4th End-of-Year Conference of Swiss Economists Abroad

December 21st 2009

Universität Basel

Organizers: Lorenz Küng, Stephan Meier, Dina Pomeranz, Kurt Schmidheiny
Local Organizer: Alois Stutzer
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4th End-of-Year Conference of Swiss Economists Abroad

Day Schedule

9:00 - 9:30	**Arrival, Registration, Coffee** (Room La Pausa, Level HG)
9:30 - 9:45	**Welcome Session** (Room S13, Level HG)
9:45 - 11:00	**Parallel Sessions 1 - 2**
	1. Econometrics (Room S13, Level HG) 2. PhD Projects I (Room S14, Level HG)
11:00 - 11:30	**Break** (Room La Pausa, Level HG)
11:30 - 12:45	**Parallel Sessions 2 - 4**
	3. Public Finance I (Room S13, Level HG) 4. PhD Projects II (Room S14, Level HG)
12:45 - 14:00	**Lunch** (Room La Strada, Level EG)
14:00 - 15:15	**Parallel Sessions 5 - 7**
	5. Behavioral Economics and Housing (Room S13, Level HG) 6. Macroeconomics (Room S14, Level HG) 7. Finance I (Room S15, Level HG)
15:15 - 15:45	**Break** (Room La Pausa, Level HG)
15:45 - 16:35	**Parallel Sessions 8 - 10**
	8. Finance II and Experimental Economics (Room S13, Level HG) 9. Labor Economics (Room S14, Level HG) 10. Public Finance II (Room S15, Level HG)
16:35 - 16:50	**Break** (Room La Pausa, Level HG)
16:50 - 17:50	**Keynote Address by Guido Kuersteiner** (Auditorium, Level EG)
17:50 - 18:50	**Apero** (Atrium WWZ, Level EG)
19:00 - 21:00	**Dinner** (Restaurant Gundeldingerhof)

4^{th} End-of-Year Conference of Swiss Economists Abroad

Conference Program

9:00 - 9:30 **Arrival, Registration, Coffee** (Room La Pausa, Level HG)

9:30 - 9:45 **Welcome Session** (Room S13, Level HG)

9:45 - 11:00	**Session 1: Econometrics**
Kurt Schmidheiny	On the Equivalence of Location Choice Models: Conditional Logit, Nested Logit and Poisson
Laurent Pauwels	Stability Tests for Heterogenous Panel Data
Thomas Flury	Just the right amount: why jittering can improve or destroy resampling in particle filters

9:45 - 11:00	**Session 2: PhD Projects I**
David Scherrer	Weak Financial Market Segmentation and its Implications for Aggregate Intrinsic Firm Values
Daniel Gomez	Trade-induced Mergers and Acquisitions: FTAs and asset reallocation through M&As
Cedric Wasser	Rent-seeking under Symmetric and Asymmetric Information

11:00 - 11:30 **Break**

11:30 - 12:45	**Session 3: Public Finance I**
Charles B. Blankart	A Political Economy of Value Added Taxation
Patricia Funk	How do Electoral Systems Affect Fiscal Policy? Evidence from State and Local Governments, 1890 to 2005
Eva Luthi	Competing with a tax haven. Insights from a dynamic two-country model

11:30 - 12:45	**Session 4: PhD Projects II**
Lorenz Kueng	Expected Income Tax Changes and Household Behavior
Julien Bengui	Debt Maturity, Risk Allocation and Financial Amplification
Kai Alex Truempler	Carry Trades and Monetary Policy

12:45 - 14:00 **Lunch**

14:00 - 15:15	Session 5: Behavioral Economics and Housing
Stephan Meier	Sustainable Homeownership and Numerical Ability
Johannes Binswanger	Are Economists Rational?
Christian Hilber	How sensitive are homeownership decisions to tax subsidies? The role of housing supply conditions and lending standards

14:00 - 15:15	Session 6: Macroeconomics
Manuel Oechslin	Inequality and Growth: The Neglected Time Dimension
Andrea Fracasso	The Evolution of the Sino-American Co-Dependency: Modeling a Regime Switch in a Growth Setting

