

Foros, Øystein; Hagen, Kåre P.; Kind, Hans Jarle

Working Paper

Price-dependent profit sharing as an escape from the Bertrand paradox

CESifo Working Paper, No. 1927

Provided in Cooperation with:

Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: Foros, Øystein; Hagen, Kåre P.; Kind, Hans Jarle (2007) : Price-dependent profit sharing as an escape from the Bertrand paradox, CESifo Working Paper, No. 1927, Center for Economic Studies and Ifo Institute (CESifo), Munich

This Version is available at:

<https://hdl.handle.net/10419/25972>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

PRICE-DEPENDENT PROFIT SHARING AS AN ESCAPE FROM THE BERTRAND PARADOX

ØYSTEIN FOROS
KÅRE P. HAGEN
HANS JARLE KIND

CESIFO WORKING PAPER NO. 1927
CATEGORY 9: INDUSTRIAL ORGANISATION
FEBRUARY 2007

An electronic version of the paper may be downloaded

- *from the SSRN website:* www.SSRN.com
- *from the RePEc website:* www.RePEc.org
- *from the CESifo website:* www.CESifo-group.de

PRICE-DEPENDENT PROFIT SHARING AS AN ESCAPE FROM THE BERTRAND PARADOX

Abstract

In this paper we show how an upstream firm can prevent destructive competition among downstream firms producing relatively close substitutes by implementing a price-dependent profit-sharing rule. The rule also ensures that the downstream firms undertake investments which benefit the industry in aggregate. The model is consistent with observations from the market for content commodities distributed by mobile networks.

JEL Code: L13, L22.

Keywords: profit-sharing, vertical restraints, investments, competition.

Øystein Foros
Norwegian School of Economics and
Business Administration
Department of Economics
Helleveien 30
5045 Bergen
Norway
oystein.foros@nhh.no

Kåre P. Hagen
Norwegian School of Economics and
Business Administration
Department of Economics
Helleveien 30
5045 Bergen
Norway
kare.hagen@nhh.no

Hans Jarle Kind
Norwegian School of Economics and Business Administration
Department of Economics
Helleveien 30
5045 Bergen
Norway
hans.kind@nhh.no

1 Introduction

The Bertrand paradox may provide a plausible explanation why the majority of the content commodities on the Internet are offered for free (marginal costs). The rival is just “one click away”, and competing content providers have strong incentives to undercut each other as long as there are positive profit margins. In contrast, we observe that prices for mobile phone content commodities like ring tones, football goal alerts and jokes are well above marginal costs (the sales value of such services in Norway in 2006 was twice as high as the total value of Internet ads). One potential explanation why the Bertrand paradox is not observed for such goods, is the price-dependent profit-sharing rule used by some upstream mobile access providers. The rule implies that the upstream firms charge a share of the end-user price per unit of content instead of for instance a unit wholesale price from the content providers. The crucial feature of this rule is that the share accruing to a given content provider is increasing in the end-user price. The table below shows the profit-sharing rule used by the dominant Norwegian mobile operator Telenor; if a content provider sells his good for 1 NOK he receives 45 % of the revenue, while he receives 80 % if he sells the good for 70 NOK.¹

End-user price (NOK)	1.0	1.5	3	5	10	20	70
Share to the content provider	45%	54.%	62%	66%	68%	70%	80%

In the formal model we consider an upstream firm selling an input (access) to downstream firms producing differentiated services. The upstream firm determines the access conditions, while the downstream firms decide end-user prices and investments in for instance marketing. We show that by using a price-dependent profit-sharing rule, the upstream firm induces the retailers to behave as if demand has become less price elastic. A price-dependent profit-sharing rule is sufficient to

¹In addition to this revenue-sharing rule, the content providers are charged a fixed fee (but no unit wholesale price). Strand (2004) emphasizes that the revenue-sharing scheme creates incentives to promote new services. The Norwegian business model is now widely taken up in Europe and Asia (Strand, 2004).

achieve the vertical integration outcome also in presence of investment spillovers. A fixed fee determines the allocation of the total industry profit.

