

■ HIGHLIGHTS

ANNAMARIA LUSARDI SPEAKER OF THE NEXT ONORATO CASTELLINO LECTURE



The Onorato Castellino Lecture has been instituted by CeRP to remember Onorato Castellino, one of the founders of the centre and the first President of the Collegio Carlo Alberto, who passed away in December 2007.

This year's lecture will be held by Annamaria Lusardi (Joel Z. and Susan Hyatt Professor of Economics, Dartmouth College) on December 20, 2010, within the initiative "Collegio Aperto". The title of the lecture is "Financial illiteracy: a (solvable) problem of our time". Annamaria Lusardi, who is a major expert on the topic of financial literacy and education, will talk about the level of financial literacy in different countries, and illustrate possible education programmes to improve financial knowledge among the population.

<http://cerp.unito.it/index.php/en/events/5-conferences-and-workshops/723-lezione-onorato-castellino-annamaria-lusardi>

WORKSHOP: "FINANCIAL LITERACY AROUND THE WORLD" - 20-21 DECEMBER 2010

This workshop aims at providing an international comparison of financial literacy, with presentations and discussion of country-specific papers, based on a common framework. The event is organized within the study "Financial Literacy: Evidence and Implications for Retirement Planning, Saving Behavior, and Financial Education Programs" funded by Netspar. The list of speakers includes Rob Alessie, Sumit Agarwal, Elsa Fornero and Annamaria Lusardi.

The papers presented at the workshop will all be considered for a special issue of the *Journal of Pension Economics and Finance*, due out in October 2011. The programme of the event can be found at:

http://cerp.unito.it/images/stories/programme_20-21_december.pdf

PUBLICATION LAUNCH "AGEING, HEALTH AND PENSIONS IN EUROPE"

The final report of the Forward Looks project "Ageing, Health and Pensions in Europe", realized by an international network of researchers including CeRP members E. Fornero, C. Monticone and A. Lusardi, has been presented on November 26 in Brussels. The report, realized with support by the European Science Foundation, discusses the existing knowledge gaps and rese-

arch opportunities for economists and social scientists concerning population ageing, pensions, health and social care in Europe. The EU commissioners László Andor and John Dalli as well as a representatives of the European Parliament attended the presentation and gave their reactions to the policy recommendations included in the report.

A volume containing the contributions of the network members ("Ageing, Health and Pensions in Europe: An Economic Perspective" edited by A. Van Soest, L. Bovenberg and A. Zaidi) has just been released by Macmillian Plagrave. The report can be downloaded at:

<http://www.esf.org/publications>

News in brief

CERP PROJECT FINANCED BY THE 'COLLEGIO CARLO ALBERTO CALL FOR PROJECTS'

The CeRP project "Economic Consequences of Financial (il)Literacy" has been selected for funding from the Collegio Carlo Alberto within the first Collegio Carlo Alberto call for projects.

The project will be developed over two years. The research team includes Elsa Fornero (Principal Investigator), Riccardo Calcagno, Maela Giofré, Annamaria Lusardi, Chiara Monticone and Mariacristina Rossi.

NOBEL PRIZE IN ECONOMICS TO PETER DIAMOND, TWICE SPEAKER AT CERP

MIT Professor Peter Diamond, along with Dale Mortensen and Christopher Pissarides, has been awarded the 2010 Nobel Prize in Economic Sciences. CeRP is proud to have hosted Peter Diamond as keynote speaker on two occasions: at the first CeRP annual conference 'Opting out of Social Security. Scope, Limits and Welfare Implications' (June 2000) and at the 2003 annual conference 'Is Mandatory Retirement an Outdated Feature of Pension Systems?'.


Diamond also included his paper "Towards an Optimal Social Security Design" in the CeRP working paper series (n. 4/01) and contributed a chapter to the CeRP volume "Pension Systems: Beyond Mandatory Retirement" edited by Elsa Fornero and Paolo Sestito (Edward Elgar, 2005).

<http://cerp.unito.it/index.php/en/news>

■ RESEARCH OUTPUT

THE EFFECTS OF US ECONOMIC AND FINANCIAL CRISES ON EURO AREA CONVERGENCE by Fabio Bagliano and Claudio Morana; CeRP WP n. 99/10

As economic and financial integration between the US and the euro area is strong, assessing whether the recent US crisis may affect the process of real and nominal convergence within the euro area is important. The paper addresses this issue in the framework of a large-scale open economy macroeconomic model, featuring 14 euro area member countries, the USA, and 35 advanced and emerging economies.

