6th End-of-Year Conference of Swiss Economists Abroad

December 22nd 2011

ETH Zürich

Organizers: Patrick Arni, Lorenz Küng, Dina Pomeranz
Local Organizer: Christoph Moser
Supported by the Swiss National Bank and the Swiss Society of Economics and Statistics
Learn more about our network at www.swisseconomistsabroad.org

6th End-of-Year Conference of Swiss Economists Abroad

Day Schedule: Thursday, December 22

9:00 - 9:30	**Arrival, Registration, Coffee** (Foyer in front of Aula, Floor G)
9:30 - 9:45	**Welcome Session** (Room 60, Aula, Floor G)
9:45 - 10:45	**Parallel Sessions 1 - 2**
	1. Field Experiments & Economic Behavior (Room 33.1, Floor F) 2. Macro Finance (Room 33.5, Floor F)
10:45 - 11:15	**Break** (Foyer in front of Aula, Floor G)
11:15 - 12:15	**Keynote Address by Felix Oberholzer-Gee** (Room 60, Aula, Floor G)
12:15 - 12:45	**How to Apply for a PhD Program Abroad?** (Room 60, Aula, Floor G; 20min) **Break** (Foyer in front of Aula, Floor G; 10min)
12:45 - 14:00	**Lunch** (Dozentenfoyer ETH)
14:00 - 15:00	**Parallel Sessions 3 - 4 & Meeting of Swiss Board**
	3. International & Applied Macroeconomics (Room 33.1, Floor F) 4. Finance I (Room 33.5, Floor F) Meeting of the Swiss Board (Dozentenfoyer ETH)
15:00 - 15:30	**Break** (Foyer in front of Aula, Floor G)
15:30 - 16:30	**Parallel Sessions 5 - 6**
	5. Finance II (Room 33.1, Floor F) 6. Labor Economics & Econometrics (Room 33.5, Floor F)
16:30 - 16:45	**Break** (Foyer in front of Aula, Floor G)
16:45 - 18:05	**Parallel Sessions 7 - 8**
	7. Retirement, CSR & Environment (Room 33.1, Floor F; 4 pres., until 18:05) 8. Organisation of Financial System (Room 33.5, Floor F; until 17:45)
18:00 - 19:00	**Apéro** (Foyer in front of Aula, Floor G)
19:15 - 21:15	**Dinner** (Rest. Linde Oberstrass)

6th End-of-Year Conference of Swiss Economists Abroad

Wednesday, December 21

19:00 - 21:00	**Informal Dinner** (Jimmy's Pizzeria)

Thursday, December 22

9:00 - 9:30	**Arrival, Registration, Coffee** (Foyer in front of Aula, Floor G)
9:30 - 9:45	**Welcome Session** (Room 60, Aula, Floor G)

9:45 - 10:45	**Session 1: Field Experiments & Economic Behavior** (Room 33.1, Floor F)
Dina Pomeranz	Insurance Through Savings Accounts: Evidence from a Randomized Field Experiment among Low-Income Micro-Entrepreneurs in Chile
Patricia Funk	Promoting Rule Compliance in Daily-Life: Evidence from a Randomized Field Experiment in the Public Libraries of Barcelona
Charles B. Blankart	Donors Without Rights. The Tragedy of Organ Transplantation

9:45 - 10:45	**Session 2: Macro Finance** (Room 33.5, Floor F)
Andreas Fuster	Natural Expectations, Macroeconomic Dynamics, and Asset Pricing
Lukas Schmid	Innovation, Growth and Asset Prices
Marcel Rindisbacher	A Structural Model of Dynamic Market Timing: Theory and Estimation

10:45 - 11:15	**Break** (Foyer in front of Aula, Floor G)
11:15 - 12:15	**Keynote Address by Felix Oberholzer-Gee** (Room 60, Aula, Floor G)
12:15 - 12:45	**How to Apply for a PhD Program Abroad?** (Room 60, Aula, Floor G; 20min) **Break** (Foyer in front of Aula, Floor G; 10min)
12:45 – 14:00	**Lunch** (Dozentenfoyer ETH)

14:00 - 15:00	**Session 3: International & Applied Macroeconomics** (Room 33.1, Floor F)
Jan Grobovsek	Development Accounting with Intermediate Goods
Daniela Hauser	Labor Mobility: Impacts on Business Cycles and Monetary Policy
Xavier Giroud	Proximity and Investment: Evidence from Plant-Level Data

14:00 - 15:00	**Session 4: Finance I** (Room 33.5, Floor F)
Philippe Mueller	Short-Run Bond Risk Premia
Andrea Vedolin	International Correlation Risk
Nikola Mirkov	The US Term Premia around FOMC Decisions

14:00 - 15:00	**Meeting of Swiss Board** (Dozentenfoyer)

