

**THE PHILLIPE MONASTER CENTER
FOR ECONOMIC RESEARCH**

ACTIVITY REPORT

2006/07

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I. MEMBERS OF THE MONASTER CENTER FOR ECONOMIC RESEARCH

Dr. Suleiman Abubader
 Dr. Aamer Abu-Qarn
 Prof. Arie Arnon
 Dr. Ofer Azar, Department of Business Administration
 Prof. Ezra Bar-Ziv, Unit of Electro-Optical Engineering
 Prof. Gila Benisti
 Dr. Benyamin Berdugo
 Prof. Daniel Berend, Department of Computer Science
 Dr. Tomer Blumkin
 Prof. Uri Benzion
 Dr. Danny Cohen-Zada
 Prof. Leif Danziger
 Prof. Ezra Einy
 Dr. Naomi Feldman
 Dr. Koresh Galil
 Dr. Arie Gavious, Department of Industrial Engineering and Management
 Prof. Mark Gradstein, Chairman of the Department of Economics
 Dr. Ori Haimanko
 Mr. Gadi Hazak
 Prof. Samuel Hollander
 Prof. Moshe Justman, Dean of the Faculty of Humanities and Social Sciences
 Dr. Nahum Karlinsky, Department of Jewish History
 Prof. Israel Luski
 Dr. Yaniv Poria, Department of Hotel and Tourism Management
 Dr. Bradley Ruffle
 Dr. Edna Schechtman, Department of Industrial Engineering and Management
 Prof. Aner Sela
 Prof. Haim Shalit
 Prof. Zilla Sinuany-Stern, Department of Industrial Engineering and Management
 Prof. Avia Spivak
 Prof. Oscar Volij, Director of the Monaster Center for Economic Research
 Prof. Jimmy Weinblatt, Rector of the University
 Prof. David Wettstein
 Dr. Yossi Yakhin

STEERING COMMITTEE

Prof. Mark Gradstein
 Prof. Oscar Volij
 Prof. David Wettstein

II. SUMMARY OF ACTIVITIES

The 2006-2007 academic year was another productive period for the Monaster Center for Economic Research, with the Department of Economics continuing to provide a stimulating environment for the academic staff to do high quality research. During this period, more than 30 articles were accepted for publication, some of which appeared in top international journals such as the Journal of Political Economy, the Journal of Public Economics, Econometrica, Games and Economic Behavior, Journal of Economic Theory, the American Economic Review, Economic Theory, the International Journal of Game Theory, the Economic Journal, the Journal of Urban Economics, the RAND Journal of Economics, and the Review of Economics and Statistics. Members of the Monaster Center also presented their research at various international academic conferences. Within the Department, the weekly seminar continued to provide the opportunity to learn about the latest developments in economic research from within Israel and from abroad.

This year we are happy to welcome a new member to the academic staff of the Department of Economics. Yossi Yakhin is a macroeconomist who joins us after spending several years as a Will Clayton Research Fellow in International Economics at the James Baker Institute at Rice University. This year the membership of the Monaster Center has expanded significantly to include six new members from various departments in the university, evidencing its potential to becoming multidisciplinary: Prof. Ezra Bar-Ziv from the Unit of Electro-Optical Engineering; Prof. Daniel Berend from the Department of Computer Science; Dr. Arie Gavious and Prof. Zilla Sinuany-Stern from Department of Industrial Engineering and Management; Dr. Nahum Karlinsky from the Department of Jewish History; and Dr. Yaniv Poria, from the Department of Hotel and Tourism Management. We are certain that their addition will induce a very fruitful interaction between Monaster's members.

Our members perform research on a wide variety of topics. Suleiman Abubader investigates growth-related issues in the Middle East as well as the relationship between economic growth, globalization, income inequality, and poverty in developing countries. Aamer Abu-Qarn examines several issues of the Israeli-Arab conflict including whether there are structural breaks in military expenditures, and action-reaction patterns in these expenditures. Arie Arnon studies some economic aspects of the countless peace initiatives for resolving the Arab-Israeli conflict. Uri Benzion carries out experiments to test behavioral hypothesis in financial markets. Arie Arnon studies the economic dimension of the Arab-Israeli conflict. Ofer Azar uses economic models to analyze various issues related to firm strategy. Tomer Blumkin and Naomi Feldman both study various aspects of tax policy. Danny Cohen Zada performs empirical studies on the effect of education on the preservation of religious identity in the US. Leif Danziger investigates the effects on inflation on the output decisions of firms with adjustment costs. Ezra Einy continues to work on economies with asymmetric information. Koresh Galil uses an asymmetric information model to analyze the term structure of default. Mark Gradstein concentrates on the relationship

between inequality and various other concepts such as institutions, democracy, and property rights. Ori Haimanko focuses on the concept of polarization. Israel Luski inquires into whether the optimal tax policy admits a negative income tax. Samuel Hollander continues to work on the history of economic thought; having published his researches on Jean-Baptiste Say, he is putting *The Economics of Karl Marx* through the press. Moshe Justman is working on the political economy of education and on the effect of education on social mobility. He was elected Dean of the Faculty of Humanities and Social Sciences for a three-year term. Bradley Ruffle conducts experimental tests of various bargaining models. Aner Sela continues his research on equilibria, in particular auctions and contests. Avia Spivak analyzes the market for annuities under asymmetric information conditions. David Wettstein studies efficient auctions when there are externalities. Finally, I made a contribution to the experimental literature on games, by testing how chess players play a perfect information game.

Once again, we thank Ms. Ella Ginzburg and Ms. Estelle Schulgasser for their support in the production of this report.

Prof. Oscar Volij, Director
Monaster Center for Economic Research

III. ACTIVITIES IN DETAIL

1) Conferences and workshops organized under the auspices of the Center and the Department of Economics

The Annual Memorial Lecture for Prof. Ehud Zuskovitch took place on May 28, 2007. The guest speaker was Prof. Eytan Sheshinski from Hebrew University. His talk was entitled “Desirable Constraints on a Choice Space.”

2) Guests of the Center and the Department of Economics

This year, owing to the support from the Center, we hosted the following guest lecturers from abroad:

Martin Paldam (University of Aarhus, Denmark)
 David Tracer (University of Colorado)
 Peter Katuscak (CERGE)
 Michael Katz (University of Pennsylvania)
 Hosny Zoabi (European University Institute)
 Yossi Yakhin (Rice University)
 Ran Abramitzky (Stanford University)
 Louis Christophides (University of Cyprus)
 Yossi Feinberg (Stanford University)
 Ronen Elul (Federal Reserve Bank of Philadelphia)
 Louis Putterman (Brown University)
 Massamiliano Tani (Macquarie University, Australia)
 Chenggang Xu (London Stock Exchange)
 David Katz (University of Michigan)
 Joshua Aizenman (University of California - Santa Cruz)
 Ignacio Palacios-Huerta (Brown University)

3) Seminar Lectures Presented by Department Members and Guests from Israel and Abroad

- 26.10.06 Moshe Justman (with Yaakov Gilboa) (Ben-Gurion University)
 “Equal Opportunity in Education: Lessons from the Kibbutz”
- 01.11.06 Martin Paldam (University of Aarhus, Denmark)
 “Two Views on Institutions and Development: The Grand Transition vs. the Primacy of Institutions”
- 02.11.06 David Tracer (University of Colorado)
 “Not So Dismal After All: Experimental Evidence for Pervasive Fairness and Altruism in Papua New Guinea”
- 09.11.06 Peter Katuscak (CERGE) and Naomi Feldman (Ben-Gurion University)
 “Should the Average Tax Rate Be Marginalized?”

