

Home Bias among European Students

Carlo Reggiani

DERS, University of York, UK.

Ph: +44-7800-654794;

cr154@york.ac.uk.

Gianpaolo Rossini

Department of Economics,

University of Bologna,

Strada Maggiore, 45; I - 40125 Bologna;

Ph. +390512092607;

rossini@spbo.unibo.it

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Abstract

Home bias in international trade and finance has been deeply investigated in both theoretical and applied studies. Nonetheless, we do not possess so far any experimental and/or survey assessment of the phenomenon. This paper fills this gap and examines home (and European) bias from survey data based on questionnaires handed out to university students of eleven European countries. Uneven evidence of home and European biases has been found across distinct economic decisions in some individual attitudes.

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1 Introduction

Home bias is one of the most relevant “natural” barriers among nations in international trade. It is a composite phenomenon that has many sources. The first measurable natural obstacle to trade is international transport and communication (TC) cost (Obstfeld and Rogoff, 2000). Other intangible, and sometimes hard to measure, differences are language, culture, rules and common national habits. All these hindrances limit the feasible degrees of international economic integration.

Home bias¹ is the syndrome and one of the most familiar sign of these limitations. Sometimes it appears as the aftermath of barriers purposely set up by people and governments of countries as a defence against radically free trade in goods and services. In some cases further integration may be seen as a threat to national identity partly embedded in firms, products, rules and culture.

In most circumstances home bias is deeply rooted in regional or national specificities and is not the result of any intentional trade policy. Nonetheless, the final result is similar to that produced by actual trade barriers.

Deeply rooted obstacles to further international integration ascribed to home bias are not liable to disappear in the short – medium run². It will take much longer for them to subside while continuing to play a role in both the next and the distant future, since they are the outcome of “natural” differences whose evolution cannot be easily foreseen despite the intense wave of global integration we are living in.

Some kinds of home bias are a mixed outcome of country differences which are partly natural and partly man made. In all cases it seems quite complex to separate their proper source. Some cross countries divergences are dubbed as behavioural. They are not the result of a purely rational choice and play quite an important role, in particular, in finance (Bailey, Kumar and Ng, 2004; Graham, Harvey and Huang, 2004). To be honest, home bias is not just an economic phenomenon

¹ Home bias can be measured from data on real and financial decisions of agents. For an index of home bias in financial assets portfolios see Ahearne, Grier and Warnock (2004).

² For instance Italians have a marked preference for Italian “olio extra vergine”, Belgians for their chocolate, Frenchmen for their wines, Scots for Scotch whiskey. In these and other cases imports of alien or just competing goods have been seen as a sort of infringement of national habits.

and it may be partially considered as a form of *status quo bias* analysed in decision analysis (Kahneman, Knetsch, Thaler, 1991). According to this approach many people show inertial responses to changes in the surrounding environment. As an economy degree of openness increases the effect may be damped by a sort of inertia to the new open economy. Close to this phenomenon is the sociological idea of “embeddedness,” that defines extra market links and relationships which contribute to the establishment of networks among individuals, groups, firms, towns, regions, institutions etc.. The ties that emerge from these networks tend affect market and outside market decisions of many agents, in particular consumers, institutions and even firms, both large and small-medium size. Home bias may be seen as a sort of “embeddedness” of consumers in the network represented by their country and it may change according to the degree of homogeneity of a population³. As emphasized initially by Granovetter (Granovetter, 1985), any economic action is carried out within structures of economic relations, not just in rural or past societies but also in post modern service oriented economies. The consequence is that economic home bias is not confined to financial and real markets, but it emerges quite often also in the acquisition of culture and knowledge.

Last but not least, home bias appears not only among distant countries separated by clear cut borders, but, surprisingly enough, also among states belonging to the same federation, such as the US (Hillberry and Hummels, 2002; Wolf, 2000) and between territories quite close to each other, yet separated by a national border (Canadian and US regions sharing common border, language and many further affinities).

