ABSTRACTS

of all refereed publications submitted by Tamara Todorova
in her habilitation to Associate Professor
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1. "The Protective Effect of an Import Quota: Some Welfare Considerations," with Georgi Kalchev, *Foreign Trade Review*, Sage Publications, 2014, ISSN: 0015-7325, forthcoming

We argue that on the level of the national economy an import quota transforms national welfare in the form of government revenues and consumer surplus into producer surplus to the domestic monopolist protected by the quota. An import quota confers substantial market power to the local monopolist and is likely the result of rent seeking and lobbying in the importing economy, rather than national interest and strategic trade policies. Firms with greater market power, bigger and more inelastic domestic demand losing significant rents would be more likely to solicit import quotas to tariffs or free trade. An import quota causes substantive welfare losses to the importing economy imposing it. We demonstrate graphically that under the equivalence of a quota and a tariff quota rents substantially exceed tariff revenue to the government. Using a simple geometrical approach and a linear market demand curve we show that the quota price and output provide maximum profits to the domestic monopolist compared to the free trade point or that under the tariff.

2. "The Tragedy of the Private: Transaction Cost Considerations," *International Journal of Social Economics*, Volume 41, No. 6, 2014, ISSN: 0306-8293

Purpose – The purpose of this paper is to weigh the benefits and costs of public property, as opposed to private, from the transaction cost perspective. In the absence of transaction costs, private property has clear advantages over public. However, when the true costs of running an economic system are taken into account, the advantages of private property are not so evident and public property may turn out to be the preferred form of ownership. The paper shows that in high-transaction cost sectors and economies such as the newly emerging markets in Eastern Europe, public property is a cheaper way of organizing economic activities, as it can save on transaction costs. The paper demonstrates these virtues of public ownership in relation to market failure, the provision of public goods, natural monopolies and competitive industries with a high degree of market uncertainty, opportunism and asset specificity.

Design/methodology/approach – A qualitative paper discussing the advantages of public over private property in the presence of high-transaction costs.

Findings – Studying different types of market failure the paper finds that public property is advantageous to private in high-transaction cost systems.

Originality/value – Since most of the standard literature emphasizes the advantages of private property, the paper gives an economic explanation to those of public property taking on a new institutional approach and conducting a transaction cost analysis.

3. “Solving Optimal Timing Problems Elegantly,” *Journal of Research in Educational Sciences*, Volume 4, No. 6, 2013, pp. 95-105, ISSN: 2068-8407

Few textbooks in mathematical economics cover optimal timing problems. Those which cover them do it scantly or in a rather clumsy way, making it hard for students to understand and apply the concept of optimal time in new contexts. Discussing the plentiful illustrations of optimal timing problems, we present an elegant and simple method of solving them. Whether the present value function is exponential or logarithmic, a convenient way to solve it is to convert the base to the exponential number *e*, thus making it easy to differentiate the new objective function with respect to time t. This convenient method of base conversion allows to find a second-order derivative and to use the second-order condition as a proof of optimum.

4. “Optimal Work Effort and Monitoring Cost,” *Journal of Knowledge Management, Economics and Information Technology*, Volume 2, No. 6 (December), 2012, pp. 11-30, ISSN: 2069-5934

Using a simple job market equilibrium model we study the relationship between work effort and monitoring by firms. Some other determinants of work effort investigated include the educational level of the worker, the minimum or start-up salary as well as the economic conjuncture. As common logic dictates, optimal work effort increases with the amount of monitoring done by the employer. Quite contrary to common logic, though, we find that at the optimum employers observe and control good workers much more stringently and meticulously than poor workers. This is because under profit maximization most of the employer’s profit and surplus result from good workers and he risks losing a large amount of profit by not observing those. Managers monitor strictly more productive workers, fast learners and those starting at a higher autonomous level of monitoring, as those contribute more substantially to the firm’s profit.

5. “The Economic Dynamics of Inflation and Unemployment,” *Theoretical Economics Letters*, Volume 2, No. 2 (May), 2012, pp. 133-140, ISSN Print: 2162-2078, ISSN Online: 2162-2086

We study the time path of inflation and unemployment using the Blanchard treatment of the relationship between the two and taking the monetary policy condition into account. We solve the model both in continuous and discrete time and compare the results. The economic dynamics of inflation and unemployment shows that they fluctuate around their intertemporal equilibria, inflation around the growth rate of nominal money supply, respectively, and unemployment around the natural rate of unemployment. However, while the continuous-time case shows uniform and smooth fluctuation for both economic variables, in discrete time their time path is explosive and nonoscillatory. The hysteresis case shows dynamic stability and convergence for inflation and unemployment to their intertemporal equilibria both in discrete and continuous time. When inflation affects unemployment adversely the time paths of the two, both in discrete and continuous time, are dynamically unstable.

