Editorial: Econometrics and Economics of Order are not Contradictory

RWI Cautiously Optimistic for 2010 Despite Lowered GDP Forecast

Experimental Residential Construction and Urban Development – Researching Neighborhood Impulses: New Approaches to Promoting the Local Economy

A Discussion of the Economy and Politics: The First “rwi Dialog” in Berlin
German economists have long disagreed on how to properly analyze issues of economic policy. The dispute has been about the general tendency of German Economics faculties to no longer pursue the common German triad „Economic Theory - Economic Policy - Finance,“ but to refer to the increasingly and internationally popular, Anglo-Saxon triad of „Microeconomics - Macroeconomics - Econometrics.“ The controversy has come to a head over whether, in the modern field of Economics prevalent at German universities, too much Mathematics and too little connective thought is pursued.

However, when examined closely, the much discussed contradiction between the two approaches does not truly exist. Research with a quantitative orientation is definitely not blind to institutional details. For the empirical economic researcher, institutional factors are a particularly important source for variations on the respective data. Knowledge and consideration of such factors is an essential requirement in formulating a persuasive research design. At the same time, the mathematically formal, model-based approach of Econometrics helps in analyzing the interaction of desires, decisions and actions of the most varied protagonists of economic life. Causal correlations can only be detected by applying a quantitative approach. Examples: Can the long-term unemployed be returned to gainful employment through active labor policies? Can the new parents’ money help mothers return to their professions more quickly? Fundamental deliberations cannot provide an answer to these and many other questions since economic policy concentrates primarily on the quantitative dimension of the issue studied.

The critical indicator for good research is always ultimately how well it addresses the actual problem – not whether the researcher is capable of applying complex methods. Of course, there are theorists who carry their „formalization ambitions“ to the extreme and lose themselves in the artificial world of their models. The overall picture, however, is completely different. Never in history have substantial parts of economic research been so practice-oriented or so deeply anchored in real life as they are today. This is why the study of Economics as an academic discipline at German universities is well advised to orient itself to the Anglo-Saxon triad of „Microeconomics – Macroeconomics – Econometrics.“

Ch.M. Schmidt
The RWI lowered its economic growth forecasts for 2009 and 2010 to -6.4% and 0.2% respectively, meaning a sharp downward revision compared to its March forecast. Nevertheless, the institute sees signs that the downward trend has decelerated and the bottom should be reached shortly. Foreign trade should once again modestly boost economic growth next year. Meanwhile, unemployment is expected to reach 4 million by the end of this year and 4.6 million by end 2010. The budget deficit will increase substantially.

The RWI has again significantly lowered its forecast for economic development in Germany compared to its previous outlook published in March. While a drop of 4.3% was forecasted in March, the institute now expects real GDP to contract by 6.4% this year. The main reason for the revision is the unexpectedly sharp deceleration in the economy during the first quarter of 2009.

Yet several indicators suggest that the downward trend has slowed down and the economic contraction is already bottoming out. World trade and global industrial production declined only slightly in recent months. An increased number of listings in the commodities markets additionally suggest a renewed rise in demand. Expectations have also become more positive, as company surveys and rising stock prices indicate. This may be partly attributed to the major stimulus programs that have been implemented in almost every country and are now gradually taking effect.

Despite those signs, the situation is still mostly assessed as highly unfavorable, and there are no indications of the start of a strong recovery. This comes as no surprise: recessions associated with financial crises tend to last longer than ‘normal’ recessions and the ensuing recoveries are usually not vigorous. Besides that, virtually every country in the world has been affected simultaneously. Accordingly, the RWI forecasts only a gradual stabilization for 2010 with GDP increasing by 0.2%.

Collapsing exports and equipment investments have played the major role for the current recession. Exports were 10% below their level of the last quarter of 2008, when they had already declined by 8%. Investments in equipment declined even stronger, by 16.2% relative to the previous quarter. This can be attributed to the dramatic drop in capacities utilisation, dwindling hopes of short-term improvement, and to less favorable financing conditions. Meanwhile, consumer demand, backed by low inflation and increases in various transfer payments, has still remained stable. The slump in foreign trade should gradually taper off. The fiscal stimulus packages are expected to provide impetus to construction investments. For equipment investments on the other hand, no turnaround is yet in sight, though the rates of decline should become somewhat more moderate.