Given the mentioned evidence about the US we may foresee something similar in Europe. The EU has a more recent history than the US. Moreover it is not federation. It is only partially like that, since it is endowed with some federal institutions concerning agriculture, competition policies and money (confined to Euroland). Most citizens are not even fully aware of that. As a result of this younger and somewhat disguised nature of the EU, we may expect that home bias exists and plays a larger role than in the US. But then a further question cannot be eluded: do we have only one sort of home bias in Europe, that is a national home bias, or are we growing some kind of fresh transnational European home bias, mainly among young educated

³ For instance in some countries home bias may differ between cities and countryside due to less homogeneous composition in the cities. Or we may have degrees of home bias larger in countries where there are less migrants.

people aware of the integration process and of the existence of pieces of federal governance?

Here comes the aim of our study that can be regarded as an attempt to evaluate this phenomenon across a sample of EU countries. Our investigation is based on survey data obtained from a paper questionnaire dubbed “Test on Home Bias”, made up of 21 questions. The questionnaire has been handed out to undergraduate students during the academic year 2005-6 in universities of 11 countries across Europe (Great Britain, Ireland, Italy, Spain, Portugal, France, Germany, Austria, Finland, Poland, Czech Republic), and proposed in six languages (English, Italian, German, French, Spanish and Portuguese). Although slightly different versions were employed in some areas, the questionnaire distributed is quite homogeneous across countries .

The content of the questionnaire has been designed with the aim of obtaining insights on home bias in individual attitudes of university students, i.e. a population sample with above average cultural background. Then, our results are an attempt to describe home bias among educated, on average middle - upper class young people, mostly speaking a foreign language beyond their native language and quite often aware of the EU integration process. Some 20% of the sample is made by students who had taken exams on international integration and/or EU matters. Therefore, the sample seems quite suitable to assess also a wider than national home bias, i.e. a European home bias. To this purpose, in the test we have inserted questions aimed to ascertain whether there exists any EU home bias in addition to the national one.

Due to the socially non representativeness of the sample made up just of students, our findings should be taken with great caution as they do not reflect overall home bias sentiments of the whole population of the 11 countries concerned. In particular, we are sure that our data *underestimate* the degree of home bias of the entire population, as young university students are more open in terms of consumption of foreign material and cultural goods than average citizens.

As we shall see home bias remains a relevant phenomenon. It seems to loom larger in the labour market. In other matters it may still represent a residual relevant obstacle to full integration of countries in both the EU and the world economy.

The paper is organised as follows: in the next section we shall briefly present the questionnaire. Then we shall go through questions and answers provided by the European students. Conclusions are in the final section.

2. The questionnaire

The questionnaire we handed out is made up of three main sections.

The *first* deals with home-bias in purely economic decisions. It is composed by three subgroups of questions. The first goes through the assessment of international labour mobility. The second investigates the willingness to buy foreign services (finance and other services). The third goes through the preference for national tangible durable and nondurable goods.

The *second* section concerns socio - cultural consumption. It is composed of two subgroups of questions on culture and entertainment plus some on customs and religion.

The *third* section deals with economic policy issues like the introduction of the Euro in Great Britain and Poland or the adoption of a unique official language in the EU.

The results presented are the outcome of some two thousand questionnaires filled and are aimed at discovering recent tendencies in students' home bias.

The research has been conducted in 11 European countries and we possess national data. However, our aim is to study home (and European) bias in the EU and, therefore, we intentionally do not publish national data⁴ even though we shall refer to them only in one occasion concerning an investigation on the adoption of the Euro in Great Britain and Poland.

⁴These data are available for consultation from the authors upon request.

3. Questions and answers

We divide the analysis of the results and the related questions in six subsections according to the main theme contained in the questionnaire paragraphs.

3.1 International labour mobility

The issue of labour mobility across the EU has been quite a hot one at the end of the 1990's when the EMU program was under way. It seemed that labour mobility across the EU was one of the required conditions to counteract possible national idiosyncratic shocks. More recently, the hype on intra EU labour mobility has subsided. The reason is that migration from non-EU areas has played the role that internal migration was expected to do. As a result the emphasis has been on the effect of migration from both third countries and new members, who joined the EU as of May, 1 2004.

Nonetheless the willingness to work abroad is a clear sign of the potential amount of labour mobility existing among young qualified workers (graduates) in the EU.

Four questions have been set forth to university students on working abroad, i.e. on the willingness to be internationally mobile.

The *first* question concerns the readiness to work in another EU country for the same wage and/or living standard of the home country.

