

Four papers appear in this issue of *Croatian Economic Survey*. They are diverse in their focus as well as in methodologies applied. One is theoretically-oriented, while the others employ survey methods to collect and analyze the data. However, all four papers are interrelated through the concept of innovation that is approached from different perspectives. The volume opens with a theoretically-oriented paper by *Frank Müller-Langer* “Does Parallel Trade Freedom Harm Consumers in Small Markets?”. Parallel trade is one of the crucial issues in the international trading system nowadays. It occurs when goods that are produced under protection of a copyright, trademark or a patent and are in the distribution in one country, become imported into another one without the permission of the owner of property rights in the other country. As the treatment of parallel trade is not resolved in international agreements on intellectual property rights, countries freely decide whether they allow or ban parallel trade. The author investigates the case of parallel trade and its effects on consumers in the case of pharmaceutical industry that heavily relies on patents. Advocates of strong patent rights for the new pharmaceutical products come primarily from the pharmaceutical industry itself supporting the policy of banning parallel trade and arguing that parallel imports of pharmaceuticals slows down the development of new pharmaceutical products. On the other side, policy-makers in many developing countries support the regime of parallel trade arguing that it increases the affordability of pharmaceuticals. Using a theoretical model with two heterogeneous countries in terms of market size, the author analyzes the welfare effects of parallel trade. It turns out that parallel trade freedom is beneficial to consumers in the country with the larger market size, while the consumers in the country with the smaller market size will pay the higher price or even remain unserved if the other country is sufficiently attractive in terms of a market size.

In the second paper of this issue, the concept of innovation is discussed in a rather novel way. Namely, it refers to various forms of activities that can help maintaining the fiscal health of local communities. Based on the randomly selected sample of eighteen North Carolina cities with the population above 25,000 *Ksenija M. Khovanova* asks “How Does Variation in City Fiscal Health Affect Its Degree of Innovation?”. The relevant literature recognizes only a few attempts that relate local government fiscal conditions to innovation performance. They have all been constrained to the samples of U.S. cities. Namely, U.S. cities were confronted with substantial fiscal problems at the end of 1970s and beginning of 1980s that have induced them to innovate. In response to fiscal difficulties, priority was given to productivity improvements, often estimated by various performance measures. Consequently, this study uses performance measures as a proxy for measuring

the local workforce still seems to be at the initial phase. However, based on a rather scarce data set that asks for future verifications as more data becomes available, the analysis implies that successful knowledge inflows depend primarily on the organizational learning climate, which seems to be the most important predictor of knowledge outflows as well.

Let me conclude these introductory notes with the hope that papers in this issue will inspire further research in the field. Special thanks go to the authors for their original contributions, to all who helped in the preparation of the Conference, to conference participants, discussants, and external referees as well as to all involved in the preparation of this volume.

Editorial board member and the guest editor:

Andrea Mervar
The Institute of Economics, Zagreb
April 2009