The upstream firm could alternatively use a combination of resale price maintenance (RPM), a fixed fee and a wholesale price below marginal costs to achieve the vertical integration outcome (see Mathewson and Winter, 1984). The Bertrand paradox is then avoided by indirectly limiting the retailers' strategy choices. The novelty in the above proposal is that the sharing-scheme reduces the undercutting incentives among retailers directly by reducing the perceived price elasticity, and is less likely to raise anti-trust concerns compared to RPM.²

2 The Model

We consider an upstream firm selling an input to n downstream firms. The demand curve faced by downstream firm $i = 1, \dots, n$ is given by $q_i = q_i(p)$, where p is the vector of prices charged by the n downstream firms. We assume that the demand functions are well behaved and downward sloping in own price ($\partial q_i / \partial p_i < 0$). The consumers perceive the goods sold by the downstream firms as imperfect substitutes ($\partial q_i / \partial p_j > 0$).

Marginal costs both at the upstream and downstream levels are set equal to zero; however, this does not matter for the qualitative results. Hence, we can write total operating profit in the industry as

$$\Pi(p) = \sum_{i=1}^n p_i q_i(p). \quad (1)$$

Below, we consider a two-stage game where the upstream firm at stage 1 determines the conditions for access to the upstream good, and where the downstream firms subsequently compete in prices. In Section 3 we extend the model by allowing the downstream firms to make market-expanding investments.

²Moreover, with RPM the retail prices are not decided by the players with hands on market experience. This may obviously be detrimental to the total channel outcome.

The upstream firm uses a two-part tariff, consisting of a fixed fee F and a profit-sharing rule. We specify the profit-sharing rule such that downstream firm i keeps a share $\beta(p_i)$ of its operating profit, while the upstream firm gets the share $(1 - \beta(p_i))$. We later show that $\beta'(p_i) > 0$.³

Stage 2

The operating profit of downstream firm i equals $\pi_i(p) = \beta(p_i)p_iq_i$, and at the last stage each downstream firm solves $p_i^* = \arg \max \pi_i$. This yields the FOCs

$$\left[q_i^* + p_i^* \frac{\partial q_i}{\partial p_i} \right] + \frac{\beta'(p_i^*)}{\beta(p_i^*)} p_i^* q_i^* = 0. \quad (2)$$

The second term in (2) would vanish if β were constant ($\beta' = 0$), in which case we would get the standard result that a profit maximizing price \hat{p}_i satisfies $[\hat{q}_i + \hat{p}_i \frac{\partial q_i}{\partial p_i}] = 0$. With $\beta' > 0$ the second term on the left-hand side of equation (2) is positive, implying that the marginal profit at any given price is higher than if $\beta' = 0$. This induces each of the downstream firms to behave less aggressively, and we can state:

Proposition 1: *The profit-maximizing prices will be higher for $\beta'(p_i) > 0$ compared to $\beta'(p_i) = 0$.*

By defining $\varepsilon_{ii} \equiv \frac{p_i}{q_i} \frac{\partial q_i}{\partial p_i}$ as the price elasticity of demand for good i , we can rewrite (2) as

$$\varepsilon_{ii}^* = - \left(1 + \frac{\beta'(p_i^*)}{\beta(p_i^*)} p_i^* \right) \quad (3)$$

Equation (3) characterizes the profit-maximizing equilibrium price for firm i . It is well known that revenue - and thus profit for a firm facing zero marginal costs - other things equal is maximized by choosing a price for which the elasticity is equal to minus one. However, since $\frac{\beta'(p_i^*)}{\beta(p_i^*)} p_i^* > 0$, we see from (3) that the profit sharing rule induces the downstream service provider to behave as if the demand has become less price elastic. This confirms that the profit-maximizing prices will be higher if $\beta' > 0$ than if $\beta' = 0$:

³In contrast to the present paper, the literature on revenue-sharing as a vertical restraint conventionally assumes that the revenue share is a constant; i.e. $\beta' = 0$ (see e.g. Lal, 1990).

