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I. MEMBERS OF THE MONASTER CENTER FOR ECONOMIC RESEARCH (some members are affiliated with departments other than the Department of Economics)

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
Prof. Uri Benzioni
Dr. Benyamin Berdugo
Prof. Daniel Berend, Department of Computer Science
Dr. Tomer Blumkin
Dr. Danny Cohen-Zada
Prof. Leif Danziger
Prof. Ezra Einy
Dr. Naomi Feldman
Dr. Koresh Galil
Dr. Arieh Gavious, Department of Industrial Engineering and Management
Prof. Mark Gradstein
Dr. Ori Haimanko
Mr. Gadi Hazak
Prof. Samuel Hollander
Prof. Moshe Justman, Dean of the Faculty of Humanities and Social Sciences
Dr. Nahum Karlinhsky, Department of Jewish History
Prof. Israel Luski
Dr. Yaniv Poria, Department of Hotel and Tourism Management
Dr. Bradley Ruffle, Director of the Monaster Center for Economic Research
Prof. Edna Schechtman, Department of Industrial Engineering and Management
Prof. Aner Sela, Chairman of the Department of Economics
Prof. Haim Shalit
Prof. Zilla Sinuany-Stern, Department of Industrial Engineering and Management
Prof. Avia Spivak
Prof. Oscar Volij
Prof. Jimmy Weinblatt, Rector of the University
Prof. David Wettstein
Dr. Yossi Yakhin

STEERING COMMITTEE

Dr. Bradley Ruffle
Prof. Aner Sela
Prof. David Wettstein
II. SUMMARY OF ACTIVITIES


Members of the Monaster Center attended about 25% fewer conferences this past year compared to recent years. The seeming explanation for this drop in conference attendance is that the authority of the Monaster Center to reimburse conference fees for members who present at an international conference was revoked. Just over a year ago and without warning or explanation, the Vice President for Research and Development at BGU, Professor Moti Hershkowitz, arbitrarily decided to discontinue the longtime Monaster tradition of encouraging conference participation through reimbursing conference fees. This unfortunate decision led to a predictable outcome: members attended a total of only 25 international conferences in the past year compared to 36 international conferences in the previous year.

On a brighter note, Moshe Justman was elected Dean of the Faculty of Humanities and Social Sciences for a three-year term. And congratulations go to Tomer Blumkin who was recently promoted to senior lecturer. The economics department also made two new appointments this past year. Karine Van der Beek joined the department as a post-doctoral fellow and Koresh Galil switched from a post-doctoral fellow to a tenure-track lecturer. On the other hand, recently hired Yossi Yakhin resigned to take a full-time position at the Bank of Israel.

Finally, our dear friend and colleague, Professor Tuvia Blumenthal, passed away in 2007. His presence and involvement in the department will be greatly missed.

As always, we are indebted to the Center’s secretarial staff, Ms. Ella Ginzburg and Ms. Estelle Schulgasser, for their reliable year-round service and their leadership in putting together this report.

Dr. Bradley Ruffle, Director
Monaster Center for Economic Research
III. ACTIVITIES IN DETAIL

1) 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:

Max Gillman (Cardiff Business School, Cardiff, UK)
David Dillenberger (Princeton University)
Carl-Johan Dalgaard (University of Copenhagen)
Dror Goldberg (Texas A&M University)
Itai Ater (Stanford University)
Robert Serrano (Brown University)
Paul J. Dunne (Bristol Business School, University of West England)
Jordi Brandts (Institut d’Analisi Economica (CSIC), Bellaterra, Spain)
Muhammad Asali (Columbia University)
Dan Sasaki (University of Tokyo)
Eyal Beigman (Northwestern University)
Yuan Ju (University of York)
Oded Galor (Brown University)
Daisuke Oyama (Hitotsubashi University)