- 16.11.06 Benny Berdugo (Ben-Gurion University)
“What it Takes to be a Leader: Leadership and Charisma in a Citizen-Candidate Model”
- 23.11.06 Daniel Gottlieb (Bank of Israel)
“An Optimal Method of Binary Information Transfer (BIT) Between Surveys of an Identical Population: Poverty among the Jewish Ultra-orthodox in Israel – A Case Study of BIT”
- 30.11.06 Ella Segev (Technion)
“Managed Trade with Imperfect Information”
- 14.12.06 Michael Katz (University of Pennsylvania)
“One Nation Divisible”
- 21.12.06 Tzachi Gilboa (Tel-Aviv University)
“Objective Probabilities and Empirical Similarity”
- 25.12.06 Hosny Zoabi (European University Institute)
“Does Longevity Cause Growth? A Theoretical Critique”
- 28.12.06 Yossi Yakhin (Rice University)
“Financial Integration and Cyclicity of Monetary Policy in Small Open Economies”
- 04.01.07 Itzhak Aharon (Ben-Gurion University)
“The Brain Reward System and the Emerging Field of Neuroeconomics”
- 11.01.07 Chen Cohen (Ben-Gurion University)
“Contests with Ties”
- 18.01.07 Suleiman Abu-Bader (Ben-Gurion University)
“Trade Liberalization or Oil Shocks: Which Explains Structural Breaks in International Trade Ratios?”
- 28.02.07 Ran Abramitzky (Stanford University)
“The Limits of Equality: Insights from the Israeli Kibbutz”
- 08.03.07 Michael Ben-Gad (Haifa University)
“Capital-Skill Complementarity and the Immigration Surplus”
- 15.03.07 Louis Christophides (University of Cyprus)
1) “The Determinants of University Participation in Canada (1977-2003)”
2) “The Gender Imbalance in Participation in Canadian Universities (1977-2003)”

- 22.03.07 Yossi Feinberg (Stanford University)
“Testing Multiple Forecasters”
- 19.04.07 Gal Hochman (Technion)
“The Gradual Formation of International Trade Agreements”
- 03.05.07 Joseph Zeira (Hebrew University)
“Technology and Labor Regulations”
- 09.05.07 Ronen Elul (Federal Reserve Bank of Philadelphia)
“Bankruptcy: Is it Enough to Forgive or Must We Also Forget?”
- 10.05.07 Zvika Neeman (Tel-Aviv University)
“Renegotiation-Proof Mechanism Design”
- 16.05.07 Louis Putterman (Brown University)
“Monitoring in Teams: A Model and Experiment on the Central Monitor Hypothesis”
- 24.05.07 Massamiliano Tani (Macquarie University, Australia)
“Size Matters: Capital Market Size and Risk/Return Profiles”
- 30.05.07 Chenggang Xu (London Stock Exchange)
“Enforcement Failure under Incomplete Law: Theory and Evidence from Financial Market Regulation”
- 07.06.07 David Katz (University of Michigan)
“Water Use and Economic Growth: Parametric and Non-Parametric Regression Analyses”
- 14.06.07 Joshua Aizenman (University of California - Santa Cruz)
“Financial versus Monetary Mercantilism – Long-run View of Large International Reserves Hoarding”
- 21.06.07 Ignacio Palacios-Huerta (Brown University)
“Experientia Docet: Professionals Play Minimax in Laboratory Experiments”
- 28.06.07 Moshe Shayo (Hebrew University)
“Social Identity and Preferences over Redistribution”

4) Research Contracts, Fellowships and Awards

Suleiman Abu-Bader is the recipient of two grants: one from the BGU-Sapir Fund (\$5000) and from the Van-Leer Institute (\$3000).

Arie Arnon is the recipient from a grant from the European Union for the period 2005-07 (Aix Group) entitled "Exploring the Economic Dimensions of a 'Two State' Final Status Agreement between Israel and Palestine." Prof. Arnon serves as Coordinator for the Israeli side.

Ofer Azar's grant from Russell Sage Foundation was extended for another year (until 12/2008).

Tomer Blumkin jointly with Bradley Ruffle received a grant from the Falk Institute at the Hebrew University, entitled "Are Income and Consumption Taxes Ever Really Equivalent? Evidence from a Real-Effort Experiment," in the amount of 35,600 NIS for the period 2006-2007.

Mark Gradstein together with Moshe Justman were awarded a grant from the Israeli Science Foundation's for research in "Compulsory Education," for the period 2006-2008 in the amount of IS 165,000. Prof Gradstein has a research fellowship from the Development Research Group, the World Bank.

He and his doctoral student Anna Krush were awarded a grant of IS 35,000 from the Israel Foundations Trustees for research on measuring intergenerational income mobility. Moshe Justman was a Senior Fellow at the Van Leer Jerusalem Institute.

Bradley Ruffle was awarded two grants for the project "Trust, Religion and Signaling" (with Richard Sosis), one from the Binational Science Foundation, \$120,000 for the period 2005-2008 and another from the Russell Sage Foundation, \$156,000 for the period 2005-2007.

Aner Sela is the recipient of a grant from The Israel Science Foundation (Bikura, F.I.R.S.T.) entitled "An Applied Mathematics Approach to Auction Theory," for three years (starting from 2004), in the amount of \$90,000. Since 2003 Prof. Sela is a Research Fellow of the CEPR.

Since 2006 Avia Spivak is a Senior Fellow at the Van Leer Institute.

Oscar Volij received a grant from the National Science Foundation for the period 09/03-08/06 in the amount of \$350,000, entitled "EPNES: Planning Reconfigurable Power System Control for Transmission Enhancement with Cost-Recovery System," with J. McCalley and R. Kumar (Co-PI).

5) Committees, Appointments and Cooperation with Other Institutions in Israel and Abroad

Many of the members of the Center collaborate on a regular basis with investigators from various research centers and academic institutions in Israel and abroad.

Aamer Abu-Qarn collaborates with M. S. Alam, Northeastern University, Boston, MA and F. Demir, University of Oklahoma.

Suleiman Abu-Bader collaborates with Aamer Abu-Qarn, Ben Gurion University and with Daniel Gottlieb, Bank of Israel.

Arie Arnon helped to create the Economics and Society Program at the Van Leer Jerusalem Institute, cooperating with some 25 researchers in economics and other disciplines. He also cooperates with a group of Israeli, Palestinian and International economists on research dedicated to the economic aspects of a permanent agreement between Israel and Palestine for which he is coordinator of the Israeli side and head of the research on the Palestinian refugees. This research is done within the Aix Group since 2002. A volume summarizing the Aix Group work entitled "Economic Dimensions of a Two State Agreement Between Israel and Palestine" just appeared as a manuscript, edited by Prof. Arnon and Saeb Bamyia. It contains an Introduction, chapters on Jerusalem, the Refugees, Cooperation in Infrastructure and a "Fast Track" chapter, where the short-run trade regime, labor links and the Jordan Valley are analyzed.

