

**FEMM - Working Paper Series - 2004**

04027                      Philipp Reiß, Eva Poen, Oliver Kirchkamp:  
Bidding with Outside Options

Abstract:                      We introduce and experimentally test an auction model that allows for outside options of bidders as substitutes for the auctioned object under the private values assumption. Theoretically and in the experiments, bidders respond to their individual outside options and to variations of common knowledge about competitors' outside options. Interestingly, private outside options induce concave equilibrium bidding functions with uniformly distributed valuations. The bidding data does support this property. As theoretically predicted, lower-valued outside options lead individuals to bid more aggressively in the experiments.

JEL:

Keywords:

04026                      Philipp Reiß:  
Optimal Auctions with Public Outside Options

Abstract:                      This note considers the Symmetric Independent Private Values Model with public outside options that are buyer-sided. Since outside options for buyers increase the degree of competition from the seller's point of view, intuition suggests that a revenue-maximizing seller might seek to enhance the competitiveness of her auction offer. In contrast, it is shown that the optimal response to outside options calls for a less competitive auction as measured by the probability of a sale. For the first-price and second-price auction, it is shown how the optimal minimum bid varies with the level of competition.

JEL:

Keywords:

04025                      Joseph Heinrich, Rapporteur Wulf Albers, Robert Boyd, Gerd Gigerenzer, Kevin A. McCabe, Axel Ockenfels, H. Peyton Young:  
Group Report: What is the Role of Culture in Bounded Rationality?

Abstract:                      Ein Datensatz aus einer Befragung von Managern bzw. Eigentümer-Unternehmern von 285 ukrainischen KMU (kleinen und mittleren Unternehmungen) in der gewerblichen Industrie wird genutzt, um mit Methoden der Regressionsanalyse Aufschluss über den Einfluss des Vertrauens in Handelsgerichte auf den Unternehmenserfolg sowie über die Bestimmungsfaktoren dieses Vertrauens zu gewinnen. Es stellte sich heraus, dass Vertrauen in die Gerichtsbarkeit einen signifikant positiven Effekt auf den Unternehmenserfolg, gemessen durch die Verbesserung in Umsatz bzw. Umsatz pro Beschäftigtem, hat. Das Vertrauen selbst ist signifikant von Variablen wie Korruption, informellen Beziehungen, allgemeinen Rahmenbedingungen und eigenen Erfahrungen mit dem Gerichtswesen abhängig, wobei für diese Variablen kein direkter Effekt auf den Unternehmenserfolg gemessen werden kann. Der Kanal, durch den diese Variablen wirksam werden, ist das Vertrauen der Unternehmer in die

Fähigkeit des Justizwesens, Eigentumsrechte zu schützen und Verträge durchzusetzen.

JEL:

Keywords:

04024

Iryna Akimova, Gerhard Schwödiauer:  
Vertrauen in die Gerichtsbarkeit und Unternehmenserfolg in einer Transformationswirtschaft

Abstract:

Abstract: The number of publications in the area of Cutting and Packing (C & P) has increased considerably over the last two decades. The typology of C & P problems introduced by Dyckhoff (1990) initially provided an excellent instrument for the organisation and categorisation of existing and new literature. However, over the years also some deficiencies of this typology became evident, which created problems in dealing with recent developments and prevented it from being accepted more generally. In this paper, the authors present an improved typology, which is partially based on Dyckhoff's original ideas, but introduces new categorisation criteria, which define problem categories different from those of Dyckhoff. Furthermore, a new, consistent system of names is suggested for these problem categories. Finally, the practicability of the new scheme is demonstrated by using it as a basis for a categorisation of the C & P literature from the years between 1995 and 2004.

JEL:

Keywords:

Cutting, Packing, Typology

04023

Ludwig von Auer:  
Hedonic Price Measurement: The CCC Method

Abstract:

An accurate measurement of general price inflation is an essential prerequisite for sound economic analysis and prudent policy-making. Numerous hedonic regression studies (predominantly focusing on computers) have suggested that due to significant product quality changes over time, driven onward by technical progress, national statistical agencies are not compiling and releasing unbiased price-trend estimates. This paper argues, however, that the estimation method commonly applied in hedonic studies is an unsatisfactory one. Therefore, an alternative estimation procedure is introduced. Utilizing this novel technique, a quality-adjusted twelve-year price-trend for laser printers (1992 to 2003) is estimated and compared with the officially published price-trend.