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

01.11.07 Tomer Blumkin (Ben-Gurion University)
“Incorporating Affirmative Action into the Welfare State”

08.11.07 Miki Malul (Ben-Gurion University)
“Optimal Policy of Minimum Wage and Earned Income Tax Credit”

15.11.07 Michael Strawczynski (Bank of Israel)
“Cyclicality of Fiscal Policy in OECD Countries: Permanent and Temporary Shocks”

22.11.07 Yaron Yehezkel (Tel-Aviv University)
“Signaling Quality in an Oligopoly when Some Consumers are Informed”

29.11.07 Max Gillman (Cardiff Business School)

03.12.07 David Dillenberger (Princeton University)
“Preferences for One-Shot Resolution of Uncertainty and Allais-Type Behavior”

06.12.07 Carl-Johan Dalgaard (University of Copenhagen)
“A Bioeconomic Foundation of the Malthusian Equilibrium: Body Size and Population Size in the Long-Run”

10.12.07 Dror Goldberg (Texas A&M University)
“Search-Theoretic Foundations of the Keynesian Multiplier”
13.12.07 Itai Ater (Stanford University)  
“Price Advertising in Franchised Chains: The Case of McDonald's Dollar Menu”

20.12.07 Roberto Serrano (Brown University)  
“The Evolution of Bidding Behavior in Private-Value Auctions and Double Auctions”

27.12.07 Esteban Klor (Hebrew University)  
“The Struggle for Palestinian Hearts and Minds: Violence and Public Opinion in the Second Antifada”

03.01.08 Amit Gayer (University of Haifa)  
“Oligopoly, Endogenous Monopolist and Product Quality”

10.01.08 Paul J. Dunne (Bristol Business School, University of West England)  
“Determining Military Expenditures: Arms Races and Spill-Over Effects in Cross-Section and Panel Data”

17.01.08 Jordi Brandts (Institut d'Anàlisi Econòmica, CSIC, Bellaterra, Spain)  
“Inter-Group Conflict and Intra-Group Punishment in an Experimental Contest Game”

24.01.08 Muhammad Asali (Columbia University)  
“Do Immigrants Affect Labor Market Disparities? The Case of Israel”

31.01.08 Gilad Sorek (Tel-Aviv University, Eitan Berglas School of Economics)  
“Medical Technology Ageing and Growth”

07.02.08 Frank Hespeler (Ben-Gurion University)  
“Solution Algorithm to a Class of Monetary Rational Equilibrium Macromodels with Optimal Monetary Policy Design”

06.03.08 Danny Cohen-Zada (Ben-Gurion University)  
“The Causal Effect of Class Size on Student Outcomes”

13.03.08 Dan Sasaki (University of Tokyo)  
1. “Inflexibility as a Stabilisation Device”  
2. “Action Timing as a Collusive Common Good”

24.03.08 Eyal Beigman (Northwestern University)  
“Mechanism Design for Wireless Markets”

27.03.08 Anna Krush (Ben-Gurion University)  
“Comparing Intergenerational Income Mobility over Time and Between Countries”

01.05.08 Nadav Levy (SUNY Albany)  
“A Government's Credit Rating Perspective on Privatization”
15.05.08  Alma Cohen (Tel-Aviv University)  
“Do Financial Incentives Affect Fertility”

22.05.08  Moshe Shayo (Hebrew University)  
“How Large are Non-Budget-Constraint Effects of Prices on Demand?”

29.05.08  Ella Segev (The Technion)  
“Some Have a Talent for Bargaining and Some Don’t”

05.06.08  Itzhak Zilcha (Tel-Aviv University)  
“Private Investment in Higher Education: Comparing Alternative Funding Schemes”

12.06.08  Yuan Ju (University of York)  
“Externality, Threat, and Agreement”

19.06.08  Sergiu Hart (Hebrew University)  
“An Operational Measure of Riskiness”

03.07.008 Oded Galor (Brown University)  
1) “Cultural Assimilation, Cultural Diffusion and the Origins of the Wealth of Nations”  
2) “Human Genetic Diversity and Comparative Economic Development”

