

# **9<sup>th</sup> End-of-Year Conference of Swiss Economists Abroad**

**December 19, 2014**

**Swiss National Bank, Zurich**

Organizers: Sandro Ambuehl (Standford), Patrick Arni (IZA Bonn), Lorenz Küng (Northwestern)

Local Organizer: Marcel Savioz (SNB), Monika Gysi (SNB)

Supported by the Swiss National Bank and the Swiss Society of Economics and Statistics

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## 9th End-of-Year Conference of Swiss Economists Abroad

### Thursday, December 18

19:00 - 21:00 Informal Dinner (Restaurant Tre Cucine)

### Friday, December 19

8:45 - 9:15 Arrival, Registration and Identification<sup>1</sup>, Coffee [Conference Desk at Metropol]

9:15 - 10:00 Welcome Session: Address by **Thomas Jordan, Chairman of the Governing Board of the SNB** [Metropol]

10:00 - 11:00 **Parallel Sessions 1, 2 and 3**

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1. Labor Economics [BO 303]
2. Financial Macroeconomics [Metropol]
3. Finance 1 [FR 405]

11:00 - 11:20 **Coffee Break**

11:20 - 12:40 **Parallel Sessions 4, 5 and 6**

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4. Behavioral Economics [Metropol]
5. Development [BO 303]
6. International & Monetary Macroeconomics [FR 405]

12:40 - 14:00 **Lunch** [Metropol]

14:00 - 14:10 **A Word from our Partner, the SESS** [Metropol]

14:10 - 15:10 **Keynote Address by Clemens Sialm**, University of Texas at Austin and Stanford University [Metropol]:  
*"Defined Contribution Pension Plans: Structure, Incentives, and Performance"*

15:10 - 15:30 **Coffee Break**

15:30 - 16:30 **Parallel Sessions 7, 8 and 9**

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7. Health [BO 303]
8. Firm Behavior & Innovation [Metropol]
9. Finance 2 [FR 405]

16:30 - 16:50 **Coffee Break**

16:50 - 17:50 **Parallel Sessions 10, 11 and 12**

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10. Environment & Transport [BO 303]
11. Macro Labor [Metropol]
12. Political Economy & Theory [FR 405]

17:50 **Return of visitor badges** [Conference Desk at Metropol]

18:30 - 19:00 **Apéro** (Restaurant Zunfthaus zum Rüden)

19:00 - 21:30 **Dinner** (Restaurant Zunfthaus zum Rüden (Gotischer Saal))

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<sup>1</sup> Please note the attached guidelines for visitors to the Swiss National Bank.

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## Thursday, December 18

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**9:15 - 10:00** Welcome Session and Speech by **Thomas Jordan, Chairman, SNB** [Metropol]

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### **10:00 - 11:00** Session 1: Labor Economics [Room BO 303]

Esther M. Girsberger Migration, Education and Work Opportunities

David Schönholzer The Effect of the 1906 San Francisco Earthquake on Occupational Skill Composition

Jeanne Tschopp Wage Formation: Towards Isolating Search and Bargaining Effects from the Marginal Products

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### **10:00 - 11:00** Session 2: Financial Macroeconomics [Room Metropol]

Sebastian Weber Speculation and the U.S Housing Boom

Andreas Fuster The Sensitivity of Housing Demand to Financing Conditions: Evidence from a Survey

Andreas Müller Political Shifts and Government Debt

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### **10:00 - 11:00** Session 3: Finance 1 [Room FR 405]

Patrick Gaule On the consequences of patent grant delays for venture-backed firms

David Ardia Parametric Stress-Testing in Non-Normal Markets via Entropy Pooling

Xavier Giroud The Impact of Venture Capital Monitoring: Evidence from a Natural Experiment

**11:00 - 11:20** **Break** [*note that coffee will be served in all three locations*]

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### **11:20 - 12:40** Session 4: Behavioral Economics [Room Metropol]

Patrick Arni Unhealthy Overconfidence? Health Overconfidence & Risky Health Behaviors

Sandro Ambuehl Financial Education, Financial Competence, and Consumer Welfare

Petra Thiemann Selection into Experiments

Lorenz Küng News from Alaska: Do Households Respond to News rather than Payments?

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### **11:20 - 12:40** Session 5: Development [Room BO 303]

Stephan Litschig Adapting the Supply of Education to the Needs of Girls: Evidence from a Policy Experiment in Rural India

Mélise Jaud Big Hits in Exports: Growing by Leaps and Bounds

Vera Eichenauer Trust Fund Aid for Developing Countries: Who Benefits and Why?

Dina Pomeranz Monitoring Public Procurement: Evidence from a Regression Discontinuity Design in Chile

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<sup>2</sup> Please note the attached guidelines for visitors to the Swiss National Bank.

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**11:20 - 12:40      Session 6: International & Monetary Macroeconomics [Room FR 405]**

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Ivan Jaccard      Capital Flows, Intermediation Frictions and the Adjustment to Common Shocks  
 Julien Bengui      Managing Liquidity Traps in Open Economies  
 Alain Schlaepfer      Revisiting the Volatility Paradox: Inflation Stabilization and Financial Crises

**12:40 - 14:00      Lunch [Metropol]**

**14:00 - 14:10      A word from our partner, the SESS [Metropol]**

**14:10 - 15:10      Clemens Sialm**, University of Texas at Austin and Stanford University:  
*“Defined Contribution Pension Plans: Structure, Incentives, and Performance”*  
 [Metropol]

**15:10 - 15:30      Break [note that coffee will be served in all three locations]**

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**15:30 - 16:30      Session 7: Health [Room BO 303]**

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Aline Bütikofer      Disease Control and Inequality Reduction: Evidence from a Tuberculosis Testing and Vaccination Campaign  
 Stefan Staubli      Financial Incentives and Earnings of Disability Insurance Recipients: Evidence from a Heterogeneous Notch Design  
 Rudolf Blankart      Preferred Supplier Contracts in Post-Patent Prescription Drug Markets

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**15:30 - 16:30      Session 8: Firm Behavior & Innovation [Room Metropol]**

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Enrico Berkes      Geography And Innovation: An Empirical Assessment  
 Caroline Flammer      Does Long-Term Orientation Create Value? Evidence from a Regression Discontinuity  
 Stephan Meier      Trust and Division of Labor