For the coming year we expect foreign trade to modestly boost economic growth. In addition, investments in equipment should increase toward year’s end as the option of accelerated depreciation is discontinued, which is expected to encourage businesses to bring forward their investment plans. Private consumption, however, is expected to decline as unemployment should rise significantly. So far reduced working hours have successfully dampened the increase in unemployment but we expect workers to be laid off increasingly in the second half of 2009 as the outlook for businesses remains gloomy. We forecast almost 4 million people to be registered as unemployed by the end of this year about 4.6 million by the end of 2010. In addition, the unfavorable situation on the labor market will likely put significant pressure on wage increases. Beyond this, no pension increase is expected for 2010.

Capacities will not be fully utilized, and the fall in oil
prices will generate a dampening effect on the overall price level. Therefore, inflation will remain moderate. We expect an inflation rate of a mere 0.3% this year, followed by 0.8% in 2010.

**National budget deficit will increase significantly**

Germany’s financial situation will deteriorate considerably. This is to be attributed to declining revenues from taxes and contributions, as a result of the economic contraction, as well as to increased expenditures for unemployment. Added to this is the heavy burden placed on Germany’s budget due to the stimulus packages and to the implementation of two rulings the Federal Constitutional Court. We therefore expect the federal budget deficit to rise to 4% of nominal GDP in 2009 and 6% in 2010.

This forecast entails a large degree of risk due to the great uncertainty that continues to prevail among large segments of the economy and the population. Even if an increasing number of indicators suggest stabilizing conditions, further setbacks cannot be ruled out. There are, however, favorable aspects as well, especially considering the healthy condition of the German economy prior to the onset of the financial crisis. Germany was very competitive on the world market and, unlike many other countries, did not experience a real estate bubble which could hinder the future development of the domestic economy. Germany has been drawn into the downward spiral mostly due the slump in international trade. Being highly dependent on exports and specialized on cyclically sensitive industrial products Germany has even been one of the hardest-hit countries in Europe. Conversely, should international trade recover more rapidly than is expected here, the German economy would benefit more than other countries.

**Key figures of the RWI forecast of June 2009**

Changes in relation to previous year in %

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product (GDP)</td>
<td>1.3</td>
<td>–6.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Application¹</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Consumption expenditures</td>
<td>0.5</td>
<td>0.6</td>
<td>0.0</td>
</tr>
<tr>
<td>Private Households²</td>
<td>0.1</td>
<td>0.2</td>
<td>–0.5</td>
</tr>
<tr>
<td>State</td>
<td>1.8</td>
<td>1.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Investment expenditure</td>
<td>4.4</td>
<td>–12.3</td>
<td>–0.8</td>
</tr>
<tr>
<td>Equipment</td>
<td>5.9</td>
<td>–24.5</td>
<td>–5.7</td>
</tr>
<tr>
<td>Construction</td>
<td>3.0</td>
<td>–4.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Other investments</td>
<td>6.5</td>
<td>6.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Change of reserves</td>
<td>0.5</td>
<td>–0.2</td>
<td>–0.4</td>
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<tr>
<td>(contribution to growth)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Domestic demand</td>
<td>1.8</td>
<td>–2.2</td>
<td>–0.5</td>
</tr>
<tr>
<td>Trade balance</td>
<td></td>
<td>–4.3</td>
<td>0.8</td>
</tr>
<tr>
<td>(contribution to growth)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Exports</td>
<td>2.7</td>
<td>–18.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Imports</td>
<td>4.2</td>
<td>–10.1</td>
<td>–1.3</td>
</tr>
<tr>
<td>Employed persons³, in 1,000</td>
<td>40 330</td>
<td>39 937</td>
<td>38 833</td>
</tr>
<tr>
<td>Unemployed persons⁴, in 1,000</td>
<td>3 268</td>
<td>3 532</td>
<td>4 322</td>
</tr>
<tr>
<td>Unemployment rate⁵, in %</td>
<td>7.5</td>
<td>8.1</td>
<td>10.0</td>
</tr>
<tr>
<td>Consumer prices⁶</td>
<td>2.6</td>
<td>0.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Unit labour costs⁷</td>
<td>2.0</td>
<td>4.6</td>
<td>–1.7</td>
</tr>
<tr>
<td>Financing balance of the state⁸, in billion Euro</td>
<td>–3.1</td>
<td>–92</td>
<td>–147</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>in % of nominal GDP</td>
<td>–0.1</td>
<td>–3.9</td>
<td>–6.2</td>
</tr>
<tr>
<td>Balance of payments⁹, in billion Euro</td>
<td>165</td>
<td>89</td>
<td>105</td>
</tr>
</tbody>
</table>