The replies can be found in the second column of Table 1 below and show that only almost one half of the sample seems to be disposed to work abroad, yet within the EU. This may be quite a satisfactory result if it were for the entire population, yet the survey is confined to undergraduate students and the outcome may appear not so promising from the point of view of the EU integration of labour markets for qualified jobs. The abundance of exchange programs for European students and the easiness of travelling around Europe should make EU students more willing to work in another EU state.

The *second* question was identical to the previous one but the job offered abroad in a EU member state would secure a 20% increase with respect to the salary received at home. Here the proportion of yes becomes quite high (83%) (third column of Table 1 below). The number of those who are indifferent goes down quite a lot (from 10.6% to 5.5%) witnessing a good response of labour mobility once students are confronted with sizeable market incentives.

The *third* question (fourth column) is identical to the first one but the hypothetical job is in an extra-EU country. The extent of labour mobility emerging from affirmative replies goes down, but not as much as we might expect. In other words we come across for the first time an *EU-home bias*, even though it is not very large. Only some 5% of the sample modifies attitude towards working abroad when passing from Europe to the rest of the world. But this is definitely *EU-home bias*.

The *fourth* question (replies in column 5 of Table 1) is the same as question 2 but for extra - EU countries. Again we see an increase of labour mobility as it occurred in the EU case. Here, the increment is 28% (.738 - .456) while in the EU it is 31% (.831 - .521). The interpretation is that the wage differential incentive is less powerful if it comes from an extra - EU country. Quite a "normal" result meaning that the *EU - home bias* is clearly there again.⁵

TABLE 1. Labour Market: All Samples

	EU WA	EU WA +20%	WA X-EU	WA X-EU +20%
Yes	928 (0.521)	1480 (0.831)	812 (0.456)	1313 (0.738)
No	658 (0.370)	190 (0.107)	740 (0.416)	308 (0.173)
Indiff	189 (0.106)	98 (0.055)	219 (0.123)	141 (0.079)
Missing	5 (0.003)	12 (0.007)	9 (0.005)	18 (0.010)
Total	1780	1780	1780	1780

⁵ It is of some interest to compare the answers on labour market decisions of Western EU students *vis à vis* those in the new member states (as of May 2004). On average, the share of students accepting a work abroad is about 25% lower in the new member states in all questions. This difference may have a simple explanation: the wage differential required to accept a job abroad from new EU countries needs to be more than 20% to induce substantial labour migration.

3. 2 Finance and other services

Three questions have been asked on the attitude towards foreign finance and other services. The answers do not provide hints about the openness of markets for finance and other services of EU countries since this is signalled by market indicators and data on the extent of international portfolio diversification. However, as home bias looms large in private portfolios (Aizenman, 1997) and in the acquisition of other services also in areas such as the US, it may help to highlight students' attitudes since they go as a signal of things to come due to the age and class they belong.

The *first* question concerns the preference for using domestic rather than foreign *banking services*. Replies are reported in Table 2 below (column 2).

TABLE 2. Finance & Services: All Samples.

	BANK	HOLIDAY	FLYING	DOCTOR	TEACHER
Yes	777 (0.437)	183 (0.103)	647 (0.363)	315 (0.353)	247 (0.277)
No	305 (0.171)	1192 (0.670)	386 (0.217)	118 (0.132)	100 (0.112)
Indiff	683 (0.384)	379 (0.213)	736 (0.413)	455 (0.510)	535 (0.599)
Missing	15 (0.008)	26 (0.015)	11 (0.006)	5 (0.006)	11 (0.012)
Total	1780	1780	1780	893	893

Here it seems that the scarce degree of cross border consolidation among EU members in the banking sector is mirrored in the observed attitudes. As a matter of fact it appears that 44% of students has a preference for home banks. The majority (.171 + .384 = .555) of the sample is either indifferent or has no preference for home banks. The extent of home bias for banking services seems quite substantial and this result may confirm the need for a further easing of cross border mergers in the banking system in the EU.

The *second* question (Table 2, column 3) is on *tourist services*, i.e. the preference for holidays in the home country with respect to a foreign one if prices are the same. The holiday resort may be either in Europe or in another continent. Some 2/3 of the sample has no home preference and more than 21% is indifferent. Definitely there is scanty home bias among young students as far as tourism is concerned. Several exchange programs, incentives to travel by train for youngster under 26 and the easy crossing of internal EU frontiers may have played an important role. Moreover, low cost travelling makes sometimes cheaper travelling across EU countries than within a single EU member territory⁶.