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**15:30 - 16:30      Session 9: Finance 2 [Room FR 405]**

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Marcel Rindisbacher      Dynamic Noisy Rational Expectations Equilibria with Anticipative Information  
 Lorenzo Bretschler      Noise as Information for Flight-to-Liquidity  
 Diego Ronchetti      Comparing Asset Pricing Models by the Conditional Hansen-Jagannathan Distance

**16:30 - 16:50      Break [note that coffee will be served in all three locations]**

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**16:50 - 17:50      Session 10: Environment & Transport [Room BO 303]**

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Stefano Carattini      Is Taxing Waste a Waste of Time? Evidence from a Quasi-Natural Experiment in the Canton of Vaud, Switzerland  
 Simon Alder      Chinese Roads in India: The Effect of Transport Infrastructure on Economic Development  
 Carlos Ordas Criado      Flexible estimation of an airport choice model

**16:50 - 17:50**      **Session 11: Macro Labor [Room Metropol]**

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Andreas Mueller      Wage Dispersion and Search Behavior  
Timo Boppart      Skill Intensities of Different Consumer Baskets  
Francesco Furlanetto      Labor Supply Factors and Economic Fluctuations

**16:50 - 17:50**      **Session 12: Political Economy & Theory [Room FR 405]**

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Charles Blankart      Kohl, Mitterrand, German Reunification and the euro - A Game Theoretical Approach  
Cédric Wasser      Dissolving Partnerships Optimally  
Johannes Binswanger      Disagreement and Learning about Reforms

**17:50**      **Return of visitor badges** [Conference Desk at Metropol]

**18:30 - 19:00**      **Apéro** (Restaurant Zunfthaus zum Rüden)

**19:00 - 21:30**      **Dinner** (Restaurant Zunfthaus zum Rüden (Gotischer Saal))

## Abstracts

[20 minutes per paper, including discussion. The last person in a session is timekeeper.]

### 10:00 – 11:00 Session 1: Labor Economics

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*Esther Mirjam Girsberger (European University Institute)*

#### **Migration, Education and Work Opportunities**

This paper studies migration, education and work choices in Burkina Faso in a dynamic life cycle model. It is estimated exploiting long panel data of migrants and non-migrants combined with cross-sectional data on permanent emigrants. I find that the seemingly large returns to migration from rural regions to urban centers or abroad dwindle away once the risk of unemployment, risk aversion, home preference and migration costs are factored in. Indeed, while unemployment risk decreases the value of income differentials, the home premium and migration costs represent direct and indirect costs to migration which all contribute to lowering net returns to migration. Similarly, I can also show that returns to education are not as large as measures on wage earners would suggest. While education substantially increases the probability of finding a well-paid job in a medium-high-skilled occupation rather than in a low-skilled occupation, I also find that the risk of unemployment for labour market entrants is inverse U-shaped in education, peaking at intermediate schooling. Finally, I also shed light on the self-selection pattern of migrants. Both educated and unschooled individuals migrate; educated individuals migrate to urban centers where they can reap returns to education (positive selection) while unschooled migrants choose to go to Côte d'Ivoire where they are likely to find work in a low-skilled occupation (negative selection).

*David Schönholzer (UC Berkeley) and Meghan Skira (University of Georgia, Athens)*

#### **The Effect of the 1906 San Francisco Earthquake on Occupational Skill Composition**

This paper studies the impact of the 1906 San Francisco earthquake as a natural experiment on the occupational skill composition of Californian counties. In a simple model, it proposes that the destruction of physical capital by the earthquake led to increased demand for skilled labor used in reconstruction and decreased demand for unskilled labor. This may have led to differential sorting of labor across California. The model is tested in a panel for 52 Californian counties in a difference-in-difference framework for 1900-1910, and in an extended panel ranging from 1880-1930. The results suggest economically and statistically significant and lasting effects of earthquake intensity on shares of occupational categories by skill level and are robust to accounting for a set of controls, pre-earthquake trends and alternative functional forms of the impact of earthquake damage on occupational composition.

*Jeanne Tschopp (Ryerson University)*

#### **Wage Formation: Towards Isolating Search and Bargaining Effects from the Marginal Product**

This paper estimates the importance of workers' outside options in wage formation. In models of search and bargaining, a worker's wage is determined by the marginal product of labour and by a weighted average of wages in alternate jobs. Thus, the nature of the wage equation makes it difficult to isolate changes in workers' outside options that are independent from changes in the marginal product of labour. This paper builds on the predictions of a search and bargaining model with multiple cities, industries and occupations to propose novel identification strategies. Using a unique administrative panel database for Germany, the study exploits differences in both the employment composition across cities and in job-specific skill transferability as sources of variation for identification. The main finding of the paper is that a 10% increase in the outside options of a worker generates a 7% wage increase.

## 10:00 – 11:00 Session 2: Financial Macroeconomics

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*Sebastian Weber (IMF) and Pascal Towbin (SNB)*

### **Speculation and the U.S Housing Boom**

Between 1996 and 2006 the US has experienced an unprecedented boom in house prices. As it has proven to be difficult to explain the large price increases by observable fundamentals, many observers have emphasized the role of speculation, i.e. beliefs about future price developments. The argument is, however, often indirect: speculation is treated as a deviation from a benchmark. The present paper aims to identify speculation directly and to compare its importance to other factors. To that purpose, we estimate a VAR model for the United States and use sign restrictions to identify speculation, housing supply, housing demand, and mortgage rate shocks. Overall, these shocks can account for about 70 percent of the recent house price increase during the boom period in our baseline specification. Speculation shocks are the most important factor and account for about 30 percent of the increase, followed by mortgage rate shocks with a contribution of about 25 percent. We also use the identified speculation shocks to construct a model-based measure of changes in house price expectations. This measure leads a survey-based measure of house price expectations.

*Andreas Fuster (Federal Reserve Bank of New York) and Basit Zafar (Federal Reserve Bank of New York)*

### **The Sensitivity of Housing Demand to Financing Conditions: Evidence from a Survey**

The sensitivity of housing demand to mortgage rates and available leverage is key to understanding the effect of monetary and macroprudential policies on the housing market. However, since there is generally no exogenous variation in these variables that is independent of confounding factors (such as economic conditions or household characteristics), it is difficult to cleanly estimate these sensitivities empirically. We circumvent these issues by designing a survey in which respondents are asked for their maximum willingness-to-pay (WTP) for a home comparable to their current one, under different financing scenarios. We vary down payment constraints, mortgage rates, and non-housing wealth. We find that a relaxation of down payment constraints, or an exogenous increase in non-housing wealth, has large effects on WTP, especially for relatively poorer and more credit-constrained borrowers. On the other hand, changing the mortgage rate by two percentage points only changes WTP by about five percent on average. These findings have implications for theoretical models of house price determination, as well as for policy.