Proposition 2: *A profit-sharing rule $\beta'(p_i) > 0$ reduces the perceived elasticity of demand for the downstream firms, making them behave less aggressively.*

In the sequel we assume an isoelastic sharing rule so that $\beta_i(p_i) = \theta p_i^\lambda$, where λ is the elasticity parameter determined by the upstream firm at stage 1 (for the moment we treat θ as a positive scalar). With this specification we can reformulate (2) and (3) as

$$(1 + \lambda) q_i^* + p_i^* \frac{\partial q_i}{\partial p_i} = 0 \quad (4)$$

$$\varepsilon_{ii}^* = -(1 + \lambda) \quad (5)$$

Stage 1

The upstream firm will use λ to induce the downstream firms to set the prices that maximize total industry profit. The fixed fee F is then used as a profit distribution parameter. Thus, we first derive the hypothetical equilibrium under vertical integration (VI). Solving $p_i = \arg \max \Pi(p)$ yields the FOCs

$$\left[q_i + p_i \frac{\partial q_i}{\partial p_i} \right] + \sum_{j \neq i} p_j \frac{\partial q_j}{\partial p_i} = 0 \quad (i = 1, \dots, n). \quad (6)$$

The term in the square bracket of (6) measures the marginal profit on good i and is analogous to the term in the square bracket of (2). The second term of (6) internalizes the horizontal pecuniary externality when products are imperfect substitutes. Let $\omega_{ji}^p = - \frac{\partial q_j}{\partial p_i} / \frac{\partial q_i}{\partial p_i}$ measure the increased demand for good j per unit reduction in the demand for good i when p_i increases. The higher these ratios, the higher p_i should be set in order to maximize aggregate industry profit. The challenge for the upstream firm in a vertically separated market structure is to set conditions inducing the downstream firms to internalize this effect at stage 2.

Inserting for ω_{ji}^p into (6) we can now characterize industry optimum as

$$q_i + \left[p_i - \sum_{j \neq i} p_j \omega_{ji}^p \right] \frac{\partial q_i}{\partial p_i} = 0. \quad (i = 1, \dots, n).$$

By imposing symmetry this expression can be reformulated as (with subscript VI for vertical integration)

$$q_{VI} + p_{VI} [1 - (n - 1) \omega_{ji}^p] \frac{\partial q_i}{\partial p_i} = 0. \quad (7)$$

The optimal value of λ ensures that aggregate profit is the same in the vertically separated market structure as in the hypothetical equilibrium with vertical integration. This value can be found by using equations (4) and (7) and setting $q_i^*/p_i^* = q_{VI}/p_{VI}$.⁴ We then have

$$\lambda = \lambda^* \equiv -1 + \frac{1}{1 - (n-1)\omega_{ji}^p}. \quad (8)$$

Inserting for (8) into (5) we further find

$$\varepsilon_{ii}^* = -\frac{1}{1 - (n-1)\omega_{ji}^p}.$$

If a price reduction of good i does not affect demand for good j , we have $\frac{\partial q_j}{\partial p_i} = \omega_{ji}^p = 0$. The downstream firms thus choose prices such that $\varepsilon_{ii}^* = -1$, which is optimal also from the industry's point of view ($\lambda^* = 0$). However, if the goods are imperfect substitutes (such that $\frac{\partial q_j}{\partial p_i} > 0$), each downstream firm fully internalizes the effect its price has on the profit of the other firms when $\lambda = \lambda^* > 0$. Hence, the downstream firms will not engage in destructive price competition even if they produce close substitutes, and the Bertrand paradox is avoided.⁵

Proposition 3: *The profit-sharing rule $\beta_i(p_i) = \theta p_i^\lambda$ with $\lambda = \lambda^*$ solves the Bertrand paradox, and induces the downstream firms to maximize aggregate industry profit.*

3 Market-expanding investments with spillovers

We now extend the model to allow each downstream firm to undertake market-expanding (or quality-enhancing) investments with potential spillovers. At the outset, it is not clear how one firm's investments affect sales and profits of the other

⁴Setting $q_i^*/p_i^* = q_{VI}/p_{VI}$ uniquely determines the prices, since q_i/p_i is monotonically decreasing in p_i when $\partial q_i/\partial p_i < 0$.

