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**Annual Meeting of the Scientific Advisory Board**

The second annual meeting of the Scientific Advisory Board of the IHS was held in Vienna on July 9-10, 2003. **Prof. Bernhard Felderer** (Director of the IHS) welcomed **Prof. Wolfgang Pesendorfer** (Department of Economics, Princeton University), **Prof. Adrienne Héritier** (Robert Schuman Centre for Advanced Studies, European University Institute, Florence), and **Prof. Donald R. Davis** (Department of Economics, Columbia University), who represented **Prof. Richard H. Clarida**. Two of the three new members were also present: **Prof. Bob Jessop** (Department of Sociology, Lancaster University) and **Prof. Philippe C. Schmitter** (Department of Political and Social Sciences, European University Institute, Badia Fiesolana). **Prof. Albert Marcet** (Department of Economics and Business, University Pompeu Fabra) was not able to participate. Biographical sketches of the new members of the Board are provided on page 6 of this issue.

In the first session of the two-day meeting, the Board members and the Director addressed general matters. This exchange was followed by intensive discussions among the Board members, the department Heads, the assistant professors, and the researchers. Members of each department presented an overview of their department, enabling Board members to gain insight into ongoing research and teaching activities. These presentations were followed by discussions in which special attention was given to the methods and expected outcomes of national and international research projects, which are supported, *inter alia*, by Austrian Ministries, the European Union, the World Bank, and the OECD.

The second session was dedicated to a discussion among the Board members and the Director, covering a diverse set of issues such as hiring procedures, financial resources, and decision-making processes of each department, the comparative advantage of the Institute, and the Institute's plans for the future as a European training and research center.



left to right: **D. R. Davis, W. Pesendorfer, B. Felderer, A. Héritier, B. Jessop, Ph. C. Schmitter**

## Does Exchange Rate Risk Matter for Welfare?

IHS Lecture, March 13, 2003

by Paul Bergin

Probably the most striking feature of the international foreign exchange market over the last 30 years has been the extreme degree of exchange rate volatility. For countries that allow their currencies to float more or less freely, the variance of the exchange rate with trading partners typically is many times more volatile than output, trade balances, or other economic variables. Such extreme volatility has been blamed for inhibiting international trade in goods and cross-border investments. Clearly international trade becomes more risky if the future payment comes in the form of a foreign currency, whose value in domestic currency is uncertain today.

The perceived need to prevent this source of uncertainty has been a motivation behind the managed exchange rate regimes of many countries over time, such as the Gold Standard in the 19th century, the Bretton Woods System in the 20th, and most recently and dramatically the European Monetary Union.

In a paper entitled 'Does Exchange Rate Risk Matter for Welfare? A Quantitative Investigation,' which was presented here at the IHS, my co-author (Ivan Tchakarov, International Monetary Fund) and I investigate the costs of exchange rate variability. Our goal was to compute a value for these costs, to see if the recent efforts by policy makers to alleviate these costs are justified.

Attempting such an exercise requires a theoretical model with several features. First, it must make clear what the objectives are of people in the economy, as they make their decisions for how much to work, produce, and save. Summarizing these objectives formally in a utility function has the benefit of providing a means of measuring whether people are better off or worse off under alternative government policies toward the exchange rate. The model must also account for imperfections in the way economic markets work; without these, government exchange rate policy is irrelevant. Lastly, a model must also allow for uncertainty about the future to affect people's behavior today. For example, to hedge against uncertainty consumers may save an extra amount today or producers may set a premium on export prices. Only recently have methods been developed which allow models with all of these features together to be solved.

The paper finds that costs of exchange rate variability are large only in certain specific contexts. Outside of these special cases, it is found that a typical person would be willing to give up only about one tenth of one percent of his annual consumption in order to eliminate the risk he faces.

But one case where welfare costs are larger is where people in the economy are highly sensitive to sudden



Paul Bergin

changes in their consumption level, in a way that is usually referred to as "habit persistence." There is significant evidence suggesting that such habits may be an important part of how people respond to uncertainty in certain asset markets like those for equities. The fact that risky equities usually command a higher average return than safe bonds is evidence that people have a strong dislike for risk. If one assumes such habits apply also to other asset markets, in particular the foreign exchange market, the paper indicates that the welfare loss associated with exchange rate uncertainty is three to five percent of annual consumption. This result is little affected by the presence of forward exchange contracts in the foreign exchange market.

A second case where exchange rate uncertainty imposes large costs is where international asset markets are asymmetric. In particular, consider the case where residents of a country are able to buy and sell bonds in a global financial market that are denominated in the currency of another country, a reserve currency, but not in their own country's national currency. Clearly, residents of this country are at a disadvantage for building up a cushion of savings as a hedge against exchange rate risk, given that the financial instrument at their disposal is inherently subject to exchange rate risk. For such countries, the paper finds that welfare is lower by the amount comparable to one percent of annual consumption.

Finally, the paper investigates to what degree welfare can be improved by a country adopting a policy of fixed exchange rates. The paper finds that this potentially can improve welfare in both the case of habits and the case of asset market asymmetry discussed above. The question remains open to future research, as to exactly what form of managed exchange rate policy would maximize welfare of people in the model economy here.

*Paul Bergin is Associate Professor of Economics at the University of California at Davis. His general area of research is international macroeconomics, and currently he is working on projects dealing with theories of the trade balance, exchange rate determination, and optimal monetary policy. From March 10-21, 2003 he gave a course titled "Open Economy Macroeconomics" at IHS.*

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## Glamour Firms and Stock Market Booms

IHS Course, June 11-20, 2003

by Huntley Schaller

Some observers believe that the recent U.S. recession was the culmination of a stock market bubble that led to unusually high levels of business fixed investment in the late 1990s, overcapacity (especially in the sectors of the market that were most affected by the bubble), and the collapse of business fixed investment. If correct, this account has potentially important implications for macroeconomic modeling and policy. In fact, there has already been a lively debate about the appropriate monetary policy response to a possible bubble. ►

Glamour firms have been defined as firms with high stock market prices relative to an accounting-based measure of firm worth (e.g., low Book/Market or Cash flow/Price ratios). In contrast, value firms have been defined as firms with low stock market prices. Value firms substantially outperform glamour firms, with 8-10 % higher annual returns averaged over the five years subsequent to portfolio formation. A leading interpretation is that investor sentiment affects stock market prices and glamour portfolios include many temporarily overvalued firms.

In a large sample of U.S. firms over the period 1980-2001, glamour firms invested substantially more than value firms. The difference is larger when we control for fundamentals.

Either an active financing mechanism or managerial excess optimism might lead to a link between overvaluation and investment. There is considerable evidence of an active financing mechanism.

Glamour firms will be investing too much if they are responding to misvaluation shocks rather than fundamental shocks. We describe and implement four tests designed to distinguish between fundamental and misvaluation shocks: investment reversals, stock market returns of subsets of glamour firms, stock market returns of portfolios of high-investment firms, and the path over time of the marginal product of capital. The evidence is generally more consistent with misvaluation shocks than fundamental shocks as an explanation for the high investment of glamour firms.

*Huntley Schaller is Professor of Economics at Carleton University, Ottawa, Canada. His research areas are macroeconomics and financial markets.*

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## Optimality in OLG Economies

by Subir Chattopadhyay

Many questions of interest to researchers in macroeconomics require assessing how well the market performs when left on its own. Examples are the need for and possible reforms of a social security system, how unemployment benefits ought to be structured, what sorts of loan markets for borrowing against future income to build up human capital ought to be set up, etc. The framework used to analyze these issues tends to be general equilibrium models with uncertainty, competitive behavior, and missing markets; furthermore, the models are usually dynamic and involve many generations. The name given to this class of models is the Overlapping Generations model of general equilibrium. The model is interesting to macroeconomists because it is a natural structure within which, even for a relatively simple specification of individual characteristics, the range of possi-



**Subir Chattopadhyay**

ble equilibrium outcomes is very rich and the non-intervention competitive outcome need not be the best possible.

The late 1970s saw a lot of research into the properties of these models - existence of equilibrium, optimality, determinacy, and the possibility of complicated trajectories were studied within the framework of deterministic economies. An extremely important step was the realization that a result according to Cass (*Journal of Economic Theory* 1972) on characterizing efficient paths of capital accumulation could be used to characterize Pareto optimal competitive allocations in pure exchange, deterministic models with generational overlap (Balasko and Shell in the *Journal of Economic Theory* 1980 and Okuno and Zilcha in the *Review of Economic Studies* 1980). Of course, the issues that we pointed out at the beginning require a much richer framework with uncertainty, one that is not easily handled by the techniques developed in the late 1970s. The 1980s, however, saw research into the properties of two period general equilibrium models with missing markets and that provided the impetus that was lacking. The result was research in applied macroeconomics as well as in theory that attempted to incorporate market incompleteness into dynamic models.