The results point to a likely contribution of US economic and financial crises to real divergence in the euro area, potentially affecting first, second and third moments of the output growth distribution; on the other hand, implications for nominal convergence are less clear-cut.

MACROECONOMIC ASPECTS OF ITALIAN PENSION REFORMS OF 1990S by Tetyana Dubovyk; CeRP WP n. 101/10

In 1990s, several pension reforms had been adopted to insure financial sustainability of Italian Social Security system. This paper studies two main features of the Amato and Dini reforms: (i) adoption of notional defined contributions formula; (ii) price indexation of benefits as compared to wage indexation prior to 1992. As the reforms envision a long phase-in period, it considers the effect of the reforms on different generations.

This paper studies household decisions and welfare consequences of the reforms using general equilibrium overlapping generations framework. The major focus is on time allocation and human capital accumulation decisions of transition generations. The economic and demographic structure of the economy is calibrated to (i) Italian macroeconomic variables in 1992, (ii) observed earnings profiles in Survey of Household Income and Wealth by Banca d'Italia (SHIW). The reforms decrease financial obligations of the pension system. The paper quantifies the effect of the reforms on transition generations.

THE 2007-? FINANCIAL CRISIS: A MONEY MARKET PERSPECTIVE by Nuno Cassola and Claudio Morana; CeRP WP n. 102/10

The evolution of the spreads between unsecured money market rates of various maturities and central banks' key policy rates has been subject to considerable debate and controversy in relation to the worldwide financial market turbulence that started in August 2007.

The contribution of the paper to the ongoing debate on the dynamics of money market spreads is empirical and methodological, motivated by the "shocking" evidence of non-stationary behaviour of money market spreads. In fact, in the author's view, empirical work assessing the effectiveness of central bank policies has

largely overlooked the complexity of the market environment and its implications for the statistical properties of the data. Thus, their main goal is to carefully document both the economic and statistical "fingerprint" of money market turbulence, in the framework of a new econometric framework, carefully accounting for the persistence properties of the data.

THE GREAT RECESSION: US DYNAMICS AND SPILLOVERS TO THE WORLD ECONOMY by Fabio Bagliano and Claudio Morana; CeRP WP n. 103/10

The paper aims at assessing the mechanics of the Great Recession, considering both its domestic propagation within the US, as well as its spillovers to advanced and emerging economies. A total of 50 countries has been investigated by means of a large-scale open economy macroeconomic model, providing an accurate assessment of the international macro/finance interface over the whole 1980-2009 period. It is found that a boom-bust credit cycle interpretation of the crisis is consistent with the empirical evidence. Moreover, concerning the real effects of the crisis within the US, stronger evidence of an asset prices channel, rather than a liquidity channel, has been detected.

The results also support the effectiveness of the expansionary fiscal/monetary policy mix implemented by the Fed and the US government. Concerning the spillovers to the world economy, it is found that while the financial shock has spilled over to foreign countries through US housing and stock price dynamics, as well as excess liquidity creation, the trade channel likely is the key transmission mechanism of the real shock.

INTERNATIONAL CAPITAL FLOWS AND CREDIT MARKET IMPERFECTIONS: A TALE OF TWO FRICTIONS by Alberto Martin and Filippo Taddei

The financial crisis of 2007-08 has underscored the importance of adverse selection in financial markets. This friction has been mostly neglected by macroeconomic models of financial frictions, however, which have focused almost exclusively on the effects of limited pledgeability. This paper fills this gap by developing a standard growth model with adverse selection.

The main results are that, by fostering unproductive investment, adverse selection: (i) leads to an increase in the economy's equilibrium interest rate, and; (ii) it generates a negative wedge between the marginal return to investment and the equilibrium interest rate.

Under financial integration, the authors show how this translates into excessive capital inflows and endogenous cycles. They also explore how these results change when limited pledgeability is added to the model. They conclude that both frictions complement one another and argue that limited pledgeability exacerbates the effects of adverse selection.

