

Contents

| | |
|--|----|
| 1. Neoclassical Macroeconomics | 1 |
| 1.1 The Microfoundation of Macroeconomics | 2 |
| 1.1.1 Consumption demand and labor supply | 3 |
| 1.1.2 Public spending and fiscal policy | 6 |
| 1.1.3 Money demand and monetary policy | 9 |
| 1.1.4 Labor and capital demand by firms | 11 |
| 1.1.5 Perfect competition and market structure indeterminacy | 12 |
| 1.1.6 Market clearing and general equilibrium | 14 |
| 1.2 Growth | 16 |
| 1.2.1 The Solow model | 16 |
| 1.2.2 The Diamond model | 17 |
| 1.2.3 Dynamic fiscal policy | 20 |
| 1.2.4 Dynamic monetary policy | 22 |
| 1.2.5 Neoclassical endogenous growth | 24 |
| 1.3 International Finance and Trade | 26 |
| 1.3.1 International finance | 27 |
| 1.3.2 International fiscal policy | 29 |
| 1.3.3 International monetary and exchange rate policy | 30 |
| 1.3.4 International trade theory | 33 |
| 1.3.5 International trade policy | 36 |
| 1.4 Business Cycles | 37 |
| 1.4.1 The Ramsey model | 37 |
| 1.4.2 Real Business Cycles | 40 |
| 1.4.3 Monopolistic firms with exogenous entry | 46 |
| 1.5 Conclusions | 50 |
| 2. The EMSs Approach to Macroeconomics | 51 |
| 2.1 EMSs in Partial Equilibrium | 55 |
| 2.2 Microfounded EMSs | 60 |
| 2.2.1 EMSs with competition in quantities | 60 |
| 2.2.2 EMSs with competition in prices | 63 |
| 2.2.3 Optimal EMSs | 64 |
| 2.3 EMSs with Isoelastic Sub-utility | 65 |
| 2.3.1 Cournot competition | 67 |

| | | |
|-----------|---|------------|
| 2.3.2 | Bertrand competition | 69 |
| 2.3.3 | Stackelberg competition | 71 |
| 2.3.4 | Collusion, endogenous entry costs and other extensions | 73 |
| 2.4 | EMSs in a Two Period Economy | 75 |
| 2.5 | EMSs in General Equilibrium | 78 |
| 2.6 | EMSs in an Infinite Periods General Equilibrium Economy | 81 |
| 2.6.1 | A model of business creation with Cournot competition | 82 |
| 2.6.2 | EMSs in the long run | 87 |
| 2.7 | Business Cycle | 88 |
| 2.8 | Trade | 90 |
| 2.9 | Growth | 91 |
| 2.10 | Conclusions | 93 |
| 3. | Endogenous Market Structures and Business Cycles | 95 |
| 3.1 | Empirical Evidence on EMSs over the Business Cycle | 98 |
| 3.1.1 | Business cycle fluctuations in the U.S. | 100 |
| 3.1.2 | VAR analysis | 103 |
| 3.2 | A Model of the Business Cycle with EMSs | 105 |
| 3.2.1 | Cournot competition | 108 |
| 3.2.2 | Bertrand competition | 109 |
| 3.2.3 | Stackelberg competition and imperfect collusion | 110 |
| 3.2.4 | Short run EMSs | 110 |
| 3.3 | Steady State EMSs | 114 |
| 3.3.1 | Dynamics and steady state under Cournot competition | 115 |
| 3.3.2 | Dynamics and steady state under Bertrand competition | 118 |
| 3.4 | Impulse Response Functions and Second Moments | 120 |
| 3.4.1 | Supply shocks | 121 |
| 3.4.2 | Demand shocks | 125 |
| 3.4.3 | Second moments | 128 |
| 3.5 | EMSs and Accumulation of Physical Capital | 130 |
| 3.6 | Fiscal Policy | 133 |
| 3.7 | Monetary Policy | 137 |
| 3.8 | Labor and Credit Market Imperfections | 141 |
| 3.9 | Conclusions | 144 |
| 4. | Endogenous Market Structures and International Trade and Finance | 145 |
| 4.1 | Empirical Evidence on EMSs and Market Size Effects | 149 |
| 4.1.1 | Panel data on the number of firms | 150 |
| 4.1.2 | Cross-sectional data on firms' production | 153 |
| 4.2 | A Model of Trade with EMSs | 156 |
| 4.2.1 | The Krugman model | 157 |
| 4.2.2 | Cournot competition | 158 |
| 4.2.3 | Bertrand competition | 160 |
| 4.2.4 | Gains from trade and business destruction | 161 |