A large part of my research has been in the area of optimality of allocations in models with overlapping generations and market incompleteness. My interest in the area goes back to my doctoral dissertation, where I studied the scope for improving "sunspot" equilibria, i.e., market allocations that are random only because of the beliefs of the participants. In later research, Piero Gottardi and I studied models with uncertainty and a particular market structure that allows agents to insure against all risks that they face after birth, but does not allow them to insure against the risk of being born in bad states. In that framework we were able to provide a characterization that generalizes the result for the deterministic case but, even so, is quite different. Recently, Barbie, Kaul, and Hagedorn have applied our result to data on the US economy with conclusions that are in contradiction with earlier claims of optimal resource use.

In more recent research I have gone on to consider the case with further market incompleteness where the agent is unable to insure against risks faced after birth, surely the case of greatest interest. Unfortunately, very little is known about the optimality properties of such models since they are quite difficult to analyze. My approach has been to impose certain restrictions on the class of allowable reallocations. The specific restriction that I impose is that once an equilibrium has been established and the planner intervenes by using lump sum taxes and transfers that are constrained by the assets available, there is no retrading. So new market plans cannot be made once the planner has intervened. Such a restriction simplifies the problem to a considerable extent and is in the spirit of the usual Pareto analysis. I provide a complete characterization that includes all the earlier results as special cases and, more importantly, am able to bring into focus the role played by various assets ►

in inducing optimal allocations and in permitting the construction of improvements. There still remain many questions that need to be analyzed. Some of these constitute my current research interests and others will probably receive my attention in the future. Examples are the analysis of equilibria with market incompleteness and price effects, the analysis of equilibria with distorting taxes with an *ex ante* notion of optimality, and the analysis of equilibria with idiosyncratic ability realizations that cannot be insured against. The first two are relevant for appraising social security systems and possible reforms, while the third is important for any policy initiatives that encourage human capital accumulation.

*Subir Chattopadhyay is Professor at Universidad de Alicante and at El Colegio de México. His main fields of interest are: Theory for Macroeconomics, Stochastic Dynamic Models, Optimality, and Learning. Three of his last main publications are: "Stochastic OLG Models, Market Structure, and Optimality," (with Piero Gottardi). In: Journal of Economic Theory, 89, 1999, pp. 21-67. "Global Stability in spite of 'Local Instability' with Learning," (with Shurojit Chatterji). In: Journal of Mathematical Economics, 36, 2000, pp. 155-165. "The Unit Root Property and Optimality: A Simple Proof." In: Journal of Mathematical Economics, 36, 2001, pp. 153-161. Professor Chattopadhyay's current research interests are: "Stochastic OLG Models, Asset Markets, and Optimality" and "On 'Assessing Dynamic Efficiency'." From June 30 to July 10, 2003 he gave a course titled "Dynamic General Equilibrium Models in Macroeconomics" at IHS.*

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## Why are Some Countries Rich While Others are Poor?

IHS Course, July 1-12, 2003

by Baldev Raj

The study of macroeconometrics is a useful and exciting subject, dealing with topics that affect the welfare of every one of us. It is the science and art of using macroeconomics theory, probability and statistical techniques to analyze historical, cross-country and longitudinal data to make quantitative policy recommendations in government business and international organizations. It focuses on big questions that macroeconomists ask: why are some countries rich while others are poor? How does growth in evolution of productivity impact the gross domestic output of an economy? Will rich countries get richer and poor countries get poorer? What is the engine of growth? Are business cycles fluctuations bad for the economy or can they have beneficial effects? Can governments use fiscal and monetary policies to stabilize the economy? Are business cycles asymmetrical? Applied macroeconometrics lets us use the economic relationships that individuals, firms, groups, and governments might rely on in making their decisions.



Baldev Raj

Each of these questions requires a qualitative and quantitative answer. While qualitative answers come from economic theory, quantitative answers are the mainstay of econometrics. The use of multiple regression models and their extensions provides a core framework for obtaining quantitative answers to these questions using data, and to measure the overall uncertainty associated with those answers. It explains why certain events occurred in the past and analyzes contemporary economic issues, based on logical economic thinking and modeling. Empirical work by economists to test and understand the economic models has been found to be tremendously helpful in shaping understanding of the growth and business cycles processes. Robust empirical evidence based on sub-national data often provides the most credible base for economists to influence the debate on one or more complex macroeconomics policy questions of our time.

This course is concerned with using a core set of methodological techniques for assessing econometric studies that make use of regression analysis. Such an assessment relies on the concepts of internal and external validity of the econometrics utilized for the analysis. A statistical analysis is deemed internally valid if the statistical inferences of causal effects are valid for the population being studied. This includes using a framework for assessing if a statistical study in general, whether or not they use regression, is internally and externally valid. A study is deemed internally valid if its inferences about causal effects are valid for the population and setting studied. External validity is concerned with checking if the inferences of the study can be generalized to other populations and settings. Studies based on regression analysis are considered internally valid if estimated regression coefficients are unbiased and consistent, and if the standard errors yield confidence intervals with the desired confidence level. The course will include discussion of threats to the conventional estimator becoming biased and inconsistent, and tools for handling these threats. Threats to hypothesis tests not having desired significance levels, and tools to deal with these will also be discussed.

*Baldev Raj is Professor Emeritus of Economics at the Wilfrid Laurier University. He has published widely in theoretical and applied econometrics, macroeconomics, and microeconomics. His books include, "Advances in Markov-switching Models: Applications in Business Cycles Research and Finance," jointly edited with James D. Hamilton, "Advances in Public Economics," with Robin Boadway, "Long Run Economic Growth," with Steven Durlauf and John F. Helliwell, "New Directions in Time Series Econometrics," with Jean-Marie Dufour, and "Panel Data Analysis," with Badi H. Baltagi. He has published 44 journal articles, 12 books and monographs, 30 chapters in books and conference proceedings, and 9 book reviews. Some of the journals in which his articles have appeared are: Journal of the American Statistical Association, International Economic Review, Journal of Econometrics, Applied Statistics, Annals of Statistical Mathematics. His research has been funded by the Social Sciences and Humanities Research Council of Canada and the Natural Sciences and Engineering Council of Canada. He has been co-editor of **Empirical Economics**, Quarterly Journal of the Institute for Advanced Studies, Vienna, Austria since 1987. He was appointed University Research Professor of the year 1989-90.*

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## Project: Effects of Securities Transaction Taxes on Depth and Bid-Ask Spread

by Gabriel S. Lee

Academics and financial market regulators have studied the potential effects of imposing securities transaction taxes (akin to the Tobin tax) as an instrument to curb speculation and excess volatility without impairing market liquidity.

Past research uses an aggregate measure of liquidity, trading volume, in analyzing the relationship between transaction costs and liquidity. Although there is a general consensus that higher transaction costs lead to higher expected returns and lower trading volume, there is disagreement in the empirical literature on the relative magnitude of transaction taxes on trading volume. In a recent project with **Dominique Y. Dupont**, at the University of Twente, we analyze the effects of securities transaction taxes (STT) on the liquidity of a quote-driven market under asymmetric information. More specifically, we examine the effects of taxation on a disaggregate level using bid-ask spread and depth, where depth is defined as the maximum amount the dealer stands ready to sell or buy at the posted prices.

Our model builds on the pricing strategy of an uninformed market maker facing potentially better-informed traders. In our approach, we characterize the conditions for the existence of equilibrium. Moreover, we also incorporate both spread and depth into a model that allows the theoretical dealer to adjust the depth differently than the bid-ask spread in response to changes in the degree of information asymmetry. In this setting, we analyze the effects of transaction tax on market liquidity across different levels of information asymmetry. Furthermore, we use a one-period model where a monopolistic market maker posts firm prices (including tax) and depths on the bid and ask sides, while facing a risk-neutral informed trader and a liquidity trader. The informed trader observes a private signal correlated with the true value of the asset. The demand of the liquidity trader is price sensitive and subject to the liquidity shock.

Our results can be summarized as follows. First, introducing a transaction tax could lead to either increase or decrease in depth, depending on the degree of information asymmetry and liquidity demand. Secondly, the spread could respond disproportionately to increase in tax. Subsequently, our results seem to point to two regimes as far as transaction tax is concerned. When market conditions are favorable, the dealer pays part of the transaction cost himself (by increasing the spread less than the cost) and quotes a larger depth to attract order flow in order to make up for the loss in demand due to the transaction cost. The increase in the depth offsets,

albeit partially, the effect on trading volume of the wider spread. On the other hand, when market conditions are unfavorable, increasing the transaction cost leads to a drastic reduction in the liquidity provided by the market maker, enticing him to exit the market.

Although the implications of the model have been introduced by presenting the effect on the spread and the depth of an increase in the transaction cost, symmetric conclusions hold for a reduction in this cost. As a consequence, a decision to lower taxes on transactions in the hope of improving market liquidity might actually lead to smaller depths and a less-than-proportional reduction in the spreads. This is because, when market conditions are rather favorable to the dealer, a tax – insofar as it is at least partially reflected in the bid and ask prices – reduces the probability of the informed trader's buying at the ask or selling at the bid. This additional protection entices the market maker to quote a larger depth than he would without tax.

Our model shows that introducing a transaction tax could affect market liquidity differently depending on the market conditions facing the dealer. Consequently, our results can accommodate some of the disagreements in the empirical literature on the relative magnitude of transaction taxes on trading volume.

