) the school attendance decision and the economic and social household structure in which this decision is evaluated. The results of this paper suggest that differences in family structure influence the way children are educated beyond their effect on family income. Gender considerations like the gender of the head of the family or the sex of the child are found to have important implications regarding the schooling decision.

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Exchange Market Pressure and Monetary Policy: Asia and Latin America in the 1990s

Exchange market pressure (EMP), the sum of exchange rate depreciation and reserve outflows (scaled by base money), summarizes the flow excess supply of money in a managed exchange rate regime. In examining Brazil,

Chile, Mexico, Indonesia, Korea, and Thailand, this paper finds that monetary policy affects EMP as generally expected: contractionary monetary policy helps reduce EMP. The monetary policy stance is best measured by domestic credit growth (since interest rates contain both policy-and market-determined elements). In response to higher EMP, monetary authorities boosted domestic credit growth both in Mexico (confirming previous research) and in the Asian countries.

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Technical Efficiency and Trade Opening in Four Industrial Branches

This work analyzes the development of technical efficiency of businesses in four branches of the Uruguayan industrial sectors: (Preparation and Slaughtering of Meat and Poultry), (Paints, Varnishes, and Lacquers), (Pharmaceutical and Medicinal Products)and (Cleaning and Personal Products). In the four branches analyzed it was found that the businesses with foreign capital participation and growth from local market sales have higher levels of average efficiency. This increases with the competition of imports of consumer goods to the business of the specific branch. Regardless, the businesses' propensity to export showed a negative effect on the level of average efficiency of the businesses in three of the four branches considered.

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Impact of Foreign Direct Investment on Local Firms

This paper examines spillovers from FDI in Uruguayan manufacturing firms to determine whether foreign presence has any impact on the levels of labor productivity in local firms. We find positive and statistically significant spillover effects in the whole sample, with a stronger impact of foreign presence on the performance of small firms. We also find positive and statistically significant spillover effects when the organizational gap between foreign and local firms is moderate and when the technology gap is large. Our interpretation is that there are firm-specific differences in the ability to absorb spillovers.

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The Impact of the Asian Crisis on Latin America's Southern Cone

The Southeast Asian crisis and the recession in Japan appeared to have a direct effect on the aggregate trade flows in the Southern Cone. The impact of the turbulence in the capital markets also seems to be significant. Chile and Brazil reacted to the situation with current account deficits, difficult to sustain without resorting to more aggressive exchange rate policies with accelerated rates of devaluation accompanied by contractionary fiscal and monetary policies in order to avoid reoccurring inflation. The Argentina economy once more showed its capacity to maintain the convertibility of the peso even in a strong recession, whose severity will depend on two factors: the accessibility to international capital and the success of the stabilization plan in Brazil.

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Trade and Infrastructure Policies: A Simulation Exercise on the Regional Impacts on Mercosur

A major feature in the Mercosur agreement is the presence of asymmetries among members, in terms of size as well as in development of regions involved. In other integrating schemes, as the European Union, this fact has received attention from policymakers in the understanding that it is one key issue for the success of the process of integration. This paper analyzes the regional impacts of trade policies, based on a general equilibrium model of economic geography adapted from Krugman (1996). The scope of the integrating process was analyzed through three dimensions of the policy: elimination of tariffs, reduction of border costs, and infrastructure policy. Based on these instruments, eight scenarios were constructed under different assumptions for factor mobility. The results from the experiments carried out show that the outcome of the integrating process is closely linked to the companion set of policies—that is, regional disparities can be attenuated or exacerbating by timing and intensity of different policy measures. It is also shown, that conflicts can often arise among the interests of the biggest regions and that of the rest of the regions. An integrated area, with free mobility of factors, can reinforce agglomeration processes near the center region if the process is not accompanied by trade liberalization. Small countries are those most favored by the process when factors are immobile across regions. Trade liberalization policies tend to reduce disparities among countries, whereas infrastructure policies tend to reduce disparities between geographic regions, the peripheral ones being the most favored.

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Regulating Competition and Public Utilities: Theory and Recent Argentine Experience

This work contains the results of a broad research project on the current Argentine experience with competition policy and regulation of private monopolies. It covers a very broad spectrum of sectors and issues, using an economic approach based on the consideration of incentives, information and institutions. Different sections review antitrust policy, regulation of fuels, private pension funds, airlines, passenger and freight

concessions within the railways system, maritime ports, telecommunications, natural gas, electric power, water and sewage. Questions regarding the mechanisms for selecting operators, market structure, regulatory mandates and instruments, regulation and renegotiations, etc. are carefully discussed. Additional sections include a summary of the theoretical issues in industrial organization and regulation of public utilities. Finally, a careful discussion regarding the design of regulatory bodies in terms of their desired autonomy and centralization (geographic and by sectors) is included.

Considering available studies on privatization and regulation in Argentina, the work is unique in that it puts all the sectors under the same methodological lens, which allows a better comparison of progress and pitfalls of the different experiences. In general, the results obtained in the 1990s have been quite positive, in some cases even outstanding, but at the same time there are easily identifiable wrong decisions on design and conduct, which should not be repeated in other experiences.