15:00 - 15:30	**Break** (Foyer in front of Aula, Floor G)

15:30 - 16:30	**Session 5: Finance II** (Room 33.1, Floor F)
Luzi Hail	Mandatory Disclosure Quality, Inside Ownership, and Cost of Capital
Iwan Meier	The Cross-Section of Hurdle Rates for Capital Budgeting: An Empirical Analysis of Survey Data
Clemens Sialm	Complex Mortgages

15:30 - 16:30	**Session 6: Labor Economics & Econometrics** (Room 33.5, Floor F)
David Dorn	The China Syndrome: Local Labor Market Effects of Import Competition in the United States
Patrick Arni	Carrots & Sticks – Do Public Employment Service Policy Mixes Matter for Job Seekers' Earnings?
Martin Huber	Testing Instrument Validity for LATE Identification Based on Inequality Moment Constraints

16:30 - 16:45	**Break** (Foyer in front of Aula, Floor G)

16:45 - 18:05	**Session 7: Retirement Behavoir, CSR & Environment** (Room 33.1, Floor F)
Stefan Staubli	Does Raising the Retirement Age Increase Employment of Older Workers?
Aline Bütikofer	Health and Retirement Effects in a Collective Consumption Model of Older Households
Stephan Meier	When No News is Good News: CSR Strategy and Newspaper Headlining of Negative Firm Events
Caroline Flammer	Corporate Social Responsibility and Shareholder Value: The Environmental Consciousness of Investors

16:45 - 17:45	**Session 8: Financial Intermediation & Markets** (Room 33.5, Floor F)
Simon Loertscher	Risk, Search and Competing Exchanges
Adriano Rampini	Financial Intermediary Capital
Alain Schlaepfer	Financial Intermediation, Moral Hazard and Capital Requirements in a Business Cycle Model

18:00 - 19:00	**Apéro** (Foyer in front of Aula, Floor G)
19:15 - 21:15	**Dinner** (Rest. Linde Oberstrass)

6th End-Of-Year Conference of Swiss Economists Abroad

Abstracts

[20 minutes per paper, including discussion]

09:45 – 10:45 Session 1: Field Experiments & Economic Behavior (Room 33.1, Floor F)

Dina Pomeranz (Harvard Business School) and Felipe Kast (Pontificia Universidad Católica de Chile)

Insurance Through Savings Accounts: Evidence from a Randomized Field Experiment among Low-Income Micro-Entrepreneurs in Chile

Poverty is often characterized not only by low average income, but also by highly variable income and expenditures, and a lack of access to insurance services that can help smooth consumption. We investigate whether access to a formal savings account can provide a vehicle for self-insurance, by allowing participants to build a buffer stock of precautionary savings. In a randomized field experiment in Chile, about 3000 low-income micro-entrepreneurs are provided access to a formal savings account with no minimum balance or maintenance fees. Evaluating the impact after one year, we find that access to such accounts helps participants alleviate the burden of economic shocks, both objectively and subjectively. Participants with access to a savings account have less informal debt, fewer outstanding payments, and less often need to reduce consumption due to economic difficulties. Subjectively, they report being less worried about their financial future, and evaluate their recent economic situation as less severe. We therefore conclude that formal savings accounts can be an effective vehicle to provide a means for consumption smoothing in contexts where many other forms of insurance are lacking.

Patricia Funk (Universitat Pompeu Fabra), Jose Apesteguia (Universitat Pompeu Fabra), and Nagore Iriberri (Universitat Pompeu Fabra)

Promoting Rule Compliance in Daily-Life: Evidence from a Randomized Field Experiment in the Public Libraries of Barcelona

We study how to promote compliance with rules in everyday situations. We have access to data on the users of all public libraries in Barcelona, where, in contrast to other studies, compliance with rules can be observed perfectly. In this setting, we test the effect of sending email messages with different contents. We find that users return their items earlier if asked to do so in a simple email, showing that a general reminder of the users' duty is effective in promoting rule compliance. Furthermore, adding other contents to the general reminder does not increase compliance significantly.

Charles B. Blankart (Humboldt-University Berlin, University of Lucerne)

Donors Without Rights. The Tragedy of Organ Transplantation

Organ shortage causes about 900 killed persons per year in Germany and about 60 killed persons per year in Switzerland. An economic common place says: Where there is a shortage, exchange is not well organized. Nevertheless no fundamental reform is in sight. In the paper it will be shown why ideology and non-accountability are responsible for this tragedy. My proposal is how to provide more property rights to donors and to require more accountability by the persons respsnible for the actual regulation.

