MACROECONOMICS: PRODUCTION & INVESTMENT eJOURNAL

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MACROECONOMICS: PRODUCTION & INVESTMENT eJOURNAL

"Forecasting GDP Over the Business Cycle in a Multi-Frequency and Data-Rich Environment"
Banque de France Working Paper No. 384

MARIE BESSEC, Banque de France
Email: marie.bessec@banque-france.fr
OTHMAN BOUABDALLAH, Banque de France
Email: othman.bouabdallah@banque-france.fr

This paper merges two specifications developed recently in the forecasting literature: the MS-MIDAS model introduced by Gu´erin and Marcellino [2011] and the MIDAS-factor model considered in Marcellino and Schumacher [2010]. The MS-factor MIDAS model (MS-FaMIDAS) that we introduce incorporates the information provided by a large data-set, takes into account mixed frequency variables and captures regime-switching behaviors. Monte Carlo simulations show that this new specification tracks the dynamics of the process quite well and predicts the regime switches successfully, both in sample and out-of-sample. We apply this new model to US data from 1959 to 2010 and detect properly the US recessions by exploiting the link between GDP growth and higher frequency financial variables.

"Powering Up Developing Countries Through Integration?"
CESifo Working Paper Series No. 3872

EMMANUELLE AURIOL, University of Toulouse I - Advanced Research in Quantitative Applied Development Economics (ARQADE), CESifo (Center for Economic Studies and Ifo Institute)
Email: eauriol@cict.fr
SARA BIANCINI, University of Cergy-Pontoise - THEMA
Email: sara.biancini@u-cergy.fr

Power market integration is analyzed in a two countries model with nationally regulated firms and costly public funds. If generation costs between the two countries are too similar negative business-stealing outweighs efficiency gains so that following integration welfare decreases in both regions. Integration is welfare-enhancing when the cost difference between the two regions is large enough. The benefit from export profits increases total welfare in the exporting country, while the importing country benefits from lower prices. This is a case where market integration also improves the incentives to invest compared to autarky. The investment levels remain inefficient though. With generation facilities over-investment occurs sometimes, while systematic under-investment occurs for transportation facilities. Free-riding reduces the incentives to invest in these public-good components, while business-stealing tends to reduce the capacity for financing new investment.

"Recovering 'Protection and Security': The Treaty Standard's Obscure Origins, Forgotten Meaning, and Key Current Significance"
45 Vanderbilt Journal of Transnational Law 1095 (2012)
Lewis & Clark Law School Legal Studies Research Paper No. 2012-26

GEORGE K. FOSTER, Lewis & Clark Law School
Email: foster@lclark.edu

Among the most persistent controversies in international investment law is the nature of the "protection and security" standard found in most investment treaties. Some tribunals contend that protection and security requires nothing more than physical protection of covered investments, while others maintain that it requires legal security as well. Some insist that the protection and security standard is entirely distinct from the fair and equitable treatment standard that is often expressed in the same sentence or paragraph, while others effectively conflate the two. This uncertainty surrounding protection and security has led to a plethora of inconsistent arbitral awards, which are undermining the legitimacy of investment treaty arbitration. This Article seeks to resolve these controversies by employing the full range of interpretive tools offered by the Vienna Convention on the Law of Treaties. It explores the text, structure and purpose of the relevant treaties, identifies a norm of "protection and security" in customary international law, and traces its evolution over time. This inquiry reveals that treaty drafters have long understood protection and security as requiring a specific — and limited — form of legal security. It also reveals that the fair and equitable treatment standard was derived from the same customary norm, but that the two standards have evolved to become conceptually distinct in important ways. The Article then employs the interpretation suggested by this analysis to critique modern treaty jurisprudence and the current U.S. approach to drafting investment treaties.

"Risk Pricing over Alternative Investment Horizons"
Becker Friedman Institute for Research in Economics Working Paper No. 2012-008

LARS PETER HANSEN, University of Chicago - Department of Economics, National Bureau of Economic Research (NBER)
Email: lhansen@uchicago.edu

I explore methods that characterize model-based valuation of stochastically growing cash flows. Following previous research, I use stochastic discount factors as a convenient device to depict asset values. I extend that literature by focusing on the impact of compounding these discount factors over alternative investment horizons. In modeling cash flows, I also incorporate stochastic growth factors. I explore dynamic value decomposition (DVD) methods that capture concurrent compounding of a stochastic growth and discount factors in determining risk-adjusted values. These methods are supported by factorizations that extract martingale components of stochastic growth and discount factors. These components reveal which ingredients of a model have long-term implications for valuation. The resulting martingales imply convenient changes in measure that are distinct from those used in mathematical finance, and they provide the foundations for analyzing model-based implications for the term structure of risk prices. As an illustration of the methods, I re-examine some recent preference based models. I also use the martingale extraction to revisit the value implications of some benchmark models with market restrictions and heterogenous consumers.

"Key Drivers of PPPs in Electricity Generation in Developing Countries: Cross-Country Evidence of Switching between PPP Investment in Fossil Fuel and Renewable-Based Generation"
World Bank Policy Research Working Paper No. 6118

MARIA VAGLIASINDI, The World Bank
Email: mvagliasindi@worldbank.org

This paper presents new global evidence on the key determinants of public-private partnership investment in electricity generated by fossil fuels and renewable energy based on a panel data analysis for 105 developing countries over a period of 16 years from 1993 to 2008. It aims to identify the key factors affecting private investors' decision to enter electricity generation, through probit analysis, and the amount of investment sunk in this market segment, based on Heckman's sample selection analysis. The paper shows some evidence of switching from investment in fossil fuels to investment in hydro and renewables and within fossil fuels from oil to natural gas. An interesting result of the econometric analysis is that the likelihood of switching toward renewable investment is driven by long-run environmental factors, such as the increases in the price of oil and the introduction of the Kyoto protocol. Another interesting result is that sector governance support schemes, provided by feed-in tariffs, affect only the entry in renewable based electricity generation and have no impact in reducing the amount of investment in fossil fuel based generation. Economy-wide governance factors, including control for corruption and degree of political competition, are factored in by private investors only in the initial stage of the game when the decision to enter into the generation market is taken and not the amount of investment. This confirms that the first generations of independent power producers have been developed on the basis of long-term power purchase agreements guaranteeing a fixed rate of return, through take-or-pay clauses and/or government guarantees.

"Feldstein-Horioka Puzzle for a Panel of 14 CEE Countries: Empirical Evidence"

DUSHKO JOSHESKI, University Goce Delcev
Email: dushkojosheski@gmail.com
DARKO LAZAROV, University Goce Delcev
Email: darko.lazarov@ugd.edu.mk

In this paper we investigate Feldstein Horioka puzzle for 14 CEE countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Estonia, Poland, Romania, Serbia). In our paper when we investigate the whole sample of 14 CEE countries we find less positive association between investment and savings meaning that capital is highly mobile. While when we regress the subsample of those countries from the sample which are EU members we find the lowest coeffcient of association between investment and saving therefore capital is highly mobile in those countries.While in the Non-EU members from this CEE countires the coeficient is highest 0.13, meaning there is lowest capital mobility. Unit root tests proved that in this sample of countries savings are I(1) or I(2) process, and investments are stationary.

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