JEL:

Keywords:

04022

Karl nderfurth, Ian M. Langella:  
Heuristics for solving disassemble-to-order problems with stochastic yields

Abstract:

Within the realm of reverse logistics, remanufacturing has become renowned as a popular option in many reverse logistics settings. In remanufacturing, firms take back products at the end of their use, disassemble them to obtain components, and reassemble these components into a "good as new" remanufactured product. As a process, remanufacturing requires parts as an input, parts which are gained mostly from recovered products. As the quality of the returned products are not known in advance, likewise the amount of good quality parts recovered from the returned product is subject to uncertainty. In this paper, we develop two heuristics of different sophistication which take into consideration that the yields of disassembly are stochastic. The methodology is further illustrated with a numerical example, and performance of the heuristics is examined through a performance study. The performance study indicates excellent performance for the more sophisticated heuristic, but also reveals under which conditions the more simple heuristic can be recommended for application.

JEL:

Keywords:	
04021	Christian Lukas: Get More for Less? An Experimental Study of a Dynamic Agency Model
Abstract:	In this paper we test a dynamic agency model. The incentive compatible contract does not award the highest pay to the most successful agent. Three treatments with differing information structures are analyzed. Overall, the experiment confirms the model and shows that possibly unfair contracts may have the desired incentive effects. Observed learning behavior accords with learning direction theory.
JEL:	
Keywords:	
04020	Birgitta Wolff, Stefanie Sperber: Internationales Management im Sprachspiel der neuen Institutionenökonomik
Abstract:	Die neo-institutionenökonomische Unterscheidung von Spielregeln und Spielzügen, die Analyse von Informationsasymmetrien und die Berücksichtigung von Risiken länderspezifischer Investitionen bieten einen Schlüssel zum Verständnis vieler Probleme des Internationalen Management.
JEL:	
Keywords:	
04019	Marjaana Rehu, Edward J, Lusk, Birgitta Wolff : A Performance Motivator in One Country, a Disincentive in Another? New Institutional Economic Analysis of Performance Incentives in a Cross-National Setting
Abstract:	This research employs the following three constructs: the Institutional Framework and its formal and informal implications for incentive compensation, Diminishing Marginal Utility of individuals related to performance rewards, and the Incentive System as a motivational device in the organizational work environment. We have conducted an empirical study using an enriched form of Hofstede's cross-cultural questionnaire to examine employees of one MNC in China, Germany, Japan and the USA. Our results show that employees from these countries have different preferences on incentives and that incentive plans designed for one country might not even have motivating consequences in the others. We also find that the logic of diminishing marginal utility applies to certain rewards. We suggest a method for organizations to develop efficient incentive systems.
JEL:	
Keywords:	
04018	Edward J. Lusk, Michael Halperinc, Pascal Stock: EVA: A Performance Review and Analysis of its Market Impact: Implications for Organizations in the Ukrainian Financial Markets
Abstract:	This paper examines the effect that the information generated by the EVA® translation of the usual GAAP income has had on various measures of the firm's financial performance with an eye to its relevance for the Ukrainian financial markets. After profiling the emerging Ukrainian trading markets, a summary discussion of the concept of EVA® is presented. We then elaborate, in detail, the voluminous empirical research on EVA® where it is clearly shown that EVA® is not associated with higher earnings nor does it explain stock returns better than the traditional performance measurements. Finally, we examine the market effect of EVA® viewed through the usual CAPM measures, the Sharpe and Treynor performance indices and the CRSP $\beta$ and $s$ peer groups for a sample of the Stern-Stewart & Co highlighted firms. The results of this market impact analysis are consistent with the lack of effect that

others have found with the possible exception of a suggestion for a selected sub-sample of a positive stabilizing effect in these firm's earnings reflected by a lower relative risk profile. In summary, the results are clear: One needs to be wary about the claims made for EVA® regarding its positive effects on the firm's financial performance and market value.