09:45 – 10:45 Session 2: Macro Finance (Room 33.5, Floor F)

Andreas Fuster (Federal Reserve Bank of New York), Benjamin Hebert (Harvard University), and David Laibson (Harvard University)

Natural Expectations, Macroeconomic Dynamics, and Asset Pricing

How does an economy behave if (1) fundamentals are truly hump-shaped, exhibiting momentum in the short run and partial mean reversion in the long run, and (2) agents do not know that fundamentals are hump-shaped and base their beliefs on parsimonious models that they fit to the available data? A class of parsimonious models leads to qualitatively similar biases and generates empirically observed patterns in asset prices and macroeconomic dynamics. First, parsimonious models will robustly pick up the short-term momentum in fundamentals but will generally fail to fully capture the long-run mean reversion. Beliefs will therefore be characterized by endogenous extrapolation bias and pro-cyclical excess optimism. Second, asset prices will be highly volatile and exhibit partial mean reversion—i.e., overreaction. Excess returns will be negatively predicted by lagged excess returns, P/E ratios, and consumption growth. Third, real economic activity will have amplified cycles. For example, consumption growth will be negatively auto-correlated in the medium run. Fourth, the equity premium will be large. Agents will perceive that equities are very risky when in fact long-run equity returns will co-vary only weakly with long-run consumption growth. If agents had rational expectations, the equity premium would be close to zero. Fifth, sophisticated agents—i.e., those who are assumed to know the true model—will hold far more equity than investors who use parsimonious models. Moreover, sophisticated agents will follow a counter-cyclical asset allocation policy. These predicted effects are qualitatively confirmed in U.S. data.

*Lukas Schmid (*Duke University*)*

Innovation, Growth and Asset Prices

Asset prices reflect anticipations of future growth. Likewise, long-term growth prospects mirror an economy's innovative potential. In this paper, we examine the asset pricing implications of a stochastic model of endogenous growth. In the model, asset prices and long-term growth prospects are endogenously determined by innovation and risky investments in R&D. In equilibrium, R&D endogenously drives a small, but persistent component in productivity growth. These productivity dynamics induce persistent uncertainty about the long-term growth prospects in the economy, which is reflected in long-term cycles and growth waves in quantities and asset market valuations. With recursive preferences, households are very averse to such persistent movements and command high risk premia in asset markets that help the model match key asset price data. In short, equilibrium growth is risky. Importantly, high equilibrium returns provide strong intertemporal incentives for innovation and thus provide a strong propagation mechanism in the model. Empirically, we find substantial evidence for innovation-driven low-frequency movements in aggregate growth rates and asset market valuations.

Marcel Rindisbacher (Boston University) and Jerome Detemple (Boston University)

A Structural Model of Dynamic Market Timing: Theory and Estimation

This paper derives and analyzes dynamic timing strategies of a fund manager with private information. Endogenous timing strategies generated by various information structures and skills, and associated fund styles are identified. Endogenous fund returns are characterized in the public information of an uninformed observer. Econometric methods for style analysis are developed. New tests of timing skill are proposed and their detection ability is analyzed. An application to a universe of hedge fund indices shows significant timing ability in specific categories of hedge fund styles.

14:00 – 15:00 Session 3: International & Applied Macroeconomics (Room 33.1, Floor F)

Jan Grobovsek (Universitat Autonoma de Barcelona)

Development Accounting with Intermediate Goods

Do intermediate goods help explain relative and aggregate productivity differences across countries? Three observations suggest they do: (i) intermediates are relatively expensive in poor countries; (ii) goods industries demand intermediates more intensively than service industries; (iii) goods industries are more prominent intermediate suppliers in poor countries. I build a standard multisector growth model accommodating these features to show that inefficient intermediate production strongly depresses aggregate productivity and increases the price ratio of final goods to services. Applying the model to data for middle and high income countries, I find that poorer countries are only modestly less efficient at producing goods than services, but substantially less efficient at producing intermediate relative to final goods and services. If all countries had the intermediate production efficiency of the US, the aggregate productivity gap between the lowest and highest income countries in the sample is predicted to shrink by roughly two thirds while cross-country differences in the final price ratio would virtually vanish.

Daniela Hauser (Universitat Autònoma de Barcelona)

Labor Mobility: Impacts on Business cycles and Monetary Policy

This paper studies the implications of endogenous labor mobility on the optimal conduct of monetary policy. A two-country model with monopolistic competition, price stickiness and labor market distortions is employed to investigate the implications of labor mobility for the propagation of productivity and labor market shocks, for the monetary policy trade-offs, and for the welfare properties of two monetary policy regimes: independent monetary authorities in the two countries and a monetary union. In particular, we analyze the impact of a mobile labor force on the cost of giving up an independent monetary policy. We find that labor mobility mitigates the effects of labor market shocks in both countries, reduces the monetary policy-trade off and therefore the cost of giving up an independent monetary policy. Conditional on productivity shocks labor mobility is beneficial for the country hit by the shock, but amplifies the effects on the other country. Whether or not the coordination of monetary policies is beneficial in presence of labor mobility therefore depends on the relative importance of the two shocks.

