7th End-of-Year Conference of Swiss Economists Abroad

December 21st 2012
University of Lucerne

Organizers: Sandro Ambuehl, Patrick Arni, Lorenz Küng, Dina Pomeranz
Local Organizer: Roland Hodler
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7th End-of-Year Conference of Swiss Economists Abroad

Day Schedule: Friday, December 21

8:45 - 9:15	**Arrival, Registration, Coffee**
9:15 - 9:30	**Welcome Session**
9:30 - 9:45	**A Word from our Partners, the SNB and SSES**
9:45 - 10:45	**Parallel Sessions 1 - 3**
	1. Applied Micro 2. Macro Finance 3. Industrial Organization
10:45 - 11:15	**Break**
11:15 - 12:15	**Parallel Sessions 4 - 6 & Meeting of Swiss Board**
	4. Public Economics 5. Finance I 6. Transmission of Information and Norms
12:15 - 13:30	**Lunch**
13:30 - 14:30	**Keynote Address by Jamele Rigolini, The World Bank**
14:30 - 15:00	**Break**
15:00 - 16:00	**Parallel Sessions 7 - 9**
	7. Crime 8. Finance II 9. Macro and Matching
16:00 - 16:30	**Break**
16:30 - 17:30	**Parallel Sessions 10 - 12**
	10. Unemploymet 11. Finance III 12. Trade and Migration
17:30 - 18:30	**Apéro**
18:30 - 21:00	**Dinner**

7th End-of-Year Conference of Swiss Economists Abroad

Thursday, December 20

19:00 - 21:00	**Informal Dinner** (Hotel Schiff)

Friday, December 21

8:45 - 9:15	**Arrival, Registration, Coffee**
9:15 – 9:30	**Welcome Session**
9:30 – 9:45	**A Word from our Partners, the SNB and SSES**
9:45 - 10:45	**Session 1: Applied Micro**
Xavier Giroud	Capital and Labor Reallocation Inside Firms
Caroline Flammer	Does Product Market Competition Foster Corporate Social Responsibility?
Aline Bütikofer	This Is Not a Test - Long-Run Impacts of Prenatal Exposure to Radioactive Downfall from Nuclear Weapon Testing

9:45 - 10:45	**Session 2: Macro Finance**
Patrick Saner	Uncertainty Shocks and the Equity Risk Premium: Adding a Piece to the Puzzle
Charles B. Blankart	An economic explanation of the euro crisis
Alain Schlaepfer	The effects of macroeconomic stability on financial sector risk exposure and its implications for monetary policy

9:45 - 10:45	**Session 3: Industrial Organization**
Lukas Schmid	Testing Dynamic Agency Theory via Structural Estimation
Simon Loertscher	Fee-Setting Mechanisms: On Optimal Pricing by Intermediaries and Indirect Taxation
Andras Niedermayer	Assessing the Performance of Simple Contracts Empirically: The Case of Percentage Fees

10:45 - 11:15	**Break**

11:15 - 12:15	**Session 4: Public Economics**
Dina Pomeranz	Tax Me if You Can: Third-Party Cross-Checks and Evasion Substitution
Christian Hilber	The Effect of the UK Stamp Duty Land Tax on Household Mobility
Stefan Staubli	Extended Unemployment Benefits and Early Retirement: Program Complementarity and Program Substitution

11:15 - 12:15	**Session 5: Finance I**
Martin Strieborny	Suppliers, Investors, and Equity Market Liberalizations
Urs Peyer	Buybacks Around the World
Luzi Hail	Mandatory IFRS Reporting and Changes in Enforcement

11:15 - 12:15	**Session 6: Transmission of Information and Norms**
Timo Boppart	Online accessibility of academic articles and the diversity of economics
Patrick Gaule	Colocation and Scientific Collaboration: Evidence from a Field Experiment
Vasiliki Fouka	Early determinants and the cultural transmission of preferences for work and leisure

12:15 - 13:30	**Lunch**
13:30 - 14:30	**Keynote Address by James Rigolini**
14:30 - 15:00	**Break**

15:00 - 16:00	**Session 7: Crime**
Stephan Litschig	Audit Risk and Rent Extraction: Evidence from a Randomized Evaluation in Brazil
Stephan Meier	Trust and Parochialism in a Culture of Crime
Stephen Kastoryano	Street Prostitution Zones and Crime Displacement

15:00 - 16:00	**Session 8: Finance II**
Andrea Vedolin	Hedging Activity in Fixed Income Markets
Philippe Mueller	Time-Varying Persistence and the Term Structure of Interest Rates
Ilaria Piatti	Dividend Growth Predictability and the Price-Dividend Ratio