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**Gabriel S. Lee**

## New Department Member

**Rudolf Winter-Ebmer** joined the Department of Economics and Finance in March 2003 as a part-time Research Professor. He holds a PhD from the University of Linz and is currently Associate Professor of Economics there. His interests are in the field of labor economics, where he has published on a wide range of issues, among them migration, education, wage determination and unemployment, and gender issues as well as crime. His papers have appeared in the *American Economic Review*, the *Journal of Labor Economics*, the *Journal of Human Resources* and the *European Economic Review* amongst others. He is also a Research Fellow at the London-based Centre for Economic Policy Research (CEPR) and the Bonn-based Institut zur Zukunft der Arbeit (IZA). He is currently the Austrian country leader in a European inter-disciplinary project to establish and construct a panel Survey on Health, Ageing and Retirement in Europe (SHARE) which will be a major data base for researchers from many disciplines to study the impact, consequences and policy options of the ageing of our society.



**R. Winter-Ebmer**

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## New Members of the Scientific Advisory Board



Bob Jessop

### Bob Jessop

"I think my best work before coming to Lancaster was concerned with state theory and am particularly proud of my book on Nicos Poulantzas – someone from whose work I still draw fresh inspiration."

#### Current Position

Bob Jessop is Professor of Sociology, Director of the Institute for Advanced Studies in Management and Social Sciences, Department of Sociology at the Lancaster University, United Kingdom.

#### Biographical Sketch

Bob Jessop studied sociology at Exeter University and then moved to the University of Cambridge to undertake doctoral research in political sociology. After completing a study of British political culture and writing a book on the sociological theory of reform and revolution, he became a Research Fellow in Social and Political Sciences at Downing College, Cambridge. It was during his five years as a Research Fellow that he first became interested in state theory. In 1975 he moved again to the Department of Government at the University of Essex and began teaching in the areas of political sociology, historical sociology, state theory, and political economy. His recent research is divided among three main areas: (a) current changes in the capitalist economy, with special references to the illogics of globalization and the contradictions of the knowledge-driven economy; (b) welfare state restructuring; and (c) issues of governance, governance failure, and meta-governance – and its failure. The provisional results of much of this work have been presented in his most recent sole-authored work, *"The Future of the Capitalist State"* (2002), Cambridge: Polity, pp. 11-54. Chapter one can be downloaded:

<http://www.comp.lancs.ac.uk/sociology/future-ch1.pdf>

He gave a course on "Globalization and European Integration" in May 2002 at IHS.

Source: <http://www.comp.lancs.ac.uk/sociology/rjessop.html> ■

## Albert Marcet

#### Current Position

Albert Marcet is presently a Professor in the Department of Economics and Business at the University of Pompeu Fabra, Barcelona.



Albert Marcet

#### Biographical Sketch

Albert Marcet received his Ph.D. in Economics from the University of Minnesota in 1987. His fields of specialization are econometrics, macroeconomics, financial economics, and economic dynamic theory.

#### Selected Publications

"Optimal Taxation without State-Contingent Debt," (with S. Rao Aiyagari, Thomas J. Sargent, and Juha Seppälä). *Journal of Political Economy*, vol. 110(6), December 2002, pp. 1220-1254.

"Equilibrium Asset Prices and Savings of Heterogeneous Agents in the Presence of Incomplete Markets and Portfolio Constraints," (with Kenneth J. Singleton). *Macroeconomic Dynamics*, vol. 3(2), 1999, pp. 243-277.

Source:

<http://www.econ.upf.es/eng/faculty/onefaculty.php?id=p178> ■

## Philippe C. Schmitter

#### Current Position

Philippe C. Schmitter is presently a full-time Professor of the Department of Political and Social Sciences at the European University Institute, Badia Fiesolana, Italy.



Philippe C. Schmitter

#### Biographical Sketch

Philippe C. Schmitter is a graduate of the Graduate Institute for International Studies of the University of Geneva, and took his doctorate at the University of California at Berkeley. Since 1967 he has been successively assistant professor, associate professor and professor in the Politics Department of the University of Chicago, then at the European University Institute (1982-86) and at Stanford (1986-96). He has been visiting professor at the Universities of Paris-I, Geneva, Mannheim and Zurich, and Fellow of the Humboldt Foundation, Guggenheim Foundation and the Palo Alto Centre for Advanced Studies in the Behavioral Sciences. He has published books and articles on comparative politics, on regional integration in Western Europe and Latin America, on the transition from authoritarian rule in Southern Europe and Latin America, and on the intermediation of class, sectoral and professional interests. His current work is on the political characteristics of emerging Euro-polity, on the consolidation of democracy in Southern and Eastern countries, and on the possibility of post-liberal democracy in Western Europe and North America.

He gave a course on "Democracy and the European Union" in December 2000 at IHS.

Source:

<http://www.iue.it/SPS/People/Faculty/CurrentProfessors/bioSchmitter.shtml> ■

## EU Policy Networks: Theory and Comparison between Policy Areas

IHS Course, May 14–16, 2003

by John Peterson

These days, it has become a truism that modern governance – imposing overall direction or control on the allocation of valued resources – is only rarely delivered via Weberian hierarchies or neo-conservative favoured 'markets'. Instead, modern governance is often, in practice, governance by various types of networks: clusters of different types of interdependent actors. Governance by network is commonly thought to be particularly endemic to federal (Austria<sup>1</sup>) or quasi-federal (European Union<sup>2</sup>) polities.

The Department of Political Science thus decided to invite John Peterson, Jean Monnet Professor of European politics at the University of Glasgow (Scotland), to offer a short research course on 'Policy Networks and EU Decision-Making'. The course began with a broad discussion about the nature of decision-making in the EU and utility of policy network analysis in investigating it. It then focused on whether and how the EU's unique system of 'multi-level governance' is a hothouse for different kinds of policy network. The final sessions compared two very different EU policy areas – research policy and the Common Foreign and Security Policy – to try to determine what light (if any) may be shed by studying the different types of network that engage in the defining of policy problems and the shaping of solutions in these areas. Particular attention was paid to the question of how to do research on policy networks, with an extended discussion ensuing of the costs and benefits of investigating policy networks while engaging in fieldwork.

The discussion was often sparked by short, ten minute (very non-Germanic!) presentations by institute research students, who discussed how policy network analysis might aid in investigating the research questions with which their own dissertations were concerned. The course provoked a lively exchange of ideas, particularly on whether policy network analysis provides genuine added value to leading theories of the EU's policy process. A general consensus seemed to emerge on the potential usefulness of policy network analysis for understanding the strange beast known as the European Union, but also on the need for further refinement of leading models of policy networks and further detailed, empirical studies of EU decision-making. The course was nothing if not stimulating, and its leader left Vienna duly impressed with the quality of work done by course participants!

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John Peterson

## The Legal Foundations of the European Union and the Constitutional Debate

IHS Course, May 22–28, 2003

by Jo Shaw

In May 2003, I presented a short course entitled "*The Legal Foundations of the European Union and the Constitutional Debate*" at the Institute for Advanced Studies. The course had a range of objectives dictated by the interests of the students in understanding more about the legal foundations of the policy areas which they are studying in detail. However, the course also took the opportunity presented by the ongoing Convention on the Future of Europe to focus on the constitutional reform process which the EU is presently undergoing.

The short course was divided into two parts. The first part (Units 1-6) introduced students to the basic principles of the EU constitutional and legal orders. This involved coverage of the basic legal features of the EU as a form of international order, based on treaties, but with unusual supranational features which strengthen its impact vis-à-vis the Member States. Specific attention was paid to the treaty structure of the EU, the legislative and budgetary processes, relationships between the institutions, the protection of fundamental rights and other core values, and the role of the Court of Justice and the rule of law.



Jo Shaw

The second part of the course looked in detail at the current constitutional debate within the European Union. It started with the background to the Future of Europe debate, including the question whether Europe 'needs' a Constitution, and then concentrated on the processes and work of the Convention on the Future of Europe, chaired by ex-French President Giscard d'Estaing, which was then still meeting in Brussels. As we discussed during the course, the work of the Convention led to a report proposing a draft Treaty establishing a Constitution for Europe which will in turn be considered by an intergovernmental conference in late 2003. Following the mandate of the Laeken Declaration it is hoped that the final outcome will involve a new, simplified treaty structure. In this part of the course, students were introduced to the extent to which the current treaty reform processes differ from those previously used in the EU, the content of the main debates circulating in the Convention, the techniques and tools of study needed to follow those debates, and the likely implications of constitutional change for some of the most important fields of EU policy-making.

<sup>1</sup> See Gerda Falkner et al. (1999), The impact of EU membership on policy networks in Austria: creeping change beneath the surface. *Journal of European Public Policy*, 6(3), pp. 496-516.

<sup>2</sup> For overviews, see John Peterson (2001), The Choice for EU Theorists: Establishing a Common Framework for Analysis. *European Journal of Political Research*, 39(3), pp. 289-318; Gerda Falkner (2000), Policy Networks in a Multi-Level System: Convergence Towards Moderate Divergence? *West European Politics*, 23(4), pp. 94-120.