Xavier Giroud (MIT)

Proximity and Investment: Evidence from Plant-Level Data

Proximity to plants makes it easier for headquarters to monitor and acquire information about plants. In this paper, I estimate the effects of headquarters' proximity to plants on plant investment and productivity. Using the introduction of new airline routes as a source of exogenous variation in proximity, I find that new airline routes that reduce the travel time between headquarters and plants lead to an increase in plant investment of 8% to 9% and to an increase in plants' total factor productivity of 1.3% to 1.4%. The results are robust to controlling for local and firm-level shocks that could potentially cause the introduction of new airlines routes, they are robust when I consider only new airline routes that are the outcome of a merger between two airlines or the opening of a new hub, and they are robust when I consider only indirect flights where either the last leg of the flight (involving the plant's home base airport) or the first leg of the flight (involving headquarters' home base airport) remains unchanged.

14:00 – 15:00 Session 4: Finance I (Room 33.5, Floor F)

Philippe Mueller (London School of Economics), Andrea Vedolin (London School of Economics), and Hao Zhou (Federal Reserve Board)

Short-Run Bond Risk Premia

In the short-run, bond risk premia exhibit pronounced spikes around major economic and financial crises. In contrast, long-term bond risk premia feature cyclical swings. We empirically examine the predictability of the market variance risk premium—a proxy of economic uncertainty—for bond risk premia and we show the strong predictive power for the one month horizon that almost entirely disappears for horizons above one year. The variance risk premium is largely orthogonal to well-established bond return predictors—forward rates, jumps, yield curve factors, and macro variables. We rationalize our empirical findings in an equilibrium model of uncertainty about consumption and inflation which is coupled with recursive preferences. We show that the model can quantitatively explain the levels of bond and variance risk premia as well as the predictive power of the variance risk premium while jointly matching salient features of other asset prices.

Andrea Vedolin (London School of Economics), Philippe Mueller (London School of Economics), and Andreas Stathopoulos (University of Southern California)

International Correlation Risk

This paper studies correlation risk in currency markets. We first construct a correlation risk premium from a cross-section of option prices on currencies and their underlying spot rates. The correlation risk premium in currency markets is statistically and economically large: Depending on the currency pair the correlation risk premium is highly countercyclical with an average risk premium of 15% which is comparable to the risk premium found in equity markets. Conditional correlations of currency pairs where one is a safe haven currency turn negative in periods of high uncertainty, whereas it increases sharply for tightly linked countries. If correlation risk is priced, then currencies that hedge against correlation should yield lower returns and currencies that correlate little should yield higher returns. To test this hypothesis, we build monthly currency portfolios sorted on the correlation risk exposure. Using data between 1999 and 2011, we show that a trading strategy that goes long the lowest and shorts the highest correlation portfolio yields an annualized excess return of 3%. Priced correlation risk is not subsumed by other risk factors such as global volatility risk or a carry trading strategy. We then posit a multi country general equilibrium model with external habit. We establish a global risk aversion factor and study its impact on the correlation risk premium and exchange rates. Higher global risk aversion implies a higher correlation risk premium through the correlation structure of individual countries' risk aversion and hence higher expected returns for those countries that are more exposed to this risk.

Nikola Mirkov (University of St.Gallen and Norges Bank)

Short-Run Bond Risk Premia

This paper uses daily data on the U.S. interest rates and interest rate caps to estimate a three-factor Gaussian term structure model with a separate set of parameters for the days of the Federal Open Market Committee (FOMC) policy rate decisions. Following the ideas in Kuttner (2001), all the FOMC decisions from January 1999 to December 2008 are divided into anticipated- and "surprise" policy actions. The estimation results suggest that the expansionary policy actions, considered as anticipated, cause on average a contemporaneous decline in forward term premia and a rise in the short-rate expectations on the longer-end. A surprise cut seem to provoke a parallel shift of the expected short-rates and a spike in longer term premia. This negative co-movement between the premia and the short-rate expectations implicit in higher maturities might provide an explanation of the so called "slope effect" of monetary policy on the US yield curve in the considered period. The findings are independent of the market price of risk specification or whether the model with a single- or two parameter set is used in the assessment. Nonetheless, allowing for a separate set of parameters around policy days indicates a greater role of the slope factor in explaining the variation of long-term yields around those days.

