3rd End-of-Year Conference of Swiss Economists Abroad

December 22nd 2008

Universität Zürich

Organizers: Stephan Meier, Dina Pomeranz, Kurt Schmidheiny
Local Organizer: Armin Schmutzler
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3rd End-of-Year Conference of Swiss Economists Abroad

Day Schedule

9:00 - 9:30	**Arrival, Registration, Coffee**
9:30 - 9:45	**Welcome Session** (Room K02-F-152)
9:45 - 11:00	**Parallel Sessions 1 - 3**
	1. Regional and Urban Economics (Room K02-F-152) 2. Environmental Economics and Natural Ressources (Room K02-F-153) 3. Finance I (Room K02-F-172)
11:00 - 11:30	**Break**
11:30 - 12:45	**Parallel Sessions 4 - 6**
	4. Development Economics (Room K02-F-152) 5. Econometrics (Room K02-F-153) 6. Finance and Public Economics (Room K02-F-172)
12:45 - 14:00	**Lunch**
14:00 - 14:45	**Keynote Address by Iris Bohnet** (Room K02-F-152)
14:45 - 15:35	**Parallel Sessions 7 - 9**
	7. Labor Market (Room K02-F-152) 8. Economic History and Political Economy (Room K02-F-153) 9. Finance II (Room K02-F-172)
15:35 - 16:00	**Break**
16:00 - 17:15	**Parallel Sessions 10 - 12**
	10. Experimental Economics (Room K02-F-152) 11. Political Economy (Room K02-F-153) 12. Finance III (Room K02-F-172)
17:45 - 18:15	**Apero** (Restaurant Rechberg, Chorgasse 20)
18:15 - 20:00	**Dinner** (Restaurant Rechberg, Chorgasse 20)

3rd End-of-Year Conference of Swiss Economists Abroad

Conference Program

9:00 - 9:30	**Arrival, Registration, Coffee**
9:30 - 9:45	**Welcome Session** (Room K02-F-152)
9:45 - 11:00	**Session 1: Regional and Urban Economics** (Room K02-F-152)
Christian Hilber	Local Economic Conditions and the Nature of New Housing Supply
Eva Luthi	Do Local Governments Really Tax Agglomeration Rents?
Kurt Schmidheiny	Do Agglomeration Economies Reduce the Sensitivity of Firm Location to Tax Differentials?
9:45 - 11:00	**Session 2: Environmental and Natural Ressources** (Room K02-F-153)
David Bieri	Reassessing the Importance of Tiebout Sorting: Environmental Amenities and the Cost-of-Living
Simon Lüchinger	Valuing Air Quality Using the Life Satisfaction Approach
Dominic Rohner	Natural Resources and Ethnic Conflict
9:45 - 11:00	**Session 3: Finance I** (Room K02-F-172)
Philippe Mueller	Credit Spreads and Real Activity
Luzi Hail	Cost of Capital Effects and Changes in Growth Expectations around U.S. Cross-Listings
Iwan Meier	Style Rotation and Performance Persistence of Mutual Funds
11:00 - 11:30	**Break**
11:30 - 12:45	**Session 4: Development** (Room K02-F-152)
Stephan Litschig	Rules vs. Political Discretion: Evidence from Constitutionally Guaranteed Transfers to Local Governments in Brazil
Manuel Öchslin	Government Revenues and Economic Growth in Weakly Institutionalized States
Dina Pomeranz	Understanding Tax Compliance. Project for a Randomized Experiment on the VAT in Chile
11:30 - 12:45	**Session 5: Econometrics** (Room K02-F-153)
Thomas Flury	Efficient Econometric Inference Based on Estimated Likelihoods
David Scherrer	No Arbitrage and Pricing Kernel: A Structural Latent Factor Approach
Blaise Melly	Quantile Treatment Effects in the Regression Discontinuity Design
11:30 - 12:45	**Session 6: Finance and Public Economics** (Room K02-F-172)
Mario Jametti	Pension Benefit Insurance and Pension Fund Portfolio Choice
Clemens Sialm	Tax Changes and Asset Pricing
Antoine Martin	Bank Liquidity, Interbank Markets and Monetary Policy
12:45 - 14:00	**Lunch**
14:00 - 14:45	**Keynote Address** (Room K02-F-152)
Iris Bohnet	The Elasticity of Trust