*Andreas Müller (University of Oslo) and Zheng Song (Chicago Booth) and Kjetil Storesletten (University of Oslo)*

### **Political Shifts and Government Debt**

This paper proposes a dynamic politico-economic theory of how political shifts in the electorate (government) influence fiscal policy. We consider an economy, where subsequent generations of voters choose taxation, expenditure and debt accumulation through repeated elections. Voters are heterogeneous across and within generations which leads to conflict of interest along two dimensions: (i) debt accumulation introduces a conflict between young and old voters because the young want more fiscal discipline as they are concerned with the ability of future governments to provide public goods, (ii) tax progressivity introduces a conflict between the income rich and the income poor voters as they want less public good provision and lower taxes. When the labor supply of the young is inelastic we can solve for the dynamic political equilibrium analytically. For the general case, a broad set of parameterizations confirms that when the taste for the public good in the electorate falls (increases), the government debt increases (falls), taxes fall (increase), and government expenditures fall (increase). This view is supported with empirical evidence from OECD countries in the post-war period, assuming that right-leaning (left-leaning) governments are elected when the electorate puts a relatively low (high) weight on the public good.

## 10:00 – 11:00 Session 3: Finance 1 [Room]

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*Patrick Gaule (CERGE-EI)*

### **On the Consequences of Patent Grant Delays for Venture-backed Firms**

I study how patent grant delays affect refinancing and entrepreneurial exit for a sample of venture-backed (VC) firms. I compare similar firms that experienced different processing delays at the U.S. patent office due to (plausibly exogenous) assignment to slower or faster patent examiners. I find that firms that experience processing delays raise less money in re-financing rounds. I also find that processing delays decrease the likelihood that a VC-backed firm will go through an initial public offering but increase the likelihood that it will be acquired by another firm. My preferred interpretation for these findings is that not getting a patent granted early (enough) deprives a firm of capital at a time when capital is much needed for firm growth, which in turn reduces the likelihood of going through an initial public offering.

*David Ardia (Laval University) and Attilio Meucci (Symmys)*

### **Parametric Stress-Testing in Non-Normal Markets via Entropy Pooling**

A novel approach for stress-testing (portfolios of) financial assets is presented. The technique extends the parametric Entropy Pooling approach to skewed and thick-tailed markets. The technique rests on a copula marginal decomposition for the entropy together with several approximation schemes which renders the numerical computations feasible for real-life problems. An illustration with a portfolio of European options is presented.

*Xavier Giroud (MIT) and Shai Bernstein (Stanford) and Richard Townsend (Dartmouth)*

### **The Impact of Venture Capital Monitoring: Evidence from a Natural Experiment**

Do VCs contribute to the innovation and success of their portfolio companies, or do they merely select companies that are already poised to innovate and succeed even absent their involvement? To address this question, we exploit exogenous variation in VC involvement stemming from the introduction of new airline routes that reduce the travel time between VCs and their existing portfolio companies, thereby holding company selection fixed. We find that, within an existing VC-company relationship, reductions in travel time lead to increased innovation and a higher likelihood of an IPO. These effects concentrate in routes that connect portfolio companies with their lead VC, as opposed to other investors. Overall, the results indicate that VC involvement is an important determinant of innovation and success.

## 11:20 – 12:40 Session 4: Behavioral Economics

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*Patrick Arni (IZA Bonn) and Lorenz Goette (University of Lausanne) and Nicolas R. Ziebarth (Cornell)*

### **Unhealthy Overconfidence? Health Overconfidence & Risky Health Behaviors**

Do people behave in a risky manner because of a biased self-perception? This paper is the first that addresses this question empirically using broad-scale population survey data (German BASE-II dataset). We (i) present empirical measures of overconfidence in the domain of personal health and then (ii) link the measures of over- and underconfidence to several measures of unhealthy behavior and long-term health outcomes. Overconfidence with personal health is significantly and consistently associated with unhealthy behaviors as well as ill health and a higher health care consumption. These findings are in line with a health investment choice model according to which people who are overly confident with respect to their personal health tend to underinvest in their health capital.



*Sandro Ambuehl (Stanford) and B. Douglas Bernheim (Stanford) and Annamaria Lusardi (George Washington University)*

## **Financial Education, Financial Competence, and Consumer Welfare**

We introduce the concept of financial competence, a measure of the extent to which individuals' financial choices align with those they would make if they completely understood their opportunity sets. Unlike existing measures of the quality of financial decision making, the concept is firmly rooted in the principles of choice-based behavioral welfare analysis; it also avoids the types of paternalistic judgments that are common in policy discussions. We document the importance of assessing financial competence by demonstrating, through an example, that an educational intervention can appear highly successful according to conventional outcome measures while failing to improve the quality of financial decision making. Specifically, we study a simple intervention concerning compound interest that significantly improves performance on a test of conceptual knowledge (which subjects report operationalizing in their decisions), and appears to counteract exponential growth bias. However, financial competence (welfare) does not improve. We trace the mechanisms that account for these seemingly divergent findings.

*Petra Thiemann (University of Southern California) and Jonathan Schulz (University of Nottingham) and Christian Thöni (University of Lausanne)*

## **Selection into Experiments**

Studying human behavior in laboratory experiments has become one of the predominant empirical tools of modern social sciences. Typically subjects participate on a voluntary basis, i.e., they self-select into the laboratory. This raises the concern that observed behavior might not be representative for the population in question. In this study we provide evidence on selection effects for a typical recruitment procedure. In two cohorts of the entire pool of a university's first year students we elicit both experimental and self-reported measures for risk, time, and social preferences, as well as for overconfidence and cognitive reflection. Separately we invite students via email to participate in laboratory experiments and subscribe to the recruitment software ORSEE. Students are randomly assigned to four recruitment conditions, emphasizing either altruistic or financial motives, or both. We find significant treatment differences, i.e., highlighting financial incentives significantly increases enrolment into the recruitment database. Emphasizing both altruistic and financial incentives yields the highest participation rate in experiments. We also find evidence for selection effects: More patient individuals and individuals with higher cognitive reflection scores are more likely to participate. Moreover, self-reported measures of trust correlate positively with enrolment into the recruitment database, but not with participation in experiments.