15:30 – 16:30 Session 5: Finance II (Room 33.1, Floor F)

Luzi Hail (Wharton, University of Pennsylvania), John Core (Sloan School of Management, MIT), and Rodrigo Verdi (Sloan School of Management, MIT)

Mandatory Disclosure Quality, Inside Ownership, and Cost of Capital

This paper examines whether and how inside ownership mediates the relation between disclosure quality and the cost of capital. Both ownership and more transparent reporting have the potential to align incentives between managers and investors thereby reducing systematic risk. Employing a large global sample across 36 countries over the 1990 to 2005 period, we start with confirming that country-level disclosure regulation is significantly negatively related to (i) inside ownership, and (ii) firms' implied cost of capital and realized returns. We then introduce ownership into the cost-of-capital model, and find that the disclosure relation becomes more pronounced. Moreover, ownership is also significantly negatively related to the cost of capital. These negative relations between disclosure, inside ownership and cost of capital extend to the systematic component of cost of capital, estimated from Fama-French portfolio sorts on ownership. Thus, while the direct effect of disclosure on cost of capital is negative, the indirect effect via ownership is positive, consistent with disclosure quality and ownership acting as substitutes. Using path analysis to assess the relative magnitude, our estimates suggest that the direct effect of disclosure quality outweighs the indirect effect by a ratio of about four to one.

Iwan Meier (HEC Montréal), Ravi Jagannathan (Kellogg School of Management), and Vefa Tarhan (Loyola University Chicago)

The Cross-Section of Hurdle Rates for Capital Budgeting: An Empirical Analysis of Survey Data

Whereas Poterba and Summers (1995) find that firms use hurdle rates that are unrelated to their CAPM betas, Graham and Harvey (2001) find that 74% of their survey firms use the CAPM for capital budgeting. We provide an explanation for these two apparently contradictory conclusions. We find that firms behave as though they add a hurdle premium to their CAPM based cost of capital. Following McDonald and Siegel (1986), we argue that the hurdle premium depends on the value of the option to defer investments. While CAPM explains only 10% of the cross-sectional variation in hurdle rates across firms, variables that proxy for the benefits from the option to wait for potentially better investment opportunities explain 35%. Estimates of our hurdle premium model parameters imply an equity premium of 3.8% per year, a figure that is essentially the same as that reported in the survey by Graham and Harvey (2005). Consistent with our model, growth firms use a higher hurdle rate when compared to value firms, even though they have a lower cost of capital.

Clemens Sialm (University of Texas at Austin), Gene Amromin(Federal Reserve Bank of Chicago), Jennifer Huang (University of Texas at Austin), and Edward Zhong (University of Wisconsin Madison)

Complex Mortgages

We investigate the characteristics and the default behavior of households who take out complex mortgages. Unlike traditional fixed rate or adjustable rate mortgages, complex mortgages are not fully amortizing and enable households to postpone loan repayment. We find that complex mortgages are used by sophisticated households with high income levels and prime credit scores, in contrast to the low income population targeted by subprime mortgages. Complex mortgage borrowers have significantly higher delinquency rates than traditional mortgage borrowers even after controlling for leverage, payment resets, and other household and loan characteristics. The difference in the delinquency rates between complex and traditional borrowers increases with measures of financial sophistication and leverage, suggesting that complex borrowers are more strategic in their default decisions than traditional borrowers.

15:30 – 16:30 Session 6: Labor Economics & Econometrics (Room 33.5, Floor F)

David Dorn (CEMFI), David Autor (MIT), and Gordon Hanson (UCSD)

The China Syndrome: Local Labor Market Effects of Import Competition in the United States

We analyze the effect of rising Chinese import competition between 1990 and 2007 on local U.S. labor markets, exploiting cross-market variation in import exposure stemming from initial differences in industry specialization while instrumenting for imports using changes in Chinese imports by industry to other high-income countries. Rising exposure increases unemployment, lowers labor force participation, and reduces wages in local labor markets. Conservatively, it explains one-quarter of the contemporaneous aggregate decline in U.S. manufacturing employment. Transfer benefits payments for unemployment, disability, retirement, and healthcare also rise sharply in exposed labor markets. The deadweight loss of financing these transfers is one to two-thirds as large as U.S. gains from trade with China.

Patrick Arni (IZA Bonn), Rafael Lalive (University of Lausanne), and Gerard van den Berg (University of Mannheim)

Carrots & Sticks – Do Public Employment Service Policy Mixes Matter for Job Seekers' Earnings?

Public Employment Service (PES) units often fundamentally shape the treatment of individual job seekers by applying specific strategies (mixes) of labor market policies. Interestingly, not much evidence on this issue can be found. This paper empirically assesses the role of PES policies for the job seekers' earnings in the 3.5 years after unemployment entry. We use a vast register data base covering the employment, unemployment and ALMP histories of a fourth of the full unemployment inflow from 2000 to 2005 in Switzerland. The Swiss PES enjoy (and use) a big leeway in applying different types of policies in different intensities. We estimate, in the first step, the PES-specific intended policies by types (”carrots” and ”sticks”). I.e., we propose a method to estimate the (unknown) intended policies at time of unemployment entry using actual treatment (non-)realizations later in the spell. In the second step, we relate these estimated intended policies to the mid-run earnings outcomes of the individuals. We find that the intended PES policies, for ”carrots” and for ”sticks”, both have significant impact on earnings. In particular, the interaction (mix) of the two considered policy types is of quantitative importance.

