

13th End-of-Year Conference of Swiss Economists Abroad

December 21, 2018

ETH Zurich

Organizers: Sandro Ambuehl (University of Toronto), Enrico Berkes (Ohio State University), Lorenz Küng (Northwestern University).

Local Organizers: Jan Egbert Sturm (ETHZ) and Marko Köthenbürger (ETHZ).

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

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13th End-of-Year Conference of Swiss Economists Abroad

Thursday, December 20

19:00 - 21:00 **Informal Dinner** [Volkshaus]

Friday, December 21

9:00 - 9:30 Arrival, Registration, Coffee

9:30 - 9:55 **Welcome Session and a word from our Partner, the SNB** [E 101]

	<i>Parallel Sessions A</i> [E 101]	<i>Parallel Sessions B</i> [E 126]	<i>Parallel Sessions C</i> [E 308]
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10:00 - 11:00	1. Labor	2. Corporate & Macro	3. Finance I
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11:00 - 11:30 **Coffee Break**

11:30 - 12:30	4. Urban	5. Macro Finance	6. Theory
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12:30 - 13:50 **Lunch**

14:00 - 15:00	7. Behavioral	8. Innovation	9. Finance II
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15:00 - 15:30 **Coffee Break**

15:30 - 16:30	10. Public & Health	11. International Macro
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16:30 - 16:45 **Break**

16:45 - 17:45	12. Institutions	13. Metrics
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17:45 - 19:00 **Apéro**

19:00 - 21:30 **Dinner** [Hotel Restaurant Bar Helvetia]

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9:00 - 9:30 **Arrival, Registration, Coffee**

9:30 – 9:55 **Welcome Session and a Word from our Partner, the SNB** [E 101]

10:00 - 11:00 **Session 1: Labor** [E 101]

Jeanne Tschopp Estimating the Gains from Trade in Frictional Local Labor Markets
Gabriel Zuellig Credit Frictions and Labour Market Hysteresis
Patrick Arni Unemployment Insurance and Learning: Evidence from Reservation Wages

10:00 - 11:00 **Session 2: Corporate & Macro** [E 126]

Laure de Preux The Co-benefits of Climate Policy: Evidence from the EU Emissions Trading Scheme
Lukas Roth Control Rights and Corporate Sustainability Around the World
Laura Gáti ICT and Future Productivity: Evidence and Theory of a GPT

10:00 - 11:00 **Session 3: Finance I** [E 308]

Adriano Rampini Risk Management in Financial Institutions
Diego Ronchetti Pricing Under Endogenous Cash-flow Changes and Discontinuous Trading
Shema Mitali Déjà Vu: Do Experienced Returns Affect Mutual Fund Managers' Investment Decisions?

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

11:30 - 12:30 **Session 4: Urban** [E 101]

Simeon Alder Labor Market Conflict and the Decline of the Rust Belt
Simon Alder The Effects of Transport Infrastructure on India's Urban and Rural Development
Enrico Berkes Income Segregation and Rise of the Knowledge Economy

11:30 - 12:30 **Session 5: Macro Finance** [E 126]

Lorenzo Bretscher News Shocks and Asset Prices
Arna Olafsson Credit Smoothing
Lorenz Kueng Risk and Housing Tenure Choice

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11:30 - 12:30 **Session 6: Theory** [E 308]

Michèle Müller-Ippen Geometric Rational Inattention
Stefan Bucher Measuring Evidence Accumulation in Choice and Beliefs
Dezső Szalay Incomplete Language as an incentive device

12:30 - 13:50 **Lunch**

14:00 - 15:15 **Session 7: Behavioral** [E 101]

Patrick Gaule Biased beliefs and entry into scientific careers
Stephan Meier Preferences for Non-Monetary Aspects of Work
Christoph Moser Gambling for Resurrection? The Influence of Luck on Performance and Risk-Taking in a Competitive Environment
Sandro Ambuehl Projective Paternalism

14:00 - 15:00 **Session 8: Innovation** [E 126]

David Schoenholzer Creative Destruction in the European State System: 1000-1850
Adrien Bussy Measuring Innovation
Timo Boppart Missing Growth from Creative Destruction

14:00 - 15:00 **Session 9: Finance II** [E 308]

Nicolas Maeder Macroeconomic Transmission of a Financial Fire Sale
Clemens Sialm Tax-Efficient Asset Management: Evidence from Equity Mutual Funds
Luzi Hail Do Risk Disclosures Matter When It Counts? Evidence from the Swiss Franc Shock

15:00 - 15:30 **Coffee Break**

15:30 - 16:30 **Session 10: Public and Health** [E 101]

Armando Meier Medical Guidelines and Doctors' Decision-making
Lingqing Jiang Branching Out the Babytree: The Effects of Dual Peer Group Membership on Social Support During Pregnancy in Online Communities
Stefan Staubli Fatal Attraction? Extended Unemployment Benefits, Labor Force Exits, and Mortality

15:30 - 16:30 **Session 11: International Macro** [E 126]

Diego Kaenzig The Macroeconomic Effects of Oil Supply Shocks: New Evidence from OPEC Announcements
Andrea Vedolin Model-Free International Stochastic Discount Factors
Kurt Annen Why Aid-to-GDP Ratios?