15:00 - 16:00	**Session 9: Macro and Matching**
Julien Bengui	Macro-Prudential Policy Coordination and Global Regulatory Spillovers
Lorenz Kueng	Innocent Bystanders? Monetary Policy and Inequality in the U.S.
Sandro Ambuehl	Unraveling in matching markets - a continuous time model
16:00 - 16:30	**Break**
16:30 - 17:30	**Session 10: Unemployment**
Patrick Arni	From Optimistic to Realistic? - Beliefs, Job Search and Labor Market Policy
Andreas Mueller	Job search and job finding in a period of mass unemployment: evidence from high-frequency longitudinal data
Conny Wunsch	The effect of unemployment insurance on exit from employment
16:30 - 17:30	**Session 11: Finance III**
Nic Schaub	The Pre-Announcement Effect of Analyst Recommendations: The Impact of Time Stamp Errors
Diego Ronchetti	An Empirical Study of Stock and American Option Prices
Enrico Berkes	Too Much Finance?
16:30 - 17:30	**Session 12: Trade and Migration**
Andrea Fracasso	Trade network and international R&D spillovers
Christoph T. Weiss	Education, Early Life Conditions and Regional Mobility in Europe
17:30 - 18.30	**Apéro**
18:30 - 21:00	**Dinner** (Wilden Mann)

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Abstracts

[20 minutes per paper, including discussion]

09:45 – 10:45 Session 1: Applied Micro

Xavier Giroud (MIT)

Capital and Labor Reallocation Inside Firms

We document how a plant-specific shock to investment opportunities at one plant of a company ("treated plant") spills over to other plants of the same company–but only if the company is financially constrained. While the shock triggers an increase in investment and employment at the treated plant, this increase is offset by a decrease at other plants of roughly the same magnitude, which is consistent with headquarters channeling scarce resources away from other plants and toward the treated plant. As a result of the resource reallocation, aggregate firm-level productivity increases, suggesting that the reallocation is beneficial for the firm as a whole. We also show that–in order to provide the treated plant with scarce resources–headquarters does not uniformly "tax" all of the firm's other plants in the same way. Precisely, headquarters is more likely to take away resources from plants that are less productive, are not part of the firm's core industries, and are located far away from headquarters. We do not find any evidence of investment or employment spillovers at financially unconstrained firms.

Caroline Flammer (MIT)

Does Product Market Competition Foster Corporate Social Responsibility?

This study examines whether product market competition affects corporate social responsibility (CSR). To obtain exogenous variation in product market competition, I exploit a quasi-natural experiment provided by large import tariff reductions that occurred between 1992 and 2005 in the U.S. manufacturing sector. Using a difference-in-differences methodology, I find that companies react to tariff reductions by increasing their engagement in CSR. This finding supports the view that CSR is a valuable resource that allows companies to improve their competitiveness. I further argue and provide evidence that the increase in CSR depends on the institutional environment as well as CSR- and firm-specific characteristics. Specifically, I find that the increase in CSR is larger for companies operating in industries where the CSR-sensitivity of customers is higher such as the business-to-consumer sector and durable experience goods markets. I also find that companies focus their additional CSR investments on their core stakeholders such as customers and employees. Finally, I find that the increase in CSR, albeit smaller, remains significant for companies facing higher financing constraints.

Aline Bütikofer (Norwegian School of Economics)

This Is Not a Test - Long-Run Impacts of Prenatal Exposure to Radioactive Downfall from Nuclear Weapon Testing

In this paper, we use prenatal exposure to radioactive fallout from nuclear weapon tests in the 50s and 60s as a natural experiment in cognitive ability. Prenatal radiation exposure can cause permanent neurological damage and therefore random variation over time and regions in the size of the nuclear fallout can be used to analyze how much cognitive ability matters for the human capital accumulation. We use data from Norway which received considerable radioactive fallout from these atmospheric nuclear weapons due to the geographical location and high precipitation in coastal areas. Individuals born in regions of Norway with higher fallout performed worse in IQ tests at age nineteen, are shorter, have a lower probability of finishing high school and earn less. Our findings therefore suggest that permanent neurological damage can be caused even by low radiation doses currently considered as not dangerous.

09:45 – 10:45 Session 2: Macro Finance

Patrick Saner (Barcelona Graduate School of Economics)

Uncertainty Shocks and the Equity Risk Premium: Adding a Piece to the Puzzle

This paper empirically assesses the impact of macroeconomic uncertainty on the S&P 500 equity risk premium. We set up two basic Structural Vector Auto Regressions (SVAR) with which we use the Cholesky decomposition to identify uncertainty shocks and their behavior on the equity premium. Furthermore, we use three different proxies for macroeconomic uncertainty: the Survey of Professional Forecasters (SPF), Nicholas Bloom's uncertainty measure (2009) and the Economic Policy Uncertainty Index (EPUI) by Baker et al. (2012). Once we have identified the shocks, we show the graphs for the impulse response functions and the counterfactual approach of the 6 models. The variance decompositions suggest that a shock of the SPF cannot explain the behavior of the equity risk premium. However, Bloom's uncertainty measure can explain almost 30% of total variance explained of the risk premium. Similarly, but not quite as strongly, does the EPUI with almost 20% of total variance explained. We therefore conclude that the effect of macroeconomic uncertainty helps to explain the equity risk premium of the S&P 500 and adds another piece to the equity premium puzzle.