Own calculations according to information from the Federal Statistics Office, the Federal Bank of Germany and the Federal Labour Agency. ¹Adjusted for price changes. ²Including non-profit private organizations. ³Domestic figures. ⁴National differentiation. ⁵In relation to employed persons in Germany. ⁶Consumer price index. ⁷Remuneration per employee in relation to real GDP per employed person. ⁸In differentiation of the national income accounting. ⁹In differentiation of the balance of payment. ¹⁰Own estimate.

*Information: doehrn@rwi-essen.de, weiler@rwi-essen.de*
Experimental Residential Construction and Urban Development – New Approaches to Promoting the Local Economy

The promotion of clusters, firmly established in regional policy, encourages sector-wide cooperation and integration, and it can also succeed at the local level. However, networking across multiple sectors may make sense in a neighborhood environment. This is the result of a study in the field of neighborhood impulses conducted between June 2006 and February 2009 in which RWI participated. Model projects in Bayreuth, Braunschweig, Hanover and Karlsruhe were followed scientifically.

Measures intended to stimulate the economy in an area with many small businesses and current locational shortcomings should be geared towards encouraging local participation and exchange of information. The target group consists of small businesses as well as medium-sized and large companies that support local support initiatives in their own interest, financially and with manpower. Federal urban development policies and local policy can contribute by supporting the creation of self-organized networking. The promotion of clusters, a standard component of regional politics, is a “special case” intended to encourage close cooperation as well as interdependence in regard to suppliers and sales in industry focal points. In light of the lack of a “critical mass” of companies from industry focal points, a neighborhood setting is usually better suited to establishing business contacts in other fields as well as contacts between businesses and key players in politics, the arts and government. Topics generally include measures to market the area, lobbying municipal government and exchanging information.

These are the conclusions reached in a study on neighborhood impulses that RWI conducted in cooperation with STATTwerke Consult Gesellschaft für Unternehmensberatung und Projektentwicklung mbH, Berlin, from June 2006 to February 2009. The neighborhood impulses were part of the research program Experimental Residential Construction and Urban Development (ExWoSt) by the Federal German Ministry for Transportation, Construction and Urban Development and the Federal Institute for Construction, Urban and Regional Research in the Federal Office for Construction and Regional Planning. One special feature of the field of research was that targeted measures common in municipal economic policy were applied to the neighborhood level. Another feature was that the key players from five model projects chosen from around the country were supervised by an external coaching team and advised in scientific matters during implementation of the supporting measures. The measures, evaluated positively, include promotion of the industry focal point “Cultural Studies” in Bayreuth, establishment of a local community group in Braunschweig, creation of a local image and activation of private enterprise involvement in Hanover, and, in Karlsruhe, intensifying the cooperation within an initiative of the business-people and increasing its membership.

More detailed information on the results and the model projects can be found in the series of publications “ExWoSt-Informationen” (Experimental Residential Construction and Urban Development) at http://www.bbsr.bund.de. The condensed version of the final report is available at www.rwi-essen.de/pb. The complete report will be published by the Federal Office for Construction and Regional Planning.

Information: neumann@rwi-essen.de
A Discussion of the Economy and Politics: The First “rwi Dialog” in Berlin

“Economic Policy in Times of Crisis” was the subject of the “rwi Dialog” that took place for the first time on March 3, 2009, in Berlin. With this series of events, RWI wishes to offer experts from the sciences, politics, associations and media a forum for discussion of economic topics and also to increase its visibility in the capital city. “rwi Dialog,” launched successfully this year, will take place every year.