At the time the course was held, there were many uncertainties about the precise form and content of the Convention's Report and the draft Constitution which it was preparing. In many ways this made the discussion more interesting, because it allowed the group the opportunity not only to speculate about what might be agreed upon, but also what *ought* to be in such a Constitution.

*Jo Shaw, Professor of European Law and Jean Monnet Chair, University of Manchester and Senior Research Fellow at the Federal Trust for Education and Research, London.  
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## Standards of Social Research

by Franz Breuer & Jo Reichertz

In the course of history we find a multifaceted and rich debate about goodness criteria in science. In the inner-scientific (epistemological) discourse of modern times we traditionally find those of epistemology and methodology in the first line. In the 20th century we observe a strong emphasis in this arena of discourse on the idea of "demarcation" and on the idea that scientific knowledge has an epistemological priority opposed to other human ways of knowledge and understanding, as well as an emphasis on the idea of value-free science ("Werturteilsfreiheit") – i.e. scientific reasoning and scientific criteria are said to be detached from "trans-scientific" social and practical implications.

A distinction between "inner-scientific" and "outer-scientific" conditions, processes and argumentation was introduced to protect this notion: by doing so the undeniable historical interactions of social norms, morality, economy, production, and warfare, on the one hand, and science, on the other hand, can be kept out of the (inner-scientific) discourse, e.g. the discourse on goodness- and quality-criteria. In this respect, this distinction can be seen as a result of the scientists' successful struggle against the paternalism of church and state.

Due to analyses in the history and sociology of science, the normative and idealistic self-conception of science (characterised by the maxims of rationality, truth and self-sufficiency) has become questionable – especially in the last third of the 20th century. For instance, the KUHNian description of theory shifts in the natural sciences and micro-sociological descriptions of scientific production processes (following MANNHEIM's tradition of applying the theory of knowledge self-reflexively to science) have revealed the restricted, limited, and questionable conception and monopoly of rationality and the importance of social structures and processes for scientific knowledge production.

This more descriptive perspective on science-in-the-making represents a vital challenge to the common, normative ideal of rationality. In practice, scientific re-



Jo Reichertz

search works with fundamentally different "logics" than those of enacting an epistemological and methodical canon – especially when it is successful. The theory of knowledge and understanding is a strategy of justification, conceived by those who work with exactly this strategy to earn a living (by doing research). Looking at the history of science, one finds that the examples of new insights that were brought to light while obeying the rules of the theory of knowledge and understanding are few. Often enough intuition, coincidence, self-interest and stubbornness engendered new ideas.

This disenchantment with the idealised demands of science involved a "profanation" of scientific work. In a more realistic approach science proves to be less withdrawn from other human products: Science is shaped by contextual (social, linguistic, interactive, medial, cognitive, etc.) conditions that have their own criteria and their specific influences and constraints on the way scientific thinking and working are carried out. The epistemological discussion has acknowledged this dependence of scientific work on contextual structures and processes. But it is quite a different question how this issue is dealt with in an argumentation of objectivity – e.g. when propagating empirical research results or raising funds for future research. It fundamentally weakens the persuasiveness of research results. Depending on the context of discourse and the audience, this relativisation is revealed or hidden.

When it comes to discussing goodness or quality criteria of the (qualitative) social sciences in such a situation it makes sense to undertake a systematic "stock-taking" of the postulated and enacted judgement criteria that play themselves out in routine scientific research. On the one hand, this serves to clarify the discourse. From our point of view, various disputes in this field arise because different authors refer to diverse levels of quality or domains without making this explicit (to the reader or to themselves). This results in polarities that can be solved by taking in a meta-perspective. On the other hand, it seems necessary to us to discuss and clarify the broad spectrum of quality standards that play a role in inner- and outer-scientific discourses. Only by doing so can we balance the (often implicit) preferences and value-decisions that play a role in scientific production processes (when raising funds, interacting with research partners, publishing research reports etc.). Here one must take into account that one can undertake an analytical differentiation of levels, but when it comes to actual research situations and discourses, the criteria are linked and correlated in various ways.

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## 'Framework': Making Qualitative Data Analysis Transparent

IHS Course, May 14–21, 2003

by Liz Spencer



Liz Spencer

Qualitative data analysis is an exciting but complex process which requires a blend of systematic searching, diligent detection, conceptual clarity and creative inspiration. Describing your analytical process is difficult and researchers are sometimes unwilling or even unable to tell us how they arrived at their conclusions. Of course, there are many different traditions within qualitative data analysis, and different researchers will make different conceptual connections and interpretive leaps, but leaving a clear audit trail and making your methods transparent is one way of convincing your audience that your findings are credible and should be taken seriously.

Framework is a method for analysing qualitative data which was first developed at the National Centre for Social Research in the UK (Ritchie and Spencer, 1994; Ritchie, Spencer and O'Connell, 2003). The National Centre specialises in social policy research, mainly for central government departments, and the work is often carried out in teams. In this context, it was important to devise an analytical method which would enable researchers to work on the data together and to defend their findings to research commissioners and policy makers. Framework is now widely used in applied policy research in the UK, but has also been used for more academic projects (Pahl and Spencer, 2003).

Framework is primarily a data management tool which facilitates further descriptive, associative and explanatory analysis. It involves the following key stages: familiarisation with the shape and scope of the data set; identification of an initial conceptual framework or 'index'; application of the index across all the data so that all the material is labelled or tagged according to a common set of categories or themes; and the display of summarised and synthesised data in theme-based charts or matrices. The first three tasks are common to most code and retrieve approaches, but the use of thematic charts is a distinctive feature of Framework. These charts help the researcher reduce the data to more manageable proportions whilst still preserving their essence and complexity. Page references to the original transcript or field notes are included on the charts so that the researcher can always revisit the original data. Thematic charts enable the researcher to map the dimensions of phenomena and to identify patterns of association. Finally, charts give others access to the data and to the process of conceptualisation which lies at the heart of qualitative analysis.

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## Grounded Theory and Computer Support

IHS Course, April 7–11, 2003

by Jörg Strübing



Jörg Strübing

Linking qualitative methods and computers is not something that goes without saying. While the package of quantitative approaches and computers has a long-standing tradition, the idea of computer supported qualitative data analysis (**QDA**) is a development of the last fifteen years. In our course we dealt with the special package of the Grounded Theory (henceforth **GT**) approach in connection with the program ATLAS.ti ([www.atlasti.de](http://www.atlasti.de)).

Instead of being a theory, GT is both an epistemologically grounded *style of research* and a well-suited *set of single research techniques*. It draws on decades of practical qualitative social research, with the famous Chicago style community studies as a point of departure. At the same time it reflects the learning processes Anselm Strauss and other contributors experienced while tracing their sociological research questions in various empirical projects. It is because of this experience-driven approach that grounded theory is explicitly *work process oriented*. Grounding in the tradition of American pragmatist philosophy (Mead, Dewey, Peirce, James) it avoids simply deducing research consequences from a largely believed or accepted epistemology. Instead, grounded theory is a systematization of those everyday problem-solving and (thus) research practices which turned out to produce sound and interesting results. Supposedly because of its work process-oriented approach, GT has become a sort of a "paradigmatic model" for the design of software tools useful to qualitative researchers. If designing software means to develop an environment for an existing work process, then understanding how this work process is accomplished is pivotal for highly usable software.

GT is not meant to be a set of prescriptive rules but of experience-proven suggestions of how a good research process should be organized and performed in order to produce relevant theories. Researchers are encouraged to develop their own work style – strongly referring to their personal abilities and the specifics of the ongoing analytical task. Translated into requirements for QDA-software this means openness and flexibility are highly desirable: The software should allow for divergent and changing work styles. It is not enough simply to model one single research process from a ▶

methodological concept. A second basic claim of GT is the indispensability of teamwork: Though subjective achievements are essential in interpretative analysis, cooperation is needed (1) to enrich the scope of ideas and possible interpretations, and (2) to minimize idiosyncrasies. In terms of QDA-software this calls for an integrated approach to co-authorship including tools for integrating work results produced by authors in different places.

GT is often said to follow inductive logic, inferring from empirical data to theoretical concepts. However, on the whole it is more likely to correspond to an abductive type of logic. According to Peirce, abduction is a nonlogical *third way* of inference, integrating steps of deductive and inductive logic. Translated into practical empirical analysis this means a permanent "oscillation" between (1) conclusions inductively and abductively drawn from the collection and comparative analysis of empirical data, (2) the testing of a preliminary working hypothesis deduced from the emerging theory, and (3) the invention of a new theoretical concept if the preliminary hypothesis does not explain all related data. In GT we find this "oscillation" on a second, more detailed level of coding strategies, where there is continual movement back and forth between *open*, *axial* and *selective* coding strategies. Thus, a good software supporting abductive research processes should allow for a flexible process organization of research tasks. This means it should be possible to introduce new data throughout the analytical process, it should allow for flexible changes of code-labels, comments, links and all other elements administrated by the program, and it should finally give us some transparency with respect to the "history" of our analytical process.