Ofer Azar is member of the Board of the Society for Advance of Behavioral Economics (SABE). He was a co-organizer of an international conference on decision making and economic psychology, which was held in December 2006 and attracted top researchers worldwide; among the speakers were Nobel Laureate Daniel Kahneman. He also organized a session on "Industrial Organization and Strategy" at the 23rd Annual Conference of the Israel Economic Association. Dr. Azar collaborates with Michael Bar-Eli, David Brock, and Yotam Lurie from Ben-Gurion University; Ilana Ritov from the Hebrew University of Jerusalem; Dr. Yossi Tobol from Bar-Ilan University; and Nikolaos Korfiatis and Prof. Jean-Robert Tyran from University of Copenhagen. He is guest co-editor of a special issue of the Journal of Economic Psychology which is under preparation, and is an Advisory Board Member of SSRN Journals in Behavioral and Experimental Economics.

Uri Ben-Zion collaborates with the following with scientists at the following institutes: University of Haifa: Prof. Moshe Kim, Prof. Yossi Yagil; Bar Ilan University: Prof. Uriel Shpigel, Prof. Gil Epshtein; Golan Research Institute: Dr. Gregory Yom Din; Ben Gurion University: Dr. Koresh Galil, Dr. Aaron Rosenfeld, Dr. Yaron Amzaleg, Dr. Haim Levi, Dr. Rami Yosef; Open University: Dr. Zachary Shefer, Dr. Tal Shavit; Bank of Israel: Dr. Yossi Saadon; Academic College of Emek Yezreel: Dr. Tzachi Tavor, Dr. Shosh Shahrabani; Tel-Aviv University: Dr. Dan Weiss; The College of Judea and Samaria: Prof. Haim Falk; Technion: Prof. Ido Erev; Dr. Tomer Toledo;

McMaster University: Prof. Amiram Gafni; Holon Institute of Technology: Dr. Gila Albert; Goethe University of Frankfurt, Germany: Prof. Jan P. Krahen; Osaka University, Japan: Prof. Yoshiro Tsutsui.

Benyamin Berdugo works with Prof. Nathan Sussman from Hebrew University (together with his student Jacques Sadik from the Hebrew University).

Tomer Blumkin is a member of the CesIfro Research Institute in Munich.

Danny Cohen-Zada collaborates with William Sander from DePaul University. During 2007, Ezra Einy was a Visiting Professor at the Graduate School of Economics, Hitotsubashi University, Japan. On a regular basis, he conducts research on continuity of solution concepts of economies with Ori Haimanko, and games with differential information with Prof. B. Shitovitz from the University of Haifa.

Naomi Feldman collaborates with Joel Slemrod (University of Michigan); Bradley Ruffle (BGU); and Peter Katuscak (CERGE-EI, Prague).

Koresh Galil collaborates with Gil Soffer (Kleinwort Corporation), Uri Ben-Zion (Ben-Gurion University) and Mosi Rosenbaum (Ben-Gurion University).

Mark Gradstein is a research fellow at the following institutes: Center for Economic Policy Research (CEPR) (London, UK) since 2001 (Public Policy Program), 2005-06 (Institutions and Economic Performance); the Center for Economic Studies (CESifo) (Munich, Germany) since 1999; Institute for the Study of Labor (IZA) (Bonn, Germany) since 2004. He is a reviewer for the Binational US-Israel Science Foundation (BSF); the Germany-Israel Foundation (GIF); Israel's Academy of Sciences (ISF); the MIT Press; the National Science Foundation (NSF); and the Social Sciences and Humanities Research Council of Canada (SSHRC).

Ori Haimanko does collaborative research on the following projects; Economies with Incomplete Information – joint with Ezra Einy (BGU), Benyamin Shitovitz (University of Haifa), Diego Moreno (Universidad Carlos III de Madrid). Stability of Coalition Structures in Heterogeneous Environments – joint with Shlomo Weber (SMU). Competitive Contracts with Heterogeneous and Other-regarding Agents – joint with John Geanakoplos (Yale) and Pradeep Dubey (SUNY and Yale). Values of Cooperative games – joint with Pradeep Dubey (SUNY and Yale).

Moshe Justman has served on the University's Finance Committee since 2002 and on its Executive Committee since 2005. He served as Acting Director of the Program on Economy and Society at the Van Leer Jerusalem Institute. He also serves as Chair of the Committee on Education Indicators jointly established by the Israel Academy of Sciences, the Ministry of Education and Yad Hanadiv and does joint research on the economics of education with Mark Gradstein, Yaakov Gilbo and Danny Cohen-Zada. He was elected Dean of the Faculty of Humanities and Social Sciences for 2007-2010.

Israel Luski is Head of the Academic Program of the IAF Flight School for the year 2007.

Bradley Ruffle is Associate Editor, International Journal of Industrial Organization (Dec. 2006 – present). He does joint research with Naomi Feldman (BGU); Todd Kaplan (University of Exeter); Hans-Theo Normann (Royal Holloway University); Christopher Snyder (Dartmouth College) and Richard Sosis (University of Connecticut). He served on the Board of reviewers for the Binational Science Foundation, 2006-2007.

Aner Sela does joint research with Benny Moldovanu (Bonn University); Heidrun Hoppe (University of Hannover); Xianwen Shi (Yale University); Todd Kaplan (University of Exeter); Gadi Fibich (Tel-Aviv University) and Arieh Gavious (Ben-Gurion University).

Avia Spivak collaborates on research with Professor Nathan Sussman, Hebrew University; Dr. Rami Yosef; Oded Palmon, US. As of 2007 he is a member of the Shochat sub-committee for tuition in higher education and of the Israel Prize for Economics committee.

Haim Shalit does joint research with Sergio Ortobelli (University of Bergamo, Italy); Svetlozar T. Rachev (University of Karlsruhe); Frank J. Fabozzi (Yale University); Dima Albert and Rami Yosef (Ben-Gurion University).

Oscar Volij collaborates with David Frankel, Iowa State University; Roberto Serrano, Brown University; Michihiro Kandori, University of Tokyo; Ignacio Palacios-Huerta, Brown University. Prof. Volij serves as associate editor for the Journal of Public Economic Theory.

David Wettstein works on the following joint research projects:

Cooperative games with asymmetric information, with Geoffroy de Clippel and David Perez Castrillo from Brown University and Universitat Autònoma de Barcelona.

The implementation of new and old solution concepts for cooperative games, with Peter Borm and Yuan Ju from Tilburg University in the Netherlands and York University in the UK.

The construction of optimal auctions, with Todd Kaplan from the University of Haifa.

IV. PARTICIPATION OF MEMBERS OF THE CENTER IN CONFERENCES AND OTHER EVENTS

Aamer Abu-Qarn

“Getting Income Shares Right: A Panel Data Investigation for OECD Countries”
Eastern Economic Association Conference, NYC, February 23-25, 2007.

Abu-Bader Suleiman

“Poverty Among Israeli Arabs with a Special Focus on the Bedouin of the Negev,” Van Leer Jerusalem Institute, the Second Annual Conference of Economics and Society, Jerusalem, December 2006 (with Daniel Gottlieb).

Arie Arnon

2006, Marseille, France, The Aix Group (Third Phase)

“The Refugees within a Two-State Agreement” (first draft).

