



universität
wien

Department of Economics
Contact: Sandra Weißenböck
+43-1-4277-37402
sandra.weissenboeck@univie.ac.at



INSTITUT FÜR HÖHERE STUDIEN
INSTITUTE FOR ADVANCED STUDIES
Vienna

Department of Economics and Finance
Contact: Marion Kelemen
+43-1-59991-145
economics@ihs.ac.at

WIRTSCHAFTSTHEORETISCHES FORSCHUNGSSEMINAR

RESEARCH SEMINAR IN ECONOMIC THEORY

December 3, 2009

Institute for Advanced Studies
Stumpergasse 56, 1060 Wien
lecture room II, groundfloor (HSII)

4:00pm

Martine Quinzii,
University of California, Davis:

“Expectations of Inflation and Monetary Policy”
Abstract printed on the next page

5:30pm

Herbert Dawid,
University of Bielefeld:

***“New product introduction and capacity investment by incumbents:
effects of size on strategy”***
Abstract printed on the next page

./2

DOWNLOAD SITE FOR PAPERS (IF AVAILABLE) AND SEMINAR SCHEDULE

<http://www.univie.ac.at/vwl/EconomicTheory.html>

NOTE: Participation of advanced students in this seminar is highly recommended.



universität
wien

Department of Economics
Contact: Sandra Weißenböck
+43-1-4277-37402
sandra.weissenboeck@univie.ac.at



INSTITUT FÜR HÖHERE STUDIEN
INSTITUTE FOR ADVANCED STUDIES
Vienna

Department of Economics and Finance
Contact: Marion Kelemen
+43-1-59991-145
economics@ihs.ac.at

ABSTRACTS

Martine Quinzii,
University of California, Davis:

“Expectations of Inflation and Monetary Policy”

This paper provides a theoretical framework for understanding how monetary policy can be used to control expectations of inflation. We study a simple production economy with a cash-in-advance constraint in which monetary-fiscal policy is Ricardian. Agents' expectations are modeled as probability distributions on a finite set of possible inflation rates. The monetary authority announces a public forecast of inflation to direct agents' expectations, and a bond pricing (term structure of interest rates) policy to make the forecast credible. We study conditions under which an announced forecast is compatible with equilibrium---there must be enough weight on inflation to be compatible with a non-negative nominal interest rate. In a stationary setting we exhibit a rank condition on the payoff structure of the bonds which must be satisfied if the forecast is to be the unique probability distribution compatible with the bond pricing policy, thereby making it the only possible common expectation of inflation for the agents. The model thus provides a formal framework for understanding the conditions under which the policy of inflation targeting can be successful.

Herbert Dawid,
University of Bielefeld:

“New product introduction and capacity investment by incumbents: effects of size on strategy”

The paper addresses the question how production capacities on an established market influence the innovativeness of firms. We analyze the strategic interactions in an oligopoly setting where firms have the option to introduce a new product in addition to the established one. We show that the firm with a smaller capacity on the established market has a higher incentive to innovate and reaches a larger market share on the market for the new product. Furthermore, changing capacities on the established market has qualitatively different impacts on the smaller and the larger firm. The larger firm can use capacity expansion as an instrument to prevent its competitor from innovating, whereas the smaller firm cannot prevent innovation of its competitor in this way. Overall, total payoffs depend non-monotonously on the capacities on the established market and the firm with smaller capacity on the established market might outperform the larger firm with respect to total payoffs.

with Michael Kopel (University of Technology, Vienna) and Peter M. Kort (University of Tilburg).

[DOWNLOAD SITE FOR PAPERS \(IF AVAILABLE\) AND SEMINAR SCHEDULE](http://www.univie.ac.at/vwl/EconomicTheory.html)

<http://www.univie.ac.at/vwl/EconomicTheory.html>

NOTE: Participation of advanced students in this seminar is highly recommended.