Charles B. Blankart (Berlin)

An economic explanation of the euro crisis

In this paper it is argued that the euro crisis came about because Germany and France pursued two mutually inconsistent approaches to European integration. According to the German view market integration can proceed independently of government integration. The French view instead assumes that government integration is a condition for market integration. Government integration means that government budgets have to be aggregated from the bottom to the top where they are balanced by debt and money creation. In the German model governments remain disintegrated. Each governmental unit has to balance expenditures and revenues including debt without access to central bank money. So incentives remain internalized. In the French approach top level balancing generates lower level moral hazard making the approach unsustainable. The paper starts with the European Monetary System (EMS) and explains its merits and why it has been given up in favour of the euro. During the era of the EMS France and Germany both played in their national self-interest and so came to a mutually beneficial monetary order. Later Germany dropped the goal of national self-interest in favour of a pan-European stance allowing France to crowd out the German model of European integration in favour of the French approach and so to generate the euro crisis.

Alain Schlaepfer (University Pompeu Fabra)

The effects of macroeconomic stability on financial sector risk exposure and its implications for monetary policy

The recent financial crisis revealed a large exposure to systemic risk of the financial sector after an extended period of high macroeconomic stability. This period of mild aggregate fluctuations, also referred to as the Great Moderation, is often attributed to a successful policy of stabilization, including improvements in the conduct of monetary policy. This paper argues that such stabilization policies during moderate times can increase the magnitude of a crisis due to higher optimal risk exposure by financial intermediaries. Taking into account amplification effects during a crisis, a stabilization policy may also result in higher aggregate volatility of output and lower aggregate welfare. I construct a three period New Keynesian model with sticky prices in the intermediate period, where investments are channeled through a banking sector. Abstracting from financial intermediation, optimal monetary policy always aims at fully stabilizing demand shocks by adjusting interest rates. A zero lower bound on the interest rate prohibits full stabilization after a sufficiently adverse shock. Financial intermediaries respond to a stable environment by increasing their risk exposure, leading to a more severe crisis after a large negative shock. Taking this into account, I show that optimal monetary policy abandons full stabilization in moderate times and allows small shocks to hit the financial system, in order to constrain the risk exposure and avoid more severe consequences after a large shock.

09:45 – 10:45 Session 3: Industrial Organization

Lukas Schmid (Duke University)

Testing Dynamic Agency Theory via Structural Estimation

We quantify agency conflicts induced by the separation of ownership and control in large public firms by means of structural estimation. We use a simulated method of moments estimator (SMM) to back out the structural parameters of a q-theoretic dynamic agency model of firms from observed financing and investment choices. In the model, an optimal contract resolves the agency conflict between investors and managers, which can be implemented using cash, debt and equity. Our estimates suggest that in order to rationalize observed firm financing and investment policies, the agency conflict between investors and managers needs to be substantial. We provide additional cross-sectional tests based on sample splits according to governance and firm characteristics.

Simon Loertscher (University of Melbourne)

Fee-Setting Mechanisms: On Optimal Pricing by Intermediaries and Indirect Taxation

Mechanisms according to which private intermediaries or governments charge transaction fees or indirect taxes %and let sellers set prices are prevalent in practice. We consider a setup with multiple buyers and sellers and two-sided independent private information about valuations for the good being traded. We find that a private intermediary or government can maximize a weighted average of revenue and social welfare by charging transaction fees. In increasingly thin markets, the fee converges to a linear fee. Fees decrease with competition (or the weight on social welfare), the elasticity of supply but decrease with the elasticity of demand. Our theoretical results fit empirical observations in several industries with intermediaries.

Andras Niedermayer (Universität Mannheim)

Assessing the Performance of Simple Contracts Empirically: The Case of Percentage Fees

This paper estimates the cost of using simple percentage fees rather than the broker optimal Bayesian mechanism, using data for real estate transactions in Boston in the mid-1990s. This counterfactual analysis shows that intermediaries using the best percentage fee mechanisms with fees ranging from 5.4% to 7.4% achieve 85% or more of the maximum profit. With the empirically observed 6% fees intermediaries achieve at least 83% of the maximum profit and with an optimally structured linear fee, they achieve 98% or more of the maximum profit.