The financial crisis, which has reached the proportions of a global recession, inspired RWI to host the first “rwi Dialog.” On March 4, 2009, experts from the sciences, politics, associations and media met in the office representing the state of Nordrhein-Westfalen to discuss “Economic Policy in Times of Crisis.” Professor Michael C. Burda from the Humboldt University in Berlin and Jakob von Weizsäcker of the Brussels think tank Bruegel highlighted the international dimension in their opening presentations. In his lecture, Michael Burda explained the source of the financial crisis originating in the USA. He stated the three fundamental causes: slack financial policy, expansion and deregulation of US mortgage financing, and radical innovations in the banking and loan sector. The essential task of the new government is to renew trust - “the greatest commodity in a system of voluntary trade” - with intelligent economic policy. Jakob von Weizsäcker then offered an overview of the economic stimulus packages announced and implemented in Europe through the end of January 2009. A comparison of countries

Procurement of Research Contracts

Economic impacts from the promotion of renewable energies: The German experience
Client: The Competitive Enterprise Institute
Contact person: Prof. Colin Vance Term: 3 months

Development of Craftsman Markets and Requirements for Businesses to Adapt
Client: BMWi (Federal Ministry of Economics)
Contact person: Dr. Bernhard Lageman Term: 2 years

Data Monitoring and Evaluation of the Program „Education Subsidy“
Client: BMBF (Federal Ministry of Education and Research)
Contact person: Dr. Marcus Tamm Term: 3 years

Innovation Report 2009
Client: MiWFT (Ministry for Innovation, Science, Research and Technology)
Contact person: Prof. Dr. Christoph M. Schmidt Term: 8 months

Econometric Modeling of Production Processes Using the Example of Substitution of Energy Sources in the Generation of Electricity
Client: DFG (German Research Association)
Contact person: Dr. Harald Tauchmann Term: 3 years

Events

A Discussion of the Economy and Politics: The First “rwi Dialog” in Berlin

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within Europe clearly indicated that Germany, with 1.4% of its GDP, introduced the largest stimulus package. Measures in the EU as a whole totaled 0.9% of the EU GDP, substantially less than the volume in the USA (2.0%) and China (7.1%).

Three RWI experts proceeded to analyze the potential impact of the German economic stimulus packages and the challenges faced in their implementation. Next, Dr. Roland Döhrn presented the results of an evaluation of the economic stimulus package applying the RWI model of economic cycles. His conclusion: “It was right of the government to pass a large package – but a different mix would have been better: less investment, more tax reductions.” Dr. Rainer Kambeck supported this thought: The intended investments generally make sense. But the administrative hurdles associated with appropriating the funds are counterproductive, and false incentives often result. Thus, the economic stimulus package II clearly indicates that the reform of federalism will have to remain a topic for the next federal administration. Dr. Jochen Kluve reached an ambivalent conclusion in his analysis of labor market policy: “Shortened working hours are a sensible and productive way to cushion a reduction in employment, but a time limit has to be set.” The crisis should not be used as an excuse to undo the flexibility in the labor market that has been achieved; e.g., with minimum wages or an extension of unemployment benefits.

The event was wrapped up with a panel discussion amongst the politicians. After an opening statement by Dr. Walther Otremba, state secretary at the Federal Ministry of Economics and Technology, Dr. Gerhard Schick, fiscal speaker of the parliamentary party Bündnis 90/Die Grünen, and Dr. Peter Wasmund, division head at the Economic Ministry for the state of Nordrhein-Westfalen, held a discussion with Jakob von Weizsäcker and RWI President Christoph M. Schmidt. During the discussion moderated by Roland Tichy, editor-in-chief of the publication Wirtschaftswoche, Gerhard Schick criticized the government’s fiscal policy as “too late, too little and too uncoordinated.” Peter Wasmun argued that spending programs still work better than tax cuts, because investment triggers a wide demand impulse. Christoph M. Schmidt, on the other hand, favored tax breaks, because they work faster. Jakob von Weizsäcker considered the federal government’s economic stimulus package positive, but he asked: “What if the economic stimulus package is not enough?”

Information: ausdemoore@rwi-essen.de

Successful Premiere of “Science Meets Parliament” in Düsseldorf

Bringing together scientists and political delegates was the goal of the first “Science Meets Parliament” event on May 5 and 6 in the Düsseldorf state parliament. The face-to-face encounters were so well received that the NRW-Leibniz-Institute plans to continue the event.

“Science Meets Parliament” was the theme on May 5 and 6 in the Düsseldorf state parliament. Scientists from ten member institutes and two associated institutes of the Leibniz community in Nordrhein-Westfalen met with members of the state parliament in their offices. RWI sent economic expert Dr. Roland Döhrn, Dr. Manuel Frondel, head of the Environment and Resources Department, and regional researcher, Dr. Uwe Neumann. The members agreed upon potential topics and times to be allotted with the scientists beforehand. The subjects ranged from occupational health to zoology, reflecting the diversity of the Leib-
Events

niz community. The resulting contacts are intended to promote interaction between science and politics and facilitate contacts by the most direct route.