14:45 - 15:35	**Session 7: Labor Market** (Room K02-F-152)
Andreas Müller	Job Search and Unemployment Insurance: New Evidence from Time Use Data
Francesco Furlanetto	Productivity, Hours and Unemployment in a New Keynesian model with Hiring Costs

14:45 - 15:35	**Session 8: Economic History and Political Economy** (Room K02-F-153)
Lorenz Küng	The Revival of the Note Issue Paradox: Free Banking in Switzerland between 1872 and 1881
Sonja Pippin	Availability and Use of Direct Democracy Measures: Evidence from Swiss Cantons

14:45 - 15:35	**Session 9: Finance II** (Room K02-F-172)
Lukas Schmid	An Equilibrium Model of Credit Risk and Asset Pricing
Silvia Sonderegger	Trust, Introspection and Participation in Financial Markets: a Theoretical Analysis

15:35 - 16:00	**Break**

16:00 - 17:15	**Session 10: Experimental Economics** (Room K02-F-152)
Andreas Fuster	Another Hidden Cost of Incentives: The Detrimental Effect on Norm Enforcement
Lorenz Götte	Fairness and Wages: Evidence from a Field Experiment
Stephan Meier	Charging Myopically Ahead: Evidence on Present Biased Preferences and Credit Card Borrowing

16:00 - 17:15	**Session 11: Political Economy** (Room K02-F-153)
Charles B. Blankart	Who Should Be Liable for Public Debt in a Federal State?
Johannes Binswanger	Ideology, Populism, and Politics
Patricia Funk	Beyond the Glass Ceiling: Does Gender Matter?

16:00 - 17:15	**Session 12: Finance III** (Room K02-F-172)
Ivan Jaccard	Asset Pricing in Home Production Economies
Adriano Rampini	Collateral, Financial Intermediation, and the Distribution of Debt Capacity
Andras Niedermayer	Intermediation, Seller Price Setting Mechanisms, and Random Matchig

17:45 - 18:15	**Apero** (Restaurant Rechberg, Chorgasse 20)

18:15 - 20:00	**Dinner** (Restaurant Rechberg, Chorgasse 20)

3rd End-Of-Year Conference of Swiss Economists Abroad

Abstracts

9:45 - 11:00 Session 1: Regional and Urban Economics (Room K02-F-152)

Christian Hilber (London School of Economics), Wouter Vermeulen (VU Amsterdam and CPB), Jan Rouwendal (VU Amsterdam)

Local Economic Conditions and the Nature of New Housing Supply

In this paper we explore the role of local economic conditions for the composition and quality of new housing supply. Exploiting MSA-level American Housing Survey (AHS) data from 1984 to 2004, we develop various indicators that capture the nature of newly constructed housing and relate these to economic conditions in the MSA at the time when the units were built. Controlling for national trends and time-invariant local heterogeneity, we find that one year lagged per-capita-income has a strong positive effect on the share of multifamily housing and a negative effect on the square footage of newly built units. These effects are confined to MSAs where land use regulation is relatively lax and they are stronger in city centers than in suburbs. Income is not statistically significantly related to various attributes of newly built single-family housing. Our results appear to reflect both the substitution of capital for land predicted by the standard urban economic model and the specific housing needs of intercity migrants that are attracted by local economic prosperity.

Eva Luthi (Universitat Pompeu Fabra), Kurt Schmidheiny (Universitat Pompeu Fabra)

Do local governments really tax agglomeration rents?

Three streams of literature offer contrasting approaches to explain taxation policies. In tax competition models capital is mobile and moves to wherever the tax rates are the lowest. In the tax haven literature there are asymmetries in country size which influence taxation policy. Finally, the new economic geography literature emphasizes the existence of agglomeration rents for firms, reducing their sensitivity to tax rates. In this paper, we use Swiss municipal level data to test the different theories against each other. We find a positive effect of agglomeration on the level of tax rates but no municipality size on taxation.

Marius Brülhart (Université de Lausanne), Mario Jametti (Università della Svizzera italiana), Kurt Schmidheiny (Universitat Pompeu Fabra)

Do Agglomeration Economies Reduce the Sensitivity of Firm Location to Tax Differentials?

