

PAPERS AND PROCEEDINGS

OF THE

One Hundred Fourteenth Annual Meeting

OF THE

AMERICAN ECONOMIC ASSOCIATION

Atlanta, GA, January 4–6, 2002

Program Arranged by Robert E. Lucas, Jr.

Papers and Proceedings Edited by J. David Baldwin and Ronald L. Oaxaca

MAY 2002

THE AMERICAN ECONOMIC ASSOCIATION

- Typeset by CPC DPS-Ephrata Division, Pennsylvania, U.S.A.

- Printed at Banta Company, Menasha, Wisconsin, U.S.A.

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THE AMERICAN ECONOMIC REVIEW (ISSN 0002-8282), May 2002, Vol. 92, No. 2, is published five times a year (March, May, June, September, December) and every four years it is published six times a year (twice in December) by the American Economic Association, 2014 Broadway, Suite 305, Nashville, TN 37203. Annual fees for regular membership, of which 30 percent is for a year's subscription to this journal, are: \$61.00, \$73.00, or \$86.00, depending on income. A membership also includes subscriptions to *The Journal of Economic Literature* and *The Journal of Economic Perspectives*. In countries other than the U.S.A., add \$30.00 for extra postage. Information on becoming a member can be found on the last page of this journal. Periodical postage paid at Nashville, TN and at additional mailing offices. POSTMASTER: Send address changes to the *American Economic Review*, 2014 Broadway, Suite 305, Nashville, TN 37203.

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THE purpose of the American Economic Association, according to its charter, is the encouragement of economic research, the issue of publications on economic subjects, and the encouragement of perfect freedom of economic discussion. The Association as such takes no partisan attitude, nor does it commit its members to any position on practical economic questions. It is the organ of no party, sect, or institution. People of all shades of economic opinion are found among its members, and widely different issues are given a hearing in its annual meetings and through its publications. The Association, therefore, assumes no responsibility for the opinions expressed by those who participate in its meetings. Moreover, the papers presented are the personal opinions of the authors and do not commit the organizations or institutions with which they are associated.

Editors' Introduction

This volume contains the *Papers and Proceedings* of the one hundred and fourteenth annual meeting of the American Economic Association. The *Proceedings* record the business activities of the Association in 2001, the annual membership meetings, and the March and January (2002) meetings of the Association's officers and committees. The *Papers* constitute the greater part of the volume. They comprise contributions that fill roughly the same number of pages as one and a half regular issues of *The American Economic Review*. We will take this opportunity to answer a number of commonly asked questions about the *Papers*.

Who chooses the authors? About a year in advance, the Association's President-elect, acting as program chairman, decides on the topics for which sessions will be organized. This is done after consultation and comment, both volunteered and solicited, from a wide range of individuals. (A *Call for Papers* appears in the Summer and Fall issues of *The Journal of Economic Perspectives*.)

The President-elect invites some sessions but with the help of a Program Committee selects most of the sessions from the proposals received. Each session organizer in turn invites several persons (usually three or four) to give papers on the theme of the session and asks others to give comments on the papers. The program chairman decides at the time of organization which sessions will be included in this volume. Space limitations restrict the number of printed sessions. This year we are printing 26 sessions, although a total of 142 sessions were sponsored, either solely by the American Economic Association or jointly with other allied societies.

Are discussants' comments published? Comments and discussions usually are not published. For all sessions, names and affiliations of commentators are printed at the start of each session, permitting readers especially interested in particular comments to write to the commentator for a copy of the discussion.

What standards must the papers meet? The *American Economic Review's* policy regarding availability of data also applies to the *Papers and Proceedings*: papers are published only if the data used in the analysis are clearly and precisely documented and are readily available to any researcher for purposes of replication. Otherwise,

the guidelines under which papers are published in the *Papers and Proceedings* differ considerably from those governing regular issues of the *Review*. First, the length of papers is strictly controlled. They must be no more than 12 typescript pages in three-paper sessions, and 10 typescript pages in four-paper sessions. Second, papers are not subjected to a formal refereeing process. However, a paper can be rejected if, after reading it, we conclude that it is utterly without merit. Third, the content and range of subject matter reflect the wishes of the President-elect to investigate and expose the current state of economic research and thinking. In most cases, therefore, the papers are exploratory and discursive, rather than formal presentations of original research.

In order to produce this volume by May, strict deadlines must be met, and there is no time for communication with every author about editing changes made in order to improve content and style and to satisfy space restrictions. Every effort is made to notify an author prior to the deadline if the paper is too long or does not satisfy other specifications.

For the most part, authors were quite cooperative this year, and for this we are grateful. We thank them for making our job easier.

Acknowledgments. The extremely tight production schedule of this issue requires a highly coordinated chain of events; every link in the chain must be a strong one. As in the past, we are indebted to a group of highly talented individuals for their help in bringing this project to fruition: Cynthia Cohen and Betty Marshall in the Princeton *AER* office capably handled the voluminous correspondence associated with this issue, and Laurie Burton served as proofreader extraordinaire. The staff of CPC-Ephrata, our typesetters, met the challenge of keeping the issue on schedule, and we are especially grateful to Sandy Snyder for overseeing the typesetting with diligence and good humor. Finally, as in past years, we thank Kathy Holewinski and the Banta Company for their dependable work in printing and distributing this issue.

J. DAVID BALDWIN
RONALD L. OAXACA

Foreword

The annual meetings of the American Economic Association should, I think, be a showcase for the most interesting current research, a place where specialists are invited to describe recent findings to a general audience using the common language of economic theory. The reader of this volume can judge for himself how well this aim was achieved. For myself, I must say that I was very pleased at the level and variety of the papers given, both in the invited sessions published in this volume and in the many equally successful contributed sessions.

Any concern that a focus on basic research might lead to a neglect of important policy questions was dispelled by Edward Prescott's Ely Lecture, which dealt with possible explanations for the 30-percent gaps in production per working-age person between the United States on the one hand and Japan and France on the other. I do not think that anyone left the hall thinking that modern macroeconomic research is mainly concerned with technical refinements.

The rest of this volume reflects the tastes and efforts of an outstanding program committee, each member of which organized one of the invited sessions. I sought people who represented a variety of fields, whose own research has kept them at the frontier of their areas. With the exception of one overworked department chairman, everyone I asked agreed to serve and did so with diligence and imagination. The committee members were Andrew Abel, Costas

Azariadis, Jagdish Bhagwati, Dennis Epple, Timothy Fuerst, Jeremy Greenwood, Bengt Holmstrom, Boyan Jovanovic, Patrick Kehoe, John Laitner, David Levine, Steven Levitt, Deborah Lucas, Kiminori Matsuyama, Derek Neal, James Poterba, Christina Romer, Neil Wallace, Oliver Williamson, and Kenneth Wolpin. I thank each of them personally for helping me look good in the unfamiliar role of manager. On behalf of everyone who attended the Atlanta meetings, I thank them for this varied and stimulating program.

The logistics of assembling and staging the AEA program are complicated and demanding, yet my sense was that everything in Atlanta went smoothly. Shirley Ogradowski organized and carried out the Chicago end of this with her usual calm efficiency. Shirley and I both found it a pleasure to work with Violet Sikes, who assembles the program in Nashville, and Marlene Hight, who was responsible for the arrangement of the meeting itself. I offer my thanks to all of them. I am also grateful to John Siegfried for taking care of all the really hard aspects of running the association while leaving it to others to take the bows. He is a worthy successor to Elton Hinshaw, and that is high praise indeed. Finally, I thank David Baldwin and Ronald Oaxaca for their skillful editing of this volume.

ROBERT E. LUCAS, JR.