Network of Swiss Economists Abroad

1st End-Of-Year Conference of Swiss Economists Abroad

December 22, 2006

Université de Lausanne

Hosted by the Département d'Econométrie et Economie Politique (DEEP), www.hec.unil.ch/deep/
Learn more about our network at www.swisseconomistsabroad.org

1st End-Of-Year Conference of Swiss Economists Abroad

December 22, 2006
Université de Lausanne, HEC, Extranef Building, Campus Dorigny

Conference Program

10:00 – 10:30	**Arrival, Welcome, Registration, Refreshments (Room 231)**
10:30 – 11:00	**Plenary Welcome Session (Room 110)**
11:00 – 12:30	**Session 1: Public Economics (Room 110)**
Patricia Funk	Estimating the Effect of Direct Democracy on Policy Outcomes
Mario Jametti	Does Tax Competition Tame the Leviathan?
Sébastien Wälti	Women and Budget Deficits
11:00 – 12:30	**Session 2: Political Economy, Development (Room 125)**
Andreas Fuster	Supervision and Project Performance: A Principal-Agent Approach
Stephan Litschig	Law enforcement and local governance in Brazil: Evidence from random audit reports
Jamele Rigolini	Development and the Interaction of Enforcement Institutions.
12:30 – 13:45	**Lunch Buffet (Room 231)**
13:45 – 14:45	**Session 3: Political Economy and Game Theory (Room 110)**
Dominic Rohner	Inefficient Policies and Incumbency Advantage (new paper)
Silvia Sonderegger	Cohesion and Self-bias in Societies
13:45 – 14:45	**Session 4: PhD Projects (Room 125)**
Eva Luethi	Macroeconomics
Dina Pomeranz	Development/Political Economy
Philippe Mueller	Finance
14.45 - 15:00	**Break (Room 231)**
15:00 - 16:00	**Session 5: Behavioral Economics (Room 110)**
Lorenz Goette	Blood Donation and Incentives: Evidence From a Large-scale Field Experiment
Stephan Meier	Time Preferences and Credit Behavior
15:00 – 16:00	**Session 6: Urban Economics (Room 125)**
Christian Hilber	Potential New Housing Supply and the Dilution of Social Capital
Kurt Schmidheiny	Estimating Neighborhood Choice by Combining Individual and Neighborhood Data
16:00 – 17:00	**Apéro (Room 231)**
	sponsored by the Swiss Society of Economics and Statistics)

1st End-Of-Year Conference of Swiss Economists Abroad

December 22, 2006
Université de Lausanne, HEC, Room Building, Campus Dorigny

Abstracts

11:00 – 12:30 Session 1: Public Economics (Room 110)

Patricia Funk, Universitat Pompeu Fabra; Christina Gathmann, Stanford University

Estimating the Effect of Direct Democracy on Policy Outcomes: Preferences Matter!

Previous studies have found large negative effects of direct democracies on government spending. Since they do not control for differences in the taste for government, these estimates suffer from omitted variable bias. Using voting data from Switzerland, we document substantial preference heterogeneity across direct democratic regimes. Conditional on voter preferences, the effect of direct democracy on government expenditures declines by more than 40 percent compared to earlier estimates. The main effect of the mandatory budget referendum is however to decentralize expenditures. While access to direct democracy at the canton level decreases canton expenditures by 8 percent, it raises local expenditures by 20 percent. The net effect on the size of canton and local governments combined is zero. Our results support the view that voter preferences have a strong and persistent influence on policy outcomes both in states with more and less direct democratic regimes.

Marius Brülhart, University of Lausanne; Mario Jametti, York University Toronto

Does Tax Competition Tame the Leviathan?

We study the impact of tax competition on equilibrium taxes and welfare, focusing on the jurisdictional fragmentation of federations. In a representative-agent model of fiscal federalism, fragmentation among jurisdictions with benevolent tax-setting authorities unambiguously reduces welfare. If, however, tax-setting authorities pursue revenue maximization, fragmentation, by pushing down equilibrium tax rates, may under certain conditions increase citizen welfare. We exploit the highly decentralized and heterogeneous Swiss fiscal system as a laboratory for the estimation of these effects. While for purely direct-democratic jurisdictions (which we associate with benevolent tax setting) we find that tax rates increase in fragmentation, fragmentation has a moderating effect on the tax rates of jurisdictions with some degree of delegated government. Our results thereby support the view that tax competition can be second-best welfare enhancing by constraining the scope for public-sector revenue maximization.