Low corporate taxes can help attract new firms. This is the main mechanism underpinning the standard race-to-the-bottom view of tax competition. A recent theoretical literature has qualified this view by formalizing the argument that agglomeration forces can reduce firms' sensitivity to tax differentials across locations. We test this proposition using data on firm startups across Swiss municipalities. We find that, on average, high corporate income taxes do deter new firms, but that this relationship is significantly weaker in the most spatially concentrated sectors. Location choices of firms in sectors with an agglomeration intensity at the twentieth percentile of the sample distribution are estimated to be twice as responsive to a given difference in local corporate tax burdens as firms in sectors with an agglomeration intensity at the eightieth percentile. Hence, our analysis confirms the theoretical prediction: agglomeration economies can neutralize the impact of tax differentials on firms' location choices.

9:45 - 11:00 Session 2: Environmental and Natural Ressources (Room K02-F-153)

David Bieri (Virginia Tech), Nicolai Kuminoff (Virginia Tech), Jaren Pope (Virginia Tech)

Reassessing the Importance of Tiebout Sorting: Environmental Amenities and the Cost-of-Living

More than 50 years ago, Charles Tiebout (1956) suggested that people sort themselves across space according to their preferences for the public goods that differentiate urban neighborhoods. We reassess the importance of Tiebout sorting, using data on local public goods which are not produced from local taxes; particularly climate and environmental amenities. If climate and amenities matter for Tiebout sorting as we hypothesize, then as moving costs decline, the demand for housing in high-amenity areas will increase. Since supply is not perfectly elastic, we should see the cost-of-living increase. As the cost-of-living goes up, only wealthier households will be able to afford to move in to the highest-amenity neighborhoods. To explore this empirical prediction, we build upon the quality of life literature by creating a quality of life index at the PUMA and county level using, what we believe to be, the most comprehensive micro-level amenity data ever assembled for the US. Following the literature we use wage and housing hedonic regressions to estimate implicit amenity prices that are used to weight our quality of life index. We then extract the sub-index of climate and time-constant amenities so that a comparison can be made to the results of the Rhode and Strumpf paper. This allows us to see if there is indeed demographic sorting into climate and environmental amenity rich counties over time. The analysis allows us both provide a current quality of life index using a very rich dataset and also to shed light on the importance of Tiebout sorting as it relates to climate and environmental amenities across the nation.

Simon Lüchinger (London School of Economics)

Valuing Air Quality Using the Life Satisfaction Approach

We use the life satisfaction approach to value air quality, combining individual-level panel and high-resolution SO2 data. To avoid simultaneity problems, we construct a novel instrument exploiting the natural experiment created by the mandated scrubber installation at power plants, with wind directions dividing counties into treatment and control groups. We find a negative effect of pollution on well-being that is larger for instrumental variable than conventional estimates, robust to controls for local unemployment, particulate pollution, reunification effects and rural/urban trends, and larger for environmentalists and predicted risk groups. To calculate total willingness-to-pay, the estimates are supplemented by hedonic housing regressions.

Massimo Morelli (Columbia University), Dominic Rohner (University of York)

Natural Resources and Ethnic Conflict

We examine how the abundance and distribution of natural resources can account for ethnic conflict. The presence of a minority ethnic group in a region that is rich in natural resources can fuel secessionist conflict, whereas for other geographical distributions of natural resources peace or agreed secession can be sustainable or minority groups may attempt to take over the whole state without secessionist goals. We also provide predictions with respect to the contrasting effects of different forms of wealth and various forms of natural resources, and show how power-sharing institutions can help to avoid conflict. The results of the model are discussed in the light of the empirical evidence.

9:45 - 11:00 Session 3: Finance I (Room K02-F-172)

Philippe Mueller (London School of Economics)

Credit Spreads and Real Activity

This paper explores the transmission of credit conditions into the real economy. Specifically, I examine the forecasting power of the term structure of credit spreads for future GDP growth. I find that the whole term structure of credit spreads has predictive power, even though the term structure of Treasury yields has none. Using a parsimonious macro-finance term structure model that captures the joint dynamics of GDP, inflation, Treasury yields and credit spreads, I decompose the spreads and identify what drives the relationship between credit spreads and the real economy. I show that there is a pure credit component orthogonal to macroeconomic information that accounts for a large part of the forecasting power of credit spreads. The macro factors themselves also contribute to the predictive power, especially for long maturity spreads. Taken together, credit and macro factors capture virtually all predictability inherent in the actual spreads, while additional factors affecting Treasury yields and credit spreads are irrelevant. The credit factor is highly correlated with the index of tighter loan standards, thus lending support to the existence of a transmission channel from borrowing conditions to the economy.