11:15 - 12:15 Session 4: Public Economics

Dina Pomeranz (Harvard)

Tax Me if You Can: Third-Party Cross-Checks and Evasion Substitution

A recent literature has argued that the ability of the tax authority to verify and cross-check taxpayer-provided information is crucial to reducing evasion and building fiscal capacity. However, the effectiveness of such policies may be limited if taxpayers can evade along multiple margins with differing degrees of verifiability. We examine these questions in a randomized field experiment in Ecuador in which firms are notified that they have been randomly selected for a cross-check of information on a particular margin on the corporate income tax return. Detailed line item and transaction level data allow us to examine the direct effects of these notifications as well as substitution of evasion to other margins that are non-monitored or perceived by firms as being non-monitored.

Christian Hilber (LSE)

The Effect of the UK Stamp Duty Land Tax on Household Mobility

We estimate the effect of the UK Stamp Duty Land Tax on household mobility using micro data. Exploiting a discontinuity in the tax schedule as a quasi-experimental setting, we isolate the impact of the stamp duty from other determinants of mobility. Our empirical strategy essentially compares similar households with self-assessed house values on either sides of a cut-off value where the tax rate increases from 1 to 3 percent. We find that a higher stamp duty strongly negatively affects a household's propensity to move: the 2 percentage-point increase in the stamp duty may reduce mobility of homeowners by around 40 percent. This adverse effect is mainly confined to short-distance and non-job related moves.

Stefan Staubli (RAND)

Extended Unemployment Benefits and Early Retirement: Program Complementarity and Program Substitution

We study how extended unemployment benefits for older workers affect (i) the incidence of early retirement and (ii) the pathways through which worker exit the labor market. In many countries, early retirement schemes consist of special rules for older workers in unemployment insurance (UI-) and disability-insurance (DI-) programs. In Austria around 1990, workers aged 55+ had relaxed access to DI-benefits. To identify the impact of extended UI-benefits we exploit the regional extended benefits program (REBP) which granted regular UI-benefits for up to 4 years to workers aged 50+ in certain regions of the country. We find that the REBP dramatically increased the incidence of early retirement. For workers aged 50-54, we identify a program complementarity effect: more generous UI-benefits induce workers to exit the labor market by sequential take-up of UI- and DI-benefits. For workers aged 55-57, we identify a program substitution effect: more generous UI-benefits reduce take-up of DI-benefits. A simple early retirement model allows us to address the welfare consequences of the Austrian early retirement policy using the sufficient-statistics approach. We conclude that Austrian early retirement rules around 1990 were too generous; and the REBP was a suboptimal policy.

11:15 - 12:15 Session 5: Finance I

Martin Strieborny (University of Michigan - Ann Arbor)

Suppliers, Investors, and Equity Market Liberalizations

Existing literature on equity market liberalizations emphasizes interactions between firms and external investors. This paper argues that cross-border equity flows can also reassure suppliers about the financial and contractual reliability of their corporate customers. Firstly, a buyer backed by foreign capital is less likely to experience liquidity problems or default. Secondly, the liberalization-driven improvements in public and corporate governance make deliberate contract breaches and payment refusals less probable. Results from panel data and event-study approach confirm that equity market liberalizations particularly benefit industries dependent on the trust of their suppliers, establishing a novel channel from financial globalization to real economy.

Urs Peyer (INSEAD)

Buybacks Around the World

This paper tests first whether short-term returns around share repurchase announcements and long-run abnormal returns afterwards are following the same pattern in non-US firms as document by prior literature for US firms. Second we test whether cross-country differences in corporate governance quality, legal regimes, and regulatory differences can explain variation in the short- and long-run abnormal returns. We find positive announcement returns around the world, higher in better governed countries and firms, and where regulation allows the board rather than the shareholders to approve a buyback announcement. Long-run abnormal returns are also observed globally and they are related to an undervaluation index (Peyer and Vermaelen, 2009, RFS) consistent with the interpretation that managers are able to time the market by buying back their own shares are low prices. We do not find evidence that long-run returns are driven by takeovers of buyback firms, nor are long-returns related to governance quality. There is some evidence that board versus shareholder approval makes a difference. However, outperformance is observed in both regulatory regimes. Thus, consistent with US evidence, using buyback announcements around the world, we conclude that manager who perceive their stock price being undervalued buy back shares, and they are able to do so at a low price.