2006, Istanbul, Turkey, The Aix Group (Third Phase)

“The Refugees within a Two-State Agreement” (second draft).

2007, Paris, France, The Aix Group (Third Phase) Final Conference

“The Refugees within a Two-State Agreement” (final)

Ofer Azar

“Relative Thinking,” Affect, Motivation and Decision Making International Conference, Ein Boqueq, The Dead Sea, Israel (December 14, 2006).

“Relative Thinking in Consumer Choice between Differentiated Goods and Services,” 2007 Asia-Pacific Regional Meeting of the Economic Science Association, Osaka, Japan (February 10, 2007).

“Tipping Motivations and Behavior in the US and Israel: Results of an Experimental Survey,” 2007 Asia-Pacific Regional Meeting of the Economic Science Association, Osaka, Japan (February 11, 2007), and at the International Conference on Reciprocity: Theories and Facts, Verbania, Italy (February 22, 2007).

“Firm Strategy and Biased Decision Making: The Price Dispersion Puzzle,” The 23rd Israel Economic Association Annual Conference, Ma'ale Hachamisha (May 30, 2007).

Uri Benzion

2006: Aharon Meir Center, Bar Ilan University: “Factors Affecting the Decisions to Switch Banks” (with Moshe Kin and Gregory YomDin).

2006: Eilon Gottlieb: “Best Works on Insurance. Accumulating Reserves by Life Insurance Companies” (with Zvia Saadon and Rami Yosef).

October 2006: Key Note Speaker: International Conference On Behavioral Economics, Osaka, Japan.

Binyamin Berdugo

Paper presentation at the Economics Department of the Hebrew University:
 “What it Takes to be a Leader: Leadership and Charisma in a Citizen-Candidate Model.”

Tomer Blumkin

“Affirmative Action” presented at the American Law & Economics Association Annual Meeting in University of Berkeley, May 2006.
 Guest lecturer at the WZB Institute in the Free University of Berlin, May 2006. Title of presentation: “Taxing Contributions.”
 CesUfi Conference in Munich on Social Policy, May 2006. Title of presentation: “Taxing Higher Education.”

Leif Danziger

Presentation of seminars at the University of Copenhagen, University of Lund, and the University of Cyprus.

Ezra Einy

International Conference on Game Theory, Stony Brook, July 2007.

Naomi Feldman

Workshop on Behavioral Approaches to Consumption, Credit, and Asset Allocation, European University Institute, Florence, Italy (2007).

Hebrew University of Jerusalem, University of Haifa, CERGE-EI, University of Arizona, Colegio de Mexico, University of Miami, Florida State University.

Mark Gradstein

Sapir Center’s conference on the Welfare State, 2006, Tel Aviv University, 2006, INSEAD, 2006.

Ori Haimanko

Microeconomic Theory Workshop, Yale University, March 2006.
 Symposium in honor of R. J. Aumann, SUNY at Stony Brook, April 2006.
 Third Spain-Italy-Netherlands Conference on Game Theory, Madrid, Spain, July 2007.
 International Conference on Game Theory and Economic Theory, SUNY at Stony Brook, July 2007.
 Workshop on Game Theory, Hitotsubashi University, Kunitachi, Japan, August 2007.

Moshe Justman

2006 “Political Dimensions of Schumpeter's Work,” Biennial Meeting of the Schumpeter Association, Nice.
 2006 “Equal Opportunity in Education” (with Y. Gilboa), Universitat Autònoma de Barcelona.
 2006 “Wider Benefits of Education,” Institute of Education, London.

2006 “Equal Opportunity in Education: The Kibbutz Standard” (with Y. Gilboa), NBER Meetings on Education, Cambridge, MA.

2007 “University Fees and Access to Higher Education” (with Y. Gilboa) Israel Economics Association Meetings, Maale haHamisha.

Israel Luski

“Efficiency and Quality in the Israeli Nursing Home Industry: A DEA Approach,” (with J. Givon), presented at the 22nd Annual Conference of the Israeli Economics Association, May 2006.

“Competition Among Governments to Attract FDI,” (with M. Rosenboim), presented at the 22nd Annual Conference of the Israeli Economics Association, May 2006.

“The Role and Performance of NPOs in Providing Professional Training Services” (with J. Givon), presented at the annual meeting of the ICTR, The Dead Sea, March 2007.

Bradley Ruffle

“Which Way to Cooperate,” presented at York University, Guelph University, University of Texas at Dallas, Carleton University, (February 2006), Behavioral Game Theory and Experiments Workshop, Capua, Italy (May 2006), Israel Economic Association (May 2006), Tokyo University, Waseda University, Osaka University, (October 2006), Hebrew University-Jerusalem (May 2007).

“Do Buyer-Size Discounts Depend on the Curvature of the Surplus Function? Experimental Tests of Bargaining Models,” Tokyo University, Nagoya City University (October 2006).

Panel Speaker on “Information, Auctions and Finance,” iFree's 10th Anniversary Gala and Conference: “Understanding Exchange Systems: 10 years of Research and Education,” Arlington, VA (April 2007).

Aner Sela

“Matching and Two Sided Markets,” Bonn, May 2006.

Oscar Volij

“Measuring Segregation,” presented at Public Economic Theory meetings, Vanderbilt University and at Game Theory Conference in Stony Brook, both in July 2007.

David Wettstein

“Multilateral Bargaining over Coalitional Externalities” (with P. Borm and Y. Ju), Third Spain Italy Netherlands Meeting on Game Theory (SING 3), Madrid, Spain, 2007.

“Implementing Cooperative Solution Concepts: A Generalized Bidding Approach” (with Y. Ju), Third Spain Italy Netherlands Meeting on Game Theory (SING 3), Madrid, Spain, 2007.

“Bidding with Coalitional Externalities: A Strategic Approach to Partition Function Form Games” (with Y. Ju), European Meeting of the Econometric Society in Budapest, Hungary, 2007.

Seminar presentations at Johns Hopkins University in Maryland, USA; Stony Brook University in Stony Brook, USA; Core in Louvain-la-Neuve, Belgium; Catholic University Leuven, Belgium; Pablo de Olavide University in Seville, Spain; University of Vigo, Spain.

V. PUBLICATIONS, 2006-2007 (names of Center members appear in capital letters)

ABU-QARN, A. and ABU-BADER, S. “Sources of Growth Revisited: Evidence from Selected MENA Countries,” *World Development* 35(5), forthcoming.

ABU-QARN, A. and ABU-BADER, S. “Financial Development and Economic Growth: The Egyptian Experience,” *Journal of Policy Modeling*, forthcoming.

ARNON, A. “Israeli Policy towards the Occupied Palestinian Territories: The Economic Dimension 1967-2007,” *The Middle East Journal*, forthcoming.

ARNON, A. “Between ‘One’ and ‘Two’ - Economics between the Mediterranean Sea and the Jordan River since 1967: Denying Palestinian Sovereignty while Shaping its Borders and Economy,” *Theory and Critique*, (Hebrew), forthcoming.

AZAR, Ofer H. (2007) “Do People Tip Strategically, to Improve Future Service? Theory and Evidence,” *Canadian Journal of Economics*, 40(2):515-527.

AZAR, Ofer H. (2007) “The Slowdown in First-Response Times of Economics Journals: Can it Be Beneficial?” *Economic Inquiry* 45(1):179-187.