<http://cerp.unito.it/index.php/en/publications>

■ WORK IN PROGRESS

FINANCIAL LITERACY AS A WAY TO OVERCOME MARKET IMPERFECTIONS by Riccardo Calcagno, Maela Giofré, Chiara Monticone

This paper investigates how some institutional characteristics of the economic environment can affect the optimal level of financial literacy to be acquired by private investors. Jappelli (2009) relates macroeconomic and institutional variables with economic literacy. His findings support the hypothesis that the (un-)generosity of social security systems creates incentives to save and to acquire economic literacy. In this study, we narrow down our focus on how the level of financial literacy to be acquired by individuals depends on the competitiveness of financial markets - determining the level of the fees - and on the institutional structure - providing the intermediaries with the incentives to a fair conduct. We plan to study the relation between financial literacy and financial market imperfections in a normative theoretical model and intend to empirically assess the relation between financial literacy and advisors' reliability. In fact, a negative relation between financial literacy and trustworthiness can suggest that lack of trust in financial advice spurs the acquisition of financial knowledge, thus providing an additional rationalization to financial literacy heterogeneity.

EARNINGS, PRODUCTIVITY AND EARLY RETIREMENT by Giovanni Mastrobuoni and Filippo Taddei

The goal of this paper is to identify and rationalize the link between the age profile of earnings and early retirement incentives provided by social security systems. The paper provides evidence in support of the view that there is a robust empirical relationship among European countries between labor markets that reward relatively more seniority, more youth unemployment and a social security system that discourages work at older ages. Also, it proposes a sophisticated macro model tying together the age profile of earnings and Social Security rules as endogenous features of the same general equilibrium. The authors analyzed the evidence produced using the European Community Household Panel (ECHP), a panel representative of the European workers. They show that in countries where, on average, retirement takes place later, the difference between how much wages change in the first and the second half of workers' career is larger.

(UN)EXPECTED RETIREMENT AND THE CONSUMPTION PUZZLE by Margherita Borella, Flavia Coda Moscarola, Mariacristina Rossi

This work revisits the retirement consumption puzzle in Italy. Existing literature explains the consumption drop with work-related expenditures and/or, out of the life cycle framework, with the increase at retirement in the home production (Miniaci et al. 2010, Battistin et al. 2009). A less studied hypothesis attributes

instead consumption drop to shocks at retirement, in particular income shocks.

Using an Euler equation approach, the authors test the impact of income shocks on the consumption patterns of individuals around the age of retirement by using the panel component of the Survey of Household Income and Wealth. Furthermore, they investigate the heterogeneous behaviour of individuals with different educational levels. They find evidence for a consumption drop, unexplained by unexpected replacement rates, only for individuals with low educational level.

People's News

CERP RESEARCHERS ACTIVE IN FINANCIAL EDUCATION EVENTS

The CeRP researchers are participating in a series of events on the topic of financial education and financial literacy.



E. Fornero, G. Nicodano and M.C. Rossi have taught at the international training course "Principi e metodi di un'educazione finanziaria per il XXI secolo: risparmio, credito e investimenti", organized by Centro Unesco - Torino on November 18-20. On November 19 Elsa Fornero participated in Milan at the "Conferenza sullo stato dell'arte della financial literacy tra i giovani italiani", organized by Junior Achievement Italia.

Chiara Monticone will present a paper on financial education at the XIX International Tor Vergata Conference on Money, Banking and Finance: "New Frontiers of Banking and Finance after the Global Crisis", to be held at the University of Rome Tor Vergata on December 16.

MICHELE BELLONI PARTICIPATES IN A NETSPAR NATIONAL THEME PROJECT

Michele Belloni is participating in the project: "Pensions, savings and retirement decisions II", which has been recently awarded of a grant by Netspar (National Theme grant). Michele, jointly with R. Alessie and A. Kalwij, is in charge of the sub-theme: "Subjective survival probabilities, saving and retirement decision".

NEW RESEARCH ASSISTANTS

Two new research assistants, the PhD students Agnese Romiti and Cesira Urzì and have joined the CeRP group starting from October 2010.

They are collaborating within the research project "Economic Consequences of Financial (il)Literacy".

<http://cerp.unito.it/index.php/en/people>

■ EVENTS

WORKSHOP “AGING” - 6 DECEMBER 2010

The workshop consisted of the presentations of work in progress and preliminary results by the researchers involved in the study “Aging, Labor Productivity and Sustainability of Public Pension Systems: an Investigation through Macro and Micro Modelling” (AGING), funded by the Regione Piemonte. It was also an occasion for the team to plan and discuss the next step of the research.