Luzi Hail (Wharton)

Mandatory IFRS Reporting and Changes in Enforcement

In recent years, a large number of countries have made reporting under International Financial Reporting Standards (IFRS) mandatory. The capital-market effects of this change have been extensively studied, but their sources are not yet well understood and are still heavily debated. This study presents new evidence that aims to distinguish between several potential explanations for the observed capital-market effects. We show that, across all countries, mandatory IFRS reporting had little impact on liquidity and, in line with prior work, the liquidity effects are concentrated in the European Union (EU). We identify five EU countries that make substantive changes in enforcement concurrent with IFRS reporting, and we show that the liquidity effects around the IFRS mandate are limited to those five countries. There is little evidence of liquidity changes in other countries even if they have strong legal systems and a proven track record of implementing regulation. In sum, our analyses indicate that concurrent changes in reporting enforcement play a critical role for the liquidity benefits around mandatory IFRS adoption. Consistent with this interpretation, we show that countries with similar enforcement changes but no bundled IFRS adoption or without IFRS reporting also exhibit significant liquidity effects.

11:15 - 12:15 Session 6: Transmission of Information and Norms

Timo Boppart (Stockholm University)

Online accessibility of academic articles and the diversity of economics

A key aspect of generating new ideas is drawing from different elements of preexisting knowledge and combining them into a new idea. In such a process, the diversity of ideas plays a central role. This paper examines the empirical question of how the internet affected the diversity of new research by making the existing literature accessible online. The internet marks a technological shock which affects how academic scientists search for and browse through published documents. Using article-level data from economics journals for the period 1991 to 2009, we document how online accessibility lead academic economists to draw from a more diverse set of literature, and to write articles which incorporated more diverse contents.

Patrick Gaule (CERGE-EI)

Colocation and Scientific Collaboration: Evidence from a Field Experiment

We present the results of a field experiment conducted within the Harvard Medical School system of hospitals and research centers to understand how colocation impacts the likelihood of scientific collaboration. We introduce exogenous colocation and face-to-face interactions for a random subset of biomedical researchers responding to an opportunity to apply for a research grant. While the overall baseline likelihood of any two researchers collaborating is small, we find that random colocation significantly increases the likelihood of pair-level co-application by almost 70%. The effect of exogenous colocation on subsequent collaboration was greater for previous coauthors, pairs including a woman, and pairs researching similar clinical areas. Our results suggest that matching between scientists may be subject to considerable frictions — even among those in relatively close geographic proximity and in the same organizational system. At the same time, even a brief and focused intervention facilitating face-to-face interactions can provide information that impacts the formation of scientific collaborations.

Vasiliki Fouka (University Pompeu Fabra)

Early determinants and the cultural transmission of preferences for work and leisure

In this paper, we aim to show that cultural differences in the attitudes toward work among societies today are, at least partly, shaped by differences in the historical geographical conditions determining the form of production in the time of subsistence agriculture. We construct a model of endogenous preference formation, in which altruistic parents decide how much to invest in their offsprings' preference for leisure. In an agricultural society, restricted by a subsistence level of consumption, the optimal value of the leisure parameter shaped by parental investment is decreasing in the labor intensity of production. Due to cultural transmission, differences in the preference for leisure continue to persist even after technological progress has “levelled the field”, i.e. has lowered the importance of geographical factors for production. Consistent with the predictions of the model, we find that measures of work ethic in Europe at the sub-national level today are positively correlated with various geographical and climatic indices of labor intensity.

14.30-15.30 Keynote Address

Jamele Rigolini (The World Bank)

Elections Matter (But not always how you may think)

Electoral competition may provide countervailing incentives to elected officials: it may mitigate private rent seeking, but at the same time may induce strategic vote buying, so that the net impact on leaders' accountability and overall resources misallocation remains ambiguous. We examine these mechanisms by studying a decentralized targeting program that selected poor households for social assistance benefits. We find the overall amount of resource misallocation to be only weakly related to electoral competition. The composition of misallocation, however, varies: as electoral competition increases, officials' private rent seeking (i.e. allocating benefits to non-poor relatives) decreases relative to vote buying (i.e. allocating benefits to other non-poor households). Apart from being related to the official, other household characteristics associated with receiving benefits are unaffected by electoral competition, suggesting that rent seeking works mainly through family ties.

15:00 - 16:00 Session 7: Crime

Stephan Litschig (University Pompeu Fabra)

Audit Risk and Rent Extraction: Evidence from a Randomized Evaluation in Brazil

We report results from a randomized experiment designed and implemented by the Brazilian central government audit agency to test whether increased audit risk deters corruption and waste in local public procurement and improves provision of public services. We measure waste and corruption as irregularities in local public procurement and service delivery uncovered by central government auditors. Our estimates suggest that increasing audit risk by about 20 percentage points reduced the proportion of non-competitive procurement modalities adopted by local managers by about 17 percent. Higher audit risk also reduced the proportion of local procurement processes involving waste or corruption by about 20 percent. In contrast, we find no evidence that increased audit risk affected the quality of publicly provided preventive and primary health care services, measured using client satisfaction surveys. We also find no evidence that higher audit risk had an effect on local compliance with national guidelines of the conditional cash transfer program Bolsa Família, measured in terms of appropriate inclusion of beneficiaries into the program or their compliance with health and education conditionalities.