*Lorenz Kueng (Northwestern University)*

## **News from Alaska: Do Households Respond to News rather than Payments?**

This paper estimates the consumption response of Alaskan households to news about the Alaska Permanent Fund Dividend (APFD). I combine two new sets of data regarding the fund with micro-data from the Consumer Expenditure Survey. This paper directly identifies a large income news shock that is independent of household characteristics. Since the APFD is a lump-sum payment to all Alaskans independent of their income, I can analyze whether the smaller response of lower-income households to news implied by excess sensitivity tests reflects systematic differences in behavior or results from attenuation bias due to measurement error in the news shock. I compare the response of household consumption to different types of news shocks with the response to the predetermined annual APFD payments, extending the excess sensitivity test of consumption to APFD payments reported by Hsieh (2003). The additional APFD data varies substantially during the 2000s due to large changes in the fund's market value, and an additional one-time rebate of \$1,200 in 2008.

11:20 – 12:40 Session 5: Development

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*Stephan Litschig (IAE-CSIC) and Marian Meller*

## **Adapting the Supply of Education to the Needs of Girls: Evidence from a Policy Experiment in Rural India**

This paper evaluates the effectiveness of a large-scale government initiative (NPEGEL/KGBV) that provided earmarked funds for addressing girls' special needs to public schools in rural India. Our empirical strategy exploits local variation in program eligibility around a threshold based on the female literacy rate at the community level. The main result is that the program led to an enrollment gain of about 6-7 percentage points for girls in upper primary school. Evidence of an enrollment gain for boys is tentative. Available evidence on mechanisms suggests that the program improved girl-friendly school infrastructure and services, as well as gender-neutral school resources.

*Mélise Jaud (World Bank) and Olivier Cadot (University of Lausanne) and Anne-Célia Disdier (Paris School of Economics) and Akiko Suwa-Eisenmann (Paris School of Economics)*

## **Big Hits in Exports: Growing by Leaps and Bounds**

This paper identifies sudden export surges at the origin-destination-product level, combining international trade statistics with firm-level customs data for eight developing and emerging countries. These “big hits” are rare events (fewer than one percent of all export spells), yet account for over half of aggregate export growth in all countries in the sample except one. Big hits have a ratchet effect on export value: post take-off growth reverts roughly to its baseline rate, while export values remain permanently higher. They seem to be neither purely demand-driven nor purely supply-driven; however, a big hit in one product-destination cell makes it eight times likelier that the same product will be a big hit in any other destination. Big hits typically generate strong bandwagon effects across firms, but the crowding-in does not systematically lead to price collapses, as big hits seem to associate with less negative pecuniary externalities between exporters. A firm involved in a big hit is 25 times more likely to be associated with a big hit of the same product in a different destination, and 22 times more likely to be with a different product. Together, our results suggest that a “big-hit watch” enabling export-promotion agencies to spot them rapidly and disseminate information among potential participating exporters could have positive returns.

*Vera Eichenauer (Heidelberg University) and Stephen Knack (World Bank)*

## **Trust Fund Aid for Developing Countries: Who Benefits and Why?**

Trust funds at the World Bank have proliferated but the reasons and consequences of their rise remain unexplored. Donors of foreign aid may use country-specific trust funds at the World Bank to target aid according to their priorities. We investigate which factors determine whether and how much trust fund aid a developing country receives. Using data on all World Bank trust fund contributions and disbursements in the 2002-2012 period, we find that poorer and larger countries receive more trust fund aid and are more likely to receive any such aid. Moreover, there is some evidence that institutional capacity, measured by the World Bank's Country Policy and Institutional Assessment (CPIA) index, increases whether and how much trust fund aid a developing country receives. Political and economic interest variables of donor countries are strongly significant. Unlike the official narratives suggest, there is little evidence that fragile countries are more likely to receive trust fund aid. We offer robustness checks for various types of trust funds, and donors.

*Dina Pomeranz (Harvard University) and Maria Paula Gerardino (Universitat Pompeu Fabra) and Stephan Litschig (IAE-CSIC)*

## **Monitoring Public Procurement: Evidence from a Regression Discontinuity Design in Chile**

The government is the biggest buyer in the economy of most countries. At the same time, the public procurement process is often thought to be a major source of corruption and malpractice. However, there is little evidence regarding the impact of audits aimed at reducing such malpractice on the subsequent purchasing behavior of public agents. This paper investigates the effect of being audited on public entities'

subsequent procurement practices in Chile. For identification, we exploit a scoring rule of the national auditing agency, which allows for regression discontinuity analysis. Our preliminary results show that the audits lead to a shift towards less transparent modalities of procurement. The share of direct negotiations increases by around 10 percentage points, at the expense of the use of public auctions. Amounts spent using direct negotiation increase both in mean and variance, indicating potentially substantial heterogeneous treatment effects. Finally, we analyze diesel, the most important homogeneous good that is not exclusively procured through framework agreements from the central government. Again, we find a shift towards a less transparent modality. The usage of per-negotiated framework agreements decreases by half, and direct negotiations increase correspondingly.

## 11:20 – 12:40 Session 6: International & Monetary Macroeconomics

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*Ivan Jaccard (European Central Bank) and Frank Smets (European Central Bank)*

### **Capital Flows, Intermediation Frictions and the Adjustment to Common Shocks**

In the euro area, aggregate consumption is more volatile in countries where the procyclicality of net capital inflows is stronger. Moreover, real short-term interest rates are on average lower and bank lending rates higher in countries where aggregate consumption is more volatile. We ask whether a two-country business cycle model in which common shocks are the main source of business cycle fluctuations can reproduce the main features of the cross-country heterogeneity observed in the data. We find that the welfare cost of business cycle fluctuations is substantially higher in the region that experiences procyclical net capital inflows and our results suggest that the direction of capital flows depends on the relative efficiency of financial intermediation.

