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Summary

Generational accounting is – given the future demographic developments in OECD countries – an established tool to quantify the fiscal situation of public coffers. However, as all economic methods dealing with future developments it has critical points. One in particular is the calibration on one base year which neglects business cycle effects on the generational accounts. This paper aims to analyze in which way and to which degree generational accounts and the associated sustainability indicators are biased due to the neglecting of business cycle effects. To do this we use the Hodrick-Prescott-Filter to estimate the business cycle effects for the German general government budgets from 1996 to 2005. We then calculate sustainability indicators based on all years given the actual and the business cycle adjusted budgets. It can be stated that the neglect of the business cycle definitively has an effect on the outcomes of the generational accounting framework. However the magnitude of this effect is rather small, at least for Germany. As a by-product of our analysis, we show that the German fiscal policy was rather pro-cyclical during the examined time frame and that the effects of these policies on the generational accounts are larger than the business cycle effects.
Fiskalische Effekte der Kommunalverfassungsreformen der 1990er Jahre in Deutschland

Reforming Local Constitutions in Germany during the 1990s – Their Fiscal Effects

Von Lorenz Blume, Kassel, Thomas Döring, Villach, und Stefan Voigt, Marburg

Summary

Most German states changed their local constitutions during the 1990s in order to become more citizen-friendly. To reach that goal, many local constitutions now allow for the direct election of mayors, initiatives and referenda, and vote-aggregation as well as vote-splitting. Simultaneously, the five-percent threshold was abolished lowering entry barriers. This contribution asks whether these reforms had any effects on local fiscal policies. Based on the reforms that took place in Schleswig-Holstein, Bavaria and Hesse and drawing on a structural break test it is shown that the direct election of mayors has led to lower government spending. The introduction of direct democratic elements, on the other hand, has led to higher expenditures. The empirical results concerning direct democracy substantially deviate from the findings regarding both Switzerland and the U.S.. It is argued that the difference might be due to the lack of fiscal referenda in Germany.
The Effect of Reputation on Selling Prices in Auctions

By Christian Grund, Würzburg, and Oliver Gürtler, Bonn

JEL D44, D82, K12, L81, M10
Auction, eBay feedback system, reputation, trustworthiness.
Einreichung: 19.11.2007
Annahme: 28.08.2008

Summary

It is often argued in economics that building a reputation for trustworthiness could help individuals or firms to mitigate or even overcome problems of contractual incompleteness. In this paper, we use data from the German eBay website to test whether a seller’s bad reputation has an effect on selling prices. For auctions of popular DVDs at eBay we do indeed find evidence for this hypothesis. We show that an increase in the share of negative ratings of one percentage point decreases the selling price by about 4 per cent. The number of negative ratings, in contrast, does not affect the selling price significantly. Hence, bidders on the eBay marketplace seem to concentrate on relative rather than on absolute measures of reputation. Further, we challenge the recommendation that it is profitable for eBay sellers to let their auction end in the evening, when many potential buyers are supposed to be online. We find that prices are relatively lower in the evening. This may be due to a much higher supply of DVDs in the evening.
Capital Stock Approximation using Firm Level Panel Data
A Modified Perpetual Inventory Approach

By Steffen Mueller, Nuernberg

JEL C81, D24, J23
Production function, capital input.

Einreichung: 07.02.2008
Annahme: 23.04.2008

Summary

Many recent studies exploring conditional factor demand or factor substitution issues use firm level panel data. A considerable number of establishment panels contains no direct information on the capital input, necessary for production or cost function estimation. Incorrect measurement of capital leads to biased estimates and casts doubt on any inference on output elasticities or input substitution properties. The perpetual inventory approach, commonly used for long panels, is a method that attenuates these problems. In this paper a modified perpetual inventory approach is proposed. This method provides more reliable measures for capital input when short firm panels are used and no direct information on capital input is available. The empirical results based on a replication study of Addison et al. (2006) support the conclusion that modified perpetual inventory is superior to previous attempts in particular when fixed effects estimation techniques are used. The method thus makes a considerable number of recently established firm panels accessible to more sophisticated production function or factor demand analyses.
Rational Ignorance is not Bliss: When do Lazy Voters Learn from Decentralised Policy Experiments?

By Jan Schnellenbach, Heidelberg

JEL H73, O31, D83
Policy decentralisation, fiscal competition, model uncertainty, collective learning.
Einreichung: 29.02.08
Annahme: 13.06.08

Summary
A popular argument about economic policy under uncertainty states that decentralisation offers the possibility to learn from local or regional policy experiments. Often, an analogy between market competition as a discovery procedure and political competition is used to corroborate this argument. We argue that political learning processes are not trivial and do not occur frictionlessly: Voters have an inherent tendency to retain a given stock of policy-related knowledge which was costly to accumulate, so that yardstick competition is improbable to function well particularly for complex issues, if representatives’ actions are tightly controlled by the electorate. We show that factor mobility does have the potential to endogenously disturb equilibria on regional markets for political theories, and therefore does provide for improved political learning processes compared to unitary systems. But the results we can expect are far from the ideal mechanisms of producing and utilising knowledge often described in the literature. In particular, collective learning may occur in the relatively efficient region, while the status quo may be fortified in the relatively inefficient region.
The Hausman Test Statistic can be Negative even Asymptotically

By Sven Schreiber, Frankfurt/M.

JEL C12
Hausman test, negative chi-square statistic, nuisance parameter.
Einreichung: 19.11.2007
Annahme: 18.08.2008

Summary

We show that under the alternative hypothesis the Hausman chi-square test statistic can be negative not only in small samples but even asymptotically. Therefore in large samples such a result is only compatible with the alternative and should be interpreted accordingly. Applying a known insight from finite samples, this can only occur if the different estimation precisions (often the residual variance estimates) under the null and the alternative both enter the test statistic. In finite samples, using the absolute value of the test statistic is a remedy that does not alter the null distribution and is thus admissible. Even for positive test statistics the relevant covariance matrix difference should be routinely checked for positive semi-definiteness, because we also show that otherwise test results may be misleading. Of course the preferable solution still is to impose the same nuisance parameter (i.e., residual variance) estimate under the null and alternative hypotheses, if the model context permits that with relative ease. We complement the likelihood-based exposition by a formal proof in an omitted-variable context, we present simulation evidence for the test of panel random effects, and we illustrate the problems with a panel homogeneity test.