JEL:

Keywords:

04017

Barbara Pirchegger:  
Hedge Accounting Incentives for Cash Flow Hedges of Forecasted Transactions

Abstract:

US-GAAP as well as IAS (IFRS) contain specific accounting regulations for hedging activities. Basically the hedge accounting rules ensure that an offsetting gain or loss from a hedging instrument affects earnings in the same period as the gain or loss from the hedged item. However, due to the way hedge accounting rules are set up, their application turns out to be an option rather than an obligation for firms. Recognizing this fact, the paper analyzes corporate incentives for hedge accounting if accounting income is used for performance measurement. We consider a two period LEN-type agency model with a risk averse principal and agent. In a first best setting we find that the principal is indifferent between applying hedge accounting rules and not to do so. In a second best setting the results depend on how the firm's overall risk exposure is allocated over periods. If first period risk exposure is relatively low either hedge accounting or no hedge accounting is preferred. For an intermediate first period risk exposure we find that it is optimal not to use hedge accounting rules even though it is optimal to hedge. Given the first period risk exposure is sufficiently high, hedge accounting is beneficial.

JEL:

Keywords:

Hedging, hedge accounting, performance measurement, agency theory, moral hazard, LEN-model

04016

D. Johannes Jüttner:  
Towards Decoding Currency Volatilities

Abstract:

This study contributes, on the basis of economic theory, to an explanation of exchange rate volatilities for a large number of currencies. We relate daily changes in GARCH (1,1) volatilities of exchange rates to the volatility changes of several of their presumed fundamental economic determinants. The use of high-frequency data limit the choice of the explanatory economic variables that can be included. The first differences of GARCH (1,1) volatilities of share and bond price indices proxy for wealth uncertainty and the later, in addition, for interest rate variability. Likewise, first difference of the gold price volatility, as an additional determinant, are related to exchange rate volatilities of two commodity currencies in the sample. The estimates produce coefficients with the expected signs and statistical significance.

JEL:

F31; G154, C22

Keywords:

Exchange rate volatilities, volatility relationships, GARCH modeling

04015

Rainer Kleber:  
A Dynamic Model for Choosing the Optimal Technology in the Context of Reverse Logistics

Abstract:

JEL:

Keywords:

04014

Thomas Riechmann, Joachim Weimann:  
Competition as a Coordination Device. Experimental Evidence from a Minimum Effort Coordination Game

Abstract:

The problem of coordination failure, particularly in 'team production' situations, is central to a large number of microeconomic as well as macroeconomic models. As this type of inefficient coordination poses a severe economic problem, there is a need for institutions that foster efficient coordination of individual economic plans. In this paper, we introduce such a rather classical economic institution: competition. In a series of laboratory experiments, we reveal that the true reason for coordination failure is strategic uncertainty, which can be reduced almost completely by introducing a appropriately designed mechanism of (inter-group) competition.

JEL: C72, C92, J33

Keywords: coordination failure, team production, competition

04013 Barbara Pirchegger:  
Managerial performance measures and their effect on incentives for takeovers

Abstract:

JEL:

Keywords:

04012 Barbara Pirchegger:  
The impact of a hedging opportunity in a principal-agent setting with a potential market entrant

Abstract:

JEL:

Keywords:

04011 Thomas Zomack:  
Perspektivenwandel Corporate Identity -Die Bedeutung der Unternehmenspersönlichkeit für die Gestaltung eines Unternehmens

Abstract:

Die Corporate Identity gilt als die Persönlichkeit eines Unternehmens. Sie sollte daher nicht bloß als Kommunikationsinstrument etablierter Unternehmen dienen. Gerade bei der Gründung eines Unternehmens ist sie von fundamentaler Bedeutung. In diesem Beitrag wird ein methodischer Ansatz vorgestellt, mit dem auf Basis einer zu entwickelnden Unternehmensvision die adäquate Corporate Identity für ein zu gründendes Unternehmen identifiziert werden kann. Die Corporate Identity liefert dem Entrepreneur den Rahmen für sein unternehmerisches Denken, Entscheiden und Handeln. Aus der Perspektive der Entscheidungsanalyse wird gezeigt, wie sich Visionen und Unternehmensziele generieren bzw. strukturieren lassen. Darauf aufbauend kann mit Hilfe der Semiotik das Konzept der Corporate Identity-Triade verwendet werden, um die Corporate Identity gemeinsam mit der Vision und den Unternehmenszielen zu identifizieren. Die Entscheidungsanalyse sowie die auf der Semiotik beruhende Corporate Identity-Triade eröffnen somit eine grundlegend neue Sichtweise auf die Corporate Identity: Die Corporate Identity ist die Voraussetzung, um ein Unternehmen zu gestalten und nicht umgekehrt.

JEL:

Keywords:

04010 Edward J. Lusk.:  
Email: Its Decision Support System's Inroads-An Update

Abstract:

Following on the 1993 survey of Plaisent and Bernard regarding executive utilization of email, we report on the results of a survey conducted in three countries that examines the way the email compares to the following communication alternatives: Face-to-Face, Telephone, Facsimile, and Letter on five criteria: Efficiency, Convenience, Preference, Most Used and Importance. The survey also reports on how these

five communication modalities rate on Speed of Response and Problem Solution. Further, we analyzed the role of email in executing the following: in place of memos, inform others, schedule meetings, interact with colleagues, non-work messages, negotiate contracts, carry out projects, solve problems, and conduct job interviews. Finally, the study considers email's effect on various cost and documentation aspects. Overall, the results strongly suggest that email compares favorably with the Face-to-Face alternative and has increased in importance as a facilitating feature in the organizational decision-making structure.

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JEL:

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Keywords:

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04009

Stefanie Sperber, Birgitta Wolff, Edward J. Lusk.:

The Effects of Task Characteristics on the Performance of Multicultural Teams: Connecting Economic Theory and Empirical Evidence

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Abstract:

Based on a model from personnel economics, we propose two hypotheses: H1 Multicultural teams will outperform monocultural teams if the task requires multicultural skills, and H2 Monocultural teams will outperform multicultural teams if the task does not require any culture-specific skills. We tested these hypotheses using six empirical studies by authors who are invested in the area of multicultural team performance evaluation (Earley and Mosakowski, 2000; Elron, 1997; McLeod, Lobel and Cox, 1996; Watson, Johnson, and Merritt, 1998; Watson, Kumar, and Michaelsen; 1993). Surprisingly, neither of the studies investigated the relationship between the nature of the task - whether monocultural or multicultural - and the performance of a team - whether monocultural or multicultural. We found that three studies support H1 (McLeod, Lobel and Cox, 1996; Elron, 1997; Watson, Johnson, and Merritt, 1998), and three studies support H2 (Watson, Kumar, and Michaelsen, 1993; Thomas 1999; Watson, Johnson, and Merritt, 1998). The study by Earley and Mosakowski (2000) does not seem to relate to our hypotheses. We end with implications for existing theory and future research.

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JEL:

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Keywords:

Bayesian decision-making, clinical decision analysis, prevalence thresholds, marginal cost-benefit ratio

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04008

Edward j. Lusk, Michael Halperinc:

The 100 Best: What does "kinder-gentler" mean relative to market performance?