Close to the second question is the *third* concerning *transport services*. We have asked whether there is any preference for using a domestic airline rather than a foreign one (Table 2, column 4) when prices are the same. The preference for a domestic carrier turns out to be some 36%. It is not very high but it confirms that a relevant portion of people prefer a domestic provider for reasons that are probably linked to both language and expected, or perceived, safety. Nonetheless, the majority ($.217 + .413 = .630$) of interviewed students is either indifferent or has no preference for a domestic airline. Probably, even in this sector more cross border mergers may decrease the extent of home bias.

Two further questions were asked in a restricted sample of countries.

The *first* concerns the extent of preference for a doctor of the same nationality⁷ (Table 2, column 5). The majority ($.132 + .510 = .682$) seems not to be much bothering about it. Only 35% prefers a doctor of the same nationality. Here, the relatively low home bias may be due to the fact that in all European countries doctors have to be certified by national associations to be allowed to sell their services. And quite often the screening of foreign doctors is more severe and accurate than that of domestic medical graduates. Therefore, the chances of getting a bad doctor are higher in the case of national practitioners. Moreover, most foreign doctors work in hospitals or large organised health centres where the reputation is above the average of the country.

The *second* question for the restricted sample deals with the choice between a home and a foreign lecturer, speaking the country's language

⁶ It is cheaper to fly from Paris to Manchester or London than from Paris to Nice.

⁷ In Italy foreign doctors represent some 4% (2004 data). In the UK doctors trained abroad make up 33.5%. 83% of them were trained in extra-EU countries (2005 data).

(Table 2 column 6). More than 70% ($.112 + .599 = 711$) of the smaller sample has no preference for domestic teachers. This is quite a remarkable result that is, on one hand, the consequence of more openness of EU universities, while, on the other hand, points to a sort of quest for more internationalisation of EU universities in terms of their teaching staff.

3.3 Trade: foreign products

In this section (Table 3) we go through the home bias related to trade decisions, i.e the import of foreign goods. We consider different products according to some national specificities. For instance in France, Germany and Italy we asked whether there was a preference for cars produced by domestic brands and/or plants. While, in other countries endowed with neither a national automotive firm nor a plant we had to resort to other goods. For instance, in Finland, home of Nokia, we have interrogated whether there was any preference for domestic brands of cell phones. A supplementary question concerns another durable good, i.e. shoes. This question can be thought of as a control information for countries where the production of cars takes place in plants belonging to foreign brands.

In a sub-sample we added a question also on a non durable good, i.e. yoghurt.

TABLE 3. Foreign Products: All Samples

	CAR	SHOES	CELL PHONE	YOGHURT
Yes	453 (0.258)	374 (0.326)	21 (0.840)	236 (0.374)
No	580 (0.330)	209 (0.182)	3 (0.120)	139 (0.220)
Indiff	715 (0.407)	561 (0.488)	1 (0.040)	255 (0.404)
Missing	7 (0.004)	5 (0.004)	0 (0.000)	1 (0.002)
Total	1755	1149	25	631

Results are quite interesting and show that the lower home bias occurs for *cars*. This may appear quite odd since there are countries where the market share of domestic automobile brands is quite high (France and Germany). Whether this is or is not a sign of home bias is quite awkward to tell. Surely, home market shares of domestic producers are higher than those of the same producers in close - but foreign – EU countries. This makes for a substantial home bias. But again, do not forget that our sample is made up of students, while average citizens may display higher home liking.

Home bias is higher in other sectors.

Students seem more keen about buying domestically branded *shoes*. Why? May be because it suits more their tastes and their social embeddedness, mainly in countries where fashion has an impact on cultural models of youngster.

The result on mobile *cell phones* is quite sharp, even though the degree of significance is fairly low since we had relatively few questionnaires filled in Finland. Finally, the higher degree of home bias for *yoghurt* may point to some preference for food made the domestic way. In many EU countries there is a definite conviction that many food items can be done better by national firms (or national brands owned by multinationals).

3. 4 Entertainment and educational goods

Three questions on entertainment and educational products were asked.

The *first* concerns the preference for a *movie* whose director is domestic rather than a foreign one (Table 4, column 2).