AZAR, Ofer H. (2007) “Relative Thinking Theory,” *Journal of Socio-Economics* 36(1):1-14 (lead article).

AZAR, Ofer H. (2007) “Why Pay Extra? Tipping and the Importance of Social Norms and Feelings in Economic Theory,” *Journal of Socio-Economics* 36(2):250-265.

AZAR, Ofer H. (2007) “The Social Norm of Tipping: A Review,” *Journal of Applied Social Psychology* 37(2):380-402.

AZAR, Ofer H. (2007) “Behavioral Economics and Socio-Economics Journals: A Citation-Based Ranking,” *Journal of Socio-Economics* 36(3):451-462.

Bar-Eli, M., AZAR, O., Ritov, I., Keidar-Levin, Y. and Schein, G. (2007) “Action Bias among Elite Soccer Goalkeepers: The Case of Penalty Kicks,” *Journal of Economic Psychology* 28(5):606-621.

- BEN-ZION, U., Shavit, T. and E. Haruvy, E. "Avoiding Dominated Strategies in Financial Markets - An Experimental Study," *Journal of Economics and Business*, forthcoming.
- BEN-ZION, U., Shavit, T. and Shahrabani, S. "WTP- WTA Disparity Among Competitive and Non-Competitive Subjects – An Experimental Study," *Applied Financial Economics Letters*, forthcoming.
- BLUMKIN, T. and Sadka, E. "Compensation Policy and Optimal Income Taxation – The Case of Minimum Wage," *International Tax and Public Finance*, forthcoming.
- BLUMKIN, T. and Margalioth, Y., "On the Limits of Re-distributive Taxation – Establishing the Case for Legal Rules," *Virginia Tax Review*, forthcoming.
- COHEN-ZADA, D. and Sander, W. "Religion, Religiosity and Private School Choice: Implications for Estimating the Effectiveness of Private Schools," *Journal of Urban Economics*, forthcoming.
- COHEN-ZADA, D. (2006) "Preserving Religious Identity through Education: Economic Analysis and Evidence from the US," *Journal of Urban Economics* 60(3):372-398.
- DANZIGER, L. "Extension of Labor Contracts and Optimal Backpay," *Labour Economics*, forthcoming.
- DANZIGER, L. (2007) "Output Effects of Inflation with Fixed Price- and Quantity-Adjustment Costs," *Economic Inquiry* 45:115-120.
- GALIL, K. (2007) "Adverse Selection, Moral Hazard and the Term Structure of Default," *Advances in Financial Economics* v(12).
- GRADSTEIN, M. and Konrad, K. *Institutions and Norms in Economic Development* – edited volume, MIT Press, forthcoming.
- GRADSTEIN, M., Dabla-Norris, E. and Inchauste, G. "What Causes Firms to Hide Output? The Determinants of Informality," *Journal of Development Economics*, forthcoming.
- GRADSTEIN, M. and Chong, A. "Inequality and Institutions," *Review of Economics and Statistics*, forthcoming.
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**VI. WORKING PAPER SERIES 05/06/07 AND
ABSTRACTS OF RECENT WORKING PAPERS
(issued from the Monaster Center for Economic Research)**

Discussion Paper Series 2005

- 05-01 C. Cohen, T.R. Kaplan and A. Sela, “The Optimal Rewards in Contests.”
- 05-02 D. Perez-Castrillo and D. Wettstein, “An Ordinal Shapley Value for Economic Environments.” (revised version)
- 05-03 C. Cohen and A. Sela, “Allocation of Prizes in Asymmetric All-Pay Auctions.”
- 05-04 A. Preminger and R. Franck, “Forecasting Exchange Rates: A Robust Regression Approach.”
- 05-05 K. Galil, “Ratings as Predictors of Default in the Long Term: an Empirical Investigation.”
- 05-06 T. Blumkin and Y. Margalioth, “Economic Analysis of Racial Profiling Rules.”
- 05-07 D. Gottlieb and R. Manor, “On the Choice of a Policy-Oriented Poverty Measure – The Case of Israel: 1997-2002.”
- 05-08 O. Haimanko, M. Le Breton and W. Weber, “The Stability Threshold and Two Facets of Polarization.”
- 05-09 U. Spiegel, U. Ben-Zion and T. Tavor, “Profit Maximization and Social Optimum with Network Externality.”
- 05-10 U. Spiegel, U. Ben-Zion and T. Tavor, “Optimal Pricing in Non-homogeneous Markets with Network Externalities.”
- 05-11 C. Cohen and A. Sela, “Contests with Ties.”
- 05-12 B.J. Ruffle, “Buyer Countervailing Power: A Survey of Experimental Evidence.”
- 05-13 A.S. Abu-Qarn and S. Abu-Bader, “A Versus K Revisited: Evidence from

Selected Mena Countries.”

- 05-14 S. Abu-Bader and A.S. Abu-Qarn, “Financial Development and Economic Growth: Time Series Evidence from Egypt.”
- 05-15 N.E. Feldman and J. Slemrod, “Estimating Tax Noncompliance with Evidence from Unaudited Tax Returns.”
- 05-16 N.E. Feldman, “Choosing Between Charitable Activities.”
- 05-17 T. Blumkin, Y. Hadar and E. Yashiv, “Firm Productivity Dispersion and the Matching Role of UI Policy.”
- 05-18 P. Dubey, J. Geanakoplos, and O. Haimanko, “Prizes versus Wages with Envy and Pride.”
- 05-19 A. Preminger and S. Sakata, “A Model Selection Method for S-estimation.”
- 05-20 T. Blumkin, Y. Margalioth and E. Sadka, “Affirmative Action and Economic Justice.”
- 05-21 T. Blumkin and E. Sadka, “A Case for Taxing Education.”
- 05-22 H. Shalit and S. Yitzhaki, “Capital Market Equilibrium: The Mean-Gini Approach.”

Discussion Paper Series 2006

- 06-01 D. Cohen-Zada and W. Sander, “Private School Choice: The Effects of Religion and Religiosity.”
- 06-02 O. Azar, “Evolution of Social Norms with Heterogeneous Preferences: A General Model and an Application to the Academic Review Process.”
- 06-03 A. Preminger and C.M. Hafner, “Deciding between GARCH and Stochastic Volatility via Strong Decision Rules.”
- 06-04 B. Moldovanu, A. Sela and X. Shi, “Contests for Status.”
- 06-05 L. Bauwens, A. Preminger and J.V.K. Rombouts, “Regime Switching GARCH Models.”
- 06-06 D. Gottlieb and L. Kushnir, “An Optimal Method of Binary Information Transfer (BIT) Between Surveys of an Identical Population.”
- 06-07 A. Preminger and G. Storti, “A GARCH (1,1) Estimator with (almost) No

Moment Conditions on the Error Term.”

- 06-08 C.M. Hafner and A. Preminger, “Asymptotic Theory for a Factor GARCH Model.”
- 06-09 S. Abu-Bader and A.S. Abu-Qarn, “Financial Development and Economic Growth Nexus: Time Series Evidence from Middle Eastern and North African Countries.”
- 06-10 D. Alberg, H. Shalit and R. Yosef, “Estimating Stock Market Volatility Using Asymmetric GARCH Models.”
- 06-11 S. Abu-Bader and A.S. Abu-Qarn, “On the Optimality of a GCC Monetary Union: Structural VAR, Common Trends and Common Cycles Evidence.”
- 06-12 B. Bardugo, “What It Takes to Be a Leader: Leadership and Charisma in a Citizen-Candidate Model.”
- 06-13 Abu-Bader and A. Abu-Qarn, “Trade Liberalization or Oil Shocks: Which Explains Structural Breaks in International Trade Ratios?”