Explicitly devoted to *generate* theory, the abductive approach of GT means more than just coding back and forth. It means checking first concepts and a tentative hypothesis, elaborated on the basis of a small, homogenous sample considering contrasting cases in a sample expanded by means of theoretical sampling. Developing these concepts in different data again and again is considered a proof for its enhanced conceptual validity. In case the data does not 'fit', a new conceptual frame has to be elaborated – integrating both the 'old' concepts and new ones valid within the new data. Thus for QDA-software, we need to be able to introduce additional data, to code them in a similar manner and then to check their dissemination in all related cases. This calls for strong, elaborated search and retrieval features allowing for both linking codes and other analytical elements to complex concepts and using these concepts as elements in search requests to check for structural relations among them.

The above requirements were at the same time the basic design rationale for ATLAS.ti, designed originally in a research project with the Berlin University of Technology around 1989. Further developed in a small 'spin off' company under the guidance of Thomas Muhr, the fifth version of ATLAS.ti is now forthcoming. In our course we utilized participants' original research data in order

to explore the program's functionalities and their fit with the research style suggested by GT.

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## Biomedicine and Feminist Policy Analysis

IHS Course, March 4-6, 2003

by Kathrin Braun

Although biomedicine is a political issue in many Western countries, there is still a profound lack of political scientists' analysis of biomedicine policy. This lack has to do with the characteristics of the policy field. It is characterised by a mixture of knowledge problems, values and interests; in this field, issues of science, ethics and meaning of bodies intersect. Science, ethics, and the body, however, are areas often considered non-political. These features challenge the classical questions of policy analysis such as "who gets what and why" and the focus of analysis on "what governments do, why they do it and what difference it makes." Thus, biomedicine policies challenge traditional approaches in policy analysis and require political scientists to elaborate new approaches.

Feminist approaches are well equipped to analyse biomedicine policy for various reasons. First, biomedicine is part of body politics, which has been a focus of feminist policy studies for a long time, as the focus of feminist studies is on the social and cultural meaning ascribed to bodily differences along the lines of sex and colour. In addition, political control over women's sexual and reproductive capacities and the question of reproductive rights have been issues of feminist studies from the beginning.

Yet, several aspects of biomedicine such as embryonic stem cell research do not fit into the framework of reproductive rights and demand for women's autonomy, because they touch upon broader societal issues such as using humans as suppliers for natural resources. Another reason why feminists are well equipped to analyse biomedicine policies is that postpositivist feminist studies challenge the notion of value-free and objective science and they stress the dominating power of science. They therefore do not regard science as being non-political. Third, feminist studies do take a normative stance; they consider and criticise the con-



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sequences of a given policy for gender relations and for women as a social group. They are familiar with the insight that politics has to do with ethics and the other way round.

Interpretative and socialconstructivist approaches in policy analysis are very useful for the study of biomedicine policies because they are able to analyse the intersection of science, ethics, politics and the body. The questions of whether and how biomedicine policies have different implications for men and women, and whether and how notions of gender differences in society influence biomedicine policies, are questions which deserve sound study and feminist political scientists have much to contribute.

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## Project: Regulation of Professional Services in the EU

by Iain Paterson

During 2002 IHS carried out research into the economic impact of regulation in the field of liberal professions in different member states of the European Union. The report may be accessed on the website of the European Commission, DG Competition, which commissioned the study: <http://europa.eu.int/comm/competition/publications/publications/index.html#liberal>.

The study presents a comparison of the legislation, regulations and codes of practice governing the practice of a range of professional services across member states of the European Union. The professions covered by the study are legal services (lawyers and notaries), accountancy services (accountants, auditors and tax advisers), technical services (architects and consulting engineers) as well as pharmacy services (community pharmacists).

The basic research questions posed in the study are whether, to what extent, and in which areas regulation differs between countries, and it aims to identify the economic effects of different degrees of regulation. No adequate knowledge base of regulations or outcomes was previously in existence, so questionnaires were sent to professional bodies in each of the fields covered in all member states. The questionnaires sought details of market entry and conduct regulation, recent changes in regulations, and basic economic data of the market for each profession. Economic data was also obtained from European and member state statistical offices. In addition, detailed accounts of the regulatory features and economic outcomes of specific professions in specific member states are contained in the 17 case studies in Part Two of the report.

To simplify the rather complex picture of different forms of regulations on different professions in different countries, a regulation index each for market entry and

for market conduct was computed for each profession/professional group and member state. Subsequently the respective indices for market-entry and market-conduct were combined into an overall regulation index for each profession/professional group.

The empirical evidence arising from our analysis points in the direction of regulatory induced suboptimal outcomes from the point of view of the whole economy (and from the viewpoint of consumers in particular) being present to varying degrees, particularly in those countries with restrictively regulated professional services. We are led by this study to the overall conclusion that the lower regulation strategies which work in one Member State might be made to work in another, without decreasing the quality of professional services (which is assumed to be of reasonable homogeneity throughout the EU), and for the ultimate benefit of the consumer.

The table below shows figures for the overall regulation indices, for all the professions/professional fields where one has been calculated (N.B. excluding notaries). The higher the degree of regulation (intensity), the higher the respective figure (within a range from 0 to 12).

Total IHS regulation indices for different professions					
	Accountants	Legal	Architects	Engineers	Pharmacists
Austria	6.2	7.3	5.1	5	7.3
Belgium	6.3	4.6	3.9	1.2	5.4
Denmark	2.8	3.0	0	0	5.9
Finland	3.5	0.3	1.4	1.3	7.0
France	5.8	6.6	3.1	0	7.3
Germany	6.1	6.5	4.5	7.4	5.7
Greece	5.1	9.5	n.a.	n.a.	8.9
Ireland	3.0	4.5	0	0	2.7
Italy	5.1	6.4	6.2	6.4	8.4
Luxembourg	5	6.6	5.3	5.3	7.9
Netherlands	4.5	3.9	0	1.5	3.0
Portugal	n.a.	5.7	2.8	n.a.	8
Spain	3.4	6.5	4.0	3.2	7.5
Sweden	3.3	2.4	0	0	12
UK	3.0	4.0	0	0	4.1

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## Project: Drug Consumption Pushes Health Expenditure Growth

by Maria M. Hofmarcher

*In almost all countries the health care sector is growing faster than the economy. In the decade from 1990 to 2000, and especially between 1995 and 2000, however this growth is likely to have predominantly occurred in the pharmaceuticals sector.*

### "High income" seems to cause inpatient expenditure...

With the exception of France, the richest EU-countries register the highest expenses on inpatient care. Per capita expenditure on inpatient care in Austria ranked fourth (selected EU-7 countries: Austria, Denmark, Germany, Finland, France, Italy, and the Netherlands), while Austrian per capita income ranked third. Nevertheless

the growth of inpatient care expenditure has been curbed due to reforms carried out in the course of the last decade, which were targeted to this very sector. The measures of containing expenditure growth in the inpatient sector that were carried out in the last decade have obviously been more successful than measures applied in the pharmaceuticals sector. The annual average growth of real per capita expenditures on inpatient care are either equal or even below that of the real per capita GDP of the respective countries. Only Germany and to some extent also Austria deviate from this pattern.

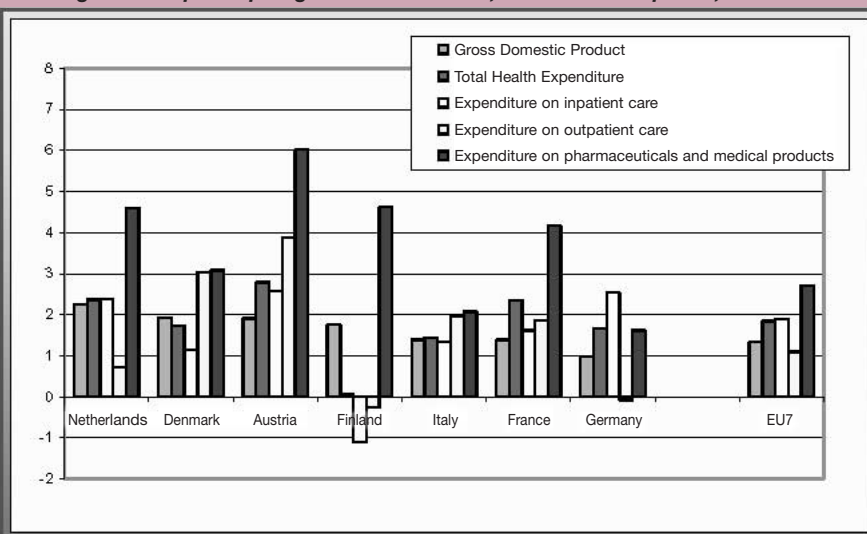
expenditure on pharmaceuticals increased more sharply than other expenses is increasing real consumption combined with even more sharply increasing costs per prescription, which can be attributed to the adoption of new, innovative pharmaceuticals.