⁵As long as the horizontal pecuniary externality is the only problem to solve, we see from (8) that the scalar θ has no impact on the outcome (but in absence of the fixed fee it could be used as an instrument to allocate aggregate industry profit).

firms. The investing firm's product will typically become relatively more attractive than those of the rivals. Thereby the latter could be harmed. However, there might also be technological or marketing spillovers from an investment such that one firm's investment may be to the benefit of all the downstream firms. A given firm's marketing of ring tones, for instance, is also likely to benefit other firms selling ring tone services. We thus open up for both positive and negative spillovers from investments.

We assume that the downstream profit function of firm i net of any fixed fee is given by

$$\pi_i = \beta(p_i)p_i q_i(p, x) - \phi(x_i), \quad (9)$$

where the new variable x denotes the vector of market-expanding investments undertaken by the n downstream firms, and $\phi(x_i)$ is the investment cost function. The more a firm invests, the higher is the demand it faces; $\partial q_i / \partial x_i > 0$. We assume that $\phi'(x_i) > 0$, and that it is sufficiently convex to satisfy all second-order conditions for a profit maximum.

Total industry profit is now given by

$$\Pi(p, x) = \sum_{i=1}^n [p_i q_i(p, x) - \phi(x_i)]. \quad (10)$$

The upstream firm determines the input conditions at stage 1, with θ and λ as strategic variables, and at stage 2 the downstream firms decide non-cooperatively on end-user prices and investment levels.

At stage 2 the first-order condition $\partial \pi_i / \partial p_i = 0$ is given by equation (4). Simultaneously solving $\partial \pi_i / \partial x_i = 0$ we further find

$$\theta (p_i^*)^{\lambda+1} \frac{\partial q_i}{\partial x_i} = \phi'(x_i^*). \quad (11)$$

where $\theta p_i^{\lambda+1}$ is the profit margin per unit sold.

To find the optimal profit-sharing rule at stage 1, we again use vertical integration as a benchmark. Maximizing (10) with respect to x_i we find the FOCs

$$p_i \frac{\partial q_i}{\partial x_i} + \sum_{j \neq i} p_j \frac{\partial q_j}{\partial x_i} = \phi'(x_i) \quad (i = 1, \dots, n). \quad (12)$$

If there were no investment spillovers the term $\partial q_j / \partial x_i$ would in general be negative, and more so the closer horizontal substitutes the goods. This effect, which will not be taken into account by independent downstream firms, tends to generate overinvestments in a decentralized market structure. However, if one firm's investment increases demand also for its rivals, we have $\partial q_j / \partial x_i > 0$. This is more likely to be the case the poorer horizontal substitutes the goods are and the stronger the investment spillovers.

Analogous to our procedure above, we define $\omega_{ji}^x = \frac{\partial q_j}{\partial x_i} \bigg/ \frac{\partial q_i}{\partial x_i}$. The variable ω_{ji}^x measures the increase in demand for good j per unit change in the demand for good i resulting from a higher investment by downstream firm i . With perfect spillovers an investment by firm i benefits all firms equally ($\partial q_i / \partial x_i = \partial q_j / \partial x_i > 0$), and we then have $\omega_{ji}^x = 1$. Otherwise we have $\omega_{ji}^x < 1$ (and ω_{ji}^x is negative if $\partial q_j / \partial x_i < 0 \forall i$).

Imposing symmetry, we can now reformulate (12) as

$$p_{VI} [1 + (n-1) \omega_{ji}^x] \frac{\partial q_i}{\partial x_i} = \phi'(x_i). \quad (13)$$

The first-order condition $\partial \Pi / \partial p_i = 0$ is given by equation (7), and thus λ^* in equation (8) still applies. Clearly, aggregate profit is maximized also in the decentralized market structure if it yields the same prices and investment levels as under vertical integration. We can therefore use equations (11) and (13) to find that the upstream firm at stage 1 should set

$$\theta = \theta^* = \frac{1 + (n-1) \omega_{ji}^x}{p_{VI}^{\lambda^*}}. \quad (14)$$