6. “Optimal Work Effort, Income and Wage,” *Advances in Management and Applied Economics,* Volume 2, No. 1 (February), 2012, pp. 121-137, ISSN: 1792-7544

We study work effort with its various determinants such as the educational level of the worker, the minimum or start-up salary as well as the initial endowment of the worker. By means of optimization we find that optimal work effort depends directly on the initial income available to the worker, with a higher income reducing the effort of the worker. We also find that a higher initial wage and a reward parameter per work effort discourage workers to exert more effort on the job. Firms set optimal wages disregarding reward for work effort with more productive workers receiving higher wages and exerting more effort at the optimum.

7. “The State as an Instrument of Transaction Cost Economies,” *Problems of Economic Transition,* Volume 54, No. 7 (November), 2011, pp. 31-48, ISSN: 1061-1991

The state plays a role in reducing the transaction costs of an economic system. While the scholarly focus seems to be on the indirect role of the state through the legal system and the definition and enforcement of property rights, economists seem to overlook the direct role the state has to play in allocating economic resources through its centralized, administrative and direct mode. This role of the state as a transaction-cost economizing agent becomes particularly important in high-transaction cost societies such as transitional economies and especially in view of the difficult process of transition taking place in the last twenty yeas. Experiencing staggeringly high transaction costs, former socialist economies show that, opposite to the established clichés, the market does not “always work itself out,” the state is not always “a bad owner,” and it has yet a role to play in the economy. The paper argues that there are societies and sectors where the state, rather than the market, is a preferable instrument for allocating economic resources. We show that, from the perspective of transaction cost economics, markets sometimes do not function smoothly and are costly to use, as in the newly emerging market economies, and there is room for the government in the direct running of the economic system.

8. “Adverse Effects of Transaction Costs in East European Economies,” *Organizations and Markets in Emerging Economies,* Volume 2, No. 1(3), 2011, pp. 34-50, ISSN: 2029-4581

At a given level of technology the gross aggregate production function lies above the net aggregate production function where the difference represents the aggregate transaction costs in the economy. Transitional economies facing serious institutional impediments to creating a smoothly functioning market mechanism are faced with sizable transaction costs. We use a net production function model enhanced by Furubotn and Richter and apply it conceptually to the case of transitional economies. We find that at a particular level of a community isoprofit line much less output will be supplied compared to developed market economies with mature market institutions. The aim of the paper is to trace the falling output and the deep structural problems of East European economies to the effect of transaction costs and institutional building. The more rapidly transaction costs grow, the less the firms would be willing to pay for inputs. Furthermore, we find that certain markets tend to disappear in emerging economies due to the adverse effects of transaction costs. As a safeguard to precontractual opportunism and prevention to ex post transaction costs, ex ante transaction costs would play a more vital role in East European societies.

9. "Vertical Integration in High-Transaction Cost Sectors: the Case of the Bulgarian Pharmaceutical Industry," *Journal of Advanced Research in Management*, Volume 1, No. 2 (Winter) 2010, pp. 127-138, ISSN: 2068-7532

Economic theory provides various explanations for vertical integration but transaction costs seem to be a major determinant of backward, forward and lateral integration. The paper studies integration trends in the newly emerging Bulgarian pharmaceutical sector, seeking transaction cost explanations to the forward integration taking place in it. We hypothesize that asset specificity, above all, determines many of the organizational transformations and adaptations Bulgarian pharmaceutical companies are undergoing. Having special attributes, their products and assets seem to favor a larger size of the companies. Furthermore, as a low-trust, high-transaction cost economy, the Bulgarian economy dictates that a larger scale of operations be internalised within firms rather than carried out by the market.

10. "Optimal Time and Opportunity Cost of Job Search in Low-income Groups: an Out-of-the-job Search Model," jointly with Veselina Dzharova, *Modern Economy*, Volume 1, No. 3 (November) 2010, pp. 195-205, ISSN Print: 2152-7245, ISSN Online: 2152-7261

Our paper studies the causes of poverty from the perspective of job search. We show that poor people remain poor because they have less time and initial endowment to search for a better job. Initial endowment is key to successful job search, as one can afford not to work and search longer for a better job. Having an initial endowment, a worker is able to educate or re-qualify himself. Working long hours and obtaining low pay, poor people have little time to look for a better job. Low-paid, low-skilled jobs rarely allow on-the-job search like high-paid positions where with the help of contacts and a lot of idle time professionals seek better jobs. Quitting in order to find a better job increases the opportunity cost of search for poorer people. Since they do not have any accumulated income, they can only live off their salary. With less income and time, poorer people are less likely to get educated since education requires both wealth and free time. But being less educated, they are likely to remain poor as education is a promise for success in contemporary society. Thus, they remain in the vicious circle of poverty. In order to prove this hypothesis we investigate optimal search time for a better job as dependent on factors such as wage rate, individual's income, education, and skills.