Martin Huber (Harvard and University of St Gallen) and Giovanni Mellace (University of St. Gallen)

Testing instrument validity for LATE identification based on inequality moment constraints

This paper proposes bootstrap tests for the validity of instrumental variables (IV) in just identified treatment effect models with endogeneity. We demonstrate that the IV assumptions required for the identification of the local average treatment effect (LATE) allow us to both point identify and bound the mean potential outcomes (i) of the always takers (those treated irrespective of the instrument) under treatment and (ii) of the never takers (never treated irrespective of the instrument) under nontreatment. The point identified means must lie within their respective bounds, which provides four testable inequality moment constraints for IV validity. Furthermore, we show that a similar logic applies to the identification of distributional features (e.g., local quantile treatment effects). Finally, we discuss how testing power can be increased by imposing dominance/equality assumptions on the potential outcome distributions of different subpopulations.

16:45 – 18:05 Session 7: Retirement Behavior, CSR & Environment (Room 33.1, Floor F)

*Stefan Staubli (*RAND, University of St. Gallen, University of Zurich*) and Josef Zweimüller (University of Zurich)*

Does Raising the Retirement Age Increase Employment of Older Workers?

This paper studies how an increase in the minimum retirement age affects the labor market behavior of older workers. Between 2000 and 2006 the Austrian government gradually increased the early retirement age from 60 to 62.2 for men and from 55 to 57.2 for women. Using administrative data on the universe of Austrian private-sector employees, the results from the empirical analysis suggest that this policy change reduced retirement by 19 percentage points among affected men and by 25 percentage points among affected women. The decline in retirement was accompanied by a sizeable increase in employment of 7 percentage points among men and 10 percentage points among women, but had also important spill-over effects into the unemployment insurance program. Specifically, the unemployment rate increased by 10 percentage points among men and 11 percentage points among women. In contrast, the policy change had only a small impact on the share of individuals claiming disability or partial retirement benefits.

Aline Bütikofer (Norwegian School of Economics NHH), Arthur Lewbel (Boston College), and Shannon Seitz (Boston College)

Health and Retirement Effects in a Collective Consumption Model of Older Households

Using data on older individuals and couples, we estimate a collective model of household consumption of a variety of goods, showing how resources are shared between husbands and wives, and how this allocation is affected by retirement and health status. We identify the extent to which shared consumption of goods by older married couples reduces their costs of living together relative to living alone. We also identify the fraction of household resources consumed by wives versus husbands, taking the jointness of some consumption into account. The results are relevant for household bargaining models and for a variety of welfare calculations. Among other results, we find that older couples save between 24 and 40 percent on expenditures by sharing consumption of goods, that older wives consume between 30% and 42% of total household expenditures (taking sharing of goods into account), and that these shares are little affected by retirement, but increase dramatically when the husband's health is poorer.

Stephan Meier (Columbia University), Jiao Luo (Columbia University), and Felix Oberholzer (Harvard University)

When No News is Good News: CSR Strategy and Newspaper Headlining of Negative Firm Events

Many firms undertake Corporate Social Responsibility (CSR) activities. As the immediate benefit of those efforts on firm performance is weak at best, it has been argued that a CSR reputation serves as insurance in case of a corporate scandal that shields the company somewhat from criticism. However, an alternative view sees a good CSR reputation as a liability in case of negative firm event as socially responsible firms will either be held to a higher standard and/or a negative event is more 'news' if it happens at CSR leaders. The media plays an important role in disseminating information on a corporate scandal and we argue that CSR can be a liability in case of a negative corporate event as it is more newsworthy to report the scandal for a ‘good’ firm than a ‘bad’ one. We test this argument for the oil industry by analyzing the probability of an oil spill being reported in the news depending on the CSR record of the company. We find support for the newsworthiness view in that oil spills of CSR leaders (e.g. BP) are more likely to appear in the news than spills of CSR laggards (e.g. EXXON). This higher chance of negative exposure does not get compensated by a more positive tone in the wording of the reports. However, while firms with substantial environmental initiatives are more likely to be reported, firms with substantial past environmental problems are also more likely to find their corporate scandals appear in the news. The “safe” position for companies seems to be in the middle of the pack. This result has important implication for thinking about CSR and the optimal level of such activities.