Discussion Paper Series 2007

- 07-01 A.S. Abu-Qarn and S. Abu-Bader, “Getting Income Shares Right: A Panel Data Investigation for OECD Countries.”
- 07-02 E. Einy, O. Haimanko, D. Moreno and B. Shitovitz, “On the Existence of Bayesian Cournot Equilibrium.”
- 07-03 D.M. Frankel and O. Volij, “Measuring Segregation.”
- 07-04 A.S. Abu-Qarn and S. Abu-Bader, “Structural Breaks in Military Expenditures: Evidence for Egypt, Israel, Jordan and Syria.”
- 07-05 D. Cohen-Zada, “An Alternative Instrument for Private School Competition.”
- 07-06 S. Shahrabani, T. Shavit and U. Benzion, “Short-selling and the WTA-WTP Gap.”
- 07-07 U. Benzion, I Erev, E. Haruvy and T. Shavit, “Under-diversification and the Role of Best Reply to Pattern.”
- 07-08 S. Shafran, U. Benzion and T. Shavit, “Investors’ Decision to Trade Stocks – An Experimental Study.”
- 07-09 U. Benzion, J.P. Krahnem and T. Shavit, “Subjective Evaluation of Delayed

Risky Outcomes: An Experimental Approach.”

- 07-10 A. Mahajna, U. Benzion, R. Bogaire and T. Shavit, “Subjective Discount Rates among Israeli Arabs and Israeli Jews.”
- 07-11 U. Benzion, Y. Cohen, R. Peled and T. Shavit, “Decision-making and the Newsvendor Problem – An Experimental Study.”
- 07-12 S. Abu-Bader and A.S. Abu-Qarn, “The Impact of GATT on International Trade: Evidence from Structural Break Analysis.”
- 07-13 A. Arnon, “Israeli Policy towards the Occupied Palestinian Territories: The Economic Dimension 1967-2007.”
- 07-14 A. Arnon, “The Early Round of the Bullionist Debate 1800-1802: Boyd, Baring and Thornton’s Innovative Ideas.”

ABSTRACTS OF DISCUSSION PAPERS (issued since the previous report)

GETTING INCOME SHARES RIGHT: A PANEL DATA INVESTIGATION FOR OECD COUNTRIES

A.S. Abu-Qarn and S. Abu-Bader

Working Paper 07-01

In this paper we reassess the conventional measure of the capital share in income by estimating the shares of inputs in income for 23 OECD countries for the period 1960-2003 utilizing panel data techniques. A share of physical capital of over 0.50, and not one-third as commonly accepted, is found to be robust to a variety of specifications of the production function and the econometric models used. Additionally, we find that following the first oil shock the share of physical capital dropped while the share of human capital rose. Consequently, using the conventional shares may have led to overstating the severity of the post-1973 productivity slowdown.

ON THE EXISTENCE OF BAYESIAN COURNOT EQUILIBRIUM

E. Einy, O. Haimanko, D. Moreno and B. Shitovitz

Discussion Paper 07-02

We show that even in very simple oligopolies with differential information a (Bayesian) Cournot equilibrium in pure strategies may not exist, or be unique. However, we find sufficient conditions for existence, and for uniqueness, of Cournot equilibrium in a certain class of industries. More general results arise when negative prices are allowed.

MEASURING SEGREGATION

D. Frankel and O. Volij

Discussion Paper 07-03

We propose a set of axioms for the measurement of school-based segregation with any number of ethnic groups. These axioms are motivated by two criteria. The first is evenness: how much do ethnic groups' distributions across schools differ? The second is representativeness: how different are schools' ethnic distributions from one another? We prove that a unique ordering satisfies our axioms. It is represented by an index that was originally proposed by Henri Theil (1971). This "Mutual Information Index" is related to Theil's better known Entropy Index, which violates two of our axioms.

STRUCTURAL BREAKS IN MILITARY EXPENDITURES: EVIDENCE FOR EGYPT, ISRAEL, JORDAN AND SYRIA

A. S. Abu-Qarn and S. Abu-Bader

Discussion Paper 07-04

This paper endogenously determines the timing of structural breaks in military expenditures and military burdens for the major parties involved in the Israeli-Arab conflict, namely Egypt, Israel, Jordan and Syria over the period 1960-2004. Utilizing a test proposed by Vogelsang (1997), we find that all these countries experienced structural breaks, though at different periods in the late 70s and during the 80s. These structural breaks mark a sharp decline in the military burden that can be attributed to the peace talks that were initiated shortly after the 1973 war. When applying the Bai and Perron (1998, 2003) multiple structural break tests we detect two structural breaks for every country. The first break occurred during the 60s and demonstrates a significant rise in the military burden prior to the 1973 war, whereas the second break occurred in the late 70s and during the 80s and is characterized by a sharp decline in the military burden following the instigation of peace negotiations.

AN ALTERNATIVE INSTRUMENT FOR PRIVATE SCHOOL COMPETITION

D. Cohen Zada

Discussion Paper 07-05

Empirical studies estimating the effect of private school competition on student outcomes commonly use the share of Catholics in the local population as an instrument for private school competition. However, it has recently been argued that since this instrument is likely to be correlated with unmeasured student characteristics that vary across localities, it cannot be a valid instrument for private school competition. I suggest using instead the local share of Catholics in the population in 1890 and its

squared term. I show that these instruments are very strong and are also exogenous to both student achievements and private school competition. These instruments can also be applied to estimate the treatment effect of Catholic schools.

SHORT-SELLING AND THE WTA-WTP GAP

Shosh Shahrabani, Tal Shavit and Uri Ben-Zion

Discussion Paper No. 07-06

The experimental results of the current paper reveal positive relations between short-selling bidding prices and the WTA-WTP gap. This result may be explained by the status-quo bias.

UNDER-DIVERSIFICATION AND THE ROLE OF BEST REPLY TO PATTERN

Uri Ben-Zion, Ido Erev, Ernan Haruvy and Tal Shavit

Discussion Paper No. 07-07

Three experiments are presented that compare alternative explanations to the coexistence of risk aversion and under-diversification in investment decisions. The participants were asked to select one of several assets under two feedback conditions. In each case, one asset was a weighted combination of the other assets, allowing for lower volatility. The frequency of choice of the composite asset was highly sensitive to the feedback conditions. The composite asset was the least popular asset when the feedback included information concerning forgone payoffs, and increased in frequency when the feedback was limited to the obtained payoff. These results support the assertion that under-diversification can be a product of learning from feedback and in particular best reply to pattern.

INVESTORS' DECISION TO TRADE STOCKS – AN EXPERIMENTAL STUDY

Sharon Shafran, Uri Ben-Zion, and Tal Shavit

Discussion Paper No. 07-08

This paper experimentally examines the behavior of investors when buying and selling stocks. This behavior was tested under different conditions, among them restrictions on asset holdings or different information conditions. Basic financial theory suggests that subjects buy and sell according to expectations regarding the future prices of assets. On the other hand, behavioral biases, such as the disposition effect, suggest that subjects are affected by past performance of assets.