Abstracting from the distribution of the fixed fee F , the downstream firms' participation constraint requires that $\theta > 0$ (c.f. equation (9)). The range of permissible values for θ^* is thus in the interval $(0, n/p_{VI}^{\lambda^*}]$. In the extreme case where an investment by one downstream firm increases its demand by as much as the other firms loose in sales ($\partial q_i / \partial x_i = -(n-1) \partial q_j / \partial x_i$), the investment is a waste of resources from the industry's point of view. Then the upstream firm should set θ^* close to zero. In the other extreme case, where we have perfect technological spillovers ($\omega_{ji}^x = 1$), we see that $\theta^* = n/p_{VI}^{\lambda^*}$. More generally, the upstream firm should specify a profit-sharing rule which gives each downstream firm a higher profit margin, as captured

by θ^* , the more beneficial its investments are for its rivals.

We can state:

Proposition 4: *The profit-sharing rule $\beta_i(p_i) = \theta p_i^\lambda$ with $\lambda = \lambda^*$ and $\theta = \theta^*$ yields the downstream firms pricing and investment incentives which maximize industry profit.*

4 Concluding Remarks

A major problem in many network industries is that firms may end up with destructive competition because they produce relatively close substitutes. This may prevent the firms from undertaking investments which could benefit the industry in aggregate. Such an outcome can be avoided by implementing a profit-shifting rule which reduces the downstream firms' perceived elasticity of demand. Optimal investment levels are ensured by giving the downstream firms an appropriate profit margin that depends on how one firm's investments affect its rivals.

Another merit of our approach is that it is easy to implement when marginal costs are low, since profit sharing then approaches revenue sharing. A general limitation of revenue sharing is the costs of monitoring the retailer's revenue (Cachon and Lariviere, 2005, and Dana and Spier, 2001). In the case at hand, this problem is rarely significant, since the upstream mobile provider collects the revenue from the end users (but it is the content providers who decide end user prices).

5 Literature

Cachon, G.P. and M. Lariviere. 2005. Supply Chain Coordination with Revenue-Sharing Contracts: Strengths and Limitations, *Management Science*, 51(1), 30-44.

Dana, J.D. and K.E. Spier. 2001. Revenue Sharing and Vertical Control in the Video Rental Industry, *The Journal of Industrial Economics*, XLIX, 223-245.

Lal, R. 1990. Improving Channel Coordination Through Franchising, *Marketing Science*, 9 (4), 299-318.

Mathewson, G.F. and R.A. Winter. 1984. An Economic Theory of Vertical Restraints, Rand Journal of Economics, 15, 27-38.

Strand, J. 2004. Norwegian Operators Push Premium SMS, New Media Age, 30 September 2004.

CESifo Working Paper Series

(for full list see www.cesifo-group.de)

- 1864 Sascha O. Becker and Marc-Andreas Muendler, The Effect of FDI on Job Separation, December 2006
- 1865 Christos Kotsogiannis and Robert Schwager, Fiscal Equalization and Yardstick Competition, December 2006
- 1866 Mikael Carlsson, Stefan Eriksson and Nils Gottfries, Testing Theories of Job Creation: Does Supply Create Its Own Demand?, December 2006
- 1867 Jacques H. Drèze, Charles Figuières and Jean Hindriks, Voluntary Matching Grants Can Forestall Social Dumping, December 2006
- 1868 Thomas Eichner and Marco Runkel, Corporate Income Taxation of Multinationals and Unemployment, December 2006
- 1869 Balázs Égert, Central Bank Interventions, Communication and Interest Rate Policy in Emerging European Economies, December 2006
- 1870 John Geweke, Joel Horowitz and M. Hashem Pesaran, Econometrics: A Bird's Eye View, December 2006
- 1871 Hans Jarle Kind, Marko Koethenbuerger and Guttorm Schjelderup, Taxation in Two-Sided Markets, December 2006
- 1872 Hans Gersbach and Bernhard Pacht, Cake Division by Majority Decision, December 2006
- 1873 Gunther Schnabl, The Evolution of the East Asian Currency Baskets – Still Undisclosed and Changing, December 2006
- 1874 Horst Raff and Michael J. Ryan, Firm-Specific Characteristics and the Timing of Foreign Direct Investment Projects, December 2006
- 1875 Jukka Pirttilä and Håkan Selin, How Successful is the Dual Income Tax? Evidence from the Finnish Tax Reform of 1993, December 2006
- 1876 Agnieszka Stążka, Sources of Real Exchange Rate Fluctuations in Central and Eastern Europe – Temporary or Permanent?, December 2006
- 1877 Xavier Calsamiglia, Teresa Garcia-Milà and Therese J. McGuire, Why do Differences in the Degree of Fiscal Decentralization Endure?, December 2006
- 1878 Natacha Gilson, How to be Well Shod to Absorb Shocks? Shock Synchronization and Joining the Euro Zone, December 2006