10.07.08  Arthur Fishman (Bar-Ilan University)  
“Business as Usual: A Consumer Search Theory of Sticky Prices and Asymmetric Price Adjustment”

24.07.08  Sharon Hadad (Ben-Gurion University)  
“How do Firing Costs Affect Innovation and Growth when Workers Ability is Unknown? Employment Protection as a Burden on Firms’ Screening Process”

06.11.08  Daisuke Oyama (Hitotsubashi University)  
“On the Strategic Impact of an Event under Non-Common Priors”

3) **Research Contracts, Fellowships and Awards**

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

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

Prof. Ezra Bar-Ziv is the recipient of the following grants:  
Ministry of Infrastructure (2007-2010) in the amount of $250,000 for a project on coal gasification.
BSF (2007-2011) in the amount of $180,000 for a project on porosity and reactivity of chars.
Ministry of Infrastructure, American Eco Energy and Eco Capital (2008) in the amount of 250,000 for a project on waste gasification
INNOVA Bio-Bio Chile (2008) in the amount of $60,000 for a project on coal (Chilean) gasification.
A grant from a major international energy company in the amount of $130,000 for a project on the testing of coal pellets (2008).

Uri Benzion was awarded a research grant from the Israel National Institute for Health Policy and Health Services for a project entitled “Factors Affecting the Decision to be Immunized against Influenza: an empirical study” (with S. Shahrabani), in the amount 65,000 NIS for the period 2007-8.

Danny Cohen-Zada received a grant in the amount of $12,500 from the Israel Foundation Trustees for the period 2009-2010. The research project is entitled “Religion Distribution, Religious Pluralism and the Demand for Religious Schooling in the United States.”

Arieh Gavious received a two-year grant in 2007 from the Israel Science Foundation for the project “Diffusion of New Products and Optimal Market Coverage in the Presence of Reference Price Effects,” in the amount of $43,000. In 2008 he was awarded a continuation grant for one year from the Social Security Institute, The MANOF Foundation for the project “The Costs of Industrial Accidents for an Organization” in the amount of $50,000.

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 NIS 165,000. In addition, Prof. Gradstein holds a research fellowship from the Development Research Group, the World Bank.

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

Yaniv Poria was the recipient of the Young Researchers for Excellence in Academic Research Award in 2008.

Bradley Ruffle holds a three-year research grant (joint with Richard Sosis) from the Binational Science Foundation ($120,000) for a project entitled, “Trust, Religion and Signaling.”

Aner Sela is the recipient of a two-year grant (2008-9) from The Israel Science Foundation (ISF) entitled “Contests for Status,” in the amount of $20,000. Since 2003 he is a Research Fellow of the CEPR.

Zilla Sinuany-Stern was awarded a grant in 2008 from The Shomron and Jordan Valley Center for R&D for studying the academic achievements and demographic characteristics of Ariel University Center students from Judea and Samaria in comparison to those who come from other regions (with Dr. Nitza Davidovitz).
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 a Cost-Recovery System,” with J. McCalley and R. Kumar (Co-PI).

David Wettstein was awarded a two-year grant (2008-2009) from the Israeli Science Foundation to study “Egalitarianism and Egalitarian Equivalence in Environments with Asymmetric Information.”

4) 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.

Suleiman Abubader collaborates with Aamer Abu-Qarn at BGU and with Daniel Gottlieb from the National Insurance Institute of Israel.

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

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.

Ofer Azar is a member of the Board of the Society for Advance of Behavioral Economics (SABE). He is also the Honorary Secretary of the International Association for Research in Economic Psychology (IAREP) and part of its Executive Committee. He organized a session on “Industrial Organization and Strategy” in the 24th Annual Conference of the Israel Economic Association and was a member of the Scientific Committee of the joint SABE – IAREP 2008 conference in Rome. Dr. Azar collaborates with Michael Bar-Eli, David Brock, and Yotam Lurie from Ben-Gurion University of the Negev; Ilana Ritov from the Hebrew University of Jerusalem; and Dr. Yossi Tobol from Bar-Ilan University. He is a guest co-editor of a special issue of the Journal of Economic Psychology that was published recently, an Editorial Board Member of the Journal of Socio-Economics and an Advisory Board Member of SSRN Journals in Behavioral & Experimental Economics.