*Julien Bengui (Université de Montréal) and Sushant Acharya (Federal Reserve Bank of New York)*

### **Managing Liquidity Traps in Open Economies**

Should emerging countries actively manage their capital account when advanced economies experience a liquidity trap? If so, how do such capital flow management policies affect the design of optimal monetary policy in advanced economies around the liquidity trap? We study these issues in a continuous-time version of a standard New Keynesian open-economy model of the world economy featuring two country blocks: advanced and emerging. We consider a demand shock that pushes advanced economies, but not emerging countries, to the zero lower bound. Emerging countries respond by optimally imposing capital controls during the liquidity trap scenario, motivated by a desire to avoid overheating and excessive exchange rate appreciation. Relative to the case without controls, emerging countries initially slash interest rate by less but keep rates low for longer. Controls also have important multilateral implications: they prolong the period where interest rate are optimally kept at zero in advanced countries. Overall, nationally optimal capital controls prevent a natural global rebalancing of demand during a liquidity trap, suggesting important gains from coordination.

*Alain Schlaepfer (Universitat Pompeu Fabra)*

### **Revisiting the Volatility Paradox: Inflation Stabilization and Financial Crises**

This paper investigates how aggregate fluctuations interact with the endogenous risk exposure of the financial sector. In particular, I examine how an initial reduction in macroeconomic volatility, potentially unrelated to the financial sector, may trigger an increase in risk-taking by financial intermediaries, which can make financial crises both more likely and more severe. This in turn can result in amplified boom and bust cycles and therefore increase the aggregate fluctuations in the economy. This somewhat surprising result has been first presented by Brunnermeier and Sannikov (2014), and named the volatility paradox. While in their paper, the Volatility Paradox arises in response to financial shocks, this project investigates the case of inflation volatility. Considering inflation stabilization might be of particular interest, since unlike technology and financial shocks, the source of inflation volatility is generally thought to be known and at least partially controlled by a central bank. Therefore, this analysis connects the Volatility Paradox to an actual policy. This paper also seeks to assess the quantitative relevance of the suggested mechanism, both by evaluating a version of a model that is calibrated to US data, and by providing empirical support for the model predictions.

15:30 – 16:30 Session 7: Health

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*Aline Bütikofer (Norwegian School of Economics) and Kjell Salvanes (Norwegian School of Economics)*

## **Disease Control and Inequality Reduction: Evidence from a Tuberculosis Testing and Vaccination Campaign**

This paper examines the economic impact of a large-scale tuberculosis control program, which was launched in 1948 in Norway. In the 1940s, Norway had one of the highest tuberculosis infection rates in Europe: about 85 percent of inhabitants were infected. To lower the disease burden, the government launched a large scale tuberculosis testing and vaccination campaign, which substantially reduced the tuberculosis infection rates among children. We find that cohorts in school during and after the campaign in municipalities with high tuberculosis prevalence gained more in terms of education, income and longevity after the intervention. The results also suggest that individuals with low socioeconomic background benefitted more from the intervention. Hence, we present new evidence that the narrowing of the gap in childhood health due to the tuberculosis campaign led to a reduction of socioeconomic inequalities in adulthood.

*Stefan Staubli (University of Calgary) and Philippe Ruh (University of Zurich)*

## **Financial Incentives and Earnings of Disability Insurance Recipients: Evidence from a Heterogeneous Notch Design**

We study the impact of financial work incentives on the labor supply of disability insurance (DI) recipients along the intensive margin (intensity of work on the job). We estimate the intensive margin elasticity nonparametrically using administrative data from Austria and a notch in the budget set of DI recipients. This notch creates excess bunching on the low-earnings side and missing mass on the high-earnings side of the cutoff. We find evidence for significant behavioral responses along the intensive margin, but the implied intensive labor supply elasticities are small. We complement our empirical analysis by comparing the extensive labor supply response of accepted and rejected applicants for DI benefits, which yields similar results as previous studies have found in the U.S. context.

*Rudolf Blankart (Universität Hamburg) and Tom Stargardt (Universität Hamburg)*

## **Preferred Supplier Contracts in Post-Patent Prescription Drug Markets**

In recent years, the expiration of patents for large drug classes has increased the importance of post-patent drug markets. However, previous research has focused solely on patent drug markets. In this study, the authors evaluate the influence of preferred supplier contracts, the German approach to tendering, in post-patent drug markets using a hierarchical market share attraction model. The authors find that preferred supplier contracts are powerful marketing instruments for generic manufacturers in a highly competitive environment. They quantify the effects of signing a preferred supplier contract and show that brand-name manufacturers are also vulnerable to tendering. Therefore, brand-name manufacturers should readjust their marketing strategies and consider including preferred supplier contracts in their marketing mix. In addition, the authors employ a simulation to demonstrate that a first-mover advantage can be gained from signing a preferred supplier contract. Furthermore, their results can be used as a blueprint for decision makers in the pharmaceutical industry to assess the market share effects of different contracting strategies regarding preferred supplier contracts.

**15:30 – 16:30 Session 8: Firm Behavior & Innovation**

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*Enrico Berkes (Northwestern University) and Ruben Gaetani (Northwestern University)*

### **Geography and Innovation: An Empirical Assessment**

In this paper, we empirically explore the links between the trends and determinants of technological innovation and the economic geography within the United States. The demographic peculiarities of different locations, including the abundance and characteristics of human capital, the industry structure and the cultural traits are likely to play a first order role in determining the patterns of technological change. Similarly, the economic geography is shaped by the opportunities of innovation that a certain location offers. In order to establish this bi-directional connection, we build a novel data set of that covers the universe of patents granted in the United States since 2000 and match them with the geographic location from which they originated. We then construct a measure of creativity embedded in each patent, based on the idea that more creative patents relies on a more atypical background that is mirrored in a highly uncommon citation pattern. These data are put into relationship with socio-economic and demographic indicators from the US Census at a sub-county level.

*Caroline Flammer (Ivey Business School) and Pratima Bansal (Ivey Business School)*

### **Does Long-Term Orientation Create Value? Evidence from a Regression Discontinuity**

In this paper, we theorize and empirically investigate how long-term orientation impacts firm value. To study this relationship, we exploit exogenous changes in executives' long-term incentives. Specifically, we examine shareholder proposals on long-term executive compensation that pass or fail by a small margin of votes. The passage of such "close call" proposals is akin to a random assignment of long-term incentives and hence provides a clean causal estimate. We find that the adoption of such proposals leads to an increase in firm value as well as improvements in operating performance, suggesting that long-term orientation is beneficial to companies. When we examine the channels through which companies benefit from long-term horizons, we find that firms adopting long-term compensation proposals are more likely to invest in long-term projects such as innovation and stakeholder relationships. Finally, our findings are stronger for companies that are not financially constrained, suggesting that financial pressure may prevent executives from investing in long-term projects.