14:00 - 15:15	Session 7: Finance I
Clemens Sialm	Risk Shifting and Performance of Mutual Funds
Iwan Meier	Mutual Fund Tournaments
Philippe Mueller	Banks' lending reaction to a liquidity shock

15:15 - 15:45 **Break**

15:45 - 16:35	Sessions 8: Finance II and Experimental Economics
Luzi Hail	Equity Cross-Listings in the U.S. and the Price of Debt
Andreas Fuster	Expectations as Endowments: Reference-Dependent Preferences and Exchange Behavior

15:45 - 16:35	Sessions 9: Labor Economics
Andras Niedermayer	Career Concerns and Career Choice
Andreas Mueller	Sorting and cyclical unemployment: new evidence from the Current Population Survey

15:45 - 16:35	Sessions 10: Public Finance II
Dina Pomeranz	Peers as a Savings Commitment Device: Evidence from a Field Experiment among Low-Income Micro-Entrepreneurs in Chile
Stephan Litschig	Electoral Effects of Fiscal Transfers: Quasi-Experimental Evidence from Local Executive Elections in Brazil, 1982-1988

16:35 - 16:50 **Break**

16:50 - 17:50 **Keynote Address by Guido Kuersteiner** (Auditorium, Level EG)

17:50 - 18:50 **Apero** (Atrium WWZ, Level EG)

19:00 - 21:00 **Dinner** (Restaurant Gundeldingerhof)

4th End-Of-Year Conference of Swiss Economists Abroad

Abstracts

9:45 - 11:00 Session 1: Econometrics (Room S13, Level HG)

Kurt Schmidheiny (Universitat Pompeu Fabra), Marius Brülhart (Université de Lausanne)

On the Equivalence of Location Choice Models: Conditional Logit, Nested Logit and Poisson

It is well understood that the two most popular empirical models of location choice - conditional logit and Poisson - return identical coefficient estimates when the regressors are not individual specific. We show that these two models dier starkly in terms of their implied predictions. The conditional logit model represents a zero-sum world, in which one region's gain is the other regions' loss. In contrast, the Poisson model implies a positive-sum economy, in which one region's gain is no other region's loss. We also show that all intermediate cases can be represented as a nested logit model with a single outside option. The nested logit turns out to be a linear combination of the conditional logit and Poisson models. Conditional logit and Poisson elasticities mark the polar cases and can therefore serve as boundary values in applied research.

Laurent L. Pauwels (The University of Sydney), Felix Chan (Curtin University of Technology), Tommaso Mancini-Griffoli (Swiss National Bank)

Stability Tests for Heterogeneous Panel Data

This paper proposes a new test for structural stability in panels by extending the testing procedure proposed in the seminal work of Andrews (2003) originally developed for time series. The test is robust to non-normal, crosssectionally dependent, heteroskedastic and serially correlated errors, and, importantly, allows for the number of post break observations to be small. Moreover, the test accommodates the possibility of a break affecting only some - and not all - individuals of the panel. Under mild assumptions the test statistic is shown to be asymptotically normal, thanks to the cross sectional dimension of panel data. This greatly facilitates the calculation of critical values with respect to the test's time series counterpart. Monte Carlo experiments show that the test has good size and power under a wide range of circumstances. Finally, the test is illustrated in practice, in a brief study of the euro's effect on trade.

Thomas Flury (University of Oxford)

Just the right amount: why jittering can improve or destroy resampling in particle filters

A key ingredient of many particle filters is the use of the sampling importance resampling algorithm (SIR) of Rubin 1987, which transforms a sample of weighted draws from a prior distribution into equally weighted draws from a posterior distribution. We give a novel analysis of the SIR algorithm and analyse the jittered generalisation of SIR, showing that existing implementations of jittering lead to marked inferior behaviour over the basic SIR algorithm. We show how jittering can be designed to improve the performance of the SIR algorithm. We illustrate its performance in practice in the context of two filtering problems in economics.