Stephan Meier (Columbia)

Trust and Parochialism in a Culture of Crime

Parochialism is a serious impediment to the generalized trust and cooperation necessary for economic and social development. We argue that current research has insufficiently acknowledged how historically persistent informal institutions such as organized crime can promote parochialism even within religiously and ethnically homogeneous populations, which in turn undermines the role of both formal institutions and norms in promoting generalized trust. We conducted experiments in high schools in two neighborhoods of Palermo, Italy that share nearly identical demographics but substantially different levels of organized crime. Using trust and prisoner’s dilemma games, we found that neighborhoods with high Mafia involvement exhibit lower generalized trust and trustworthiness, but higher parochialism, and that punishment norms fail to resolve these deficits. We experimentally demonstrate that informal institutions from the past can undermine institutions from the present, even in religiously and ethnically homogeneous populations.

Stephen Kastoryano (University of Amsterdam)

Street Prostitution Zones and Crime Displacement

This paper considers the effect of legal street prostitution zones (tippelzones) on citywide crime in the Netherlands. The analyses looks at data on reported crime (1996-2010) and perceived crime (1993-2006) in the 30 largest Dutch cities to evaluate the opening and closing effects of tippelzones. Using a difference-in- differences model we find that open street prostitution zones are associated to a decrease in registered crime but an increase in perceived crime with closing effects larger than opening effects. Our explanation for this result is that when the prostitution zones are open, criminals are attracted to these zones which act as magnets for other forms of criminal activity. But these zones are heavily monitored by the police so criminals are kept in check. When the prostitution zones close down, the prostitutes spread across the city with criminals trailing them. For the police, monitoring crime citywide is less efficient than monitoring one particular zone so we see an increase in registered crime. However, these tippelzones also suddenly make crime visible which gives the public the impression that crime is higher in the presence of an open tippelzone. As soon as the tippelzones are shut down, crime is thought to have decreased while in fact it only becomes invisible again.

15:00 - 16:00 Session 8: Finance II

Andrea Vedolin (LSE)

Hedging Activity in Fixed Income Markets

We study the feedback effects created by dynamic hedging of large positions in mortgage prepayment risk, i.e. negative convexity, on the term structure of interest rates and volatility. We build a micro-founded model of demand pressures in treasuries market resulting from this hedging activity and incorporate it in an otherwise standard dynamic term structure setting. The model we posit takes the form of a Vasicek short rate model augmented by additional factors that represent the duration and convexity of the hedged positions. The contribution of these factors tends to zero if the hedging activity is small or market liquidity is large. The resulting model introduces non-linearity in yields as function of the short rate, yet remains analytically tractable. We document the following set of novel results: (i) The volatility of bonds returns is endogenously stochastic and is driven by the convexity of the hedged position. Moreover, the hedging increases the average level of volatility. (ii) The yield volatility curve is hump shaped, a feature which is driven by the convexity of the hedged position and (iii) the variation in the volatility of bonds returns commands a premium. This variance risk premium is itself time-varying, linked to future excess bond returns, and is highest when the prepayment option is close to exercise.

Philippe Mueller (LSE)

Time-Varying Persistence and the Term Structure of Interest Rates

We propose a term structure model in which the persistence of the state variables can vary over time. The model is highly tractable with affine bond prices and the conditional likelihood function available in closed--form. Due to the time varying nature of the persistence parameter, bond risk premiums in our model are not simply a static function of the state variables that determine bond yields. Rather, the relative importance of each state variable for bond risk premiums can change over time. Moreover, unspanned risks arise naturally in our setup since the persistence, though important for risk premiums, can be completely independent from the yield--pricing state variables. By construction, the dynamics of the persistence parameter in our model are invariant to standard rotations. This allows us to develop a canonical form with observable yield portfolios as states, which renders ML estimation highly convenient. Using implied persistence constructed from Blue Chip survey forecasts of yields, we find evidence in support of our model.

Ilaria Piatti (University of Lugano)

Dividend Growth Predictability and the Price-Dividend Ratio

Conventional tests of present-value models tend to over-reject the null of no predictability, concluding that price-dividend ratio variations are due to both cash-flow and discount rate shocks. We propose a nonparametric Monte Carlo testing method, which does not rely on distributional assumptions to aggregate the information from the time series of price-dividend ratios and dividend growth. We find evidence of return predictability, but no apparent evidence of dividend growth predictability, thus reconciling the diverging conclusions in the literature. Our findings are robust to the specification of the predictive information set and account for the intrinsic probability of detecting predictive relations by chance alone.