Luzi Hail (University of Pennsylvania), Christian Leuz (University of Chicago)

Cost of Capital Effects and Changes in Growth Expectations around U.S. Cross-Listings

This paper examines whether cross-listing in the U.S. reduces foreign firms' cost of capital. While prior studies document that U.S. cross-listings are associated with substantial increases in firm value, the sources of these valuation effects are not well understood. We estimate cost of capital effects implied by market prices and analyst forecasts, which allows us to explicitly account for changes in growth expectations around cross-listings. We find strong evidence that firms with cross-listings on U.S. exchanges experience a significant decrease in their cost of capital between 70 to 120 basis points. These effects are sustained and still present in recent years and after the passage of the Sarbanes-Oxley Act. Consistent with the bonding hypothesis, we find smaller cost of capital reductions for firms that cross-list in the over-the-counter market and for exchange-listed firms from countries with stronger home-country institutions. For exchange-traded cross-listings, the reduction in cost of capital accounts for more than half of the increase in value around cross-listings, whereas for the other types of cross-listings the valuation effects are primarily attributable to contemporaneous revisions in growth expectations.

Iwan Meier (HEC Montréal), Jeroen Rombouts (HEC Montréal)

Style Rotation and Performance Persistence of Mutual Funds

Most academic studies on performance persistence in monthly mutual fund returns do generally not find evidence for timing skills of fund managers. Furthermore, realized returns are undoubtedly driven by the investment style of a fund. We propose a new holdings-based measure of style rotation to investigate the impact of style rotation on performance persistence. Our results on U.S. domestic equity mutual funds indicate that the one-year performance persistence increases once the funds with the highest degree of style rotation are excluded. Style inconsistent funds are more frequent in the top and bottom deciles sorted on annual performance and alphas from a four-factor model, however, they are also more likely to switch between the extreme deciles over subsequent years. Hence, a high degree of style rotation goes together with bigger fluctuations in relative performance.

11:00 - 11:30 Session 4: Development (Room K02-F-152)

Stephan Litschig (Universitat Pompeu Fabra)

Rules vs. political discretion: evidence from constitutionally guaranteed transfers to local governments in Brazil

Can rules be used to shield public resources from political interference? The Brazilian constitution and national tax code stipulate that revenue sharing transfers to municipal governments be determined by the size of counties in terms of estimated population. In this paper I document that the population estimates which went into the transfer allocation formula for the year 1991 were manipulated, resulting in significant transfer differentials over the entire 1990's. I test whether conditional on county characteristics that might account for the manipulation, center-local party alignment, party popularity and the extent of interparty fragmentation at the county level are correlated with estimated populations in 1991. Results suggest that revenue sharing transfers were targeted at right-wing national deputies in electorally fragmented counties as well as aligned local executives.

Manuel Öchslin (Tilburg University)

Government Revenues and Economic Growth in Weakly Institutionalized States

The lack of sustained growth in poor countries has often been attributed to "fiscal weakness," i.e., to an insufficient level of public revenues. Empirical evidence suggests, however, that even well-funded governments often fail to provide crucial public goods such as an adequate infrastructure or reliable law enforcement. We argue that this failure is - in part - the result of a political instability effect: More resources in the hands of a self-interest government fuel power struggles among competing elites - and decrease the incumbent regime's time horizon in office. But with a shorter time horizon, it is less attractive to finance growth-promoting institutions whose returns only accrue in the future. The model further predicts the instability effect to be stronger in places where inequality is higher; if the country's remoteness makes technology adoption more expensive; if the economy is less productive. These results are consistent with additional well-know empirical regularities. In particular, they can account for the observation that richer countries are politically more stable or that huge public revenues are frequently a curse in poor nations but a blessing in more advanced ones.