9:45 - 11:00 Session 2: PhD Projects I (Room S14, Level HG)

David Scherrer (Columbia Business School)

Weak Financial Market Segmentation and its Implications for Aggregate Intrinsic Firm Values

TBA

Daniel Gomez (University of Chicago GSB)

Trade-induced Mergers and Acquisitions: FTAs and asset reallocation through M&As

This paper studies the effect of trade liberalization on merger and acquisition (M&A) activity for a sample of 63 free trade agreements (FTAs) involving both developed and developing countries over the past 30 years. I model M&As as following a Poisson distribution where the Poisson arrival rate is parameterized as a function of changes in tariffs, time and industry fixed effects. The exogenous source of variation exploited is the change in tariffs across industries, FTAs and time. This paper contributes to the growing literature on the effects of free trade agreements, the mechanisms behind the observed increase in aggregate productivity following trade liberalization and the relationship between the market for corporate control and trade liberalization. The paper builds particularly on Breinlich (2008) who studied the case of CUFTA.

Cédric Wasser (Humboldt University of Berlin)

Rent-seeking under Symmetric and Asymmetric Information

We consider a variant of the Tullock rent-seeking contest. Under symmetric information we fully derive equilibrium strategies and prove their uniqueness. Then, we assume contestants to be privately informed about their costs of effort. We prove existence of a pure-strategy equilibrium and provide a sufficient condition for uniqueness. Comparing different informational settings we find that if players are uncertain about the costs of all players, aggregate effort is lower than under both private and complete information. Yet rent dissipation might still be smaller in the latter settings. Numerical examples provide additional insight into the impact of the information structure.

11:30 - 12:45 Session 3: Public Finance I (Room S13, Level HG)

Charles B. Blankart (Humboldt University Berlin), Florian C. Buck (Ludwig Maximilian University Munich)

A Political Economy of Value Added Taxation

The prevalence of a consumption-based VAT in more than 150 nations of the world is often taken as a self-evident outcome of a rational welfare economic calculation. A closer investigation, however, shows that even from a welfare economic point of view, there is no clear preference for a consumption-based VAT over a production-based VAT. Welfare economics apparently cannot unambiguously predict the superiority of the first over the latter and hence of the destination principle over the origin principle of international trade. A public choice analysis which starts from a given status quo, however, can provide an answer why most nations gradually adopted the destination principle during the second half of the twentieth century. The destination principle is revealed as the dominant strategy in the international taxation game. Though well established now, it may not remain uncontested in the future. Its institutional flaws are likely to favour tax avoidance, tax evasion, trade diversion and trade destruction. These factors are likely to become increasingly important with advancing European economic integration. In fact, it is not unlikely that the destination principle erodes itself with the achievement of the goals which it was designated to promote and that instead the origin principle may become a politically attractive alternative.

Patricia Funk (Universitat Pompeu Fabra), Christina Gathmann (University of Mannheim)

How do Electoral Systems Affect Fiscal Policy? Evidence from State and Local Governments, 1890 to 2005

Using a new data set from 1890 to 2000, we estimate how the adoption of proportional representation affects policies in Swiss cantons. We show that proportional systems shift spending toward broad goods (e.g. education and welfare benefits) but decrease spending on targetable goods (e.g. roads and agricultural subsidies). We find little evidence that proportional representation increases the size of government. We also demonstrate that compositional changes of the legislature, i.e. party fragmentation and better representation of left-wing parties, are associated with more spending. The direct electoral incentives of proportional rule appear to reduce government spending.