*Stephan Meier (Columbia University) and Matt Stephenson (Columbia University)*

### **Trust and Division of Labor**

Firms differ substantially in size, productivity, and internal structure. For instance, in some firms the division of labor is extensive while in others it is not. Moreover, it's been thought since the time of Adam Smith that a firm's internal structure affects its productivity, primarily through the channel of gains from specialization. Our paper provides evidence of a link between organization's culture--specifically the trust environment--and its internal structure. Specifically, we suggest and show experimentally that exogenously imposed culture endogenously leads to different organizational form. We prime trust using past performance from a pilot study and we demonstrate that the level of trust within an organization affects that organization's division of labor and consequently that organization's productivity. Our research also makes use of data from the European Social Survey and finds that it is suggestive of a link between trust and the division of labor. Our results point to a possible mechanism that can help explain existing results on the connection between generalized trust and growth. It also points to an important determinant of a firm's internal structure: trust.

15:30 – 16:30 Session 9: Finance 2

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*Marcel Rindisbacher (Boston University) and Jerome Detemple (Boston University) and Thu Thuong (Boston University)*

### **Dynamic Noisy Rational Expectations Equilibria with Anticipative Information**

The paper develops a continuous time economy with informed agents, uninformed agents and mimicking noise traders, in which the informed receive private information about future dividends. The cases of competitive and monopolistic informed behaviors are both studied. Noisy rational expectations equilibria are obtained in closed form. The structure and dynamic properties of equilibrium quantities, such as the stock price of risk, the stock volatility and the agents' investment policies, are examined. The components of welfare, for the different classes of investors in the economy, are also identified. The decomposition formulas obtained are used to shed light on the welfare properties of equilibria with and without private information. Conditions for Pareto dominance of equilibria where private information trades are allowed are identified.

*Lorenzo Bretscher (London School of Economics)*

### **Noise as Information for Flight-to-Liquidity**

Using daily pricing data on real and nominal bond, I identify and characterize flight-to-liquidity episodes in the US and UK. To this end, I construct three different measures of disparity in bond prices from a smooth yield curve. My first finding is that deviations in prices are highly correlated between nominal and real bonds, indicating that the same type of shocks affect both markets. More surprisingly, price deviations are not only highly correlated within a country but also across countries. I then study the relative mispricing of nominal and real bonds focussing on the recent financial crisis. Both in the US and in the UK, longer maturity nominal bonds traded at prices below otherwise identical shorter-maturity bonds. In the US, real bonds traded below nominal bonds, indicating a flight-to-liquidity phenomenon from real to nominal assets. Using a panel-regression analysis, I find that bond characteristics cannot explain the pricing anomaly. Liquidity characteristics such as the transaction volume, on the other hand, explain a large fraction.

*Diego Ronchetti (University of Groningen) and Patrick Gagliardini (University of Lugano)*

### **Comparing Asset Pricing Models by the Conditional Hansen-Jagannathan Distance**

We compare non-nested parametric specifications of the Stochastic Discount Factor (SDF) in terms of their conditional Hansen-Jagannathan (HJ-) distance. This distance is defined as the discrepancy between a parametric SDF family identifying an asset pricing model and the set of admissible SDF's satisfying the conditional no-arbitrage restrictions for a set of traded assets. The conditional HJ-distance accounts for the models' ability to match the dynamic pricing restrictions for any set of managed portfolios, and not just a set of static restrictions for a specific choice of instruments like the often employed (unconditional) HJ-distance. We estimate the conditional HJ-distance by a kernel-based Generalized Method of Moments estimator and establish its large sample properties for model selection purposes. We demonstrate empirically the usefulness of our approach by comparing several SDF models including preference-based specifications, beta-pricing models and recently proposed SDF models that are conditionally linear in the priced risk factors.



16:50 – 17:50 Session 10: Environment & Transport

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*Stefano Carattini (University of Barcelona) and Andrea Baranzini (Haute Ecole de Gestion Genève) and Rafael Lalive (University of Lausanne)*

## **Is Taxing Waste a Waste of Time? Evidence from a Quasi-Natural Experiment in the Canton of Vaud, Switzerland**

Waste collection shares the properties of a private good (rivalry and excludability). However, instruments to price garbage e.g. by the bag and attribute to households the relative costs of waste management are not very diffused. We address this issue by assessing the effectiveness and public acceptability of pay-per-bag fees. We provide causal estimates of pay-per-bag fee's effectiveness by exploiting the quasi-natural framework provided by a Federal Supreme Court of Switzerland's decision ordering the application of the polluter pays principle in the context of waste management to all municipalities in the Canton of Vaud, Switzerland. We use these municipalities as treatment group, whereas those already possessing such policy constitute our control group. We collect data through interviews and compare with official data. We find that pricing garbage by the bag allows for a sharp drop in the volume of incinerated waste and spurs recycling of many materials, viz. PET, carton, paper, glass, cans, organic waste, batteries and aluminum. On average the tax reduces incinerated waste by 10 liters per capita per week, to be compared to a prior level of about 27 liters per capita per week. We also assess a large increase in acceptability following the implementation of the pay-per-bag fee, along with a better perception of the fee's effectiveness and a reduced feeling of injustice vis-à-vis the policy. In terms of stated willingness-to-pay for pricing garbage by the bag, the treatment generates a 50% larger willingness-to-pay, i.e. 50 cents more for a 35-liters bag.

*Simon Alder (University of North Carolina at Chapel Hill)*

## **Chinese Roads in India: The Effect of Transport Infrastructure on Economic Development**

This paper uses a general equilibrium framework as in Eaton and Kortum (2002) to estimate the contribution of transport infrastructure to regional development. I apply the analysis to India, a country with a notoriously weak and congested transportation infrastructure. I first analyze the development effects of a recent Indian highway project that improved connections between the four largest economic centers. I estimate the effect of this new infrastructure on income across districts using satellite data on night lights. The results show aggregate net gains from the Indian highway project, but unequal effects across regions. China has followed a different highway construction strategy and has experienced more significant convergence across regions than India. I therefore use the model to gauge the effects of a counterfactual highway network for India that replicates the Chinese strategy of connecting intermediate-sized cities. I find that this counterfactual network would have benefited the lagging regions of India, but not the aggregate economy. I also construct additional counterfactuals and discuss their effects on economic development.