| | | |
|-----------|---|------------|
| 4.3 | The Ghironi-Melitz Model | 163 |
| 4.3.1 | International trade and business cycle | 164 |
| 4.3.2 | International finance and macroeconomic policy | 167 |
| 4.4 | Trade Policy and Import Tariffs | 169 |
| 4.5 | Strategic Export Promotion | 172 |
| 4.5.1 | A model of international competition | 173 |
| 4.5.2 | Optimal trade policy <i>à la</i> Brander-Spencer | 174 |
| 4.5.3 | Optimal trade policy with EMSs | 175 |
| 4.6 | Trade Policy and Export Subsidies | 177 |
| 4.6.1 | Optimal trade policy with Cournot competition | 177 |
| 4.6.2 | Optimal trade policy with Bertrand competition | 181 |
| 4.7 | Protectionism, Lobbying and Trade Wars | 183 |
| 4.7.1 | Indirect export promotion and infant industries | 184 |
| 4.7.2 | The political economy of export promotion | 184 |
| 4.7.3 | Nash equilibrium trade policy | 186 |
| 4.8 | Exchange Rate Policy | 187 |
| 4.8.1 | Competitive devaluations with Cournot competition | 189 |
| 4.8.2 | Competitive devaluations with Bertrand competition | 190 |
| 4.9 | R&D Policy and IPRs Protection | 193 |
| 4.10 | Conclusions | 195 |
| 5. | Endogenous Market Structures and Growth | 197 |
| 5.1 | Empirical Evidence on EMSs and Innovation by Leaders | 200 |
| 5.1.1 | Data Sources on R&D, Entry and Leadership | 201 |
| 5.1.2 | Tobit Regressions | 203 |
| 5.1.3 | Instrumental variables for entry | 207 |
| 5.2 | A Model of Endogenous Growth | 212 |
| 5.2.1 | Cournot competition | 215 |
| 5.2.2 | Bertrand competition | 216 |
| 5.2.3 | The Romer model | 216 |
| 5.2.4 | The Peretto model with EMSs | 217 |
| 5.3 | A Model of Schumpeterian Growth | 219 |
| 5.3.1 | Patent races | 220 |
| 5.3.2 | The Aghion-Howitt model | 222 |
| 5.3.3 | A Schumpeterian model with EMSs | 223 |
| 5.4 | EMSs with Growth Leaders | 226 |
| 5.5 | Fiscal Policy | 231 |
| 5.6 | Monetary Policy | 236 |
| 5.7 | Growth and International Trade and Finance | 240 |
| 5.7.1 | Endogenous size of national markets and global growth | 241 |
| 5.7.2 | World technological leadership | 243 |
| 5.7.3 | Optimal R&D policy in the open economy | 245 |
| 5.8 | Conclusions | 246 |

| | |
|--|------------|
| 6. Economic Principles and Policy for the New Economy | 247 |
| 6.1 Short-run EMSs and the Competition Effect | 248 |
| 6.1.1 The boom of the 90s | 250 |
| 6.1.2 The current global recession | 252 |
| 6.2 Steady-state EMSs and Entry | 258 |
| 6.2.1 Entry and business creation in the U.S. | 261 |
| 6.2.2 Cloud computing: the impact of a General Purpose Technology | 263 |
| 6.3 Gains from Trade and the Effects of Globalization | 267 |
| 6.4 Growth Driven by Leaders | 271 |
| 6.4.1 Online advertising: market structure and innovation . . | 273 |
| 6.4.2 Google economics | 276 |
| 6.5 Dynamic Inefficiency | 277 |
| 6.6 Fiscal Policy | 279 |
| 6.6.1 Fiscal policy in the U.S. and the E.U. | 281 |
| 6.6.2 A supply-based fiscal policy | 284 |
| 6.7 Monetary Policy | 285 |
| 6.7.1 Monetary policy in the U.S. and the E.U. | 287 |
| 6.8 Trade Policy | 290 |
| 6.9 Exchange Rate Policy | 294 |
| 6.10 Innovation and Competition Policy | 299 |
| 6.10.1 Innovation policy and coordination | 300 |
| 6.10.2 Competition policy in the U.S. and the E.U. | 301 |
| 6.10.3 Entry and competition in the browsers' market | 305 |
| 6.11 Conclusions | 308 |
| 7. Epilogue | 309 |
| 8. References | 313 |
| Index | 339 |

<http://www.springer.com/978-3-540-87426-3>

Endogenous Market Structures and the Macroeconomy

Etro, F.

2009, XX, 346 p., Hardcover

ISBN: 978-3-540-87426-3