Dina Pomeranz (Harvard University)

Understanding Tax Compliance. Project for a Randomized Experiment on the VAT in Chile

This PhD project consists of a randomized experiment in collaboration with the Chilean Tax Authorities, studying tax behavior of small and medium size firms. The project will measure the impact of a strongly increased audit probability, of a message of deterrence, and of a motivational message on VAT compliance in the short and medium run, and additionally tries to identify spillover effects of the tax enforcement measures to related firms along the VAT chain.

11:30 - 12:45 Session 5: Econometrics (Room K02-F-153)

Thomas Flury (University of Oxford), Neil Shephard (University of Oxford)

Efficient econometric inference based on estimated likelihoods

Suppose we wish to carry out likelihood based inference but we solely have an unbiased simulation based estimator of the likelihood. We note that unbiasedness is enough when the estimated likelihood is used inside a Metropolis-Hastings algorithm. This result has recently been introduced in statistics literature by Andrieu, Doucet and Holenstein (2007) and is perhaps surprising given the celebrated results on maximum simulated likelihood estimation. It can be widely applied in microeconomics, macroeconomics and financial econometrics. One way of generating unbiased estimates of the likelihood is by the use of a particle filter. We illustrate these methods on three problems in econometrics, producing rather generic methods. Taken together, these methods imply that if we can simulate from an economic model we can carry out likelihood based inference using its simulations.

David Scherrer (Harvard and EUI)

No Arbitrage and Pricing Kernel: A Structural Latent Factor Approach

I construct a parsimonious linear pricing kernel of structural latent factors in the framework of the arbitrage pricing theory. The pricing kernel I model by factors estimated from large sets of stock information and condition on information that is bundled in returns of Exchange Traded Funds (ETFs). The factors are estimated from structured portfolios of ETFs, introducing a new approach to factor analysis in asset pricing. Thereby I summarize a huge amount of economic information contained in ETFs by a few meaningful factors. Dynamic factor analysis for large data sets are taken to estimate the factors. I price securities from the S&P500 Index for the time period of mid 2002 to today. In doing so, I contribute to the understanding of fundamental sources of risk and to the continuing debate over the predictability of stock market returns.

Markus Frölich (Universität Mannheim), Blaise Melly (Brown University)

Quantile treatment effects in the regression discontinuity design

This paper shows nonparametric identification of quantile treatment effects (QTE) in the regression discontinuity design (RDD) and proposes simple estimators. Quantile treatment effects are a very helpful tool to characterize the effects of certain interventions on the outcome distribution. The distributional impacts of social programs such as welfare, education, training programs and unemployment insurance are of large interest to economists.

11:30 - 12:45 Session 6: Finance and Public Economics (Room K02-F-172)

Mario Jametti (University of Lugano), Thomas Crossley (University of Cambridge)

Pension Benefit Insurance and Pension Fund Portfolio Choice

Pension Benefit Guarantee schemes have been introduced in several countries to protect plan members from underfunded pension plans at the time of bankruptcy of the sponsoring firm. Most of these insurance mechanisms are in difficult financial situations and policy reforms are being discussed or implemented. Theory suggests a number of problems of such insurance along the lines of moral hazard and adverse selection. In this paper we test one prediction: the incentive of plans with benefit insurance to invest in riskier assets using differences in insurance arrangements across Canadian jurisdictions. We find that plans with insurance invest about 5 percent more in equity than do plans without benefit guarantees.

Clemens Sialm (University of Texas at Austin)

Tax Changes and Asset Pricing

This paper investigates whether investors were compensated for the tax burden of equity securities between 1913 and 2006. Effective tax rates on equity securities vary over time due to changes in tax rates on dividends and capital gains and due to changes in corporate payout policies. Effective tax rates also vary cross-sectionally due to persistent differences in propensities to pay dividends. The results indicate an economically plausible and statistically significant tax capitalization over time and cross-sectionally.

Xavier Freixas (Universitat Pompeu Fabra), Antoine Martin (Federal Reserve Bank of New York), David Skeie (Federal Reserve Bank of New York)

Bank Liquidity, Interbank Markets and Monetary Policy

Interbank markets play a vital role for the lending of liquidity among banks with idiosyncratic shocks. This paper examines how efficiently the interbank market distributes liquidity among banks after shocks, and whether this affects banks' choice of liquidity provision to depositors. We show that there are multiple ex-ante Pareto-ranked rational expectations equilibria. There exists a first best equilibrium, in which a low interbank lending rate provides efficient risk-sharing among banks when shocks occur. Banks do not need to self-insure and can provide optimal risk-sharing for their depositor' liquidity needs. However, a high interbank rate that is greater than the return on long-term assets is necessary in the state without shocks to induce banks to hold optimal liquidity. The central bank can select the optimal interbank rate equilibrium, in which rates vary according to the state of the financial system, as an optimal monetary policy.