After the business meetings at the state parliament, the scientists, politicians and employees of the state ministries had a chance to socialize at the “Leibniz Af-

ter Work Party” in the atrium of Customs Yard 11 at the Düsseldorf harbor. The Nordrhein-Westfalen economics minister Prof. Dr. Andreas Pinkwart and the president of the Heinrich-Heine University in Düsseldorf, Prof. Dr. Dr. Hans Michael Piper opened the evening with a brief discussion with Leibniz President Prof. Dr. Dr. h.c. Ernst Th. Rietschel on the mutual expectations of politics and science. Afterwards, everyone enjoyed the opportunity to make new contacts and talk in the relaxed atmosphere of the customs yard. After the abundance of positive feedback, the Leibniz Institutes in Nordrhein-Westfalen plan to bring together scientists and Düsseldorf delegates again next year for the second annual “Science Meets Parliament” event.

Information: weiler@rwi-essen.de

Publications

Ruhr Economic Papers

Ruhr Economic Papers can be downloaded under www.rwi-essen.de/rep

(89) Colin Vance and Markus Mehlin, Tax Policy and CO₂ Emissions - An Econometric Analysis of the German Automobile Market

In addition to efficiency standards and consumer information, car-related taxes constitute one of three pillars of the European Commission’s strategy to reduce CO₂ emissions from passenger cars. A longstanding question concerns the effectiveness of such taxes in determining the car-purchasing behavior of households. Several recent studies suggest that purchases are primarily determined by retail costs rather than by taxes. This paper examines the correlation between taxes and retail costs, based on new-car registrations in Germany. An econometric analysis of the impact of fuel costs and circulation taxes on car market shares is used. In contrast to much of the evidence garnered to date, the results suggest that circulation taxes and fuel costs significantly determine car market shares, and hence they may serve as effective instruments in influencing the composition of the car fleet and associated CO₂ emissions.
(90) Lars Kunze and Christiane Schuppert, Financing Social Security by Taxing Capital Income – A Bad Idea?

This paper examines the growth effects of an increase of capital income taxes with additional revenue being devoted to cut wage-related social security contributions to reduce unemployment. The analysis is carried out in an overlapping generations model with endogenous growth, unemployment and a social security system comprising pensions and unemployment benefits. It shows theoretically and confirms with numerical results that higher employment and growth can occur in the EU15 with such a reform, if the initial capital income tax is not too high.


This paper proposes a new explanation for the differences and changes in labor supply by gender and marital status and, in particular, for the increase in married women’s labor supply over time. This increase, as well as the relative consistency of other groups’ hours, could be optimal reactions to outsourcing labor in home production becoming more attractive to households over time. Applying a model with tradable home labor, the role of alternative explanations for the rise in hours is examined.

(92) Yiquan Gu and Tobias Wenzel, Product Variety, Price Elasticity of Demand and Fixed Cost in Spatial Models

This paper explores the implications of price-dependent demand in spatial models of product differentiations. Consumers are introduced to the framework of the Salop (1979) model with a quasi-linear utility function. It is shown that the so-called excess entry theorem relies critically on the assumption of completely inelastic demand. The model is able to produce excessive, insufficient or optimal product variety.

(93) Sebastian Braun and Michael Kvasnicka, Men, Women, and the Ballot – Woman Suffrage in the United States

Woman suffrage led to the greatest enfranchisement in the history of the United States of America. Before World War I, women could vote in only a few states in the western United States. The reasons for the pioneering role of the West remain unclear. Studying the timing of woman suffrage indicates that states with fewer women tended to allow women to vote earlier. Most of these states were in the West. The higher ratio of men to women in the West probably made the political costs and risks of woman suffrage seem less harmful to men.

(94) Ansgar Belke and Niklas Potrafke, Does Government Ideology Matter in Monetary Policy? – A Panel Data analysis for OECD Countries

This paper examines the effect of government ideology on monetary policy for 15 OECD countries from 1980 to 2005. The specification focuses on the interactions of a new time-variant indicator for central bank independence and government ideology. The results suggest that leftist governments did not decrease short-term nominal interest rates at all, but their short-term nominal interest rates were nevertheless higher. A potential reason for this finding might be that these governments have sought to make a market-oriented policy shift by delegating monetary policy to conservative central bankers.