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Endogenous Number of Lobby Groups in a Specific Factor Trade Model

The basic goal of this paper is to develop an endogenous trade policy model in the Grossman and Helpman (1994) tradition that could endogenise the number of lobby groups in the economy. The game has three stages. In the first stage, the consumer that owns a specific factor decides whether to organize or not in pressure groups. In the second stage, the lobbies (organized groups of consumers) select the contributions (income transfers) they are willing to make to influence the government's actions. Finally, in the third stage of the game, the government establishes the trade policy. This chapter highlights two main results. The first one is that contribution is a dominant strategy for each lobby group, thus the sub-game perfect equilibrium implies all the lobby groups being active (L=N). The second one is related to the welfare evaluation of this equilibrium. It is well known in the literature that this equilibrium is efficient (in a Pareto sense), but it is also important to analyze what happens when only the lobby welfare is considered. The conclusion is that being organized while defending a particular interest is better than not being organized given that the others are not organized (or only some are) because it is possible to obtain an advantage in the political relationship with the government. On the other hand, since the other groups (one or some) are organized in lobbies, it is possible to reduce the damage from the distortions created by their influence on the government's actions. An implication of this result is that often in societies with a multiplicity of specific interests organized corporately, typically all finish in a worst situation than if they were not organized arriving at a prisoner's dilemma outcome if only the lobby's welfare is considered.

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Sources of Contagion: Finance or Trade?

This paper presents evidence that spillovers through bank lending, as opposed to trade linkages and country characteristics, can help explain contagion. We construct a measure of competition for bank funds and find evidence in favor of a common lender effect in the Mexican, Thai, and Russian crises, after controlling for macroeconomic fundamentals. The results are quite robust to the definition of the finance indicator. In the case of the Asian crisis, results are not always robust to the inclusion of trade competition, reflecting the high correlation between competition for funds and trade.

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Moderate Inflation and the Instability of the Inflationary Process

During a large part of its recent history, the Mexican economy has experienced a moderate level of inflation. In this work, some arguments are given against maintaining inflation in this moderate range for long periods not only in the sense that the long run costs are large and inevitable but also because the longer the inflation stays in the moderate rage, the smaller the probability of it decreasing in the near future becomes. A historical study of the inflationary behavior of countries that have had moderate inflation is made. It is verified that the probability of staying for a long time in this inflation level is smaller than the probability of staying in the low inflation level. Also the probability of observing large jumps in inflation is greatly increased when the moderate inflation range is compared with the low inflation one. Furthermore, an exchange rate policy result is obtained: disinflation programs not dependant upon an exchange rate anchor have had longer lasting results than those depending on a fixed exchange rate. Lastly, the classic cases of moderate inflation countries are described and analyzed.

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Can Any Small Firm Grow Up? Entrepreneurship and Family Background in Mexico

Self-employment is a large part of labor markets in developing countries. One fourth of the urban workforce in Mexico is self-employed. This paper examines the role family background plays in the selection of self-employment in Mexico. The work also contributes to bridging the gap between the industrial country literature on entrepreneurship and the developing country literature on the informal sector. The data used here are unique for Mexico in that they include information on household of origin of workers. We examine the effect of parent's education level and occupation, as proxies for their income level, on the choice of self-employment among males in six Mexican cities.

Though treated as one group in the literature, the self-employed can be separated into those who work alone and those who are employers. About three-quarters of Mexico's self-employed work alone; the other quarter are employers. Employers are more likely to come from households with higher income, measured by the education level and occupational earnings of the household head. On the other hand, parental characteristics have no direct effect on the choice between wage work and working alone. The differences between the origins of the self employed who work alone and the origins of the self

employed who are employers extend beyond parental education and occupational earnings levels. The children of employers are more likely to be employers; the children of those who work alone are more likely to work alone themselves. These results suggest that parent's provide both physical and human capital to their children.

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Expansion and Intergenerational Mobility in Schooling: The Case of Mexico

We make use of an original dataset to analyze Mexico's educational expansion over the past five decades. The data include information on the family of origin for adult respondents, enabling us to decompose educational gains by family background and to track long-term trends in intergenerational educational mobility. We find that the children of parents with a primary school education or less were the principal participants in the expansion and that intergenerational educational mobility increased over time. We also find some evidence that advances in the expansion and intergenerational mobility of schooling slowed or reversed during the economic crisis of the 1980s.

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Non-Contractible Investments and Vertical Integration in the Mexican Footwear Industry

Using data and information from interviews from the Mexican footwear industry, this paper compares predictions of the transactions cost and property rights frameworks. The paper examines how the frequency of integration is affected by variation in the heterogeneity of goods produced, the quality of materials used in production, and the rate at which fashions change. In the first two cases, the pattern of integration is consistent with either framework. With respect to increases in the rate of fashion turnover, however, the transactions cost framework leads to an expectation of more integration and the property rights framework to less integration. The data suggest that integration decreases as fashions change more quickly, supporting the property rights framework.

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