In a series of experiments, subjects were asked to allocate a given endowment among six assets. All the assets had the same normal distribution. The results show that when subjects were not restricted regarding the number of assets they were allowed to hold and were given information only on the assets they hold, the holding time for losing and winning assets was the same, indicating that there was no effect of past performance.

On the other hand, when subjects were required to hold three assets at all times and replace one asset on each round, they tended to sell losing assets too soon and hold winning assets too long. The results also show that subjects who are given information on market returns tend to sell winning assets (relatively to the market) too soon and hold losing assets too long.

SUBJECTIVE EVALUATION OF DELAYED RISKY OUTCOMES: AN EXPERIMENTAL APPROACH

U. Ben-Zion, J. P. Krahnén and T. Shavit

Discussion Paper No. 07-09

This paper uses experimental data to estimate the pure time discount rate for different lengths of times for riskless assets (bonds), and risky assets (delayed lotteries). In moving from the present time ($t = 0$) to the future, there is a very sharp decline (jump) in the subjective price of the assets for both buy and sell transactions. This jump corresponds to a large increase in the discount rate for the first period and a much lower discount rate for later periods (forward rate). The findings cast doubt on the relevance of the hyperbolic function approach to discounting.

SUBJECTIVE DISCOUNT RATES AMONG ISRAELI ARABS AND JEWS

A. Mahajna, U. Ben-Zion, R. Bogaire and T. Shavit

Discussion Paper No. 07-10

In this study we compare the subjective discount rate for Israeli Jews and Arabs. All the subjects were bank customers, who were asked to bid and ask prices for delayed fixed amounts and for lotteries. The two populations live in the same country under the same laws. Nevertheless, according to the literature, Israeli Arabs seem to be a discriminated minority, who exhibit traits of a traditional collectivist culture, while Israeli Jews are a majority, who exhibit traits of an individualistic culture. As a discriminated minority, Israeli Arabs may suffer from lower trust and as a result, according to the “trust” hypothesis, exhibit higher subjective discount rates and higher risk aversion. On the other hand, according to the “cushion” hypothesis, a collectivist society such as Israeli Arabs, provides a safety net for the individual and as a result, they will exhibit lower subjective discount rates and lower risk-aversion. The experimental findings show that the subjective discount rate and risk aversion of Israeli Arabs are significantly higher than that of Israeli Jews. Moreover, a higher percent of Israeli Jews are at the low range of the discount rates (below 10%) and a lower percent of Israeli Jews are at the high range of discount rates (above 20%) compared to Israeli Arabs. This is consistent with the “trust” hypothesis. For Israeli Jews the discount rates are closer to the bank interest rate, while the Israeli Arab rates are much higher, particularly for receipt. The dispersion of the distribution of discount rate is much larger for Arabs than for Jews.

**DECISION-MAKING AND THE NEWSVENDOR PROBLEM –
AN EXPERIMENTAL STUDY**

U. Ben-Zion, Y. Cohen, R. Peled and T. Shavit

Discussion Paper No. 07-11

This paper investigates repetitive purchase decisions of perishable items in the face of uncertain demand (the newsvendor problem). The experimental design includes: high or low profit levels and uniform or normal demand distributions. The results show that in all cases both learning and convergence occur and are effected by: (1) the mean demand; (2) the order-size of the maximal expected profit; and (3) the demand level of the immediately preceding round. In all cases of the experimental design, the purchase order converges to a value between the mean demand and the quantity for maximizing the expected profit.

**THE IMPACT OF GATT ON INTERNATIONAL TRADE: EVIDENCE FROM
STRUCTURAL BREAK ANALYSIS**

S. Abu-Bader and A. S. Abu-Qarn

Discussion Paper No. 07-12

In this study, we test for structural changes in international trade patterns of 77 countries over the post- WWII period, to examine if they experienced a substantial increase in their trade ratios following major GATT rounds such as the Kennedy Round, or after joining GATT. Our results show that the trade ratios of most of these countries exhibited structural breaks in their time paths, however, most of the postbreak paths were below the extrapolated prebreak paths. Furthermore, while the significant break years coincided closely with major regional and international events such as the oil shocks of the 70s and the East-Asian financial crisis in 1997, they occurred far before or after the time of a country's accession to GATT or the time of the major GATT rounds.

**ISRAELI POLICY TOWARDS THE OCCUPIED PALESTINIAN
TERRITORIES: THE ECONOMIC DIMENSION 1967-2007**

A. Arnon

Discussion Paper No. 07-13

This article focuses on the economic dimension of Israeli policy towards the Palestinian territories occupied in 1967. The paper argues that since 1967, both before and after the Oslo process, Israeli policy was directed at preventing the 'Two', i.e., the division of the land into two states and two economic (and political) sovereign entities while also negating the 'One', i.e., the establishment of a single political and economic entity. Although Israeli policy repudiated both the 'Two' and the 'One', it changed character and formulations from time to time. Thus, Israeli policies will be examined with all their twists, turns and reversals, discussing their repercussions on Israel and especially on the Palestinian economy.

**THE EARLY ROUND OF THE BULLIONIST DEBATE 1800-1802: BOYD,
BARING AND THORNTON'S INNOVATIVE IDEAS**

A. Arnon

Discussion Paper No. 07-14

The Restriction period, which began in England in 1797, marked a crucial turning point for both monetary theory and policy. The debates during the Restriction concerning the complicated relationship between inflation, the exchanges and monetary aggregates came to be known as the Bullionist Debate. The Bullionists were critical of the Bank of England and supported a return to convertibility, whereas the anti-Bullionists defended the Bank and were satisfied with the inconvertible system.

Throughout the period, discussions fluctuated in intensity as Jacob Viner (1937) and Frank W. Fetter (1965) pointed out, with the market price of gold. When the price of gold in terms of inconvertible notes was high, as in 1800-01, and the exchanges were bad, the controversy intensified. The first round in the debate started with a Bullionist argument published by Walter Boyd (1801) to which Francis Baring (1801), the anti-Bullionist, reacted; their intense exchange provides an historic context for examining and re-evaluating Henry Thornton's seminal contribution to monetary theory.

The paper will argue that Thornton's pathbreaking *Paper Credit* (1802) presents an innovative and consistent anti-Bullionist position that differs from that of Baring who accepted the Smithian Real Bills Doctrine for both convertible and inconvertible situations. Thornton, on the other hand, rejected the Real Bills Doctrine and more generally Smith's monetary thinking as it applied to both convertible and inconvertible monetary arrangements. The fundamental idea behind Thornton's defense of the Bank of England and inconvertibility was the crucial role of the Bank in managing the monetary system under both currency regimes.

After 1802 particularly as a member of the famous Bullion Committee, Thornton played an important role on the side of the Bullionists that resulted in his being described by later scholars as a "moderate Bullionist." However, as I intend to show, his reserved support for convertibility during this period reflects his disappointment with the Bank directors, whose poor management skills and fundamental misunderstanding of the monetary system threatened the stability of the British economy. For this reason, the shift in Thornton's position may be better understood as a political and pragmatic rejection of an inconvertible, properly managed regime.