**...and Austria converges towards the EU.** The Austrian pharmaceuticals market is characterised by particularly marked growth. It has to be pointed out, however, that expenses on drugs seem to converge, which might lead to a further expenditure increase in Austria. In countries with low expenditure levels in 1990,

real per capita expenditures tend to show higher growth rates between 1990 and 2000. In the EU-7 countries the correlation coefficient between the levels of per capita expenses on pharmaceuticals in 1990 and the real growth rates between 1990 and 2000 amounted to -0.63. Between 1990 and 2000 the share of expenses on pharmaceuticals in the entire health expenditure increased from 10.7 % to 15.4 %. Nevertheless the share of pharmaceuticals expenses in Austria still falls clearly below the weighted EU average (17 %).

*This article is a short version from the quarterly "Health System Watch III/Summer 2003" produced by IHS HealthEcon and edited by the Hauptverband der österreichischen Sozialversicherungsträger and IHS. All published issues are available at: <http://www.ihs.ac.at/index.php3?id=360>. Please find references in the long version HSW III/2003. Contact: [hofmarch@ihs.ac.at](mailto:hofmarch@ihs.ac.at)*

Average annual per-capita growth 1990 - 2000, at 1995's GDP prices, in %



Notes: Values for medical products in Austria include the value added tax since 1997  
Growth rates for Germany: 1992-2000: New health expenditure calculation 2001  
Source: OECD Health Data, August 2002; HVSU and Statistik Austria for Austria; IHS HealthEcon calculations 2003.

**...which does not guarantee economical use of outpatient services.** Due to the below-average growth rates in the decade from 1990 to 2000 the share outpatient care took in the expenditure in the EU-7 slightly decreased from 24.4 % to 22.9 %. Austria is an exception, combining a high expenditure level and high growth rates. In 2000 the expenditure share for outpatient services (incl. dental care) amounted to 31.4 %, which was 3 percentage points more than in 1990. Family physician and specialist care alone accounted for 21.4 % of health expenditure in 2000, which was 2.3 percentage points above the share observed in 1990. Still, private households' expenditures on family physician and specialist care have shown the most considerable growth. Private households finance more than one third of outpatient services in Austria. The dynamic development of outpatient care is predominantly due to the clearly sharper increase in private expenses on specialist and dentist care, with specialist and other physician services experiencing a particularly increased demand.

#### Pharmaceuticals provision gets a larger slice of the cake...

Between 1990 and 2000 in almost all countries the expenditure on pharmaceuticals increased clearly more sharply than the GDP, which brought about a considerable increase in the expenditure share. The reason

## Project: Active Job-search Programs a Promising Tool?

by Andrea Weber & Helmut Hofer

Evaluation of active labour market policies (ALMP) has a long tradition at the IHS. Andrea Weber and Helmut Hofer investigate the effects of different types of ALMP programs on unemployment durations for Austria empirically. This research project is supported by the Jubiläumsfonds of the Austrian Central National Bank.



Helmut Hofer, Andrea Weber

In Austria the main strategy of ALMP is traditionally training programs. But in 1999 and 2000, following international recommendations towards job-search assistance programs, a new type of program was introduced on a large scale. The main goal of these active job-search programs was to activate and encourage unemployed individuals to move out of unemployment as soon as possible by increasing the effectiveness of job-search.

The question of how participation in ALMP programs affects labour market outcomes of participants has been subject to substantial debate in econometric literature. We use the timing-of-events-method to estimate

the effect of active job search programs on individual unemployment durations. This method is relatively new (Abbring/van den Berg 2003), but it has recently been applied in a number of papers (Abbring et al. 1997, Bolvig et al. 2003, Lalive et al. 2002, Lubova/van Ours 1999, Richardson/van den Berg 2001). The method applies a multivariate duration model in which both the process of inflow into ALMP programs and the outflow process from unemployment into employment are specified and allowed to interact. The program effect is modelled as a permanent shift in the transition rate from unemployment to jobs that occurs at the moment of program entry. By modelling program entry explicitly and by allowing both processes to interact by way of unobserved heterogeneity, the selection effect is captured. The variation in durations at which the program is administered to individuals and information on the corresponding pre- and post-treatment durations can be exploited to identify the treatment effect.

We estimate a basic model where the program effect is measured as a constant shift in the transition rate from unemployment to work from the entry into the program onwards. We find that participation in active job search programs significantly reduces unemployment durations, whereas training programs have a negative effect on unemployment durations. The negative effect of training programs may be the consequence of measuring a combination of lock-in during the program and skill-enhancement, which comes to effect only when the program is finished.

Taking the lock-in effect into account, we estimate a specification allowing for a time-varying program effect. It shows that all programs have the lowest effects during the first 30 days after program entry. Whereas active job search programs always have a positive effect, the effect for training programs does not turn positive until after 60 days. Allowing for heterogeneous program effects by population groups, we find that women benefit from participation in all program types. We even find a positive overall program effect for women from training programs.

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## Project: The Liberalization of Telecommunication in Austria

by Helmut Berrer & Alexander Schnabl

The availability of an efficient telecommunications network and a high quality of telecommunications services represents an essential component of the value-added process. In a wider sense the availability of telecommunication services plays an important role in location decisions and in the development of rural areas.

In its Green Paper of 1987, the EU launched a highly ambitious program with the stated objective of creating a common European telecommunications market. The deregulation of telecommunications markets is an issue that will continue to occupy the attention of all EU member states in the coming years, and regulatory authorities have been established throughout the European Union to ensure free and fair competition in the national telecommunications markets.

In line with these developments, the Austrian legislature set up the Telecom Control Commission in late 1997. The commission is an independent authority with the powers of a court, and the Austrian Regulatory Authority for Telecommunications and Broadcasting (RTR GmbH, which replaced the Telekom-Control GmbH as of March 31, 2001) serves as its operative arm. This board provides information on the regulatory environment and legal environment (laws and ordinances) in Austria. The Austrian legislature has defined precise objectives for the activities of the telecommunications regulatory authorities. The first priority is to ensure that Austrian people and businesses are provided with cost-effective, high-quality, innovative telecommunications services. This is achieved, for example, by lowering barriers to market entry for new service providers, by ensuring open network provision, and by acting as an arbitrator in case of disputes between market participants. As of June 2003 five mobile and 21 fixed-line phone suppliers are active at the Austrian market.

After an evaluation of the European Union directives in the years 1999 and 2000, a further series of new telecommunication directives has been issued, which must be adopted by the member states before July 2003. These new directives serve the main long-term goal of replacement of the present regulated competition by a free competitive environment. The "Verband Alternativer Telekom-Netzbetreiber" intends to support the Austrian legislators during the negotiations for the TKG 2003 (legislation) with the results of our study, as summarized below.

There has been very little fluctuation in the number of fixed-line network customers over the last 5 years around a stable number of about 4 million connections. Turnover fell by 14 % from 1998 to 2001 to € 1.74 billion. In contrast, the minute volume significantly increased in 1999 and has since stayed at a level of about 13 billion minutes per year. In fixed-line business a high ►

degree of correlation between calling rates and market concentration is exhibited, which is in evidence in all sub-markets as well as overall. Fixed network customers have exhibited, on average, a nearly constant minute-behavior demand pattern per month since 1998 and pay – due to decreasing calling rates – less in telephone bills. The average fixed network customer realized savings in the 3-year period 1999 to 2001 of € 140. The increased connection charge to the fixed-line network was also more than compensated by the decline in calling rates. This development was confirmed by a fixed-line market price index which we developed that incorporates private and business rates. The new index can be applied to the (former) monopolist supplier as well as to the competitive situation, where alternative suppliers are weighted accordingly to their market share of volume.

The mobile market in Austria is very dynamic, as is illustrated by a growth rate of 95.1 % in the number of subscribers in 1998. A market penetration of 83.5 % was already achieved in 2001. The minute-volume per customer is rising and consequently the overall minute-volume attained a higher growth than fixed-line connections, and with 8 billion minutes per year it already accounted for two fifths of the overall telephone market in 2001. Because of decreasing rates, turnover grew at a slower rate, nevertheless giving rise to expansion rates of over 50 % 1998 and 1999, so that in 2001 the mobile market turnover of € 2.19 billion surpassed that

of the fixed market for the first time. A high correlation between the average calling rates and the corresponding indices of market concentration has been demonstrated for the overall mobile market and also for most sub-markets. An average mobile phone customer realized savings in the 3-year period 1999 to 2001 in the amount of € 340. Obviously the extent of price-reduction in the mobile market is more significant than in the fixed market, which can be partly explained by expected market mechanisms for a new technology.

Based on the data analyzed, the fixed and the mobile market seem to be principally complementary and to develop independently from each other. Telecommunication liberalization was accompanied by an increase in investment of telecommunication-operators from € 1.08 billion in 1997 to € 1.84 billion in 2001. Liberalization has generated more competition, resulting in lower calling rates and indeed in an increase of consumer welfare. For as long as market-dominating operators exist in some markets, regulation authorities ensure fair competition.