Uri Benzion collaborates with the following scientists: 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. Krahnen; 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 Cesifo Research Institute in Munich and the IZA Institute for labor economics in Bonn. He collaborates with Prof. Volker Grossmann from Fribourg University in Switzerland. Tomer was a visiting professor at the University of San Diego during the summer of 2008, where he taught a public economics elective course focusing on tax policy issues.

Danny Cohen-Zada collaborates with William Sander from DePaul University, Todd Elder from Michigan State University and Yaakov Gilboa from BGU.

During 2008, Ezra Einy continued his Visiting Professorship 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 (BGU), games with differential information with Prof. B. Shitovitz from the University of Haifa and Diego Moreno from the Universidad Carlos III de Madrid.

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

Koresh Galil collaborates with Gil Soffer (Kleinwort Corporation), Uri Ben-Zion (BGU), Mosi Rosenbaum (BGU) and Hadas Shabtay (Tel-Aviv University).

Mark Gradstein is a research fellow at the following institutes: Center for Economic Policy Research (CEPR) (London, UK) since 2001 (Public Policy Program); the Center for Economic Studies (CESifo) (Munich, Germany) since 1999; Institute for the Study of Labor (IZA) (Bonn, Germany) since 2004.

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 Gilboa and Danny Cohen-Zada. He was elected Dean of the Faculty of Humanities and Social Sciences for 2007-2010.

Bradley Ruffle serves as an Associate Editor at the International Journal of Industrial Organization (since 2006). Also since 2006, he has served on the Advisory Committee of the Binational Science Foundation. He collaborates with Naomi Feldman (BGU), Todd Kaplan (Haifa University), Hans-Theo Normann (Royal Holloway University) and Christopher Snyder (Dartmouth College).

Edna Schechtman does joint research with Prof. Shlomo Yitzhaki (Central Bureau of Statistics), Mike Sherman (Texas A&M University) and Dr. Yisrael Parmet (BGU).

Aner Sela does joint research with Benny Moldovanu (Bonn University); Heidrun Hoppe (University of Hannover); Xianwen Shi (University of Toronto); and Todd Kaplan (University of Exeter).

Haim Shalit does joint research with Sergio Ortobelli (University of Bergamo, Italy); Svetlozar T. Rachev (University of Karlsruhe); Frank J. Fabozzi (Yale University); Shlomo Yitzhaki (Central Bureau of Statistics); Frank Hespeler (UC San Diego).

Zilla Sinuany Stern serves as Vice President for Academic Affairs at the Ariel University Center of Samaria. She is presently a visiting scholar at the Department of Industrial Engineering at Kansas State University, Manhattan, Kansas.

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

Oscar Volij collaborates with David Frankel, Iowa State University; Ignacio Palacios-Huerta, London School of Economics; Ana Urrutia and Casilda Lasso, University of the Basque Country. Prof. Volij serves as associate editor for the Journal of Public Economic Theory.


Prof. Wettstein works on the following joint research projects: “Cooperative Games with Asymmetric “Information” with Geoffroy de Clippel (Brown University) and David Perez Castrillo (Universitat Autonoma de Barcelona); “New Solution Concepts for Cooperative Games with Externalities” with Peter Borm (Tilburg University) and Yuan Ju from (York University); and “The Construction of Weighted Values” with Ines Macho Stadler and David Perez Castrillo (Universitat Autonoma de Barcelona).
IV. PARTICIPATION OF MEMBERS OF THE CENTER IN CONFERENCES AND OTHER EVENTS

**Aamer Abu-Qarn**

**Abubader Suleiman**

**Arie Arnon**

**Ofer Azar**
“Optimal Strategy of Multi-Product Retailers with Relative Thinking and Reference Prices,” The 24th Israel Economic Association Annual Conference, Ma'ale Hachamisha (June 4, 2008).