Signe Krogstrup, HEI Geneva; Sébastien Wälti, Trinity College Dublin

Women and budget deficits

Women are predicted to put more weight on the future than men by evolutionary psychology. Such a gender difference implies that giving women the right to vote should turn the median voter more fiscally conservative. We test this hypothesis using data for Swiss cantons, and find that including women in the electorate increases average per capita budget balances by a statistically significant amount.Sebastien Waelti

11:00 – 12:30 Session 2: Political Economy, Development (Room 125)

Lisa Chauvet, DIAL Paris; Paul Collier, Oxford University; Andreas Fuster, Harvard University

Supervision and Project Performance: A Principal-Agent Approach

This paper applies and extends principal-agent theory to analyze the performance of donor projects. As in many situations, there is variation in the degree of divergence between the interests of the donor (the principal) and the recipient government (the agent). Further, the effort expended on supervision of the agent is a control variable. We first present a principal-agent model that shows that conditional on optimal contracting, the marginal effect of more precise supervision on the likelihood of project success is higher the wider the divergence of interests. We then test this prediction using data on project performance. We are able to measure the degree of divergence between donor and recipient interests, as perceived by the donor, through a donor classification system of recipient governments. Consistent with the theory, we find that donor supervision of projects is significantly more effective in improving project performance where interests are widely divergent.

Yves Zamboni Filho; Stephan Litschig, Columbia University

Law enforcement and local governance in Brazil: evidence from random audit reports

This paper examines whether the threat of judicial enforcement promotes compliance with public management regulations in Brazilian local governments. We use violations of such regulations, revealed by a random audit program, as a measure of local governance and judiciary presence as a proxy measure for a higher probability of prosecution. We show that the organizational structure of the judiciary implies that prosecutor location is near-random conditional on county population. Our results suggest that the incidence of offenses is 15% lower in counties where the prosecutor resides. This reduction in offenses per civil servant is mostly driven by fewer violations of financial reporting requirements, fewer instances of problems in project managment, fewer cases of non-existent or ineffective civil society oversight and fewer cases of improper handling of remittances to local residents. Our results suggest that judiciary presence promotes good governance at the local level.

Amrita Dhillon, University of Warwick; Jamele Rigolini, The World Bank and University of Warwick

Development and the Interaction of Enforcement Institutions

We examine how institutions that enforce contracts between two parties, producers and consumers, interact in a competitive market with one-sided asymmetric information and productivity shocks. We compare an informal enforcement mechanism, *reputation*, the efficacy of which is enhanced by consumers investing in “connectedness,” with a formal mechanism, *legal enforcement*, the effectiveness of which can be reduced by producers by means of bribes. When legal enforcement is poor, consumers connect more with one another to improve informal enforcement; in contrast, a well-connected network of consumers reduces producers’ incentives to bribe. In equilibrium, the model predicts a positive relationship between the frequency of productivity shocks, bribing, and the use of informal enforcement, providing a *physical* explanation of why developing countries often fail to have efficient legal systems. Firm-level estimations confirm the partial equilibrium implications of the model.

13:45 – 14:45 Session 3: Political Economy and Game Theory (Room 110)

Roland Hodler, University of Melbourne, Simon Lörtscher, University of Melbourne and Dominic Rohner, University of Cambridge

Inefficient Policies and Incumbency Advantage (new paper)

We study incumbency advantage in a dynamic game with incomplete information. The incumbent knows the true state of the world, e.g., the severity of an economic recession or the level of terrorist activities, and can choose the quality of his policy. This quality and the state of the world determine the policy outcome, i.e., the unemployment rate or the number of terror fatalities. The voter only observes the policy outcome and then decides whether to reelect the incumbent or not. His preferences are such that he would reelect the incumbent under full information if and only if the state of the world is beyond a certain threshold level. There is a continuum of perfect Bayesian equilibria (PBE). In (almost) every PBE, the incumbent is reelected in more states of the world than he would be under full information. In particular, he chooses inefficient policies to stir uncertainty about whether the state of the world is above or below the threshold level if and only if this uncertainty induces the fully rational voter to reelect him. Hence, there is an incumbency advantage through inefficient policies.

Paul A. Grout; Sebastien Mitraille; Silvia Sonderegger, University of Bristol

Cohesion and Self-bias in Societies

We investigate the impact and desirability of heterogeneity in society within the context of a global game, where individuals' payoffs depend on their actions, those of others, and some unknown fundamental over which individuals receive a private signal. Heterogeneity is modelled by concentrating on the dichotomy between idealistic individuals, who possess direct preferences over actions that are derived from their principles, and pragmatic individuals, who do not possess particular principles. We characterize the unique equilibrium of the game and show how the composition of society affects the equilibrium strategies of its members. We find that, contrary to common intuition, heterogeneity may increase cohesion in society by decreasing the variance of the actions of its members. Moreover, although the concern for coordination built in individual preferences generates a form of "self-bias", this is rather mild, and does not necessarily imply that individuals favour homogeneous societies.