- 1879 Scott Alan Carson, Modern Health Standards for Peoples of the Past: Biological Conditions by Race in the American South, 1873 – 1919, December 2006
- 1880 Peter Huber, Michael Pfaffermayr and Yvonne Wolfmayr, Are there Border Effects in the EU Wage Function?, December 2006
- 1881 Harry Flam and Håkan Nordström, Euro Effects on the Intensive and Extensive Margins of Trade, December 2006
- 1882 Panu Poutvaara and Mikael Priks, Hooliganism in the Shadow of the 9/11 Terrorist Attack and the Tsunami: Do Police Reduce Group Violence?, December 2006
- 1883 Ruud A. de Mooij and Gaëtan Nicodème, Corporate Tax Policy, Entrepreneurship and Incorporation in the EU, December 2006
- 1884 Johannes Becker and Clemens Fuest, Corporate Tax Policy and International Mergers and Acquisitions – Is the Tax Exemption System Superior?, January 2007
- 1885 Momi Dahan and Udi Nisan, The Effect of Benefits Level on Take-up Rates: Evidence from a Natural Experiment, January 2007
- 1886 José García-Solanes, Francisco I. Sancho-Portero and Fernando Torrejón-Flores, Beyond the Salassa-Samuelson Effect in some New Member States of the European Union, January 2007
- 1887 Peter Egger, Wolfgang Eggert and Hannes Winner, Saving Taxes Through Foreign Plant Ownership, January 2007
- 1888 Timothy J. Goodspeed and Andrew Haughwout, On the Optimal Design of Disaster Insurance in a Federation, January 2007
- 1889 Wim Groot, Henriëtte Maassen van den Brink and Bernard van Praag, The Compensating Income Variation of Social Capital, January 2007
- 1890 Bas Jacobs, Ruud A. de Mooij and Kees Folmer, Analyzing a Flat Income Tax in the Netherlands, January 2007
- 1891 Hans Jarle Kind, Guttorm Schjelderup and Frank Stähler, Newspapers and Advertising: The Effects of Ad-Valorem Taxation under Duopoly, January 2007
- 1892 Erkki Koskela and Rune Stenbacka, Equilibrium Unemployment with Outsourcing under Labour Market Imperfections, January 2007
- 1893 Maarten Bosker, Steven Brakman, Harry Garretsen, Herman de Jong and Marc Schramm, The Development of Cities in Italy 1300 – 1861, January 2007
- 1894 Michel Beine, Oscar Bernal, Jean-Yves Gnabo and Christelle Lecourt, Intervention Policy of the BoJ: A Unified Approach, January 2007