Caroline Flammer (MIT)

Corporate Social Responsibility and Shareholder Value: The Environmental Consciousness of Investors

This study examines whether shareholders are sensitive to corporations' environmental footprint. Specifically, we conduct an event study around the announcement of corporate news related to environment for all U.S. publicly-traded companies from 1980 to 2009. We find that companies that are reported to behave responsibly towards the environment experience a significant stock price increase, whereas firms that behave irresponsibly face a significant stock price decrease. When we examine how the stock market reaction has evolved over the past three decades, we find that punishment for corporate irresponsible behavior has increased, while the reward for responsible behavior has decreased. These results indicate that, over time, shareholders have become more conscious of the environment and also more demanding towards companies' environmental responsibility.

16:45 – 17:45 Session 8: Financial Intermediation & Markets (Room 33.5, Floor F)

Simon Loertscher (University of Melbourne)

Risk, Search, and Competing Exchanges

Understanding how risk and risk preferences affect the institutions of trade are questions of substantial importance. This paper provides a model where heterogenous, risk averse agents can choose between trading at a centralized (intermediated) platform or in a decentralized (over-the-counter) market. The decentralized market is characterized by random matching and a non-degenerate price distribution. Thus, the benefits of participating in the decentralized market are uncertain. In contrast, prices at the centralized platform are non-stochastic, and consequently the centralized market eliminates risk for all the agents who choose to trade there. If agents are risk neutral, then the equilibrium market structure is imperfectly Walrasian in that high valuation buyers and low cost sellers trade at the centralized market while buyers with intermediate valuations and sellers with intermediate costs participate in the decentralized market and all other agents remain inactive. The same market equilibrium structure exists when the agents have CRRA utility and are moderately risk-averse. The maximum profit of the platform with posted bid and ask prices is larger the larger the agents’ risk aversion. However, the imperfectly Walrasian equilibrium does not exist if risk aversion is large, initial wealth is small and the decentralized market is efficient.

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

Financial Intermediary Capital

We propose a dynamic theory of financial intermediaries as collateralization specialists that are better able to collateralize claims than households. Intermediaries require capital as they can borrow against their loans only to the extent that households themselves can collateralize the assets backing the loans. The net worth of financial intermediaries and the corporate sector are both state variables affecting the spread between intermediated and direct finance and the dynamics of real economic activity, such as investment, and financing. The accumulation of net worth of intermediaries is slow relative to that of the corporate sector. A credit crunch has persistent real effects and can result in a delayed or stalled recovery. We provide sufficient conditions for the comovement of the marginal value of firm and intermediary capital and discuss when incomplete risk management is optimal.

Alain Schlaepfer (Universitat Pompeu Fabra)

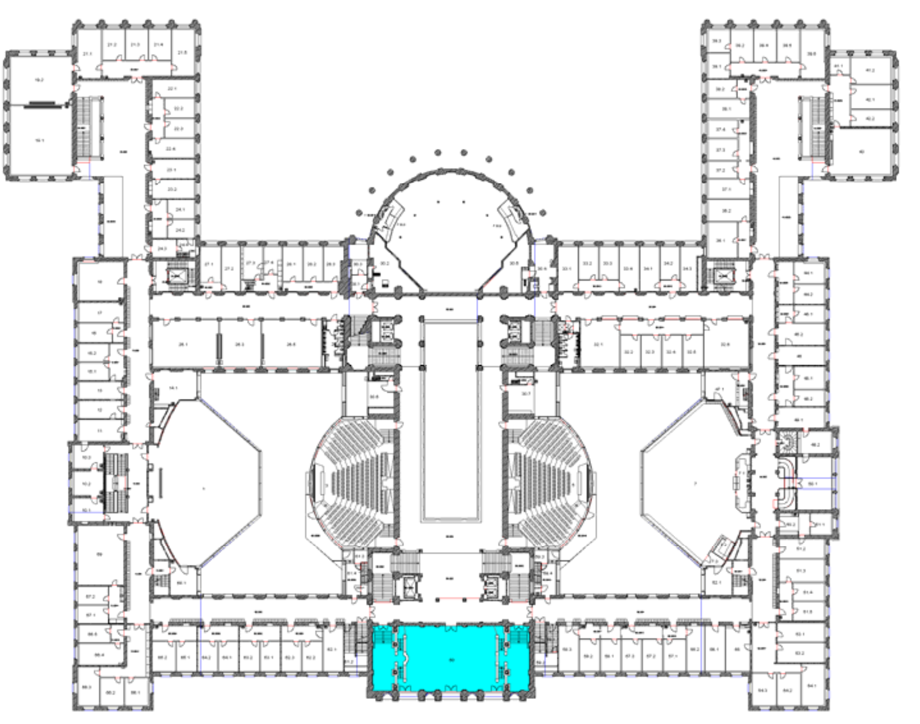
Financial Intermediation, Moral Hazard and Capital Requirements in a Business Cycle Model