Eva Luthi (Universitat Pompeu Fabra)

Competing with a tax haven. Insights from a dynamic two-country model

Tax competition is a real concern among governments and policy makers. We analyze capital tax competition by means of a dynamic two-country model where countries are considered being large. To solve for the optimal taxation policy we apply the Ramsey framework. We compare tax competition to the first-best case of a fiscal union. In the long run capital tax rates converge to zero in both cases. But tax competition has nevertheless an effect on the economy in the long run. During transition capital tax rates are inefficiently low with tax competition. Labour tax rates and government debt are higher with tax competition. Private and government consumption, capital and labour are inefficiently low with tax competition. We analyze as well tax competition among asymmetric countries. In our model tax havens start out with lower initial capital stock. Setting lower tax rates than the foreign country, tax havens manage to attract capital from the foreign country. And although the foreign countries always owns more capital, a larger share will be invested in the tax haven. It turns out that tax havens have lower capital and labour taxation and higher government consumption. This is mainly possible because of higher tax revenues. Tax revenues in turn are higher in the tax haven because of higher labour participation.

11:30 - 12:45 Session 4: PhD Projects II (Room S14, Level HG)

Lorenz Kueng (University of California, Berkeley)

Expected Income Tax Changes and Household Behavior

This paper identifies income tax shock dynamics in full generality, including not only the changes in the statutory rates, but also the information set that precedes such changes. We propose a novel approach to identification of the information set that is largely independent of the modeling of the economy as well as the validity of other assumptions such as Ricardian equivalence. We use high frequency data on assets that are affected differently by the shock to identify the largest information set obtainable given the costs of and the limitations to the accumulation of further information. We provide strong evidence that the expected tax rate implied in the pricing of tax-exempt municipal bonds relative to taxable Treasury bonds of similar maturity and duration responds to news about future changes in the statutory top income tax rate between 1982 and 2007. We use the identified dynamics of income tax changes to analyze household behavior more generally.

Julien Bengui (University of Maryland)

Debt Maturity, Risk Allocation and Financial Amplification

This paper investigates the aggregate implications of leveraged agents' debt maturity choice in the context of a heterogeneous agents macroeconomic model with financial frictions. Long-term liabilities act as insurance against shocks to the asset side of an agent's balance sheet. The debt maturity structure therefore maps into a given allocation of risk between lenders and leveraged borrowers. We find that shocks to the value of the assets held by leveraged agents propagate more powerfully when the debt maturity is shorter. The constrained efficiency properties of the equilibrium maturity structure are also analyzed.

Kai Alexander Truempler (London Business School)

Carry Trades and Monetary Policy

I develop a small open economy model with a fully specified banking sector. The main objective of the paper is to study the preconditions for and implications of the carry trade in such an economy. In contrast to existing theoretical studies of the carry trade I shift attention from the funding to the investment country. I show how, through the banking sector, the carry trade influences domestic economic conditions and allows for a lending boom. The particular dynamics crucially depend on the type of monetary policy in place. The paper formalises the idea that the increased emphasis on forward-looking information typical for inflation targeting central banks makes carry trade returns more predictable and therefore more profitable. In particular, I find that an inflation targeting policy endogenises the carry trade. In the aggregate, the interplay of monetary policy and the carry trade creates an endogenous interest rate feedback channel.

14:00 - 15:15 Session 5: Behavioral Economics and Housing (Room S13, Level HG)

Stephan Meier (Columbia University GSB), Lorenz Goette (University of Lausane), Kris Gerardi (Federal Reserve Bank of Atlanta)

Sustainable Homeownership and Numerical Ability

The recent decreases of house prices has lead to a dramatic increase in delinquencies and foreclosures of subprime mortgages. The resulting subprime mortgage crisis lead to the biggest financial crisis since the Great Depression. What triggered the massive defaults in the subprime sector is still unclear. This paper investigates whether borrowers limited numerical abilities are associated with mortgage delinquencies and defaults. We measure numerical and cognitive ability among subprime homeowners in a survey and match the measures to objective loan performance data. The results show a large and significant effect of numerical ability on delinquencies and foreclosures. The result is robust to controlling for a broad set of socio-demographic control variables and is not driven by financial literacy, cognitive abilities or specifics of the mortgage contracts.

Johannes Binswanger (Tilburg University)

Are Economists Rational?