**Binyamin Berdugo**
Tomer Blumkin
“Affirmative Action” presented at the departmental seminar of Fribourg University in Switzerland, October, 2007; and at the departmental research seminar of the University of Helsinki in Finland, March, 2008.

Danny Cohen-Zada

Leif Danziger

Ezra Einy

Naomi Feldman
Behavioral Public Economics Workshop at University of Copenhagen
Netspar Pension Workshop, The Hague.
NBER, Economics of National Security, Boston.

Arieh Gavious
University of Toronto, Rotman Business School, Toronto 2008.
GAMES 2008 - Northwestern University, USA.

Mark Gradstein
IZA-CEPR workshop in labor economics, 2007; CESifo workshop in public economics, 2008.

Ori Haimanko
Third Spain-Italy-Netherlands Conference on Game Theory, Madrid, Spain, July 2007.
Workshop on Game Theory, Hitotsubashi University, Kunitachi, Japan, August 2007.

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

Israel Luski

Yaniv Poria
Bradley Ruffle
“Are Income and Consumption Taxes Ever Really Equivalent? Evidence from a Real-Effort Experiment,” Tax System in Israel Conference, Falk Institute, Jerusalem (June 2007); IMEBE, Alicante (March 2008); JEE, Dijon (May 2008).

Edna Schechtman

Aner Sela

Haim Shalit

Zilla Sinuany-Stern
“Educational Programs at Ariel University Center of Samaria,” Euro Education 2007, Barcelona (invited).
Academic Achievements of Women, Israel Conference on (Sderot) to Society, Sapir College, 2007 (invited).
Oscar Volij

David Wettstein

V. PUBLICATIONS 2007-8 (names of Center members appear in capital letters)


ARNON, A. and Bamya, S. (eds.) (2007) [The Aix Group], *Economic Dimensions of a Two State Agreement Between Israel and Palestine*, Introduction, chapters on Jerusalem, the Refugees, Cooperation in Infrastructure and “Fast Track” chapter, where the short run trade regime, labor links with Israel and the conditions in the Jordan Valley are analyzed.


VI. WORKING PAPER SERIES 06/07/08 AND ABSTRACTS OF RECENT WORKING PAPERS (issued from the Monaster Center for Economic Research)

**Discussion Paper Series 2006**


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.”


06-07 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.”


06-12 B. Berdugo, “What It Takes to Be a Leader: Leadership and Charisma in a Citizen-Candidate Model.”

06-13 Abubader and A. Abu-Qarn, “Trade Liberalization or Oil Shocks: Which Explains Structural Breaks in International Trade Ratios?”

**Discussion Paper Series 2007**


07-03 D.M. Frankel and O. Volij, “Measuring Segregation.”


07-08 S. Shafran, U. Benzion and T. Shavit, “Investors’ Decision to Trade Stocks – An Experimental Study.”


**Discussion Paper Series 2008**


08-02  B. Moldovanu, A. Sela and X. Shi, “Carrots and Sticks: Prizes and Punishments in Contests.”

08-03  A. Sela, “Sequential Two-Prize Contests.”

08-04  T.R. Kaplan and A. Sela, “Effective Political Contests.”


08-06  T. Blumkin, Y. Margalioth and E. Sadka, “The Role of Stigma in the Design of Welfare Programs.”

08-07  Blumkin and E. Sadka, “Rising UI Benefits over Time.”

08-08  W. Sander and D. Cohen-Zada, “Religiosity and Parochial School Choice: Cause or Effect?”


08-10  D. Cohen-Zada and Y. Gilboa, “Selecting Candidates for Admission to an Economics Degree Program.”