This is an outline of a project for one paper of my PhD thesis. The project is still at an infant stage, but should be significantly developed during the next months. In this project, I investigate the use of capital requirements for banks as a policy tool in a business cycle model. Capital requirement are used to address the issue of moral hazard, which may arise due to governmental credit policies and bail outs of banks in case of a crisis. This work builds on the baseline model laid out in Gertler and Kiyotaki's canonical work "Financial Intermediation and Credit Cycle Analysis", Handbook of Macroeconomics, 2011. While their baseline model only allows banks to raise funding through deposits, I extend it with the possibility of issuing outside equity as a second source of financing. As a first step, I claim that the incentive constraint faced by banks when collecting deposits needs to be adjusted, in order to make it consistent with the assumptions of the paper. This issue has already been discussed with Gertler and Kiyotaki, and they agree that the adjustment is necessary and they emphasize their interest for an analysis of the potential effects. Then using this environment, I will allow banks to issue outside equity as a second source of financing along with short-term, non-contingent debt. I expect banks to underuse equity and to overleverage from a social planner's viewpoint for two reasons. First, banks will not internalize the externalities of their own leverage on the stability of the financial system, similar as in e.g. Lorenzoni, "Inefficient credit booms", Rev. Econ. Stud., 2008. Secondly, banks may expect to be bailed out in case of a crisis, hence the possibility of government intervention raises the issue of moral hazard. Both issues may be addressed by introducing minimum capital requirement for banks. These extensions will allow me to investigate the implications of the externalities and moral hazard both qualitatively and quantitatively. Further, I will be able to derive optimal specifications of capital requirements. I believe that such an analysis in a large business cycle model is both novel and highly relevant for the political and academic discussion.

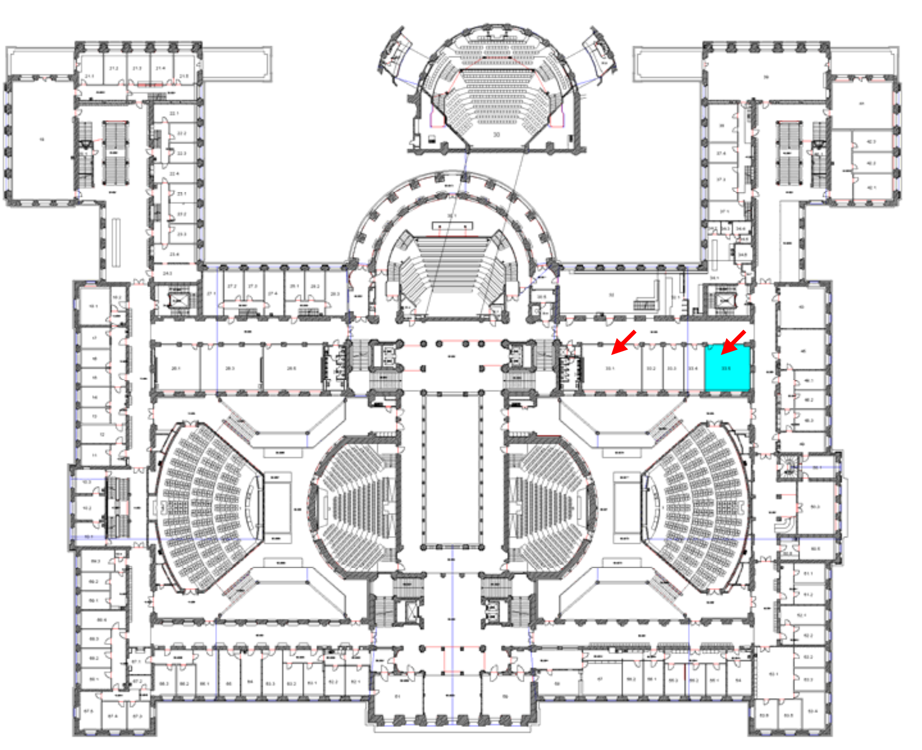
Venues

Conference: ETH Zurich, Main Building (HG)

Floor G: Aula, Foyer for Apéro and Breaks



Floor F: Session Rooms 33.1 and 33.5



The "Dozentenfoyer" is located in Floor J of the Main Building

Informal Dinner** (21.12.2011, 19:00)**: Jimmy's Pizzeria

- Culmannstrasse 1, 8006 Zürich, Tel. 044 251 36 51
- www.jimmys-pizzeria.ch

Conference Dinner** (22.12.2011, 19:15)**: Restaurant Linde Oberstrass

- Universitätstrasse 91, 8006 Zürich Tel. 044 362 21 09
- Tram 6/9/10, stop „Winkelriedstrasse"
- www.linde-oberstrass.ch

Accomodation** (21/22.12., 22/23.12.2011)**: Hotel Limmathof

- Limmatquai 142, 8001 Zürich, Tel. 044 267 60 40
- It is located right at the Central (besides Polybahn)
- www.limmathof.com