Behavioral economics investigates the rationality of decision making of individuals when they make choices for themselves, in firms or in politics. In contrast, this paper investigates the rationality of decisions that are made by academic researchers in economics when they choose their methodology. I argue that it is very difficult to justify the “rational choice” paradigm as a rational methodology. I first discuss notions of rationality that are applicable in the domain of scientific methodology. I then provide simple arguments that call the rationality of the “rational choice” approach into question. The main policy implication of the paper is that economics needs institutions that stimulate competition between different methodologies or schools of thoughts more actively than current institutions do. It is likely to be welfare-deteriorating if the rational choice approach has a near-monopoly, as it is currently the case.

Christian Hilber (London School of Economics), Tracy Turner (Kansas State University)

How sensitive are homeownership decisions to tax subsidies? The role of housing supply conditions and lending standards

We examine the impact of the combined state and federal tax subsidies to homeownership on homeownership attainment, allowing for the possibility that the value of these subsidies may vary by income group over time and depending on local housing market conditions and lending standards. Using household-level panel data from the Panel Study of Income Dynamics (PSID) from 1978 to 2007, we explore whether differences in the state-level tax subsidies and within-state changes in the tax code over time have any effect on the household’s housing tenure decision, controlling for household fixed effects, location, and time-variant household specific characteristics. We also exploit inter-state moves to allow for another source of variation in tax subsidies. We test our proposition that capitalization of tax subsidies into higher house prices offsets the positive effect of tax subsidies on homeownership attainment by exploiting data on regulatory restrictiveness in the late 1970s/early 1980s as a proxy for the inelasticity of local housing supply. We find that in more restrictive places tax subsidies have a negligible or perverse negative effect on homeownership. The perverse effects are most pronounced for the lowest income groups. This finding may be explained by the fact that higher house prices make it more difficult for the lowest income groups to overcome the relevant borrowing constraints (downpayment and liquidity constraint). In less regulated places tax subsidies have a meaningful positive impact on homeownership and the effects are strongest for the highest income groups. Mortgage lending conditions matter in the following way: In more regulated places where tax subsidies are capitalized into higher house prices and where the overall effect on homeownership attainment is negative, laxer lending standards (as measured by the loan-to-value ratio) mitigate the negative perverse effects. In less regulated places where subsidies encourage new construction rather than increase house prices, lending standards have no discernible impact on the link between subsidies and homeownership attainment. These findings are all consistent with our theoretical priors and are robust to a number of sensitivity checks including the use of alternative estimators and estimating reduced form models (using OLS) versus structural models (using TSLS). To the extent that the tax deductibility of mortgage interest is intended to facilitate homeownership for low and moderate income households particularly in more urbanized places, our findings indicate that the policy in fact had a perverse opposite effect.

14:00 - 15:15 Session 6: Macroeconomics (Room S14, Level HG)

Manuel Oechslin (Tilburg University), Daniel Halter (University of Zurich), Josef Zweimueller (University of Zurich)

Inequality and Growth: The Neglected Time Dimension

When it comes to the inequality-growth relationship, the empirical literature offers contradictory assessments: Estimators based on time-series variation only (i.e., differences-based estimators) indicate a strong positive link while estimators also exploiting the cross-sectional variation (i.e., level-based estimators) suggest a negative relationship. Taking advantage of a new dataset, the present paper confirms this conflicting pattern - but also offers an explanation on the basis of a simple model: The seemingly inconsistent empirical results just mirror different aspects of reality. More specifically, we argue that the differences-based methods are prone to reflect the (mostly) positive short- or medium-run implications of inequality while the level-based estimators also incorporate the negative consequences - which require more time to materialize. Thus, the latter estimates come close to reflect the adverse overall impact of inequality in the long run.