(95) Jan Brenner, Life-Cycle Variations in the Association between Current and Lifetime Earnings – Evidence for German Natives and Guest Workers

In many economic models, the lifetime or permanent income is of particular interest. But since these figures are not included in survey data sets, they are typically proxied by annual income information. To improve this
procedure, data from the German pension system is assessed. For female earners, the associations between current and lifetime income are highly sensitive to treatment of zero earnings. Immigrants’ income is prone to significantly larger fluctuations. Averaging income over 15 years alleviates bias as well as the difference in biases between natives and guest workers.

(96) Björn Alecke, Timo Mitze, and Gerhard Untiedt, Internal Migration, Regional Labour Market Dynamics and Implications for German East-West Disparities – Results from a Panel VAR


(97) Marcus Tamm, Child Benefit Reform and Labor Market Participation

This paper examines the impact of a change in the German child benefit system in 1996, which led to a large increase in lump sum transfers to families with children. The focus is on the impact on the labor force participation of family members. Comparing behavioral changes of adults with children with behavioral changes of adults without children, we find that single mothers and mothers with a working partner considerably reduced their numbers of working hours. Participation rates, however, did not decrease. For single fathers, neither participation rates nor working hours display any significant changes.

(98) Marcus Tamm, The Impact of a Large Parental Leave Benefit Reform on the Timing of Birth around the Day of Implementation

The introduction of the German parental leave benefit applies to all children born on January 1, 2007, or later. The new parental leave benefit considerably changed the amount of transfers to families during the first two years of the child’s life. This paper examines whether the reform led parents whose children were due around the cut-off date to actively influence the delivery of their children to profit from the parental leave benefit or the former child rearing benefit. The study found that more than 1,000 parents postponed the birth of their children from December 2006 to January 2007. This trend was particularly prevalent amongst women who were employed before the birth of their children.

(99) Peter Grösche, Christoph M. Schmidt, and Colin Vance, Identifying Free-Riding in Energy-Conservation Programs Using Revealed Preference Data

Free-ridership decreases the success of programs that offer subsidies for energy savings. Evaluation of such programs frequently relies on surveys conducted amongst participants after completion. The present paper proposes an ex-ante approach to the calculation of free-ridership before introduction of the benefit program. Using a sampling of several thousand building owners, a simulation calculation examines the effect of grants on renovation choices that would conserve energy. The simulation follows a discrete-choice model.
(100) Vivien Procher, Agglomeration Effects and the Location of Foreign Direct Investment - Evidence from French First-time Movers

This paper analyzes the location choice determinants of French first-time investments in Europe, North America and North Africa. Firm locations are examined on two geographical scales, the national and the regional level. The results indicate that higher market demand and cultural proximity to France make a particular location more attractive. Higher labor costs and a greater distance between a foreign location and the headquarters have the opposite effect. Manufacturing and older companies are more likely to turn to Eastern Europe. French investors are rather attracted by existing multi-national firm clusters in general than to nation-specific firm clusters.

(101) Albert G. Schweinberger and Jens Suedekum, De-Industrialisation, Entrepreneurial Industries and Welfare

An increase in the relative price of manufacturing varieties can lead to a decline in total industrial output in our framework (monopolistic competition, variable demand elasticity). The two key mechanisms behind this surprising result are that the founding of firms requires skilled labor and that the price increase can raise the profit margin and thereby induce firm entry. When the adjustment is achieved mainly with higher margins, the industry is referred to as being “entrepreneurial.” Fixed input requirement entry reduces the endowment of skilled labor available. De-industrialization occurs when this effect is relatively large in comparison to the standard output price effect for a given number of firms.

(102) Ansgar Belke, Ingo G. Bordon, and Torben W. Hendricks, Global Liquidity and Commodity Prices - A Cointegrated VAR Approach for OECD Countries

This paper examines the interaction between money, consumer prices and commodity prices from 1970 to 2008. Using aggregated data for major OECD countries and a cointegrating VAR framework, long-run and short-term relationships were established among these variables while the process is mainly driven by global liquidity. The findings indicate that different price elasticities in commodity and consumer goods markets can explain the recently observed overshooting of commodity over consumer prices.