TABLE 4. Educational goods & Entertainment: whole sample

	DIRECTOR	TEXTBOOK	SEARCH ENG
Yes	233 (0.131)	407 (0.229)	444 (0.249)
No	785 (0.441)	431 (0.242)	572 (0.321)
Indiff	651 (0.366)	933 (0.524)	748 (0.420)
Missing	111 (0.062)	9 (0.005)	16 (0.009)
Total	1780	1780	1780

It seems that there is almost no home bias since only 13% prefers national movies. This is a signal that the movie sector in Europe should not ask for any protection since consumers would not switch quite easily to domestic products as they show no national attitude. Nonetheless, the result may be seen from an opposite perspective: a dominant position of foreign products may have cancelled any home bias since home production has become quite marginal or even negligible in many EU countries.

The *second* question concerned the preference for a domestic *textbook*, as compared to an analogous one written by a foreign author. The majority of students are indifferent since few of them seem to bother much about the nationality of the author. Side comments written on the questionnaire by some students confirmed further that in this sector home bias is almost totally absent.

When turning to the assessment of the preference for a *web search engine* we were quite surprised since we thought that home bias should not appear at all in this sector. On the contrary, students are less keen on the nationality of the author of a textbook than that of an engine search for the web. The reason may probably be due to the language and the proximity of opportunities (ads, chats, local info, etc.) offered by domestic search engines.

3.5 Cultural and religious consumption

Three questions on culture, customs and religion have been asked (Table 5 below). They touch matters which are somehow on the confine between economics and sociology and, in the case of religion, they entered economic studies only recently⁸ (Barro and McCleary, 2003; Pepall, Richards, Straub and De Bartolo, 2006).

The *first* issue regards *nutrition* habits. We asked whether students seek their own nation's food when they are abroad. The percentage of those who are home sick in terms of nutritional standards is almost one fifth (22%). Those who do not mind are two third. If we add them to the indifferent group, they make up some three fourths.

The *second* question may look quite odd. We asked whether one ever attended services of an alien *religion* when abroad. This question attempts to investigate the willingness to partially accept foreign religions as a sort of supplement or complement to one's own religion. We do not know whether attendance of these services abroad responded to any need for effective religious piety or simply curiosity. But one fourth of the students seem to be willing at least to know and to listen to messages coming from religions different with respect to their own. This may not just be a further confirm of the high religious

⁸ The Economics of Religion is a relatively recent stream of research in economics, even though we find some mention in Adam Smith's "Wealth of Nation". Iannacone (1998), in a seminal paper, maintains that religion is a very important social phenomenon and it is likely to influence society's economic outcomes. This idea is shared by Barro and McCleary (2003), who analyze the impact of religion on economic growth in a panel of countries and, in a related paper (Barro and McCleary, 2005), they consider the effects of state religion. More recently, Pepall, Richards, Straub and De Bartolo (2006) study U.S. religious plurality by means of a competitive model *à la Salop*.

tolerance existing in Europe but also of the openness of Europeans in terms of their more intimate cultural consumption choices.

The *third* question inquires about the frequency with which students watch *TV foreign news bulletins*. Here, surprisingly enough, the percentage of those saying "sometimes" is quite high. However, this is not much reassuring for two reasons. First, because one fourth of students do not seem to ever watch foreign TV broadcasted news. Secondly, because most of interviewed students belong to social science classes, where the attitude to get larger and transnational information should be more developed than in science classes. Even if we consider that "sometimes" comprises a broad range of frequencies, it seems that the degree of home bias in watching home news is not negligible.

TABLE 5. Custom & Religion: All Samples

	FOOD		RELIGION		NEWS
Yes	387 (0.217)	Yes	438 (0.246)	Never	430 (0.242)
No	1185 (0.666)	No	1237 (0.695)	Sometimes	1119 (0.629)
Indiff	198 (0.111)	No Answer	89 (0.050)	Often	219 (0.123)
Missing	10 (0.006)	Missing	16 (0.009)	Missing	12 (0.007)
Total	1780	Total	1780	Total	1780

3.6 Policy issues in the EU

Three questions concern EU policy issues (See Table 6 below).