15:00 - 16:00 Session 9: Macro and Matching

Julien Bengui (University of Montreal)

Macro-Prudential Policy Coordination and Global Regulatory Spillovers

In the presence of financial market imperfections, pecuniary externalities may provide a rationale for welfare improving macro-prudential regulation. Using a multi-country model of liquidity demand, I argue that they necessarily also call for a \emph{global coordination} of such regulation. Absent coordination, national regulators have incentives to deviate from the coordinated optimal policy to manipulate the price of liquidity during crises in a way that shifts surplus from foreign to domestic residents. As a consequence of these state-contingent terms of trade manipulations, uncoordinated regulation is not only inferior to coordinated regulation: it may also lead to lower welfare than the laissez-faire. The theory further outlines a channel by which tighter regulation in a given country induces more risk-taking abroad and implies that national macro-prudential policies are strategic substitutes across countries.

Lorenz Kueng (Northwestern University)

Innocent Bystanders? Monetary Policy and Inequality in the U.S.

We study the effects and historical contribution of monetary policy shocks to consumption and income inequality in the United States since 1980. Contractionary monetary policy actions systematically increase inequality in labor earnings, total income, consumption and total expenditures. Furthermore, monetary shocks can account for a significant component of the historical cyclical variation in income and consumption inequality. Using detailed micro-level data on income and consumption, we document the different channels via which monetary policy shocks affect inequality, as well as how these channels depend on the nature of the change in monetary policy.

Sandro Ambuehl (Stanford)

Unraveling in matching markets - a continuous time model

This paper characterizes the set of subgame perfect Nash equilibria in a model of unraveling in continuous time that is not driven by risk aversion or congestion. The model pins down the points in time at which contracts are signed. When students have the option to reject offers, it generates a tendency for the more desirable employers to hire students earlier than less desirable employers do, and it leaves largely unrestricted the order of hiring when students do not have this option. Our model suggests that some results that have been found in two period models on unraveling are an effect of the burst of information that necessarily occurs in a two period model, and hence do not survive when information arrives continuously. Further, by considering continuous time, we can address the effectiveness of a policy of withholding of information about student qualities. We find that such a policy is effective in alleviating unraveling only if a sufficiently large amount of information arrives at a single point in time. Finally, the model implies that the existence of one or several centralized clearinghouses has no effect on unraveling, regardless of the matching mechanism that is employed by such clearinghouses.

16:30 -17:30 Session 10: Unemployment

Patrick Arni (IZA)

From Optimistic to Realistic? - Beliefs, Job Search and Labor Market Policy

Job seekers are often overconfident when it comes to assessing their chances to succeed in job search. We document these biased beliefs in a unique dataset. How can biased beliefs affect the way how labor market programs exert their effects on job search and job finding? To analyze this question, we set up a simple job search model that features subjective perceptions and learning about job chances. The model is brought to the data, allowing for a structural estimation/simulation approach to assess the impacts of biased beliefs on the outcomes of different labor market policies.

Andreas Mueller (Columbia)

Job search and job finding in a period of mass unemployment: evidence from high-frequency longitudinal data

This paper presents findings from a survey of 6,025 unemployed workers who were interviewed every week for up to 24 weeks in the fall of 2009 and spring of 2010. Our main findings are: (1) the amount of time devoted to job search declines sharply over the spell of unemployment; (2) the self-reported reservation wage predicts whether a job offer is accepted or rejected; (3) the reservation wage is remarkably stable over the course of unemployment for most workers, with the notable exception of workers who are over age 50 and those who had nontrivial savings at the start of the study; (4) many workers who seek full-time work will accept a part-time job that offers a wage below their reservation wage; and (5) the amount of time devoted to job search and the reservation wage help predict early exits from Unemployment Insurance (UI).

Conny Wunsch (VU University of Amsterdam)

The effect of unemployment insurance on exit from employment

We investigate whether changes in the generosity of unemployment insurance (UI) affect exit from employment via UI. We exploit a recent reform of German UI that drastically reduced maximum benefit periods for workers aged 45 or older. Economic theory suggests that less generous UI makes employed workers more eager to keep their job, implying a reduction in unemployment entry after the reform. However, such reforms may also have some potentially undesired effects: Workers who exit from employment have an incentive to enter UI before rather than after the reform becomes effective in order to benefit from longer maximum benefit periods. This would imply an increase in unemployment entry after announcement but before actual implementation of the reform. The reform we study was announced 1.5 years before becoming effective, which provides the opportunity to test for both anticipation and ex-post effects of the reform. We use a large administrative dataset that allows separate analyses by gender and potential exit age. For a sample of workers with strong labor market attachment we find a very strong increase in exit rates directly before the reform becomes effective, especially among workers close to the average pre-reform retirement age. Moreover, exit rates to UI decrease for workers aged 57 or older compared to pre-reform-announcement levels once the changes in UI have been implemented. We show that our empirical findings can be explained by a simple retirement model that allows for exit from the labor market via UI.