(103) Manuel Frondel and Colin Vance, Driving for Fun? - A Comparison of Weekdays and Weekends Travel

This paper investigates the effect of fuel prices, energy conservation measures and socioeconomic factors such as employment status, gender and the number of children on the use of automobiles. The differences between weekday and weekend travel are examined. The data indicates that an increase in gas prices by 10% would lead to a mileage reduction of 4.2% to 4.8%. Improving the fuel efficiency of vehicles by 10%, on the other hand, would increase use by about the same amount. The conclusion is that raising fuel taxes would be a more promising energy conservation and climate protection measure than the efficiency improvement or limitation of specific carbon dioxide emissions per kilometer prescribed by the EU commission beginning in 2012.


The security of the energy supply has become a hot topic again due to higher oil prices in recent years. This paper analyzes the energy security situation of
the G7 countries using a statistical risk indicator and empirical energy data. Germany’s energy supply risk has risen substantially since the oil price crises of the 1970s, whereas France has managed to reduce its risk dramatically, most notably through the deployment of nuclear power plants. As a result of legally stipulated nuclear phase-out, Germany’s supply risk can be expected to rise further and to approach the risk level of Italy. Due to its resource poverty, Italy has by far the highest energy supply risk among G7 countries.

(105) Christoph Schwierz, Boris Augurzky, and Jürgen Wasem, Does the Quality of Hospital Treatment Vary by Days of the Week?

The day of admission plays a significant role in the recovery chances of patients in hospitals with emergency rooms. Patients admitted on a weekend – regardless of their medical risk factors – have a markedly higher mortality rate. It is also apparent that patients discharged prematurely before the weekend tend to exhibit a higher probability of being readmitted as an emergency case. This would indicate that the quality of medical care on weekends is inferior to that on regular weekdays.


The ability to understand and evaluate empirical studies is just as important in writing scientific papers as it is to solving empirical problems. Improving this understanding is the goal of the new textbook “Empirical Economic Research – An Introduction,” written by RWI President Prof. Dr. Christoph M. Schmidt in cooperation with RWI Vice President Prof. Dr. Thomas K. Bauer and labor market economist Dr. Michael Fertig. Unlike existing textbooks, this work does not only demonstrate econometric methods. The book focuses more on the explication of the possibilities and limits of econometric methods, the identification of causal interrelationships and the development of reliable prognoses. It attempts to limit formal explanation to a minimum, making it ideal for introductory courses on Econometrics and Empirical Economic Research. It succeeds in conveying to the interested reader the basic understanding and methods applied by RWI in the framework of its empirical research. The book is published by Springer-Verlag and can be obtained in any bookstore.

Prof. Bauer Appointed RWI Vice President

Prof. Dr. Thomas K. Bauer, a member of the RWI board since 2004, was appointed Vice President of the Institute by RWI President Prof. Dr. Christoph M. Schmidt on June 2, 2009. The decision was prompted by Prof. Schmidt’s appointment to the expert advisory board in March of this year, which meant a substantial increase in his workload. With Prof. Bauer as vice president, research management and representation of the institute when Prof. Schmidt is unavailable are guaranteed. The advisory board welcomed the appointment of Prof. Bauer at its meeting on June 2 and approved his appointment to the position.

Changes in the RWI Advisory Board

Prof. Dr.-Ing. Dieter Ameling, president of the trade association for steel until 2008, completed his term on the RWI advisory board. He had been a member of the body since 2000 and was not available for reelection. He was particularly supportive of the institute during the restructuring phase, both constructively and critically. During the general meeting and the advisory board meeting, the chairman of the RWI advisory board, Dr. Eberhard Heinke, praised the achievements of Professor Ameling. Hans Jürgen Kerkhoff, president of the trade association for steel and chairman of the steel institute VDEh since 2008, is the new member of the advisory board. Dr. Eberhard Heinke’s term as head of the advisory board ended. The advisory board and the general meeting thanked him for his tireless efforts on the part of the institute and his productive dedication. The general meeting elected Dr. Heinke to the advisory board again, and the board then elected him as its chairman.

RWI Construction

As part of the economic stimulus package II, the Nordrhein-Westfalen Ministry for Innovation, Science, Research and Technology will grant RWI up to 2.2 million EUR to modernize its building and improve the technical infrastructure. The funding will be used to expand existing office space and conference rooms and to make the building barrier-free. Construction is scheduled to begin this fall.