14:45 - 15:35 Session 7: Labor Market (Room K02-F-152)

Alan B. Krueger (Princeton University), Andreas Müller (IIES, Stockholm University)

Job Search and Unemployment Insurance: New Evidence from Time Use Data

This paper provides new evidence on job search intensity of the unemployed in the U.S., modeling job search intensity as time allocated to job search activities. The major findings are: 1) the average U.S. unemployed worker devotes about 41 minutes to job search on weekdays, which is substantially more than their European counterparts; 2) workers who expect to be recalled by their previous employer search substantially less than the average unemployed worker; 3) across the 50 states and D.C., job search is inversely related to the generosity of unemployment benefits, with an elasticity between -1.6 and -2.2; 4) the predicted wage is a strong predictor of time devoted to job search, with an elasticity in excess of 2.5; 5) job search intensity for those eligible for Unemployment Insurance (UI) increases prior to benefit exhaustion; 6) time devoted to job search is fairly constant regardless of unemployment duration for those who are ineligible for UI. A nonparametric Monte Carlo technique suggests that the relationship between job search effort and the duration of unemployment for a cross-section of job seekers is only slightly biased by length-based sampling.

Francesco Furlanetto (Norges Bank), Tommy Sveen (Norges Bank)

Productivity, Hours and Unemployment in a New Keynesian model with Hiring Costs

In a very influential paper Galí (1999) finds that a positive technology shock has a negative impact on total hours worked. Recently, Canova et al. (2008a and 2008b) confirm this result and, furthermore, they show that the adjustment is made along both the extensive and the intensive margin. In this paper we show that a simple New Keynesian model featuring two margins of labor adjustment and hiring costs can reproduce this empirical fact. Nominal and real rigidities amplify the negative response along the two margins. In addition, the model reproduces also the empirical evidence for investment-specific technology shocks.

14:45 - 15:35 Session 8: Economic History and Political Economy (Room K02-F-153)

Lorenz Küng (UC Berkeley)

The Revival of the Note Issue Paradox: Free Banking in Switzerland between 1872 and 1881

We look at the free banking era in Switzerland between 1872 and 1881 and highlight the unique institutional setting in Swiss cantons in the nineteenth century. Our empirical results indicate that there was a problem with over-issuing banks contrasting the findings of Bodenhorn and Haupert (1996). The main reason for the different results is that we are able to control for two important factors, the average withdrawals from deposit accounts and the interest rate banks paid on those deposits accounts. Our finding that the expected returns on note issuing exceeded the returns on deposit creation reestablishes the note issue paradox.

Sonja Pippin (University of Nevada Reno), Mehmet Tosun (University of Nevada Reno)

Availability and Use of Direct Democracy Measures: Evidence from Swiss Cantons

Many studies have examined the effect of direct democracy on (economic) efficiency with mixed results. Some scholars argue that direct democracy instruments – i.e., voters' initiatives and referenda – lead to more efficiency and happier citizens. On the other hand, some claim that direct democracy is not efficient and can have negative effects because of voter fatigue, information asymmetry between governments and the people, and possible abuses by the party in power. We revisit this question using a panel dataset of 26 Swiss cantons over 15 years. We compare the impact of availability and actual use of direct democracy instruments. We contribute to the prior literature by using a wide variety of voting topics including ones on government revenues, spending, and debt. We also examine various economic and fiscal efficiency measures. Our preliminary results show that actual voting is less important than the availability and requirements associated with direct democratic tools.

14:45 - 15:35 Session 9: Finance II (Room K02-F-172)

Lukas Schmid (Fuqua School of Business, Duke University), Joao F. Gomes (Wharton School, University of Pennsylvania)

An equilibrium model of credit risk and asset pricing

We integrate a trade-off theory of optimal capital structure in a stochastic general equilibrium production economy with heterogeneous firms, which can default on their debt obligations. The model provides a parsimonious framework to investigate the interactions between corporate policies, asset returns and the macro economy. On the quantitative side, we calibrate the model to match the salient facts about the business cycle and show how it can be used to simultaneously match a number of stylized facts about both credit and equity markets.