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16:30 - 16:45

Break

16:45 - 17:45

Session 12: Institutions [E 101]

Stephan Kyburz

Cohesive Institutions and Political Violence

Charles Blankart

Divide and choose

Claudio Schilter

Hate Crime after the Brexit Vote: Heterogeneity Analysis based on a Universal Treatment

16:45 - 17:45

Session 13: Metrics [E 126]

Andreas Mueller

Consumption Demand Estimation under Slutsky Restrictions

Kaspar Wuthrich

An Exact and Robust Conformal Inference Method for Counterfactual and Synthetic Controls

17:45 - 19:00

Apéro

19:00 - 21:30

Dinner [Hotel Restaurant Bar Helvetia]

13th End-of-Year Conference of Swiss Economists Abroad

Abstracts

[20 or 30 minutes per paper, including discussion, depending on number of papers in session. The last person in a session is timekeeper.]

10:00 – 11:00 Session 1: Labor [E 101]

*German Pupato (Ryerson University), Ben Sand (Ryerson University), **Jeanne Tschopp** (Ryerson University)*

Estimating the Gains from Trade in Frictional Local Labor Markets

We develop a theory and an empirical strategy to estimate the welfare gains of economic integration in economies with frictional local labor markets. The model yields a parsimonious generalization of the welfare formula in Arkolakis et al. (2012) that features an additional adjustment margin, via the employment rate. Moreover, the quantitative impact of this channel depends on the goods market structure and on the existence of firm heterogeneity. To obtain causal estimates of the two key structural parameters needed for the welfare analysis, the trade elasticity and the elasticity of substitution in consumption, we propose a theoretically-consistent identification strategy that exploits exogenous variation in production costs driven by differences in industrial composition across local labor markets in Germany. As an application of the theory, we exploit the unexpected fall of the Iron Curtain in 1990 to assess the quantitative importance of accounting for unemployment changes when computing the gains from trade across local labor markets in West Germany. Under monopolistic competition with free entry and firm heterogeneity, the median welfare gains in the frictional setting are 7% larger relative to the frictionless setting. The relative welfare gains are typically more modest under alternative market structures.

Gabriel Zuellig (Copenhagen University)

Credit Frictions and Labour Market Hysteresis

How do financial channels affect employment fluctuations? I document that squeezed internal and more importantly external finance lead to plummeting labour demand by firms and have long-lasting allocative effects. A longitudinal dataset of employers in Denmark is matched to both their supply of liquidity as well as their demand for labour. Lenders' degree of exposure to wholesale funding prior to the 2008 financial crisis is a strong predictor of adverse funding conditions to their creditors during the crisis, creating exogenous variation in credit supply to non-financial firms. As a consequence, affected firms reduced employment significantly more. The orders of magnitude are in line with seminal papers documenting the large employment effects of credit disruptions (Chodorow-Reich, QJE 2014). Comprehensive data on registers covering the entire population of Denmark can be matched to the identified firms, allowing to study the labour market effects of financial crises along different dimensions. The drop in demand is particularly significant for high-wage workers, changing the pool of the employed towards low-skill workers in recessions (cf. Mueller, AER 2017). The return from hiring high-skill workers typically lies further in the future, whereby the longer period between investment in a vacancy and the returns require more funding. Binding credit constraints therefore have large allocative effects on the labour market which are in line with persistently weak labour productivity and wage growth.

Patrick Arni (University of Bristol), Yanos Zylberberg (University of Bristol)

Unemployment Insurance and Learning: Evidence from Reservation Wages

The impact of unemployment insurance on match quality is ambiguous. Insurance allows job seekers to select job offers carefully (a selectivity effect). However, choosier individuals remain unemployed for longer and job offers might become less frequent or generous with unemployment duration. Using unique data combining reservation wages of job seekers with exogenous variation in the generosity of unemployment insurance, we quantify the selectivity effect (or reservation wage effect) and show that it sharply differs across job seekers with different initial priors. Inexperienced job seekers with noisy priors strongly adjust their initial expectations but revise them downwards along the unemployment spell. We show in a quantitative model that uninformed job seekers use insurance to learn about employment prospects. The model rationalises the differential response of job seekers to the generosity of benefits and the ambiguous findings of the empirical literature on match quality.