08-11  Y. Yakhin, “Financial Integration and Cyclicality of Monetary Policy in Small Open Economies.”

08-12  B. Berdugo and S. Hadad, “How do Firing Costs Affect Innovation and Growth when Workers’ Ability is Unknown? – Employment as a Burden on a Firm’s Screening Process.”

08-13  H. Shalit and S. Yitzhaki, "How Does Beta Explain Stochastic Dominance Efficiency."

08-14  D.M. Frankel and O. Volij, "Scale-Invariant Measures of Segregation."
ARE INCOME AND CONSUMPTION TAXES EVER REALLY EQUIVALENT? EVIDENCE FROM A REAL-EFFORT EXPERIMENT WITH REAL GOODS
T. Blumkin, B.J. Ruffle and Y. Ganun
Discussion Paper No. 08-01

The public finance literature demonstrates the equivalence between consumption and labor income (wage) taxes. We construct an environment in which individuals make real labor-leisure choices and spend their earned income on real goods. We use this experimental framework to test whether a labor income tax and an equivalent consumption tax lead to an identical labor-leisure allocation. Despite controlling for subjects’ work ability and inherent labor-leisure preferences and not allowing for saving, subjects reduce their labor supply significantly more in response to an income tax than they do in response to an equivalent consumption tax. We discuss the economic implications of a policy shift from an income to a consumption tax.

CARROTS AND STICKS
B. Modovanu, A. Sela and X. Shi
Discussion Paper No. 08-02

We study optimal context design in situations where the designer can reward high performance agents with positive prizes and punish low performance agents with negative prizes. We link the optimal prize structure to the curvature of distribution of abilities in the population. In particular, we identify conditions under which, even if punishment is costly, punishing the bottom is more effective than rewarding the top in eliciting effort input. If punishment is costless, we study the optimal number of punishments in the contest.

SEQUENTIAL TWO-PRIZE CONTESTS
A. Sela
Discussion Paper No. 08-03

We study two-stage all-pay auctions with two identical prizes. In each stage, players compete for one prize. Each player may win either one or two prizes. We analyze the equilibrium strategies where players’ marginal values for the prizes are either declining or inclining.

EFFECTIVE POLITICAL CONTESTS
T.R. Kaplan and A. Sela
Discussion Paper No. 08-04

We study two-stage political contests with private entry costs. We show that these political contests could be effective, namely, the chance of low ability candidates participating in the contest might be higher than the chance of high ability candidates participating in the contest (and winning). However, by imposing a costly requirement (fee) on the winner of the contest, one can guarantee that the contest will be effective.
SAMUEL BAILEY AND THE QUESTION OF HIS “INFLUENCE”: A SKEPTICAL VIEW
S. Hollander
Discussion Paper No. 08-05

THE ROLE OF STIGMA IN THE DESIGN OF WELFARE PROGRAMS
T. Blumkin, Y. Margalioth and E. Sadka
Discussion Paper No. 08-06

We consider the notion of welfare stigma à la Besley and Coate (1992b). This stigma is attributed to welfare claimants by society when they are perceived as undeserving in the sense that they falsely claim to be eligible for welfare benefits. However, due to imperfect information, this stigma may be extended, with some probability, to all welfare claimants. We examine the implications of this kind of stigma for the design of welfare programs.

RISING UI BENEFITS OVERTIME
T. Blumkin and E. Sadka
Discussion Paper No. 08-07

We re-examine a key result in the optimal UI literature that benefits should decline over time. We show that when the population is heterogeneous, Pareto-efficiency may call for multiple payment schedules, some with benefits that fall over time and somewith benefits that rise over time.

RELIGIOSITY AND PAROCHIAL SCHOOL CHOICE: CAUSE OR EFFECT?
W. Sander and D.Cohen-Zada
Discussion Paper No. 08-08

In this paper, we examine the effect of religiosity as measured by attendance at religious services on religious school choice. Particular attention is given to the possibly endogenous relationship between school choice and religiosity. IV probit estimates indicate that religiosity is substantially biased downward in probit estimates of parochial school choice. Data from the National Opinion Research Center’s “General Social Survey” are used.