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- No. 132 Dominique Y. Dupont / Gabriel S. Lee**  
Effects of Securities Transaction Taxes on Depth and Bid-Ask Spread. May 2003.
- No. 133 Wolfgang Polasek / Christian Amplatz**  
The Maastricht Criteria and the Euro: Has the Convergence Continued? July 2003.
- No. 134 Oded Stark**  
On the Economics of Refugee Flows. July 2003.
- No. 135 Robert S. Chirinko / Huntley Schaller**  
A Revealed Preference Approach. To Understanding Corporate Governance Problems: Evidence From Canada. July 2003.
- No. 136 Wolfgang Polasek**  
Multivariate Regression and ANOVA Models with Outliers: A Comparative Approach. September 2003.
- No. 137 Sergei A. Nagaev**  
A Diffusion Approximation for the Riskless Profit under Selling of Discrete Time Call Options. September 2003.

### No. 138 Doris Weichselbaumer / Rudolf Winter-Ebmer

The Effects of Competition and Equal Treatment Laws on the Gender Wage Differential. September 2003.

### No. 139 Oded Stark / You Qiang Wang

On the Evolutionary Edge of Altruism: A Game-Theoretic Proof of Hamilton's Rule for a Simple Case of Siblings. September 2003.

### No. 140 Adriana Lojschová

Estimating the Impact of the Balassa-Samuelson Effect in Transition Economies. October 2003.

### No. 141 Guenther Grohall / Juergen Jung

Multiple Objective Step Function Maximization with Genetic Algorithms and Simulated Annealing. October 2003.

### Political Science Series

#### No. 87 Liesbet Hooghe / Gary Marks

Unraveling the Central State, But How? Types of Multi-Level Governance. March 2003.

#### No. 88 Liesbet Hooghe

Europe Divided? Elites vs. Public Opinion on European Integration. April 2003.

#### No. 89 Jo Shaw

What's in a Convention? Process and substance in the project of European constitution-building. June 2003.

#### No. 90 John Peterson

Policy Networks. July 2003.

#### No. 91 Vivien A. Schmidt

The European Union. Democratic Legitimacy in a Regional State? September 2003.

### Sociological Series

#### No. 56 Bernhard Hammer / Petra Oswald

PILGRIM. Nachhaltigkeit und Religion(en) - eine Pilgerreise. May 2003.

#### No. 57 Gabriele B. Christmann

Städtische Identität als kommunikative Konstruktion. Theoretische Überlegungen und empirische Analysen am Beispiel von Dresden. October 2003.

## Lectures

### Ute Behning

"Combining multi-level governance with policy-analysis: theoretical and teaching efforts. Reflections on the first two-year postgraduate course 'European Studies 2000-2002' at the Institute for Advanced Studies, Vienna." ECPR General Conference, Marburg, Germany, September 18-21, 2003.

### Peter Brandner

"Budgetpolitik der Niederlande, Finnlands und Schwedens - Lehren für nachhaltige Konsolidierungen?" Workshop des Staatsschuldenausschusses und der OeNB, Vienna (Oesterr. Kontrollbank), April 7, 2003.

### Bernhard Felderer

"IMF and World Bank - The same bitter medicine for all developing countries?" Fourth Vienna Globalization Symposium, Vienna, May 16, 2003.

"Die Bedeutung des Wirtschaftsstandortes Österreich im Hinblick auf die Osterweiterung der EU." Baden-Badener Unternehmerrgespräche, Vienna, May 30, 2003.

"Effekte der Telekom-Liberalisierung." Verband alternativer Telekom-Netzbetreiber, Vienna, June 10, 2003.

"Patientenautonomie in Zeiten knapper Kassen." Alpbacher Gesundheitsgespräche 'Altern - Active Aging,' Alpbach, August 25, 2003.

"Staat versus Privat - Zwischen Sicherheit, Flexibilität und 'Flexicurity'." Statement, Alpbacher Wirtschaftsgespräche, Alpbach, August 28, 2003.

"Standortbestimmung Europas." Baden-Badener Unternehmerrgespräche, Baden-Baden, September 15, 2003.

### Gerda Falkner

"Comparing Europeanisation Effects: From Metaphor to Operationalisation." ECPR General Conference, Marburg, Germany, September 18-21, 2003.

### Walter Fisher

"Status Preference and World Economic Dynamics." 9th International Conference on Computing in Economics and Finance, University of Washington, Seattle, WA, July 11-13, 2003.

"Intertemporal Budget Policies and Macroeconomic Adjustment in a Small Open Economy." University of Bonn and ZEI, Bonn, July 31, 2003.

"Status Seeking in the Small Open Economy." European Economics Association Conference, Stockholm, Sweden, August 20-24, 2003.

"Course in Macroeconomics." (Economics 2 B), Free University of Bozen/Bolzano, School of Economics and Management, Bozen/Bolzano, Italy, February-May 2003.

### Gunther Grohall

"Numerical Computation of Heterogeneous Agents' Trading Prices in Incomplete Markets." 8th Annual Workshop on Economics with Heterogeneous Interacting Agents, Institute for World Economics, Kiel, May 29-31, 2003.

### Thomas Hintermaier

"A Sunspot Paradox." European Meeting of the Econometric Society, Stockholm, August 21, 2003.

"High-frequency sunspots." Annual Congress of the European Economic Association, Stockholm, August 22, 2003.

### Maria M. Hofmarcher

"Impact of Case-Mix Hospital Payment Reforms on Health Systems Case Study Austria." Midterm Review of the World Bank Health Sector Management Project, Ljubljana, Slovenia, April 23, 2003.

"Regulating the Austrian pharmaceutical market: Improving efficiency and controlling cost." Conference on Pharmaceutical Policies in Europe, London School of Economics Health and Greece Ministry of Labour and Social Insurance, Athens, May 30, 2003.

### Michael Jonas

"Innovationstransfer aus den Hochschulen und Clusterbildung in der Region. Ergebnisse und Erfahrungen aus dem Dortmunder Raum." AKTAB-Workshop Primäre Wissenspolitik in der Region. sfs-Dortmund, May 14, 2003.

### Robert Kunst

"Testing for relative predictive accuracy: A critical viewpoint." METU International Conference in Economics, Ankara, September 6, 2003.

"Decision maps for bivariate time series with potential threshold cointegration." Lecture presented at the Workshop on Econometric Time Series Analysis, Linz, September/October 2003.

### Gabriel S. Lee

"Time Varying Uncertainty and the Credit Channel." Society for Economics Dynamics Annual Meeting, University of Paris I, June 26-28, 2003.

"Agency Costs and Business Cycles: A Comparative Analysis of the U.S. and Euro Area." European Economic Association Annual Meeting, University of Stockholm, August 20-25, 2003.

### Beate Littig

"Qualitative Research Methods." University of Maastricht, Research Training Network: Dynamics and Obstacles of European Governance, July 15, 2003.

"Xenotransplantation im Gespräch. Der neosokratische Dialog als Instrument für partizipatives Technology Assessment." (with Erich Griessler). 11th conference 'Alternativen zu Tierversuchen,' organized by MEGAT, Univ. of Linz, September 19, 2003.

### Irina Michalowitz

"How much Extremism does Democracy need?" ECPR General Conference, Marburg, Germany, September 18-21, 2003.

"Une légitimation démocratique supranationale est-elle possible? L'Europe comme modèle de l'établissement des normes globales." Conference International Norms for the 21st Century: Political Science, Philosophy, Law. Aix-en-Provence, September 11-14, 2003.

"Choice, Rationality and the Erika accident: proposing exchange- and principal-agent concepts for the study of European lobbying." European Public Choice Society Annual Meeting, Aarhus, April 26-28, 2003.

"Lobbying." Guest lectures, Donau-Universität Krems, Internationales Journalismus Zentrum, Course: July 16 and July 18, 2003.

### Monika Riedel

"Another Search for Supplier Induced Demand in a Health Care System with Fixed Fees." Poster presentation, 4th World Congress of the International Health Economics Association, San Francisco/California, June 18, 2003.

### Klaus Ritzberger

"The Building of Empires: Measuring the Separation of Dividend and Control Rights under Cross-Ownership among Firms." Guest lectures, University of Konstanz, April 30, 2003 and at the University of Alicante, May 19, 2003.

"Behavioral Models in Economics and Finance." Network Meeting, Salamanca: 'Trees and Extensive Forms,' September 25-28, 2003.

### Oliver Treib

"The EU and New Social Risks: The Case of the Parental Leave Directive." Conference 'The Political Regulation of New Social Risks,' Lugano, Switzerland, September 25-27, 2003.

### Andrea Weber

"Active job-search a promising tool? A microeconomic evaluation for Austria." Presentation at the European Society of Population Economics Meeting, New York, NYU, June 12-15, 2003; at the IZA Research Seminar Bonn, IZA, July 1, 2003; and at the 15th Annual Conference of the European Association of Labor Economists, Universidad Pablo de Olavide, Sevilla, Spain, September 18-21, 2003.

### Rudolf Winter-Ebmer

"The effect of competition and equal treatment laws on the gender wage gap." Symposium New Approaches to Gender Research, University of Mannheim, April 5, 2003.

"Rhetoric in Economic Research: The case of gender wage gaps." European Society for Population Economics, Annual Meeting, New York, NYU, June 13, 2003.