*Carlos Ordas Criado (Laval University) and Laingo Manitra Randrianarisoa (Laval University)*

## **Flexible Estimation of an Airport Choice Model**

We investigate the determinants of passengers' airport choice between the airport of Quebec City and the metropolitan airline hub Montréal-Trudeau. Using a recent nonparametric specification test for conditional densities proposed by Li and Racine (2013), we find that several standard dichotomous choice models (fixed/random-coefficients logit, single index, maximum score) are misspecified. The fully flexible conditional density estimated under the alternative of the test shows that airfare, access time and flight frequency display nonlinear effects on the probability of choosing the airport. It also uncovers interesting interactions between the continuous covariates and different types of travellers (business/leisure, international/domestic). Moreover, the kernel estimates dominate its parametric and semiparametric counterparts, both in terms of within and out-of-sample predictions (classification ratios).

## 16:50 – 17:50 Session 11: Macro Labor

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*Andreas Mueller (Columbia University) and Robert Hall (Stanford University)*

### **Wage Dispersion and Search Behavior**

We use a rich new body of data on the experiences of unemployed job-seekers to determine the sources of wage dispersion and to create a search model consistent with the acceptance decisions the job-seekers made. From the data and the model, we identify the distributions of four key variables: offered wages, offered non-wage job values, the value of the job-seeker's non-work alternative, and the job-seeker's personal productivity. We resolve the tension between the fairly high dispersion of the values job-seekers assign to their job offers -- which suggest a high value to sampling from multiple offers -- and the fact that the job-seekers often accept the first offer they receive. An influential recent paper by Hornstein, Krusell, and Violante called attention to this tension. Our resolution rests on the job-ladder model, where unemployed job-seekers accept an offer that beats their non-work value, possibly as an interim job, because they continue to seek jobs while working.

*Timo Boppart (IIES)*

### **Skill Intensities of Different Consumer Baskets**

The empirical aim of this project is to construct the skill intensity of different consumer baskets. It is well known that the expenditure structure differs across consumers. Systematic differences in the expenditure structure between rich and poor household can be the result of non-homothetic preferences. (For instance Engel's law states that poorer household spend a larger fraction of their budget on food because food is a necessity.) It is also well known that skill intensity systematically differs across industries. In the empirical part of this project I would like to combine the heterogeneity in expenditure structure with the skill differences across industries and ask the following question: If one US\$ is spent on specific consumer basket, which fraction of this US\$ ends in the pocket of a high skilled worker, a low skilled worker and capital owner? How does the skill-intensity of an average US\$ spent differ between rich and poor consumer? To answer this question I will combine micro data on consumer expenditure with Input-Output tables and micro data on the skill-intensity of the different industries. The empirical part of this project is still ongoing work. I would like to present the project outline as well as (hopefully) some first results in a "preliminary research projects" session at the Swiss Economist Abroad meeting.

*Francesco Furlanetto (Norges Bank) and Claudia Foroni (Norges bank) and Antoine Lepetit (Paris School of Economics)*

### **Labor supply factors and economic fluctuations**

We propose a new VAR identification scheme that enables us to identify labor supply shocks from other labor market shocks. According to our analysis on U.S data over the period 1985-2013, labor supply shocks account for a small but significant share of fluctuations in output and unemployment at business-cycle frequencies. We also find that wage bargaining shocks are important but not exclusive drivers of unemployment both in the short and in the long run. These results suggest that traditional identification strategies used in estimated New Keynesian models may be misguided.



## 16:50 – 17:50 Session 12: Political Economy & Theory

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*Charles Blankart (Humboldt-University Berlin, University of Lucerne) and David Ehmke (Oxford University)*

### **Kohl, Mitterrand, German Reunification and the Euro – A Game Theoretical Approach**

Did Mitterrand blackmail Kohl in order to force the European monetary union, or did Kohl intend to blackmail Mitterrand in order to create a political union? However, what sounds like an interesting political crime story turns out to contradict economic reasoning in positive analysis of hypothetical bargaining constellation. A game theoretical approach, which is applied to this illustrative example shows that game theory although it may not tell us the ultimate truth, is a suitable tool kit to at least falsify a hypothesis in political bargaining. The model displayed can be seen as a transferable approach for testing political bargaining in any situation.

*Cédric Wasser (University of Bonn) and Simon Loertscher (University of Melbourne)*

### **Dissolving Partnerships Optimally**

For a partnership model with interdependent values and non-identical type distributions, we characterize the incentive compatible and individually rational dissolution mechanisms that maximize any weighted average of expected revenue and surplus. We call a mechanism that achieves this objective optimal. A major challenge for deriving optimal mechanisms for partnership models is that agents have type-dependent outside options and that the worst-off types depend on the allocation rule. Therefore, the types for which the participation constraint binds must be determined simultaneously with the allocation rule. We show that these and related obstacles can be overcome because there is a unique fixed point that satisfies all the consistency requirements. Optimal mechanisms allocate based on ironed virtual types and may require a consistently specified random tie-breaking rule. With identical distributions, the combination of revenue and surplus generated by an optimal mechanism is Schur-concave in the ownership shares, i.e., it increases as initial property rights become less diverse. Among other things, our results can be used to determine the mechanism that maximizes the expected surplus under a budget balance constraint if ex post efficiency is not feasible without incurring a deficit.

*Johannes Binswanger (Tilburg University) and Manuel Oechslin (Tilburg University)*

### **Disagreement and Learning about Reforms**

When it comes to economic reforms in developing countries, many economists agree on broad objectives. Broad objectives, however, can be pursued in different ways, and policy experimentation is often indispensable for learning which alternative works locally. We propose a theoretical model to study this societal learning process. The model explores the role of disagreeing beliefs about what works. It suggests that such disagreement can stall the societal learning process and cause economic stagnation although everyone knows that growth-promoting reforms do exist. Our analysis is motivated by the observation of a negative relationship between disagreement and economic growth among poorer countries.