Andrea Fracasso (University of Trento), Luigi Bonatti (University of Trento)

The Evolution of the Sino-American Co-Dependency: Modeling a Regime Switch in a Growth Setting

This work presents a two-country two-stage growth model seeking to capture the special relationship that has emerged in the last years between the US and China. We attribute to the Chinese authorities the main objective of guaranteeing a steady and fast absorption of the manpower currently employed in the backward sector of the Chinese economy in the advanced ("market") sectors of the economy, while the US policy makers are supposed to be more concerned about keeping high the consumption possibilities of the population. All the scenarios that we depict have in common phase 1, which resembles what actually has occurred in the last years (the so called BWII regime described by Dooley et al., 2003): China accumulates large exchange rate reserves as it pegs the renminbi to the dollar at an undervalued level so as to eventually absorb into the high productive sectors the domestic manpower still employed in the low productive one. We then envisage three possible scenarios for the future evolution of the Sino-American relationship. They differ one another depending on the fiscal policy conducted by the Chinese authorities, and on whether and when China will liberalize its capital account switching to a floating exchange rate regime (thus starting phase 2). Scenario A is quite optimistic because it assumes that the structural parameters of the Chinese economy are such that fiscal policy can be effective in partially substituting the mercantilist policy undertaken in phase 1 as a fundamental source of demand for tradables and as engine of growth. Scenario B emphasizes the risks for the Chinese authorities of abandoning too early the pegging of the exchange rate that is at the core of the export-led growth process of phase 1. Finally, Scenario C shows that a Chinese continuation of the current export-led growth strategy based on the exchange-rate pegging can be economically feasible and lead over time to a complete absorption of the Chinese manpower into the advanced sectors of the economy.

14:00 - 15:15 Session 7: Finance I (Room S15, Level HG)

Clemens Sialm (University of Texas Austin), Jennifer Huang (University of Texas Austin), Hanjiang Zhang (University of Texas at Austin)

Risk Shifting and Performance of Mutual Funds

Mutual funds change their risk levels significantly over time. Risk shifting might be caused by ill-motivated trades of unskilled or agency-prone fund managers who trade to increase their personal compensation. Alternatively, risk shifting might occur when skilled fund managers trade to take advantage of their stock selection and timing abilities. This paper investigates the performance consequences of risk shifting and sheds light on the mechanisms and the economic motivations behind the risk shifting behavior. Using a holdings-based measure of risk shifting, we find that funds that increase risk perform worse than funds that keep stable risk levels over time, suggesting that risk shifting is either an indication of inferior ability or is motivated by agency issues.

Iwan Meier (HEC Montréal), Aymen Karoui (HEC Montréal)

Mutual Fund Tournaments

This paper studies risk tournament behavior among 1,233 active U.S. equity funds over the period 1991-2005. Using a contingency methodology, we reach mixed results related to the existence of a tournament phenomenon: loser (winner) funds do not systematically increase (decrease) their risk in the second half year. However, we demonstrate that this traditional approach of sorting based on cumulative returns introduces a bias whenever the correlation between risk and return is different from zero. We propose an alternative methodology using an orthogonalized measure of cumulative returns and find that an increase of 10% in the correlation between risk and returns artificially increases tournament frequencies by 1%. When analyzing holdings of funds, we find no strong evidence that loser (winner) funds increase (decrease) the allocation in riskier stocks for the second half year.

Philippe Mueller (London School of Economics)

Banks' lending reaction to a liquidity shock

We study the effects of financial market frictions on the macroeconomy by investigating how banks tighten credit conditions using a unique data set of credit relationships in Germany. For countries outside the US, the onset of the credit crisis in August 2007 provides for an exogenous shock to the supply of external financing that was not caused by the weakening of domestic fundamentals. We find that while aggregate credit continued to rise through 2008, there are cross-sectional differences in bank lending during the crisis. We find that the value of a long lending relationship decreases during the crisis. At the same time, we find that a high creditor concentration becomes more important during the crisis for firms with multiple lenders.