ON THE DYNAMICS OF THE ISRAELI-ARAB ARMS RACE
A.S. Abu-Qarn and S. Abubader
Discussion Paper No. 08-09

This paper investigates the causal relationships between the military expenditures and military burden of the four major sides of the Israeli-Arab conflict, namely, Egypt, Israel, Jordan and Syria over the period 1960-2004. We utilize both the causality test suggested by Toda and Yamamoto (1995) and the generalized forecast error variance decomposition method of Pesaran and Shin (1998). Our findings suggest weak causality that runs usually from Israel’s to Arab’s military spending. The strongest links are between Israel and Syria that are still in a state of enmity. No causality was detected between Israel’s and Jordan’s military spending.
SELECTING CANDIDATES FOR ADMISSION TO AN ECONOMICS DEGREE PROGRAM
D. Cohen-Zada and Y. Gilboa
Discussion Paper No. 08-10
(in Hebrew)

FINANCIAL INTEGRATION AND CYCLICALITY OF MONETARY POLICY IN SMALL OPEN ECONOMIES
Y. Yakhin
Discussion Paper No. 08-11

Should countries follow counter-cyclical or pro-cyclical monetary policies? This paper documents that in contrast to developed economies, developing countries tend to follow pro-cyclical monetary policies. The paper then constructs a New-Keynesian small open economy model with wage rigidity and solves for the optimal monetary policy under different levels of integration in the international financial markets. The model suggests that as economies gain access to the international financial markets the optimal monetary policy shifts from pro-cyclical to counter-cyclical. Also, when economies are denied access to financial markets the optimal policy partially offset exchange rate movements which may be perceived as “fear of floating”. Results are robust to a wide range of parameter values and utility specifications.

HOW DO FIRING COSTS AFFECT INNOVATION AND GROWTH WHEN WORKERS’ ABILITY IS UNKNOWN – EMPLOYMENT PROTECTION AS A BURDEN ON A FIRM’S SCREENING PROCESS
B. Berdugo and S. Hadad
Discussion Paper No. 08-12

This paper analyzes the implications of employment protection legislation on a firm’s screening process. We present a model in which human-capital-intensive firms (high-tech) with imperfect information about their workers’ type attempt during a trial period to identify those incompetent workers who they will subsequently dismiss. Employment protection measures, however, place a burden on this screening process and thereby motivate innovators to embark on medium-tech projects which are more flexible in their human capital requirements. Employment protection legislation thereby distorts the pattern of specialization in favor of medium-tech firms rather than high-tech firms and consequently slows down the process of economic growth. The results of the paper are consistent with documented data on Europe versus US productivity growth and specialization patterns as well as with employment protection legislation in those economies.

HOW DOES BETA EXPLAIN STOCHASTIC DOMINANCE EFFICIENCY?
H. Shalit and S. Yitzhaki
Discussion Paper No. 08-13

Stochastic dominance rules provide necessary and sufficient conditions for characterizing efficient portfolios that suit all expected utility maximizers. For the finance practitioner, though, these conditions are not easy to apply or interpret. Portfolio selection models like the mean-variance model offer intuitive investment rules that are easy to understand, as they are based on parameters of risk and return. We present stochastic dominance rules for portfolio choices that can be interpreted in terms of simple financial concepts of systematic risk and mean return. Stochastic dominance is expressed in terms of Lorenz curves, and systematic risk is expressed in
terms of Gini. To accommodate risk aversion differential across investors, we expand the conditions using the extended Gini.