13:45 – 14:45 Session 4: PhD Projects (Room 125)

Eva Luethi, Universitat Pompeu Fabra

Field: Macroeconomics

Dina Pomeranz, Harvard University

Field: Development/Political Economy

Philippe Mueller, Columbia GSB

Field: Finance

15:00 – 16:00 Session 5: Behavioral Economics (Room 110)

Lorenz Goette, Federal Reserve Bank of Boston

Blood Donation and Incentives: Evidence From a Large-scale Field

We conduct a large-scale field experiment to examine the impact of various manipulations on blood donations: More than 10000 blood donors were randomly assigned to one of four treatment conditions: a baseline conditions, an appeal (truthfully) stating that blood donations were particularly urgent during this time of the year, a condition that promised a lottery ticket as an incentive for blood donations, and a condition that promised a health test as an incentive. This allows us to examine different theories regarding the impact of incentives on blood donations. Overall, we find that only the lottery ticket condition significantly increases blood donations. However, we find strong heterogeneity in the treatment effects. Generally, irregular donors respond much more strongly to the treatments than regular donors. There is a strong and positive effect of the lottery ticket incentive on blood donations among irregular blood donors. Regular blood donors do not respond well to all interventions. Urging regular blood donors to donate reduces donations significantly. This negative effect is weakened if a health test or the lottery ticket is offered. Our results lend little support to the notion that incentives reduce blood donations (Titmuss, 1970). However, our results also show that interventions can have negative effects on some subgroups of blood donors.

Stephan Meier, Federal Reserve Bank of Boston; Charles Sprenger, Fed. Boston

Impatience and Credit Behavior: Evidence from a Field Experiment

A large number of people have high levels of unsecured debt, composed largely of revolving credit card balances. A substantial proportion of these individuals has problems servicing their high-interest debt resulting in late payments, delinquency and ultimately default. This paper tests whether heterogeneity of time preferences can explain individual credit behavior. In a field experiment targeted to low-to-moderate income families we measure individual time preferences through choice experiments. By matching these time preference measures to objective data from individual credit reports and annual tax returns, we create a unique data set tailored to examining the relationship between impatience and credit behavior. The paper finds that, controlling for disposable income and other individual characteristics, time preferences explain heterogeneity in individual credit behavior. More impatient individuals have lower credit scores; these lower scores are primarily due to poor debt servicing. Furthermore, our results show that the structure of individual time preferences is important. Individuals who are dynamically inconsistent, i.e. discount quasi-hyperbolically, have higher active borrowing while individuals who have lower long-run discount factors are more likely to have payment delinquencies and to default on accounts.

15:00 – 16:00 Session 6: Urban Economics (Room 125)

Christian Hilber, London School of Economics

Potential New Housing Supply and the Dilution of Social Capital

This paper examines the role of local housing market conditions for social capital accumulation and neighborhood club good provision. A model of individual investment decisions predicts that in a setting with high transaction costs associated with property sales, homeowners are more likely to invest in social capital in built-up neighborhoods with inelastic supply of new housing. In these neighborhoods homeowners are largely protected from inflows of newcomers that may dilute the net benefit from social capital in the longer run. Renters in contrast to homeowners can never recover initial investment costs because they cannot internalize the long-term net benefit from social capital. Empirical evidence from the Social Capital Community Benchmark Survey confirms the model predictions.

Yannis M. Ioannides, Tufts University; Kurt Schmidheiny, Universitat Pompeu Fabra

Estimating Neighborhood Choice by Combining Individual and Neighborhood Data

The paper develops a discrete choice of community choice by combining features of the approach by Berry, Levinsohn and Pakes (1995; 2004) to the choice of differentiated goods with the approach of Epple and Sieg (1999) and of Epple et al. (2001; 2006). The paper reports estimation results that involve an iterative procedure consisting of two stages. At a first stage, we use information on the joint distribution of household characteristics in a metropolitan area, which in our case are obtained from the American Housing Survey Boston metropolitan area micro sample, to predict population shares and moments of household characteristics and match them with observed population shares and moments by community by means of a generalized method of moments method. This stage uses estimates of coefficients reflecting interactions between individual and community characteristics and estimates community-specific intercepts. These intercepts serve as sufficient statistics for the estimation, at a second stage, of coefficients expressing the effects of community-specific characteristics by regressing them on the marginal distributions of household characteristics by the different communities in Boston metropolitan area in 1980. The latter is the same data set from the US Census that Epple et al. have also used, but is augmented by means of community-specific housing prices, which are obtained from the record of all transactions. Our results demonstrate that use of two public sources of data circumvents the need of confidential data that previous research has relied on.