- 1895 Robert S. Chirinko and Daniel J. Wilson, State Investment Tax Incentives: A Zero-Sum Game?, January 2007
- 1896 Theo S. Eicher and Oliver Roehn, Sources of the German Productivity Demise – Tracing the Effects of Industry-Level ICT Investment, January 2007
- 1897 Helge Berger, Volker Nitsch and Tonny Lybek, Central Bank Boards around the World: Why does Membership Size Differ?, January 2007
- 1898 Gabriel Felbermayr and Wilhelm Kohler, Does WTO Membership Make a Difference at the Extensive Margin of World Trade?, January 2007
- 1899 Benno Torgler and Friedrich Schneider, The Impact of Tax Morale and Institutional Quality on the Shadow Economy, January 2007
- 1900 Tomer Blumkin and Efraim Sadka, On the Desirability of Taxing Charitable Contributions, January 2007
- 1901 Frederick van der Ploeg and Reinhilde Veugelers, Higher Education Reform and the Renewed Lisbon Strategy: Role of Member States and the European Commission, January 2007
- 1902 John Lewis, Hitting and Hoping? Meeting the Exchange Rate and Inflation Criteria during a Period of Nominal Convergence, January 2007
- 1903 Torben M. Andersen, The Scandinavian Model – Prospects and Challenges, January 2007
- 1904 Stephane Dees, Sean Holly, M. Hashem Pesaran and L. Vanessa Smith, Long Run Macroeconomic Relations in the Global Economy, January 2007
- 1905 Richard Jong-A-Pin and Jakob De Haan, Political Regime Change, Economic Reform and Growth Accelerations, January 2007
- 1906 Sascha O. Becker and Peter H. Egger, Endogenous Product versus Process Innovation and a Firm's Propensity to Export, February 2007
- 1907 Theo S. Eicher, Chris Papageorgiou and Oliver Roehn, Unraveling the Fortunes of the Fortunate: An Iterative Bayesian Model Averaging (IBMA) Approach, February 2007
- 1908 Liliana E. Pezzin, Robert A. Pollak and Barbara S. Schone, Efficiency in Family Bargaining: Living Arrangements and Caregiving Decisions of Adult Children and Disabled Elderly Parents, February 2007
- 1909 Christian Keuschnigg and Soren Bo Nielsen, Self-Selection and Advice in Venture Capital Finance, February 2007
- 1910 Rune Jansen Hagen and Gaute Torsvik, Irreversible Investments, Dynamic Inconsistency and Policy Convergence, February 2007

- 1911 Eric A. Hanushek and Ludger Woessmann, The Role of School Improvement in Economic Development, February 2007
- 1912 Bernard M. S. van Praag, Perspectives from the Happiness Literature and the Role of New Instruments for Policy Analysis, February 2007
- 1913 Volker Grossmann and Thomas M. Steger, Growth, Development, and Technological Change, February 2007
- 1914 Margarita Katsimi and Thomas Moutos, Human Capital and the Feldstein-Horioka Puzzle, February 2007
- 1915 Oliver Roehn, Theo S. Eicher and Thomas Strobel, The Ifo Industry Growth Accounting Database, February 2007
- 1916 Ian Babetskii, Aggregate Wage Flexibility in Selected New EU Member States, February 2007
- 1917 Burkhard Heer, Alfred Maussner and Paul D. McNelis, The Money-Age Distribution: Empirical Facts and Limited Monetary Models, February 2007
- 1918 Yin-Wong Cheung, Menzie D. Chinn and Eijii Fujii, The Overvaluation of Renminbi Undervaluation, February 2007
- 1919 Jim Malley, Apostolis Philippopoulos and Ulrich Woitek, To React or Not? Fiscal Policy, Volatility and Welfare in the EU-3, February 2007
- 1920 Mattias Polborn, Competing for Recognition through Public Good Provision, February 2007
- 1921 Lars P. Feld and Benno Torgler, Tax Morale after the Reunification of Germany: Results from a Quasi-Natural Experiment, February 2007
- 1922 Robert S. Chirinko and Huntley Schaller, Fundamentals, Misvaluation, and Investment: The Real Story, February 2007
- 1923 Benno Torgler and Friedrich Schneider, Shadow Economy, Tax Morale, Governance and Institutional Quality: A Panel Analysis, February 2007
- 1924 Adrian Pagan and M. Hashem Pesaran, On Econometric Analysis of Structural Systems with Permanent and Transitory Shocks and Exogenous Variables, February 2007
- 1925 Hans-Werner Sinn, The Welfare State and the Forces of Globalization, February 2007
- 1926 Michael Smart, Raising Taxes through Equalization, February 2007
- 1927 Øystein Foros, Kåre P. Hagen and Hans Jarle Kind, Price-Dependent Profit Sharing as an Escape from the Bertrand Paradox, February 2007