Silvia Sonderegger (University of Bristol), Fabrizio Adriani (SOAS, Univeristy of London)

Trust, Introspection and Participation in Financial Markets: a Theoretical Analysis

We consider a model where individuals can be trustworthy or opportunistic, and the share of each type in the population is not perfect known. When types are correlated, people use introspection to infer the likelihood that their counterpart in a financial interaction may be trustworthy. Trustworthy individuals are therefore more trusting, and tend to invest more. When the majority of individuals is trustworthy (so that being trusting actually dominates being cautious), this ensures that trustworthy individuals may actually obtain a higher material welfare than opportunistic types. An interesting implication that emerges from our analysis is that greater investor protection may adversely affect the relative fitness (measured in terms of material payoff) of trustworthy individuals vis-à-vis opportunistic individuals. This increases the probability that opportunistic individuals will be majoritarian in future generations, and implies that greater investor protection may actually crowd out investment in the long-run.

16:00 - 17:15 Session 10: Experimental Economics (Room K02-F-152)

Andreas Fuster (Harvard University), Stephan Meier (Columbia Business School)

Another Hidden Cost of Incentives: The Detrimental Effect on Norm Enforcement

In a laboratory experiment, we investigate how small private incentives to contribute to a public good affect contributions with and without the presence of a peer punishment mechanism. Peer punishment has been found to be effective in raising contributions by itself, and we hypothesize that incentives could lead to stronger or weaker punishment of free-riders, depending on how the incentives affect high contributors' feelings towards free-riders. Our main result is that free-riders get punished less harshly in the treatment with incentives, and as a consequence, average contributions to the public good are no higher than without incentives. This finding ties to and extends previous research on settings in which monetary incentives may fail to have the desired effect.

Lorenz Götte (Federal Reserve Bank of Boston), Ernst Fehr (University of Zurich), Alain Cohn (University of Zurich)

Fairness and Wages: Evidence from a Field Experiment

If paying higher wages motivates individuals to voluntarily provide more effort, this has sweeping implications for the functioning of labor markets. While lab experiments support this basic mechanism, evidence from field experiments is less clear-cut. We conduct a field experiment in the context of a time-limited employment relationship between a newspaper and workers hired to distribute copies. We increase wages in a controlled way to measure the impact on effort. Ten weeks after the experiment, we conduct a follow-up survey to measure fairness perceptions of the wages of these workers. We find strong evidence for the fair wage-effort hypothesis of Akerlof and Yellen (1990): Workers who felt underpaid at the baseline wage react to the wage increase by raising effort strongly. Workers who felt paid fairly at the baseline wage do not react at all to the wage increase. Our results provide clear evidence from a field experiment that the perceived fairness of wages plays an important role in determining worker effort.

Stephan Meier (Columbia Graduate School of Business), Charles Sprenger (Federal Reserve Bank of Boston)

Charging Myopically Ahead: Evidence on Present Biased Preferences and Credit Card Borrowing

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16:00 - 17:15 Session 11: Political Economy (Room K02-F-153)

Charles B. Blankart (Humboldt-Universität)

Who Should Be Liable for Public Debt in a Federal State?

Mutual debt liability of the German federal states (Länder) contributed to the large increase of public debt in Germany over the last half century. A commission eager to impose stricter debt limits on state budgets encountered opposition by the Länder. This paper proposes the strengthening of the Länder liability for their respective debt in order to disentangle interdependencies between state layers. A recent Federal Constitutional Court ruling is analyzed which sharply reduced bailout expectations of Länder and hence allows for the evolution of new institutions such as public bonds with collective action clauses as intermediate institutions towards strict bankruptcy procedures.