16:30 -17:30 Session 11: Finance III

Nic Schaub (University of Mannheim)

The Pre-Announcement Effect of Analyst Recommendations: The Impact of Time Stamp Errors

In this paper, we provide an additional explanation for the pre-announcement effect of analyst stock recommendations in IBES data which is based on time stamp errors in the database. Previous research proposes correct prediction, tipping, or piggy-backing as (partial) explanations of significant pre-announcement returns. We show that for U.S. and Canadian stock recommendations IBES did not store the original stock recommendation date until 2001 and for other countries even later. Hence, the original recommendation announcement date in IBES is effectively the IBES activation date. Using event study analysis and comparing IBES to alternative data sources, we show that the announcement day and post-announcement effects are underestimated in IBES while pre-announcement returns are overestimated as they often include the effective announcement day. We also show that time stamp errors and delays in information processing within IBES are not randomly distributed in the cross-section and differ significantly across several recommendation, firm, broker, and analyst characteristics.

Diego Ronchetti (Columbia)

An Empirical Study of Stock and American Option Prices

This paper describes an empirical study of the price of some stocks and American options with high trading volume. Without parameterizing the joint dynamics of the returns on market portfolio and individual equities and their volatilities, taking the option early exercise into account, and focusing on an admissible Stochastic Discount Factor, two conclusions are reached. First, for some equities, idiosyncratic risks of a lower excess returns and an higher volatility than expected are priced. Equity prices provide information on the price of the former risk, option prices do it for the latter. Second, a nonparametric estimation of the historical joint dynamics of the returns on the market portfolio and individual equities and their volatilities benefits from considering no-arbitrage restrictions.

Enrico Berkes (Northwestern University)

Too much finance?

This paper examines whether there is a threshold above which financial development no longer has a positive effect on economic growth. We use different empirical approaches to show that there can indeed be "too much" finance. In particular, our results suggest that finance starts having a negative effect on output growth when credit to the private sector reaches 100% of GDP. We show that our results are consistent with the "vanishing effect" of financial development and that they are not driven by output volatility, banking crises, low institutional quality, or by differences in bank regulation and supervision.

16:30 -17:10 Session 11: Trade and Migration

Andrea Fracasso (University of Trento)

Trade network and international R&D spillovers

Following Coe and Helpman (International R&D Spillovers, EER, 39, 859-887, 1995), the literature on the trade-related channels of international knowledge flows has flourished. Departing from Coe and Helpman's tenets on the proportionality of trade and productivity spillovers and thus relaxing the implicit assumption that the knowledge transferred internationally is physically embodied in the exchanged products, we test whether relatively strong bilateral trade relationships are significantly associated with important international R&D spillovers. Notably, we focus on refined measures of bilateral trade that account for country size, time-invariant pair-specific factors and time-varying country-specific factors. By distinguishing closer and more distant trade partners in the trade network without weighting their R&D stocks for the bilateral trade flows, we show that trade is indeed an international transmission channel of knowledge even when distance and other pair specific time-invariant factors are taken into account.

Christoph T. Weiss (European University Institute)

Education, Early Life conditions and Regional Mobility in Europe

This paper estimates the causal effect of education on regional mobility in Europe. Using compulsory school reforms as instrumental variable, I find that individuals with an additional year of education have on average 0.16 more regional migrations between age 15 and 60. I also show that early life conditions, as proxied by the number of books in the household at age ten, have a strong causal impact on regional mobility. Books can be instrumented with religion because, for historical reasons, Protestants tend to read more - and hence own more books - than Catholics. When both education and books are considered endogenous in the same regression, I find that the effect of early life conditions dominates and education no longer affects regional mobility. I argue that the long-lasting effects of having books are related to the cultural environment in the household and the development of cognitive skills rather than short-term liquidity constraints.

Venues

Conference: University of Lucerne

Informal Dinner *(December 20)****: Hotel Schiff***

- Unter der Egg 8, 6004 Luzern, 041 418 52 52
- http://www.hotel-schiff-luzern.ch/

Conference Dinner *(December 21)****: Hotel-Restaurant Wilden Mann***

- Bahnhofstrasse 30, 6003 Luzern, 041 210 16 66
- http://www.wilden-mann.ch/

Accommodation *(20/21.12.2012, 21/22.12.2012)*

Hotel Schiff

- Unter der Egg 8, 6004 Luzern, 041 418 52 52
- http://www.hotel-schiff-luzern.ch/

Hotel Zum Weissen Kreuz

- Furrengasse 19, 6004 Luzern, 041 418 82 20
- http://www.altstadthotelluzern.ch/