<http://cerp.unito.it/index.php/en/research>

RECENT SEMINARS AT CERP

Workshop in Capital Markets: “Optimal dynamic tax evasion: a portfolio approach” by **Francesco Menoncin** (University of Brescia); 1 December 2010;

Workshop in Capital Markets: “Capital supply uncertainty, cash holdings, and investment” by **Erwan Morrellec** (Ecole Polytechnique Fédérale de Lausanne); 11 November 2010;

Workshop in capital markets: “US Household Portfolios and Risk Attitude over Time” by **Raffaele Miniaci** (University of Brescia); 14 October 2010

<http://cerp.unito.it/index.php/en/events>

RECENT AND FORTHCOMING PRESENTATIONS AT INTERNATIONAL CONFERENCES/SEMINARS

G. Mastrobuoni at the *IV Insights on Immigration and Development Workshop*, Institute for Economic Analysis, Barcelona, 23 June 2010

F. Coda Moscarola and S. Trucchi at the *International Conference in memoriam of Maria Concetta Chiuri on Household, Labour and Migration Economics*, Bari, 1-3 July 2010

M. Giofré at the *25th European Economic Association Meeting*, Glasgow, 23-26 August 2010

C. Morana at a *European Central Bank seminar*, Directorate General Research, Financial Research Division, August 2010

M. Giofré and C. Morana at the *42th Money, Macro and Finance 2010 Conference*, Limassol, Cyprus, 1-3 September 2010

E. Fornero at the *International Training Office Course “Pension Schemes”*, ILO, Turin, 17 September 2010

E. Fornero at the *ANIA conference “Gli scenari del Welfare: tra nuovi bisogni e voglia di futuro”*, Rome, 5 October 2010

C. Fugazza at the *2nd ReCapNet-Conference*, ZEW, Mannheim, 11-12 October 2010

C. Fugazza and C. Monticone at *51ma Riunione Scientifica Annuale della Società Italiana degli Economisti*, University of Catania, 15-16 October 2010.

E. Fornero at the *LTIC Venice Forum “Towards a*

Sustainable Future: The Role of Long-Term Investment”, Venice, 28-29 October 2010

C. Monticone at the *XIX International Tor Vergata Conference on Money, Banking and Finance: “New Frontiers of Banking and Finance after the Global Crisis”*, University of Rome Tor Vergata, 13-17 December

S. Trucchi at the *XXXV Simposio de la Asociación Española de Economía (SAEe)*, Madrid, 16-18 December 2010

M. Belloni, T. Dubovyk and S. Trucchi at *the Fourth Italian Congress of Econometrics and Empirical Economics (ICEEE 2011)*, University of Pisa, 19-21 January 2011

E. Fornero at the *Egyptian Ministry of Finance NDC Conference*, Cairo, 23-25 January 2011

Recent Publications

ARTICLES IN SCIENTIFIC JOURNALS

“Private Equity Returns in a Model of Entrepreneurial Choice with Learning” by C. Campanale, *The B.E. Journal of Macroeconomics*: Vol. 10: Iss. 1 (Contributions), Article 22, 2010.

LATEST CERP WORKING PAPERS

N° 99/10 “The effects of US economic and financial crises on euro area convergence” by F. Bagliano and C. Morana

N° 100/10 “L’educazione e la comunicazione previdenziale - Il caso italiano” by L. Piatti and G. Rocco

N° 101/10 “Macroeconomic Aspects of Italian Pension Reforms of 1990s” by T. Dubovyk

N° 102/10 “The 2007-? financial crisis: a money market perspective” by N. Cassola and C. Morana

N° 103/10 “The Great Recession: US dynamics and spillovers to the world economy” by F. Bagliano and C. Morana

<http://cerp.unito.it/index.php/en/publications>

OTHER PUBLICATIONS

“Adequacy of Saving for Old Age in Europe” by E. Fornero, A. Lusardi, C. Monticone, in A. Van Soest, L. Bovenberg and A. Zaidi (eds) “Ageing, Health and Pensions in Europe: An Economic Perspective” Macmillian Palgrave, 2010.

“Retirement Choices in Italy: What an Option Value Model Tells us” by M. Belloni and R. Alessie, NETSPAR discussion paper, 10/2010-58 and Tinbergen Institute Discussion Paper, 2010-10-14

“International Capital Flows and Credit Market Imperfections: a Tale of Two Frictions”, by F. Taddei and A. Martin, Collegio Carlo Alberto notebooks No. 160, November 2010