Summaries of Articles

Consumption Growth and the Real Interest Rate following a Monetary Policy Shock: Is the Habit Persistence Assumption Relevant?

by Stéphane Auray and Clémentine Gallès

In this paper, we study the role of habit formation in accounting for the joint behavior of the real interest rate and consumption growth following a monetary policy shock. A VAR estimation on US data shows that following a contractionary monetary policy shock, the real interest rate exhibits a persistent increase while consumption growth drops persistently. As the standard permanent income model is known to be unable to replicate this co–movement for intertemporal substitution motives, we introduce habit persistence in consumption behavior. We test the implied Euler equation using a method of moments on conditional moments (IRF) obtained from the VAR model. Our estimates of the habit persistence parameter are similar to previous results in the literature. Further, we find empirical support in favor of habit formation as a relevant assumption to represent the joint behavior of the real interest rate and consumption growth following a monetary policy shock. Finally, we show that habit formation allows weakening the intertemporal substitution mechanism.

Progressivity of Childcare Tax Policies in Belgium

by Maria-Isabel Farfan-Portet, Jean Hindriks and Vincent Lorant

In Belgium, families with young dependents receive *tax reliefs* depending on the type of care used. In this paper we analyze the Federal government policy that allows families using formal childcare to deduct their expenses out of their taxable income. For families using parental and informal care, a *tax credit* is granted for each child under three years old. We find that tax deduction of childcare expenses is a progressive tax policy among the users of formal

day care. On the contrary, when considering all families with young dependents the tax policies for childcare are regressive.

Keywords: child care, equity, fiscal policy.

JEL Classification : H71, H24.

European Central Bank, Strategic International Relationships and Debt Stabilization

by Charles Figuières

The adoption of a common central Bank has modified the strategic relationships between fiscal and monetary authorities and raised in a new context the issue of debt stabilization. To study this problem, Van Aarle *et al* (1997) have proposed a two-country model with a common central bank. In a sense they obtained a neutrality result: the adoption of a common central bank does not modify the evolution of debt if the authorities can commit. This note reexamines this neutrality result by departing from the previous authors on three points: i) externalities are introduced between countries to account for the elasticity of the world interest rate to macro-economic policies, ii) the model features n countries, some of them remaining outside the monetary Union, iii) analytical results are given (many results of Van Aarle *et al* (1997) were numeric). In this extended context the neutrality result collapses: i) the institutional change introduces an asymmetry between countries, ii) countries inside the monetary union improve their long run welfare, iii) but the outside countries can win or lose under the new institutional setting.

Keywords: European Central Bank, debt stabilization, macroeconomic policies, dynamic games.

JEL Classification: C73, D92, L16.

Indemnisation des préjudices et fréquence des procès en présence d'une asymétrie d'information sur l'aversion au risque des parties

by Éric Langlais

This paper studies in a model à la Bebchuk how the existence of an asymmetric information on the risk aversion of parties engaged in a trial affects the way they litigate. We first consider the situation where the plaintiff is the informed party, and solve for the equilibrium with and without pre-trial negotiations. Then, we analyze the comparative static of the model and the effects of alternative fee-shfting rules. Finally, we discuss several extensions: the case where the defendant is the informed party, the influence of the representation of litigants' preferences, and of the existence of the optimistic bias (or self-serving bias).

Keywords: litigations, asymmetric information, bias in risk perception.

JEL Classification: D81, K42.

La parité des pouvoirs d'achat pour l'économie chinoise : une nouvelle analyse par les tests de racine unitaire

by Olivier Darné and Jean-François Hoarau

In this paper we re-examine whether purchasing power parity holds in the long run in China from a two-steps procedure correcting outliers and testing unit roots. Thus, the efficient unit root tests developed by Elliott, Rothenberg and Stock (1996) and Ng and Perron (2001) are applied on the Renminbi bilateral (to the US dollar) real exchange rate, corrected from outliers, over the period 1970 to 2006 (in monthly frequency). We underlined the effects of large, but infrequent shocks due to changes of Chinese exchange policy undertaken since the China's foreign exchange reform on the real exchange rate, in particular several devaluations between 1984-1994. We also show that there is no tendency to the purchasing power parity in China to hold in the long run during this period.