10:00 – 11:00 Session 2: Corporate & Macro [E 126]

Laure de Preux (*Imperial College London*), **Ulrich Wagner** (*University of Mannheim*)

The Co-benefits of Climate Policy: Evidence from the EU Emissions Trading Scheme

Mitigating climate change by curbing fossil fuel consumption is bound to reduce co-pollution jointly emitted with carbon dioxide, and hence to create ancillary benefits in terms of reduced damages to human health. Simulation-based estimates of such ancillary benefits range from 30% to over 100% of the costs of abating carbon dioxide. These estimates are sensitive to the assumed counterfactual emissions path, which is influenced by new regulation, compliance with regulations, technology, economic development, demography and natural activities. We address this issue in an ex-post analysis of the impact of climate policy on co-pollution emissions. We study the world's largest cap-and-trade system for CO₂ emissions, the EU Emissions Trading Scheme (EU ETS). Using newly matched installation-level data from the EU Transaction Log and the European Pollution Release and Transfer Register, we estimate counterfactual emissions in various ways in order to triangulate how emissions trading reallocated pollution emissions across Europe. We discuss the implications of our estimates for the efficiency and equity of this policy.

Lukas Roth (*University of Alberta*)

Control Rights and Corporate Sustainability Around the World

Who participates in transactions when information about the consequences must be learned? Theoretically, we show that rational decision makers for whom acquiring and processing information is more costly will respond more strongly to incentives for participating, and decide to participate based on worse information. Consequently, with higher incentives, the pool of participants consists of a larger fraction of individuals with a worse understanding of the consequences of their decision. Our behavioral experiment confirms these predictions, both for experimental variation in the costs of information acquisition, and for various laboratory and naturally occurring measures of information costs, including cognitive ability. These findings are relevant for any transaction in which a price paid for participation trades off with not fully understood yet learnable consequences. Our results also clarify the relation between incentives and the ethical principle of informed consent, and thus help address ethical concerns with incentives.

Marco Brianti (*Boston College*), **Laura Gáti** (*Boston College*)

ICT and Future Productivity: Evidence and Theory of a GPT

We employ Structural VARs to investigate the effects of technological shocks specific to the ICT sector on Total Factor Productivity (TFP) and other macroeconomic variables. In response to this sector-specific technological change, relative prices of ICT goods and services immediately fall, ICT investment rises on impact, and TFP displays a significant delayed and persistent increase. Moreover, current ICT supply shocks explain almost one third of overall TFP fluctuations over a 10-year horizon. Taking up the view of theories of ICT as a general-purpose technology, we analyze a two-sector general equilibrium model in order to rationalize previous results and estimate spillovers from the stock of ICT via impulse-response matching. We conclude that ICT accumulation is able to enhance productivity through a positive spillover effect which takes into account the overall level of diffusion of ICT capital in the economy.

10:00 – 11:00 **Session 3: Finance I** [E 308]

Adriano Rampini (Duke), **S. Viswanathan** (Duke), **Guillaume Vuilleme** (HEC Paris)

Risk Management in Financial Institutions

We study risk management in financial institutions using data on hedging of interest rate and foreign exchange risk. We find strong evidence that better capitalized institutions hedge more both in the cross-section and within institutions over time. For identification, we exploit net worth shocks resulting from loan losses due to drops in house prices. Institutions that sustain such losses reduce hedging substantially relative to otherwise similar institutions. The evidence is consistent with the theory that financial constraints impede both financing and hedging. We find no evidence that risk shifting, changes in interest rate risk exposures, or regulatory capital explain hedging behavior.

Diego Ronchetti (University of Groningen), **Daniel Vullings** (University of Groningen)

Pricing Under Endogenous Cash-flow Changes and Discontinuous Trading

We provide sufficient and necessary conditions for the unique rational net present valuation of an asset with cash-flows that are not in a unidirectional causal relationship with its future trading price. Recent literature has shown that usually this valuation is not unique. We connect, in a structural framework, the rational dynamic valuation of the asset to the probability that its demand induces an endogenous change in the cash-flows. This framework formally explains how to uniquely value assets that are affected by the index inclusion effect for market-capitalization based indexes, and Contingent Convertible bonds (CoCos) that convert based on trading prices. We illustrate how to apply the framework with the pricing of CoCos, when their conversion favors the equity holders, and when it penalizes them.