### Yuri Yegorov

"Urbanization and Demographic Transition." 8th Viennese Workshop on Optimal Control, Dynamic Games and Nonlinear Dynamics, Technical University and University of Vienna, Vienna, May 16-18, 2003.

"Dynamics of Interest Rate and Spanish Housing Markets." 10th European Real Estate Society Conference (ERES2003), Helsinki, Finland, June 11-13, 2003.

"Rental and Housing Markets in Barcelona," (jointly with M. Carreras and O. Mascarella). ERES2003, Helsinki, Finland, June 11-13, 2003.

"Self-Organizing Role of Space and Structural Problems of Russian Transition." International Symposium 'Nobel Prize Winners in Economics and Russian Economic Schools.' St. Petersburg University, Russia, September 17-18, 2003.

## Publications

### Peter Brandner

"Budgetpolitik der Niederlande, Finnlands und Schwedens - Lehren für nachhaltige Konsolidierungen?" Wirtschaftspolitische Blätter, Vol. 50(2), 2003, pp. 183-204.

### Gerda Falkner

"Zwischen Gestaltungslücke und integrativen Kooperationseffekten: Wohlfahrtsstaat und Integration aus Sicht des historischen Institutionalismus." In: M. Jachtenfuchs, B. Kohler-Koch (eds.), Europäische Integration. Opladen: Leske+Budrich, 2003, pp. 479-511.

"The Interprofessional Social Dialogue at European Level: Past and Future." In: B. Keller and H.-W. Platzer (eds.), Industrial Relations and European Integration. Developments and Prospects at EU-level. Aldershot: Ashgate, 2003, pp. 11-29.

"Austria in the European Union. Direct and Indirect Effects on Social Policy." In: M. Gehler, A. Pelinka, G. Bischof (eds.), Österreich in der Europäischen Union. Bilanz seiner Mitgliedschaft. Vienna: Böhlau, 2003, 185-199.

### Bernhard Felderer

"Pension Reform in Austria," (with G. Buczolic, R. Koman, and A. U. Schuh). In: The three Pillars of Wisdom? A Reader on Globalization, World Bank Pension Models and Welfare Society." New York: Nova Science Publishers, Inc., 2003, pp. 201-222.

### G. Grohall, D. Grozea-Helmenstein, Ch. Helmenstein, J. Jung

"Wirtschaftspolitische Analysen des Strukturwandels im Einzelhandel." In: Perspektiven im Handel - Analysen - Fallstudien - Wirtschaftspolitische Implikationen," Vienna: Kremayr&Scheriau, 2003, Part II, pp. 1-83.

### Thomas Hintermaier

"On the minimum degree of returns to scale in sunspot models of the business cycle." Journal of Economic Theory, Vol. 110, June 2003, pp. 400-409.

### Helmut Hofer

"Wage and Mobility Effects of Trade on the Austrian Labour Market," (with P. Huber). Empirica, 30, 2003, pp. 107-125.

### Maria M. Hofmarcher

"Is competition an adequate remedy to contain market failures in the health sector?" Gesundheitsökonomika, Schriftenreihe der österreichischen Gesellschaft für Gesundheitsökonomie, Vienna 2003, pp. 91-108.

### Michael Jonas

"Erfolgsfaktoren heterogener Kooperation - Zur Entstehung einer neuartigen Wissenspraxis in einem kombitechnologisch orientierten Projektcluster," (with T. Bromberg). In: EADS (ed.), aKoM Abschlussbericht. Ulm, 2003 [CD-Version]. Bereichsrezension 'Arbeitspolitik.' Soziologische Revue, Vol. 26(2), 2003, pp. 279-284.

### Rudolf Winter-Ebmer

"Benefit Duration and Unemployment Entry: A Quasi-Experiment in Austria." European Economic Review, 47, 2003, pp. 259-273.

"Job Creation and Job Destruction in a Regulated Labor Market: The Case of Austria," (with A. Stiglbauer, F. Stahl, J. Zweimüller). Empirica, 30, 2003, pp.127-148.

"Are Austrian Returns to Education Falling Over Time?," (with J. Fersterer). Labour Economics, 10, 2003, pp. 73--89.

"Why Do Students Expect to Stay Longer in College? Evidence from Europe." Economics Letters, 80, 2003, pp. 247-253.

## Visiting Professors

(October - December 2003)

### Economics and Finance

For further information please contact pawelcza@ihs.ac.at

**Michael Brennan** (University of California, Los Angeles)  
*"Topics in Portfolio Theory and Asset Pricing"* (ccef, October 7-22, 2003)

**Stefano Demichelis** (University of Pavia)  
*"Mathematics for Economists"* (IHS, October 16 - November 19, 2003)

**Peter Schaller** (University of Vienna)  
*"Risk Management I"* (ccef, November 4-20, 2003)

**Antonio Mele** (London School of Economics and Political Science)  
*"Term Structure Models"* (IHS, December 15-18, 2003 - January 7-9, 2004)

### Political Science

For further information please contact hafner@ihs.ac.at

**Wolfgang Wessels** (University of Cologne)  
*"Theorien der europäischen Integration"* (IHS, October 30-31 and November 20-21, 2003)

**Gudrun Perko** (Berlin)  
*"Methoden des wissenschaftlichen Schreibens - 'Schreibwerkstatt'"* (IHS, November 17-18, 2003)

**Madeleine Hosli** (Leiden University)  
*"Rational Choice and Game Theory in EU research"* (IHS, December 15-17, 2003)

### Sociology

For further information please contact stadler@ihs.ac.at

**Arlie Hochschild** (University of Berkeley, CA)  
*"Capitalism and Emotional Life"* (IHS, October 20-22, 2003)

### Sociology Research Seminars in Cooperation with the ÖGS

Please see: <http://www.ihs.ac.at/index.php3?id=1031>

**Arlie Hochschild** (University of Berkeley, CA)  
*"Love as a Global Commodity: third world supply, and first world demand for care"* (IHS, October 20, 2003, 16:30-18:30)

**Eckart Hildebrandt** (Social Science Research Center Berlin)  
*"Die Balance von Arbeit und Leben"* (IHS, November 10, 2003, 16:30-18:30)

### Olga Radzyner Award

The **Olga Radzyner Award** for Scientific Work on Monetary and Finance Themes for Young Economists from Central, Southeastern and Eastern European Transition Economies will be given to

**Adriana Lojschová**  
 (IHS, Program in Economics 2001-2003)

in the context of the OeNB's annual East-West Conference, which will take place in Vienna on **November 4, 2003**.

### Research Seminar in Economic Theory

Together with universities in Vienna and the Austrian Economic Association ("Nationalökonomische Gesellschaft") the Institute for Advanced Studies organizes joint public lectures in economic theory, taking place at IHS, Stumpergasse 56, 1060 Vienna. Please see: <http://www.ihs.ac.at/index.php3?id=965>

**Egbert Dierker** (University of Vienna)  
*"Cournot Competition in a General Equilibrium Model of International Trade."* (IHS, October 9, 2003, 16:00)

**Uwe Schmock** (Vienna University of Technology)  
*"Modelling Dependent Credit Risks with Mixture Models."* (IHS, October 9, 2003, 17:30)

**Krishna Ladha** (New York University)  
*"On the Stability, Preservation and Growth of Democracy."* (IHS, October 23, 2003, 16:00)

**Dennis Mueller** (University of Vienna)  
*"Rights and Citizenship in the European Union."* (IHS, October 23, 2003, 17:30)

**Stefano Demichelis** (University of Pavia)  
*"Asymptotic Stability of Differential Inclusions."* (IHS, November 6, 2003, 16:00)

**Robert Samuel Simon** (Hebrew University of Jerusalem)  
*"Escape Games."* (IHS, November 6, 2003, 17:30)

**Emma Moreno-Garcia** (University of Salamanca)  
*"Strategic Equilibria with Partially Disposable Withholdings."* (IHS, November 20, 2003, 16:00)

**Konrad Podczeck** (University of Vienna)  
*"On Core-Walras Equivalence in Banach Spaces when Feasibility is defined by the Pettis Integral."* (IHS, November 20, 2003, 17:30)

**Jean-Pierre Zigrand** (London School of Economics)  
*"Strategic Financial Innovation in Segmented Markets."* (IHS, December 4, 2003, 16:00)

**Ronald Wendner** (University of Graz)  
*"Frames of reference, the environment, and optimal tax schemes."* (IHS, December 4, 2003, 17:30)

The **Institute for Advanced Studies** is Austria's first postgraduate research and education institution and combines theoretical and empirical research in economics and the social sciences. It was established in 1963 as a non-profit organization on the initiative of Paul F. Lazarsfeld and Oskar Morgenstern. The Institute is divided into three departments: Economics and Finance, Political Science, and Sociology.

Director: Bernhard Felderer

### IHS-Newsletter, Volume 11, No. 3, 2003

ISSN 1605-8038

Editorship: Isabella Andrej (isabella.andrej@ihs.ac.at)

Printed by: Leukauf Druck

The IHS Newsletter is a quarterly publication of the Institute for Advanced Studies.

You can download the newsletter as a pdf-file from  
<http://www.ihs.ac.at/index.php3?id=914>

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