**SCALE-IN Variant MEASURES OF SEGREGATION**

D.M. Frankel and O. Volij
Discussion Paper No. 08-14

We characterize measures of school segregation for any number of ethnic groups using a set of purely ordinal axioms that includes Scale Invariance: a school district's segregation ranking should be invariant to changes that do not affect the distribution of ethnic groups across schools. The symmetric Atkinson index is the unique such measure that treats ethnic groups symmetrically and that ranks a district as weakly more segregated if either (a) one of its schools is subdivided or (b) its students in a subarea are moved around so as to weakly raise segregation in that subarea. If the requirement of symmetry is dropped, one obtains the general Atkinson index. The role of Scale Invariance is illustrated by studying segregation among U.S. public schools from 1987/8 to 2005/6, a period in which ethnic groups became distributed more similarly across schools. While the Atkinson indices declined sharply, most other indices either rose or declined only slightly.

VII. RESEARCH SUMMARIES OF CENTER MEMBERS

**Suleiman Abubader**
Dr. Abubader's research interests deal with the application of econometric techniques to study macroeconomic relations. His current research is focused on studying the determinants of foreign direct investment in the Middle East countries, and the dynamics of world income distribution.

**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. He also examines various aspects of the Israeli-Arab conflict, including testing for structural breaks in military expenditures, the existence of the arms race, and the relationship between defense and economic growth.

**Arie Arnon**
Arie Arnon's research interests primarily deal with macroeconomics, monetary theory and banking, the Israeli economy and in particular the labor market and the history of economic thought. He is currently working on a monograph “Money, Banking and the Economy: Monetary Theory from Hume and Smith to Wicksell.” Prof. Arnon also 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 of “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**
Ofer Azar's main research areas are industrial organization, strategy, behavioral economics, and experimental economics. Recently, Dr. Azar's research has focused
on several other topics. One 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; interrelationships between international markets and country funds; marketing policy by use of cent-off-coupons; and the 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. In his new work, Dr. Blumkin has examined the role of social stigma on the optimal design of welfare systems, focusing on the difference between universal and selective transfer systems and their implications on social welfare. Joint with Dr. Bradley Ruffle, Dr. Blumkin continued his experimental work on the equivalence between consumption and income taxes focusing on money-illusion explanations for observed individuals’ misperception and establishing a novel case for shifting the tax system to a consumption tax base.

**Danny Cohen-Zada**  
Dr. Cohen-Zada’s research deals with the economics of education and the economics of religion. Currently, he is studying how religious pluralism affects the demand for religious schooling. In addition, he is working on identifying a valid instrument for estimating the effect of Catholic school attendance on student outcomes. His most recent research project deals with estimating the treatment effect of religious schooling in Israel.

**Leif Danziger**  
Prof. Danziger’s research branches into two directions. The first focuses on understanding the output and welfare effects of the minimum wage rate. The second deals 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 interests focus on empirical finance and credit risk. His current projects include a re-examination of value creation through strategic alliances, information content of credit ratings and anomalies in credit derivatives markets.

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 currently studies optimal labor contracts in multi-agent settings with pride and envy among agents, potential games, and equilibrium correspondences in games with incomplete 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.

Yaniv Poria
Dr. Poria’s research interests include the management of heritage and unique segments of the service experience.

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.

Edna Schechtman
Prof. Schechtman's research is directed towards the use of Gini in various areas of statistics, starting with the Gini correlation, moving to Gini’s simple and multiple regressions and finally analysis of Gini (ANOGI).
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 Central Bureau of Statistics 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 works with Dr. Frank Hespeler using Mathematica to choose optimal portfolios for higher risk aversion investors. He also works 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.

Zilla Sinuany-Stern
Prof. Sinuany-Stern’s focuses on the following areas: industrial engineering, management science, operations research, data envelopment analysis (DEA), decision analysis, forecasting, operations management, production planning and control, models in academic planning, reliability and maintenance in production control.

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 income inequality.

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, as well as on the non-cooperative foundations for old and new cooperative solution concepts and auctions.

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 cyclicality of monetary policy in developed versus developing countries.