1st End-Of-Year Conference of Swiss Economists Abroad

December 22, 2006
Université de Lausanne, HEC, Extranef Building, Campus Dorigny

Participants

Name	Affiliation	E-mail
Philippe Bacchetta	Study Center Gerzensee and Université de Lausanne	phbacchetta@szgerzensee.ch
Toni Beutler	University of Lausanne, DEEP	Toni.Beutler@idheap.unil.ch
Juan Manuel Blanco	Centre Walras-Pareto, Lausanne	JuanManuel.Blanco@unil.ch
Karin Böhni	HEC Lausanne, Studienstiftung	karin.boehni@unil.ch
Marius Brülhart	Université de Lausanne	marius.brulhart@unil.ch
Monika Bütler	Universität St. Gallen	monika.buetler@unisg.ch
Oliver Cadot	Université de Lausanne	olivier.cadot@unil.ch
Florian Chatagny	IDHEAP, Lausanne	Florian.Chatagny@idheap.unil.ch
Hélène Chevrou-Séverac	IEMS-University of Lausanne	Helene.Chevrou-Severac@unil.ch
Bernard Dafflon	Université de Fribourg	thierry.madies@unifr.ch
Jerome Dumortier	Iowa State University	jrfd@iastate.edu
Thomas Flury	University of Oxford	thomas.flury@lincoln.ox.ac.uk
Laurent Fresard	University of Neuchatel	laurent.fresard@unine.ch
Patricia Funk	Universitat Pompeu Fabra	patricia.funk@upf.edu
Andreas Fuster	Harvard University	afuster@fas.harvard.edu
Lorenz Goette	Federal Reserve Bank of Boston	lorenz@iew.unizh.ch
Christian Hilber	London School of Economics	c.hilber@lse.ac.uk
Jean Imbs	HEC Lausanne	jimbs@unil.ch
Mario Jametti	York University Toronto	jametti@econ.yorku.ca
Adrien Jorge	HEC Lausanne	adrien.jorge@unil.ch
Michael Kosfeld	Universität Zürich	kosfeld@iew.unizh.ch
Peter Kugler	Universität Basel	peter.kugler@unibas.ch
Rafael Lalive	Université de Lausanne	rafael.lalive@unil.ch
Qing Li	IEMS-University of Lausanne	Qing.Li@unil.ch
Stephan Litschig	Columbia University	sl2189@columbia.edu
Eva Luethi	Universitat Pompeu Fabra	eva.luthi@gmail.com
Thomas Lufkin	Université de Lausanne	tlufkin@unil.ch

Name	Affiliation	E-mail
Vincent Lüscher	HEC Lausanne, Studienstiftung	vincent_luescher@hotmail.com
Nicole Mathys	HEC Lausanne	Nicole.Mathys@unil.ch
Luethi Maxence	HEC Lausanne, Studienstiftung	maxence.luethi@unil.ch
Stephan Meier	Federal Reserve Bank of Boston	stephan.meier@bos.frb.org
Philippe Mueller	Columbia University, GSB	pm2025@columbia.edu
Andreas Mueller	Stockholm School of Economics	andreas.mueller@hhs.se
Klaus Neusser	Universität Bern	klaus.neusser@vwi.unibe.ch
Frédéric Payot	Lausanne University	frederic.payot@unil.ch
Martino Pelli	Deep, University of Lausanne	martino.pelli@unil.ch
Dina Pomeranz	Harvard University	dina_pomeranz@yahoo.com
Patrick Premand	University of Oxford	patrick.premand@lincoln.ox.ac.uk
Jamele Rigolini	The World Bank and University of Warwick	jrigolini@worldbank.org
Dominic Rohner	University of Cambridge	dr296@cam.ac.uk
Catherine Roux	DEEP-HEC Lausanne	Catherine.Roux@unil.ch
Pascal Saint-Amour	Université de Lausanne	pascal.st-amour@unil.ch
Mark Schelker	University of Fribourg	mark.schelker@unifr.ch
Kurt Schmidheiny	Universitat Pompeu Fabra	kurt.schmidheiny@upf.edu
Yves Schneider	University of Bern	yves.schneider@vwi.unibe.ch
Yuliya Shakurova	UNIL, DEEP	juliya.shakurova@unil.ch
Silvia Sonderegger	University of Bristol	S.Sonderegger@bristol.ac.uk
Mathias Thoenig	Université de Genève	mathias.thoenig@ecopo.unige.ch
Kai Truempler	Universitat Pompeu Fabra	kai.truempler@upf.edu
Sébastien Wälti	Trinity College Dublin	waltis@tcd.ie
Pierre-Yves Yanni	UCLA	pyanni@ucla.edu