11. "World Demand as a Determinant of Immiserizing Growth," *iBusiness*, Volume 2, No. 3 (September), 2010, pp. 255-267, ISSN Print: 2150-4075, ISSN Online: 2150-408

Theoretically economic growth could have negative effects over the growing economy when production expands for products the world demand for which is inelastic. If growth occurs in sectors and for products the world demand for which is elastic it could be expected that total revenues to domestic producers and exporters increase. Our goal is to prove that growth would be immiserizing only for products for which world demand is inelastic and expansion leads to a sizable worsening of the terms of trade. We show that there are few such commodities, namely food products and natural resources such as oil. Studying econometrically the demand function for Brazilian coffee as an example, we compare our estimation of the elasticity of demand for Brazil's exports of green coffee with other research on the world elasticity of demand for green coffee. We conclude that for manufactured products the demand for which is highly elastic it is unlikely that exporting countries fall into immiserization, therefore, growth and further participation in global trade turn out to be quite beneficial. Our conclusion is that too much emphasis is put in economic theory and trade policy on the concept of immiserizing growth which is more of a theoretical possibility than a real-life problem.

12. "The Coase Theorem Revisited: Implications for Economic Transition," *Atlantic Economic Journal*, Volume 35, No. 2, June 2007, pp. 189-201, ISSN Print: 0197-4254, ISSN Online: 1573-9678

The paper supports the view expressed by other authors that Ronald Coase's ideas are often misrepresented in the academic world. It restates some of Coase's main findings with special emphasis on their relevance to processes taking place in Eastern Europe. The goal of the paper is to revisit Coasean theory, to prove that oftentimes it is misrepresented and misinterpreted and to show its relevance to some societies experiencing high transaction costs. The role of the legal system under high transaction costs is stressed in its importance to transitional economies experiencing staggeringly high transaction costs. The paper tries to shed light on the importance of transaction costs in the newly emerging markets and the respective role courts and the government should play in directing economic resources.

13. "Rental Rate and the Dynamics of the Market Price of Capital," *Economic Research*, Sofia, Economic Institute of the Bulgarian Academy of Sciences, XV, 3/2006, pp. 58-68

Rental rate gives the opportunity cost of a machine, that is, it accounts for the opportunities forgone by using the machine or self-renting it instead of renting it out to someone else. While the traditional approach studies how the rate at which a machine can be rented depends on the market price of that machine, it is interesting to trace the time path of the price of capital in relation to a given expected rental rate. When the rental rate is relatively stable and firms do not expect it to change with time the intertemporal equilibrium market price of the machine is the initial price. When market participants expect the rental rate to increase, the price of the machine can increase or decrease exponentially depending on the initial price level. Given that rental rate is expected to fall, the market price of capital will grow exponentially.

14. "Quality Aspects of Economic Transition: The Effect of Inferior Quality on the Market," *Economic Research*, Sofia, 2/2004, pp. 59-78

The paper explores the quality problem as a major challenge before transitional economies. It uses Akerlof's model of misrepresented quality in an attempt to study it as the reason for market failure in the new democracies. The determinants of poor quality in the region of Eastern Europe are presented and the role of opportunism as the major cause of deceptive quality is revealed in the context of the staggering transaction costs East European countries are faced with. Reputation and the costs of dishonesty for East European producers are discussed.

15. "The Firm in the Context of Transaction Cost Theory," *Economic Thought,* Sofia, Economic Institute of the Bulgarian Academy of Sciences, 1/2004, pp. 55-74, ISSN: 0205-1990

Съвременната теория за транзакционните разходи определя фирмата като система от административни взаимоотношения, базирани на мрежа от договори и съпътствани от силна зависимост между специфичните активи. Фирмата измества пазарния механизъм тогава, когато в разпределението на икономическите ресурси поради съществуващите транзакционни разходи той е по-скъпо струващ инструмент, отколкото е предприемачът със своята координиращата функция. Фирмата има тенденция да нараства толкова повече, колкото по-високи са разходите за извършване на транзакции чрез свободния пазар, и същевременно да намалява толкова повече, колкото се понижават тези разходи в сравнение с разходите за осъществяването на същите дейности в рамките на фирмената структура. Транзакционните разходи са разходи за намаляване на риска и гарантиране на трайно устойчиво и взаимноизгодно пазарно поведение и най-общо могат да се класифицират като предварителни и последващи, преки и непреки. Разходите за организация на икономическата система в страните в преход са прекомерно високи, което възпрепятства изграждането на развити пазари.

16. "Before and after Coase: the Role of Transaction Costs," *Economic Thought,* Sofia, Economic Institute of the Bulgarian Academy of Sciences, 6/2003, pp. 26-31, ISSN: 0205-1990

The article is a biographical coverage of Ronald Coase's life and contribution to economic theory. More specifically, there is an emphasis on the modern theory of the firm with the "make-or-buy" decision and the concept of transaction costs as introduced by Coase. The Coasean world is explained as one of real, positive transaction costs rather than an ideal situation of zero transaction costs as often wrongly assumed by economists.