## Venues

### **Conference: Swiss National Bank, Zurich** – rooms in three neighboring buildings

- Metropol: Plenary Sessions & Parallel Sessions; Fraumünsterstrasse 12
- BO 303: Parallel Sessions; Börsenstrasse 15
- FR 405: Parallel Sessions; Fraumünsterstrasse 8
- Coffee Breaks: Note that coffee will be served in all three locations

### **Informal Dinner (December 18): Restaurant Tre Cucine**

- Restaurant Tre Cucine (1. Stock), Niederdorfstrasse 33, 8001 Zürich, 044 252 08 70
- <http://www.trecucine.ch/restaurant/ambiente.html>

### **Conference Dinner (December 19): Zunfthaus zum Rüden**

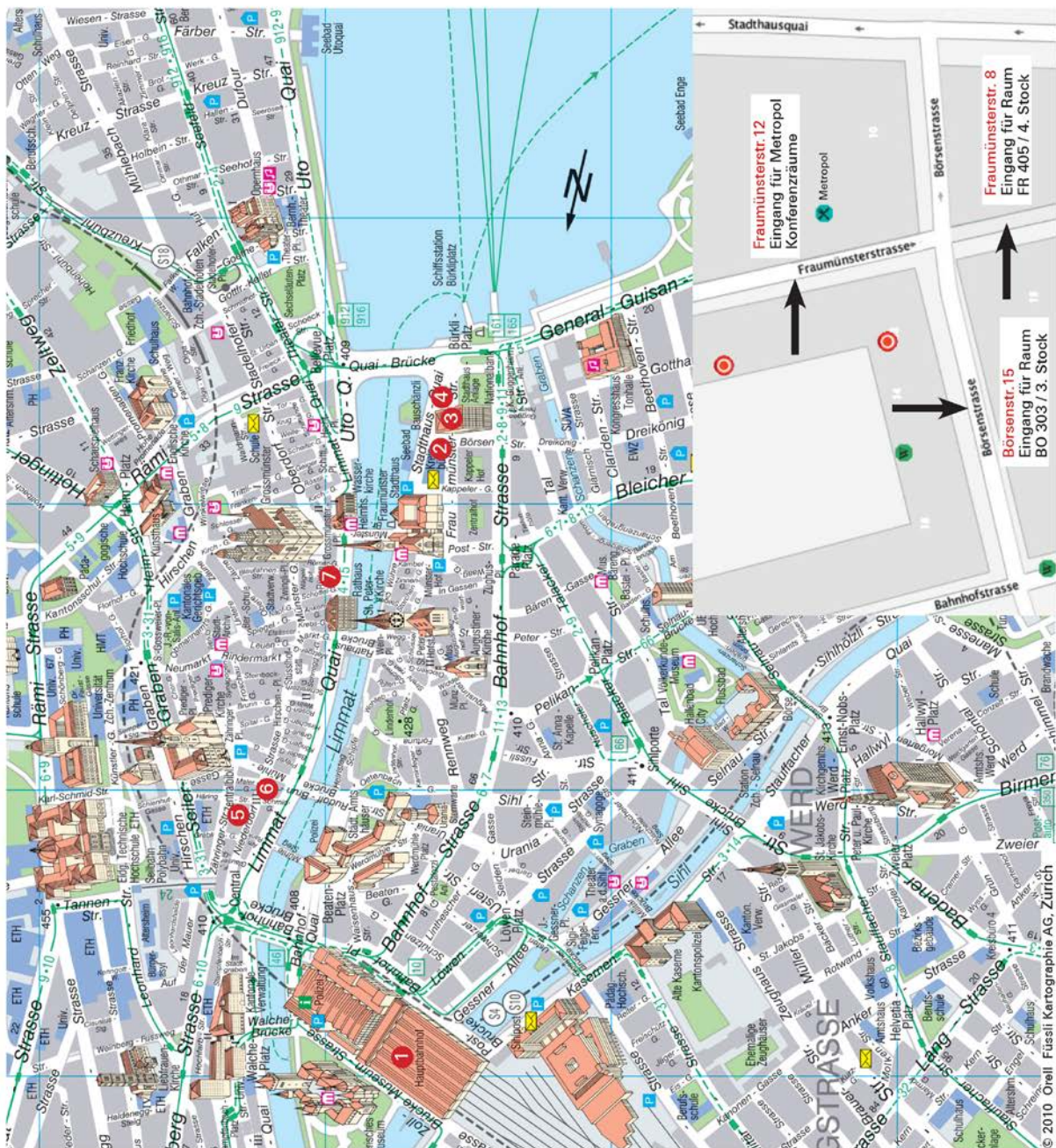
- Zunfthaus zum Rüden (Gotischer Saal), Limmatquai 42, 8001 Zürich, 044 261 95 66
- <http://www.hauszumrueden.ch/de/restaurant.asp>

### **Accommodation (18/19.12.2014 and 19./20.12.2014)**

*Hotel Zürcherhof Best Western*  
Zähringerstrasse 21  
044 269 44 44  
<http://www.hotelzuercherhof.ch/>

## Map

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- 2** Metropool  
Fraumünsterstrasse 12  
(Registration and conference room)
- 3** Swiss National Bank  
Börsenstrasse 15  
(Meeting room BO 303)
- 4** Swiss National Bank  
Fraumünsterstrasse 8  
(Meeting room FR 405)
- 5** Hotel Zürcherhof Best Western  
Zähringerstrasse 21
- 6** Restaurant Tre Cucine  
Niederdorfstrasse 21
- 7** Haus zum Rüden  
Limmatquai 42



## **Guidelines for visitors to the Swiss National Bank**

### **Registration and identification at Metropol**

At registration (conference desk at Metropol) you are required to show your passport for identification and you will be given a visitor's badge, which you must wear throughout the conference.

### **Entering and leaving the SNB buildings (BO 303 & FR 405)**

For security reasons, you must report to the reception when entering or leaving the SNB buildings, even if you are only entering or leaving for a short period of time.

### **Premises**

The conference will take place in the following conference rooms in Zurich:

- Metropol, Fraumünsterstrasse 12 (registration and identification)
- BO 303 (third floor), Börsenstrasse 15
- FR 405 (fourth floor), Fraumünsterstrasse 8

Visitors must take the direct route by elevator to the relevant SNB rooms (BO 303, FR 405).

### **End of conference**

Before leaving the conference, you must return your visitor's badge at the Metropol conference desk.