15:45 - 16:35 Session 8: Finance II and Experimental Economics (Room S13, Level HG)

Luzi Hail (University of Pennsylvania), Ryan Ball, (University of Chicago), Florin Vasvari (London Business School)

Equity Cross-Listings in the U.S. and the Price of Debt

This paper examines whether foreign firms can raise debt capital at lower costs after their shares are cross-listed in the U.S., and the sources of these debt market benefits. Employing a large global sample of public bonds and syndicated loans, we find strong evidence that firms with shares cross listed on U.S. exchanges or in the over-the-counter market can lower their offering yield spreads by about 45 basis points, but only for arm's length debt transactions. Consistent with legal bonding playing a lesser role in settings that allow private communication and monitoring, no or an opposite effect on offering spreads is evident for bank loans. In further analyses, we find that the reduction in bond spreads is larger for firms from countries with lax disclosure regulation, higher private control benefits and underdeveloped local debt markets. However, equity cross-listings do little to overcome weak creditor protection in the country of domicile. We also provide initial evidence that highly leveraged firms and firms that raise new equity capital in the U.S. pay higher yields for bonds and loans, consistent with debt holders facing greater risks of wealth expropriation associated with U.S. cross-listings. Our findings underscore that legal procedures protecting debt holders are less fungible than legal procedures protecting shareholders, and that equity cross-listings can create negative spillover effects with respect to the costs of debt financing.

Andreas Fuster (Harvard), Keith M. Marzilli Ericson (Harvard)

Expectations as Endowments: Reference-Dependent Preferences and Exchange Behavior

Evidence on loss aversion and the endowment effect suggests that people evaluate outcomes with respect to a reference point. Yet little is known about what determines reference points. This experiment shows that expectations determine reference points. We endow subjects with an item and randomize the probability they will be allowed to trade it for an alternative. Subjects that are less likely to be able to trade are more likely to choose to keep their item, as predicted when reference points are determined by expectations, but not when reference points are determined by the status quo or when preferences are reference-independent.

15:45 - 16:35 Session 9: Labor Economics (Room S14, Level HG)

Andras Niedermayer (Universität Mannheim), Marc Blatter (Universität Bern)

Career Concerns and Career Choice

In many industries workers face a choice between high and low visibility jobs. The former let all potential employers observe performance, the latter only the current employer. This paper argues that workers getting a positive initial signal about their talent are willing to incur costs to work in high visibility jobs in order to avoid a hold up problem with the current employer in the second period. We show that workers' ability to choose jobs and to observe an initial signal about talent reverses predictions by standard models. In particular, (i) workers may exert less effort in high visibility jobs in a career concerns setup and (ii) firms may invest more in general human capital in more visible jobs.

Andreas Mueller (Stockholm University)

Sorting and cyclical unemployment: new evidence from the Current Population Survey

This paper provides new evidence on compositional changes of the pool of unemployed over the business cycle. I use the years 1979-2008 of the Current Population Survey and devote particular attention to the wage on the previous job. The major finding is that the wage on the previous job is strongly counter-cyclical, suggesting that the typical unemployed is of higher ability in a recession. Moreover, I decompose the compositional changes into separations and hirings and find that separations account for most of the observed pattern.

15:45 - 16:35 Session 10: Public Finance II (Room S15, Level HG)

Dina Pomeranz (Harvard), Felipe Kast (Harvard), Stephan Meier (Columbia University GSB)

Peers as a Savings Commitment Device: Evidence from a Field Experiment among Low-Income Micro-Entrepreneurs in Chile

TBA

Stephan Litschig (Universitat Pompeu Fabra), Kevin Morrison (Cornell University)

Electoral Effects of Fiscal Transfers: Quasi-Experimental Evidence from Local Executive Elections in Brazil, 1982-1988

Do resource transfers from the central government to sub-national governments affect local electoral contests? Because politics usually matters for the allocation of public resources, empirical studies of this topic face a problem of simultaneous causality bias. This paper provides the first quasi-experimental evidence on electoral effects of resource transfers for local incumbent governments. Using regression-discontinuity analysis of a population-based revenue-sharing mechanism in Brazil, we estimate the transfers' effect on re-election probabilities in the 1988 mayoral elections. Our results suggest that increasing resource transfers by 30% increased the re-election probability of local non-aligned incumbent parties by about 35 percentage points. The same resource differential had no statistically significant effect on the re-election probability of the PDS, the party of the authoritarian regime. Evaluating hypotheses for these heterogeneous responses, we conclude that the PDS' profound unpopularity during the transition period made the transfers' electoral benefit unobservable.