VII. RESEARCH SUMMARIES OF CENTER MEMBERS

Suleiman Abu Bader

Dr. Abu Bader's research interests deal with the application of times series econometric techniques to study macroeconomic relations. His current research is focused on studying the determinations of economic growth in the Middle East countries, and the relationship between education, labor, and poverty among the Arabs in Israel.

Aamer Abu-Qarn

Dr. Abu-Qarn focuses his research on the determinants of economic growth in general and in the MENA region in particular. To accomplish this, he applies both time series techniques as well as panel data methods. In addition, in collaboration with Suleiman Abu-Bader, Dr. Abu-Qarn is examining the possibility of establishing a currency union in the Gulf Cooperation Countries (GCC). He also examines various aspects of the Israeli-Arab conflict.

Arie Arnon

Arie Arnon's research interests primarily deal with macroeconomics, monetary economics and banking, the Israeli economy and in particular the labour market and the history of economic thought. He is currently working on a monograph "*Money, Credit and the Economy: Monetary Theory from Smith to Wicksell.*"

Prof. Arnon continues to be actively involved in regional economics and research on economic policies in the Middle East, particularly on the Israeli–Palestinian relations. Since 2002 he has been the Israeli Coordinator within "The Aix Group" – a Working Research Group on the Economic Dimensions of the Israeli Palestinian conflict. In 2005 he initiated the "Program on Economics and Society" at the Van Leer Jerusalem Institute.

Ofer Azar

Dr. Azar's main research areas are industrial organization, strategy, behavioral economics, and experimental economics. Recently, Dr. Azar's research focused on several topics. One topic was to examine how people make decisions between differentiated products. Another was to analyze how firm strategy should respond to the consumer bias of "relative thinking." In some other recent research, Dr. Azar explored the impact of economics research on management and business administration journals, how workers respond to incentives, and whether people exhibit strategic behavior when they tip in restaurants.

Binyamin Berdugo

Dr. Berdugo's main fields of interest are macroeconomics, household economics and economic growth. Recently, he has also become interested in the field of political economy.

Uri Benzion

Prof. Benzion's current research projects deal with evaluation of mutual funds; interrelationship between international markets and country funds; marketing policy by use of cent-off-coupons; and use of activity-based costing in medical decision-making.

Tomer Blumkin

Dr. Blumkin's main focus has continued to be public policy issues, including: unemployment insurance, anti-discrimination and affirmative action policy in the context of the general welfare (tax and transfer) system. He has also been working on political economy issues, focusing on the role of ideological polarization and manipulative power of parties to affect 'irrational' voters. Finally, Dr. Blumkin continues to work on his 'profiling' project, which examines the normative implications of using statistical discrimination (based on ethnic affiliation) by the police authority for criminal enforcement purposes.

Danny Cohen-Zada

Dr. Cohen-Zada's research deals with the economics of school-choice, with a special focus on the religious factor in private education. Currently, he is studying how religious pluralism affects the demand for religious schooling. In addition, he is working on estimating the treatment effect of religious schooling in Israel.

Leif Danziger

Prof. Danziger's research branches into two directions. The first focuses on explaining why labor contracts are extended and tries to determine the optimal amount of backpay workers should receive. The second deals with the output effects of inflation in the presence of fixed price- and quantity-adjustment cost, and with the effects of adjustment costs and inventories on the inflation-output trade-off.

Ezra Einy

Prof. Einy's research concentrates on values of games, large games, voting games, utility theory, inequality measures, and refinement of correlated equilibria. His present focus is on solution concepts of economies with differential information.

Naomi Feldman

Dr. Feldman's research interests include behavioral public finance and taxation. She is particularly interested in the complexity of the U.S. income tax code, tax compliance, avoidance and evasion and violations of the life-cycle hypothesis. Past research topics have also included charitable giving and volunteering

Koresh Galil

Dr. Galil's research concerns financial economics with emphasis on empirical finance and credit risk

Mark Gradstein

Prof. Gradstein's research interests are concerned with private versus public provision of public goods and public growth promoting policies. His current project (jointly with M. Justman) focuses on growth promoting policies as implied by actual political mechanisms.

Ori Haimanko

Dr. Haimanko's current projects include the study of efficiency and stability of coalition structures arising in the presence of horizontally differentiated public goods or heterogeneous policy preferences, comparison of different types of labor contracts in

multi-agent settings with pride and envy among agents, learning in extensive form games, and the study of continuity of solution concepts in games and economies with differential information.

Samuel Hollander

Prof. Hollander has completed *The Economics of Karl Marx: Analysis and Application* for Cambridge University Press.

Moshe Justman

Prof. Justman's activities focus on the political economy of education. He also does work on technology policy and on regional development.

Israel Luski

Prof. Luski's research interests deal with the following areas of industrial organization: R&D and patent policy – optimal strategies for R&D investment; the economics of multinational corporations – the economic impact of multinational corporations on the host country; optimal incentives policy; nonprofit organizations – economic efficiency of nonprofit organizations, and government policy toward nonprofit organizations.

Bradley Ruffle

Dr. Ruffle is primarily an experimental economist. He uses experimental methods in the laboratory and in the field to test theories and examine phenomena in product and labor markets, industrial organization, negotiations, and the role of cooperation, trust, signaling, emotions, and cognitive biases in interactive and individual decision making. He also uses rational choice theories to understand religiosity and religious institutions.

Aner Sela

Prof. Sela's research concerns optimal designs of contests and auctions.

Haim Shalit

Prof. Shalit's research is directed toward the use of the mean-Gini model and Conditional Stochastic Dominance in financial markets. His research with Prof. Shlomo Yitzhaki of the Hebrew University on the mean-Gini model has shown how risk aversion affects the essence of capital markets equilibrium. Prof. Shalit's research also focuses on extended Gini measures to construct optimal portfolios. In this endeavor, he worked with Dr Yossi Hadar using linear programming to choose optimal portfolios for higher risk aversion investors. He also worked with Prof. Sergio Ortobelli (University of Bergamo University), Prof Svetlozar T. Rachev (University of Karlsruhe and University of California Santa Barbara) and Prof. Frank J. Fabozzi (Yale University) on orderings and risk probability functionals applied to optimal portfolios.

Avia Spivak

Prof. Spivak continues his research activities in two main fields of interest: the macro economics of Israel and the economics of pensions and social insurance.

Oscar Volij

Prof. Volij does research in economic theory and game theory. His current projects involve the measurement of segregation and experimental testing of minimax play in zero-sum games and of backward induction in the centipede game.

Jimmy Weinblatt

Prof. Weinblatt's research efforts are devoted to pursuing various issues within the large scale project on the Economic Aspects of Peace in the Middle East: macroeconomic modeling, Israeli-Jordanian-Palestinian trade and the development of special industrial zones. His time continues to be absorbed by his responsibilities as Rector of the University.

David Wettstein

Prof. Wettstein focuses on the introduction of new solution concepts for cooperative environments with externalities and asymmetric information, the non-cooperative foundations for old and new cooperative solution concepts, auctions, switching regression models and model selection.

Yossi Yakhin

Dr. Yakhin's areas of research include international business cycles, open economy macroeconomics, and monetary policy. His main research focuses on anomalies in international real business cycle theory, and cyclicity of monetary policy in developed versus developing countries.