Johannes Binswanger (Tilburg University)

Ideology, Populism, and Politics

Modern societies and their economies are complex entities and voters may not fully understand all of their mechanisms. Voting behavior may thus not be purely determined by rational knowledge but may be affected by ideology. When politicians seek to get reelected, the presence of ideology induces incentives to engage in populist policies. We analyze these incentives in a world where also politicians may have only imperfect knowledge about the consequences of policy actions. We show that populist policies may have both beneficial and detrimental effects on welfare. We analyze the welfare trade-offs associated with populist policies as well as how they differ across different forms of democracies. Furthermore, we compare the outcome to a society governed by experts. Our results clearly demonstrate that experts may be worse for welfare than populist politicians even if the former are fully benevolent.

Renée Adams (University of Queensland Business School), Patricia Funk (Universitat Pompeu Fabra)

Beyond the glass ceiling: Does gender matter?

The representation of women in top corporate officer positions is steadily increasing. However, little is known about the impact this will have. A large literature documents that women are different from men in their choices and in their preferences, but most of this literature relies on samples of college students or workers at lower levels in the corporate hierarchy. If women must be like men to break the glass ceiling, we might expect gender differences to disappear among top executives. In contrast, using a large survey of all directors of publicly-traded corporations in Sweden, we show that female directors differ systematically from male directors in their values as defined by Schwartz (1994, 1999 and 2004). These results are robust to controlling for potential response bias using Heckman selection techniques. We also show that values are related to survey measures of board behavior, which suggests that changes in gender diversity in management can have a significant impact on corporate outcomes.

16:00 - 17:15 Session 12: Finance III (Room K02-F-172)

Ivan Jaccard (European Central Bank)

Asset Pricing in Home Production Economies

In search of a model linking financial and housing markets to the real economy, this work proposes to study the asset pricing implications of a home production economy. House prices and equity returns can be studied within the context of a general equilibrium framework where the decisions to invest in business and in residential capital and to supply labor are endogenously determined. Some key aspects of the dynamics of house prices and housing returns, the equity premium, and the Dunlop-Tarshis observations can be explained.

Adriano Rampini (Duke University), S. Viswanathan (Duke University)

Collateral, Financial Intermediation, and the Distribution of Debt Capacity

To seize investment opportunities due to temporarily low asset prices, borrowers may optimally conserve debt capacity. However, debt capacity is limited when financing is subject to collateral constraints due to limited enforcement. Borrowers may choose to exhaust their debt capacity and thus may be unable to take advantage of such opportunities, even if they can arrange for loan commitments or hedge financing needs. The cost of conserving debt capacity is the opportunity cost of foregone investment, which is higher for more productive and less well capitalized borrowers. Such borrowers may hence exhaust their debt capacity and may be forced to downsize when investment opportunities arise but cash flows are low. Thus, capital may be less productively deployed then. Higher collateralizability may make the contraction more severe. Financial intermediaries, who are better able to collateralize claims, require capital and, in such times, intermediary capital may be scarce and spreads between intermediated and direct finance high, forcing borrowers who exhaust their debt capacity to downsize by even more.

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Intermediation, Seller Price Setting Mechanisms, and Random Matching

Mechanisms where sellers set the price and are charged a linear commission fee are widely used by real world intermediaries, e.g. by real estate brokers. Empirically these commission fees exhibit very little variance, both across heterogeneous regional markets and over time. So far, there is no theoretical explanation why such seller price setting mechanisms are used and why the linear fees vary so little. In this paper, we first show that in a static Bayesian setup seller price setting with linear fees is revenue equivalent to the intermediary optimal direct mechanism derived by Myerson and Satterthwaite (1983) if and only if the seller's valuation is drawn from a generalized power distribution. Whenever such a mechanism is optimal, the fee structure is independent of the distribution from which the buyer's valuation is drawn. Second, we derive the intermediary optimal direct mechanism when there are many buyers and possibly many sellers and we show that with one seller any standard auction with linear fees and reserve price setting by the seller (which are used e.g. by eBay) implements this mechanism if the seller's valuation is drawn from a power distribution and if buyers' valuations are identically distributed. To account for the dynamic nature of many real world markets and to model competition between intermediaries, we then extend the static game to a dynamic setup with infinitely many buyers, sellers and intermediaries, where in every period a buyer, a seller and an intermediary are randomly matched. We show that seller price setting mechanisms are still optimal in this extended setup. Preliminary results suggest that the dynamics of such markets drive the sellers' distribution to power distributions and thus support the argument made for the static setup.

3rd End-of-Year Conference of Swiss Economists Abroad

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