RWI Participates in “Run for Kids”

RWI employees got moving for a good cause, “Run for Kids,” in the city forest of Essen. Tobias Kitlinski, Daniela Schwindt, Sabine Weiler and Benedict Zinke ran the mixed relay of 4 x 3.9 km as the team “eRWIn rennt” (eRWIn runs) and achieved a third place finish. The profits from the race went to the Essen shelter “Raum 58.” It offers overnight quarters and bureaucracy-free help to homeless youths.

Moving for charity: the RWI-relay-team „eRWIn rennt“ („eRWIn runs“) and RWI-press officer J. Schmidt (second from right).
New Staff at RWI

Martin Micheli has been working on the scientific staff in the area of competence “Growth and Cycles” since March 1, 2009. He studied Economics at the Goethe University in Frankfurt am Main, with a concentration in Money and Currencies. His research focuses on International Macroeconomics and Monetary Policy. The topic of his thesis was the “Explanation of the Exchange Rate Taking into Consideration the International CAPM.”

Timo Mitze began working on the scientific staff in the area of competence “Enterprises and Innovation” on April 1, 2009. He studied Economics in Münster and Stockholm. From 2003 to 2009, he worked as a member of the scientific staff at the Institute for Finance and Regional Analyses in Münster, and from 2006 to 2009 he was awarded a doctoral scholarship by the Lutheran scholarship program, Evangenesches Studienwerk Villigst. His research concentrates on panel and time series econometrics, macroeconomic modeling and regional economics.

Another employee who began on March 1, 2009, is Janina Reinkowski, who works on the scientific staff in the area of competence “Enterprises and Innovation.” She majored in Economics, with concentrations in Statistics, Economic and Social Policy and Finance, at the University of Passau, spending a semester at the Université Francois-Rabelais in Tours. Her thesis dealt with “Fertility and Employment of Women in Theory and Empiricism.” During the course of her studies, she pursued internships at the Hamburg Welt Wirtschaftsarchiv (global economic archive) and the Institute of the German Economy in Cologne.

On April 1, 2009 Max Groneck began his job on the scientific staff of the area of competence “Growth and Cycles,” initially part-time through the fall of 2009, to accommodate his interim professorship. He was substituting for Prof. Kitterer in the Seminar for Finance at the University in Cologne. He was previously a research assistant to Prof. Kitterer and was awarded a doctorate. He conducted research in Dynamic Macroeconomics and in simulations and the effects of national debt. In his dissertation, titled, “All that Glitters is not Gold. Growth and Prosperity Effects of Budget Regulations,” he examined budget regulations. Max Groneck majored in Economics at the Free University Berlin and at the University of Cologne.
Prof. Dr. Dirk Engel

CV:
Prof. Dr. Dirk Engel was a member of the scientific staff of the RWI area of competence “Empirical Industrial Economics” (now called “Enterprises and Innovation”) from August 2003 to August 2008. Before that, he studied Economics at the Europa-Universität Viadrina Frankfurt (Oder) and worked as a research assistant at the Center for European Economic Research, studying topics relating to foundation research. He received his doctoral title for “Venture Capital for Young Companies.” He was awarded the foundation research prize FGF/bifego for his work in November 2003.

Engel has been a professor for Economics and International Business at the Fachhochschule Stralsund since September 2008.

1.) What did your work at RWI teach you that you can apply in your present job?
A lot, including knowledge of a great variety of economic topics, which I include in the courses I teach.

2.) What do you remember best about your time at RWI?
Two things really: The clock at RWI ticks twice as fast as in other places, and the RWI soccer tournaments.

3.) What are the differences between your present situation and your previous work at the institute?
I have more listeners and more free time.

4.) In your opinion, what is the greatest challenge that German research facilities will be faced with in the future?
Surviving the competition for scientific talents.

5.) Which question would you like to answer?
Would you like a cookie?

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On July 4, 2009, RWI scientist Dr. Jan Brenner died at the tender age of 30. He was a member of the first class of the Ruhr Graduate School in Economics in the summer of 2004 and has been working for RWI since 2007. His outstanding work far exceeded the high expectations that the institute had in consideration of his academic talents.

The optimism and courage he displayed in fighting his treacherous disease over the last 1 1/2 years were admirable and touched all of us deeply. We will not forget him.