The *first* question regards the adoption of a foreign language (English in questionnaires for non British students and French for British students) as the official idiom of the EU. The majority of answers were for a “no” (some 53%). We have seen that in the previous questions language did not seem to represent an obstacle to trade and other kinds of economic exchange among EU countries. However, when asked about the adoption of a unique official language in the EU most of the surveyed students are against. This should not come as a surprise. First, because almost all British students interviewed were against French and this result are going to skew the distribution of results towards a negative answer. Second, even if the knowledge and acceptance of foreign languages is certainly growing in Europe, and it is quite higher among student than among the average population, most people (and students) are quite keen about their native (or adoptive⁹) language. They do not see with favour the cancellation of the role of official language that is given to each European language in the EU, regardless of the diffusion.

The *second* question is confined to a sub sample made up of Britain and Poland. The issue is the joining of the Euro. The percentage of those who are against is quite high (43%). We expected a lower portion of students being in that party, as their education level should bias them in favour of the single currency rather than against. But we were wrong. The result may confirm that the majority of the population in those countries is still fairly unhappy to accept the Euro. Adopting the single currency will come mostly as a political decision rather than from the population disposition.

The *last* question, even though on a different matter, may confirm this stance. It actually appears that a portion close to one half of students does not see with favour further reductions of national

⁹ This is due to the fact that there are students who have been interviewed and who do not share the language of the country where they are. We do not know how many of them were not nationals of the country where they attended the class. This was done to avoid questions that may induce students to dislike the questionnaire and answer in a non transparent way. Nonetheless, in some countries some students (almost 1% out of 1780) refused to fill the questionnaire since it involved questions on attitudes that they did not want to disclose despite the anonymity of the questionnaire.

sovereignty such as those implied by a common EU fiscal policy. However, the large chunk of indifferent stances may make the issue easier to be tackled than that of a single currency. After all a national currency is a kind of flag, while fiscal policy is not and it could be more swiftly introduced such as other pieces of federal sovereignty. People are more sensitive to flag down their coins than to harmonize tax rates.

TABLE 6. EU policy issues

	LANGUAGE	EURO	FISCAL
Yes	603 (0.339)	160 (0.382)	619 (0.348)
No	946 (0.531)	179 (0.427)	772 (0.434)
Indiff	219 (0.123)	74 (0.177)	362 (0.203)
Missing	12 (0.007)	6 (0.014)	27 (0.016)
Total	1780	419	1780

4 Conclusions

We have gone through the issue of home bias across individuals over a wide decision range. Despite of the limited representativeness of our sample, we see fairly relevant degrees of home bias in the labour market, in some services and some traded goods.

As a matter of fact this “would be workers” attitude is actually a measure of labour mobility and may be thought of as a sign of residual non tariff barriers which make EU national labour markets fairly closed. Fortunately migration from third countries plays the role that mobility among incumbent EU members was expected to play.

We also observe an emerging European-home bias whereby individuals seem to prefer mainly services coming from Europe rather than from third countries. This EU home bias may be interpreted as a positive result due to the EU integration process mainly as from the single

market establishment in 1993 and the EMU (limited to Euroland) in 1999 (and 2002 for *specie* circulation).

The market for financial services, and in particular banking, seems to show some degree of home bias. Even though it is not easy to detect for a consumer the ownership structure and the relative nationality of banks, it seems that students tend to prefer financial intermediaries that have some ownership link with the country in which they live. A similar home bias surfaces for other services, such as airline transportation, while for medical doctors there seems to be almost no home bias. A high degree of openness is observed towards university teachers.

When coming to the choice of a durable or nondurable consumers good home bias appears mixed. There are always almost one third of students who are inclined towards national products, which may point to a larger home bias among the whole population. For certain goods such as food the home bias looms larger.

Finally the scrutiny of national attitudes towards cultural goods reveals that almost one fourth of those interviewed tend to prefer home goods. The fact that here the extent of home bias is lower than for material goods and services may point to a higher openness of students from the cultural point of view, which is, however, not adequately matched by a correspondent attitude in other economic decisions.

The interpretation of this phenomenon may be due to the lower *embededness* of students in terms of culture, since they are often studying in international environments. While, in terms of material goods they have an easier access to national products.

In some cases home bias as a result of *embededness* or *status quo inertia* may be a sort of escape way from problems of either costly information or asymmetric information, which may be higher in the case of foreign products which are less known than the domestic ones.

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