

Contents

<i>Preface</i>	<i>page ix</i>
1 Introduction	1
1.1 The Objectives of the Book	1
1.2 A Brief History of Thought	4
1.2.1 Intellectual Antecedents of Stochastic Frontier Analysis	5
1.2.2 The Origins of Stochastic Frontier Analysis	8
1.2.3 Developments in Stochastic Frontier Analysis since 1977	9
1.3 The Organization of the Book	11
2 Analytical Foundations	15
2.1 Introduction	15
2.2 Production Technology	18
2.2.1 Representing Technology with Sets	18
2.2.2 Production Frontiers	25
2.2.3 Distance Functions	28
2.2.4 Cost, Revenue, and Profit Frontiers	32
2.2.5 Variable Cost Frontiers and Variable Profit Frontiers	40
2.3 Technical Efficiency	42
2.3.1 Definitions and Measures of Technical Efficiency	42

2.3.2	Single-Output Production Frontiers and the Measurement of Technical Efficiency	46
2.3.3	Multiple-Output Distance Functions and the Measurement of Technical Efficiency	48
2.4	Economic Efficiency	50
2.4.1	Cost Frontiers and Cost Efficiency	51
2.4.2	Revenue Frontiers and Revenue Efficiency	54
2.4.3	Profit Frontiers and Profit Efficiency	57
2.4.4	Variable Cost Efficiency and Variable Profit Efficiency	60
2.5	A Guide to the Literature	61
3	The Estimation of Technical Efficiency	63
3.1	Introduction	63
3.2	Cross-Sectional Production Frontier Models	64
3.2.1	Deterministic Production Frontiers	66
3.2.2	Stochastic Production Frontiers	72
3.2.3	Stochastic Distance Functions	93
3.3	Panel Data Production Frontier Models	95
3.3.1	Time-Invariant Technical Efficiency	97
3.3.2	Time-Varying Technical Efficiency	108
3.4	Stochastic Production Frontier Models with Heteroskedasticity	115
3.4.1	Heteroskedastic Cross-Sectional Models	116
3.4.2	Heteroskedastic Panel Data Models with Time-Invariant Technical Efficiency	122
3.4.3	Heteroskedastic Panel Data Models with Time-Varying Technical Efficiency	126
3.5	A Guide to the Literature	130
4	The Estimation and Decomposition of Cost Efficiency	131
4.1	Introduction	131
4.2	Cross-Sectional Cost Frontier Models	136

4.2.1	Single-Equation Cost Frontier Models	136
4.2.1.1	The Single-Output Cobb-Douglas Cost Frontier	138
4.2.1.2	The Multiple-Output Translog Cost Frontier	143
4.2.1.3	The Single-Output Translog Variable Cost Frontier	144
4.2.2	Simultaneous-Equation Cost Frontier Models	146
4.2.2.1	Single-Output Cobb-Douglas Cost Systems	147
4.2.2.2	The Multiple-Output Translog Cost System	154
4.2.3	Decomposing Cost Inefficiency	158
4.3	Panel Data Cost Frontier Models	166
4.3.1	Single-Equation Cost Frontier Models	167
4.3.2	Simultaneous-Equation Cost Frontier Models	170
4.4	Two Additional Approaches to the Estimation of Cost Efficiency	175
4.4.1	Thick Frontier Analysis	176
4.4.2	A Distribution-Free Approach	179
4.5	A Guide to the Literature	182
5	The Estimation and Decomposition of Profit Efficiency	184
5.1	Introduction	184
5.2	Single-Output Models	186
5.2.1	The Primal Production Frontier Approach	186
5.2.2	The Dual Variable Profit Frontier Approach	192
5.3	Multiple-Output Models	205
5.3.1	The Primal Distance Function Approach	205
5.3.2	The Dual Variable Profit Frontier Approach	209
5.4	Alternative Profit Frontiers	212
5.5	A Guide to the Literature	214
6	The Shadow Price Approach to the Estimation and Decomposition of Economic Efficiency	216

6.1	Introduction	216
6.2	Cross-Sectional Models	218
6.2.1	Estimating and Decomposing Cost Inefficiency	221
6.2.2	Estimating and Decomposing Profit Inefficiency	239
6.3	Panel Data Models	254
6.3.1	Estimating and Decomposing Cost Inefficiency	255
6.3.2	Estimating and Decomposing Profit Inefficiency	258
6.4	A Guide to the Literature	259
7	Incorporating Exogenous Influences on Efficiency	261
7.1	Introduction	261
7.2	Early Approaches to the Incorporation of Exogenous Influences	262
7.3	Recent Approaches to the Incorporation of Exogenous Influences	266
7.4	A Guide to the Literature	277
8	The Estimation of Efficiency Change and Productivity Change	279
8.1	Introduction	279
8.2	The Primal (Production Frontier) Approach	281
8.2.1	The Analytical Framework	282
8.2.2	Estimation and Decomposition	285
8.3	A Dual (Cost Frontier) Approach	287
8.3.1	The Analytical Framework	288
8.3.2	Estimation and Decomposition	294
8.3.3	An Extension to Multiple Outputs	296
8.4	A Dual (Profit Frontier) Approach	299
8.4.1	The Analytical Framework	299
8.4.2	Estimation and Decomposition	302
8.4.3	An Extension to Multiple Outputs	306
8.5	A Guide to the Literature	307
	<i>References</i>	311
	<i>Author Index</i>	329
	<i>Subject Index</i>	332