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Abstract:

This market evaluation of the firm provides feedback or signals to the organisation regarding its decisions thereby encouraging particular actions or discouraging them. One important set of signals has to do with the Human Resource (HR) dimension. The purpose of this investigation is to consider market performance of organisations which have made the decision to create the organisational environment which places them in the Fortune 100 Best companies list. Our results differ from the general impression that one takes away from the previously reported literature where the 100 Best companies seem to be dominate performers. When compared to the Market the 100 Best do not seem to outperform the Market viewed through the Sharpe and Treynor indices. Regarding the differences in risk and return as measured by the CAP-M model there was no evidence of negative HR effects when the organisation was not on the list compared to when it was on the list. While this is a mollification of the enthusiastic support for the idea that the HR signals derived from being in the 100 Best club are synonymous with vastly superior performance, our results convey an important message. What these market results suggest is that organisations which have devoted resources to enhance the work environment and have been rewarded for their efforts by being included on the prestigious Fortune 100 Best list did not experience a relative competitive disadvantage when compared to those companies who devoted the same resource to other ends like increases in advertising etc.. So, on-net the 100 Best organisations are no better or no worse off than their peers and they have a superior work environment for their employees. The bottom line is then: Invest in a kinder-gentler work environment it can only help.

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JEL:

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Keywords:

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04007 Edward J. Lusk, Moncef Balhadjali, Michael Halperinc, Dirk Matzner:  
DSS utilization: A comparative study for major firms in Germany and the USA: An examination of the Implementation Paradox.

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**Abstract:** Although there is general agreement that the management demands of the Singerian milieu require DSS, some suggest that there has been a paradoxical DSS utilization gap. We collected information from a sample of the Fortune 500 and of the major organizations in Germany to examine: (1) the extent of DSS component utilization in the USA and Germany, (2) decision maker ratings of their DSS, (3) differences between the two countries, and (4) overall DSS utilization. We find, contrary to the implementation paradox, extensive implementation of the major DSS components and further that they are highly valued. We found SAP more highly utilized in Germany which may explain some DSS utilization differences between the Germany and the U.S.

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JEL:

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Keywords:

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04006 Edward J. Lusk, Moncef Balhadjali, Dirk Matzner:  
A test of a minimalist rule-based forecasting system

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**Abstract:** Following on the work of Adya et al. (2000) where 35 percent of the 99 rules of the RBF system of Collopy and Armstrong (1992) were removed without noticeably affecting forecast accuracy, we undertook to further refine the RBF system by asking what would be the result if a minimum number of rules and a very simple model weighting scheme were used to develop the forecasts? Further, we tested this minimalist model with non-expert users. The results were that the minimalist RBF model did show some improvement in the reduction of forecast error compared to simple eyeball judgments for the APE and the RAE measures; however, these improvements were far off the results reported by Adya et al. (2000) suggesting that we removed too many rules.

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JEL:

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Keywords:

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04005 Stefan Felder, Friedrich Breyer:  
Lebenserwartung und Gesundheitsausgaben im 21. Jahrhundert: Eine neue Berechnung unter Berücksichtigung der Sterbekosten

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**Abstract:** In recent years, performance measurement has become an important issue in management accounting. Several concepts which try to capture the long-term effects of management decisions have been suggested, the most popular among those the balanced scorecard. While most of the literature focuses on the decision facilitating function, some authors suggested to use the acquired information also for incentive purposes. However, critics argue that such multi-purpose use of information might have counterproductive effects. Referring to this criticism, the present paper considers a situation where performance information has to be used in a decision facilitating context in order to provide incentives in the decision influencing context. In particular, a principal has to decide whether to promote an agent to a different job or not. The incentive mechanism is renegotiation proof only if the principal benefits from the modified task allocation. Therefore, the performance measure has to be informative not only about the agent's effort, but also about his qualification for the new task. Conditions are derived to rank different signals under this requirement.

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JEL:

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Keywords:

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04004 Grit Leßmann, Ulf Rosner:

**Abstract:** Ostdeutsche Unternehmen sind durch eine relative Innovationsschwäche gekennzeichnet, worin auch ein wesentlicher Grund für die Wachstumsschwäche der Region zu sehen ist. Mit der Wende 1989/90 lösten sich bestehende Beziehungsnetzwerke zwischen Wissenschaftseinrichtungen und Unternehmen weitgehend auf. Solche Netzwerke bilden jedoch die notwendige Voraussetzung für regionalen Wissenstransfer. Der vorliegende Beitrag geht am Beispiel der wissensbasierten Unternehmen Sachser Anhalts der Frage nach, in welchem Umfang heute Kooperationsbeziehungen bestehen und welche Formen des Wissenstransfers praktiziert werden. Untersucht werden dabei vor allem Kooperationen, die auf die direkte und gemeinsame Entwicklung von Innovationen abzielen. Sowohl auf Seiten der Unternehmen als auch auf Seiten der Wissenschaftseinrichtungen werden Defizite identifiziert, die der Ausnutzung der zweifellos vorhandenen Transferpotenziale entgegenstehen. Es werden Ansatzpunkte aufgezeigt, die zur Verbesserung des Wissenstransfers und damit zur Erhöhung des Wachstumspotenzials in wirtschaftlich aufholenden Regionen wie Ostdeutschland beitragen können.

**JEL:** R58, O32, O33

**Keywords:** Hochschulen, Wissenschaftseinrichtungen, Wissenstransfer, regionales Wachstum

04003 Stefan Felder:  
The gender longevity gap: Explaining the difference between singles and couples

**Abstract:** In the OECD, women, on average, live 6 years longer than men. This paper studies the female to male longevity gap in different social settings. Based on the concept of the value of life, it derives the gender gap in longevity among singles, utilitarian and altruistic couples, resp., and analyses the effect of wealth on longevity. The following hypotheses are derived: i) the gender longevity gap is smaller within couples than among singles; ii) marriage increases longevity of men but decreases longevity of women; and iii) the gender longevity gap decreases with an increase in wealth. The hypotheses are tested using a complete data set of the Swiss deceased of age 65+ in 2001 and 2002, with information on the individuals' age at death and their average earnings over the life cycle.

**JEL:** I12, J16

**Keywords:** Longevity, gender, value of life

04002 Karl Dörner, Michael Reeh, Christine Strauss, Gerhard Wäscher:  
> Evaluation von Artikelanordnungsmustern in der Mann-zur-Ware-Kommissionierung

**Abstract:** Der vorliegende Beitrag präsentiert die Ergebnisse einer Analyse zur Auswahl eines geeigneten Artikelanordnungsmusters (Längs-, Quer-, Radialordnung) bei gegebenen, in der Praxis häufig anzutreffenden Problemparametern. Die numerischen Ergebnisse zeigen für ein gegebenes Lagersystem, dass die Festplatzlagerung einem chaotischen Lager vorzuziehen ist. Ferner kann gezeigt werden, dass durch die Wahl bestimmter Artikelanordnungsmuster in Abhängigkeit von der verwendeten Routingstrategie Vorteil durch reduzierte Kommissionierwege erzielt werden können.

**JEL:**

**Keywords:** Mann-zur-Ware-Kommissionierung, Artikelanordnung, Location, Batching, Routing

04001 Peter Zweifel, Stefan Felder, Andreas Werblow:  
Population ageing and health care expenditure: New evidence on the 'red herring'

**Abstract:** The observation that average health care expenditure rises with age generally leads experts and laymen alike to conclude that population ageing is the main driver of health care costs. In recently published studies we challenged this view (Zweifel et al., 1999 and Felder et al., 2000). Analysing health care expenditure of deceased persons, we showed that age is insignificant if proximity to death is controlled



for. Thus, we argued that population ageing per se will not have a significant impact on future health care expenditure. Several authors (Salas and Raftery, 2001, Dow and Norton, 2002, Seshamani and Gray, 2004a) disputed the robustness of these findings, pointing to potential weaknesses in the econometric methodology. This paper revisits the debate and provides new empirical evidence, taking into account the methodological concerns that have been raised. We also include surviving individuals to test for the possibility that the relative importance of proximity to death and age differs between the deceased and survivors. The results vindicate our earlier findings of no significant age effect on health care expenditure of the deceased. However, with respect to the survivors, we find that age may matter. Still, a naïve estimation that does not control for proximity to death will grossly overestimate the effect of population ageing on aggregate health care expenditure. Following Norton and Stearns (2002), we conclude that "it is time for time to death" in projections of future health care costs.

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JEL: I10, D12

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Keywords: Health care expenditure, proximity to death, ageing

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