Costantinos Antoniou (University of Warwick), **Shema Mitali** (University of Warwick)

Déjà Vu: Do Experienced Returns Affect Mutual Fund Managers' Investment Decisions?

We examine whether mutual fund managers invest more heavily in firms in which they have previously experienced higher returns. To estimate manager-specific return experience for each firm, we use an exponential weighted average of the past returns that each stock has generated for each manager. Using quarterly holdings data from 1991 to 2015, we find that past experienced stock returns are positively related to future investment decisions on the same firm, after controlling for various manager and firm characteristics. The results are stronger when we weight past negative returns more heavily, consistent with the notion that loss aversion influences managers firm-specific return experience. We also find evidence that style-level experienced returns (e.g., small-growth or large-value) are positively related to future style investment decisions. Finally, when we aggregate firm-level return experience on the manager level, we find that managers who experienced better overall outcomes trade more heavily, and earn lower abnormal returns.

11:30 – 12:30 Session 4: Urban [E 101]

Simeon Alder (*UWisconsin – Madison*), **David Lagakos** (*UCSD*), **Lee Ohanian** (*UCLA*)

Labor Market Conflict and the Decline of the Rust Belt

No region of the United States fared worse over the postwar period than the Rust Belt the heavy manufacturing region bordering the Great Lakes. This paper hypothesizes that the Rust Belt declined in large part due to the persistent labor market conflict which was prevalent throughout the Rust Belt's main industries. We formalize this thesis in a two-region dynamic general equilibrium model in which labor market conflict leads to a hold-up problem in the Rust Belt that reduces investment and productivity growth and leads employment to move from the Rust Belt to the rest of the country. Quantitatively, the model accounts for much of the large secular decline in the Rust Belt's employment share before the 1980s, and its relative stabilization since then, once labor conflict decreased. Consistent with our theory, empirical evidence at the industry-state level shows that more labor conflict, proxied by rates of major work stoppages, is associated with lower employment growth since 1950.

Simon Alder (*University of North Carolina – Chapel Hill*), **Mark Roberts** (*World Bank*), **Meenu Tewari** (*University of North Carolina – Chapel Hill*)

The Effects of Transport Infrastructure on India's Urban and Rural Development

This paper uses a two-sector domestic trade model to study urban and rural development in India over the past decade. Based on a spatial equilibrium model, we derive general equilibrium relationships between a sector's income and its access to markets in both the urban and rural sectors. Unlike the standard one-sector model, the two-sector version predicts heterogeneous effects of market access. We use satellite data to measure urban and rural growth in 5,900 sub-districts. In order to estimate the relationship between income and market access, we exploit changes in transportation infrastructure that have led to reductions in travel times on the computed shortest path. This allows us to estimate the elasticity of income in each sector with respect to market access in the own and the other sector. The results suggest that both urban and rural market access are each individually strongly correlated with income, but they are empirically difficult to disentangle when estimating jointly. We then study the role of various complementary factors that potentially play different roles for urban and rural production and could imply heterogeneous effects of transport infrastructure. We consider natural resources like groundwater, rainfall, temperature, and the availability of crop land, as well as measures for human capital. The evidence on interaction effects is mixed and mostly suggests that the effect of market access is relatively stable.

Enrico Berkes (*Ohio State University*) and **Ruben Gaetani** (*University of Toronto*)

Income Segregation and Rise of the Knowledge Economy

We analyze the effect of the rise of knowledge-based activities on spatial inequality within U.S. cities, exploiting the network of patent citations to instrument for local trends in innovation. We find that innovation intensity is responsible for 14% of the overall increase in urban segregation between 1990 and 2010. This effect is mainly driven by the clustering of employment and residence of workers in knowledge-based occupations. We develop and estimate a spatial equilibrium model to quantify the contribution of productivity and residential externalities in explaining the observed patterns. Endogenous amenities account for about half of the overall effect. We illustrate the relevance of the model for policy analysis by studying the impact of four bids for Amazon's HQ2 on the structure of New York City.

11:30 – 12:30 **Session 5: Macro Finance** [E 126]

Lorenzo Bretscher (*London Business School*), **Aytek Malkhozov** (*Federal Reserve Board*), **Andrea Tamoni** (*LSE*)

News Shocks and Asset Prices

We examine the role of news shocks for asset prices. To this end, we estimate a New-Keynesian dynamic stochastic general equilibrium model that allows us to infer agents' expectations about future fundamentals at different horizons. Anticipated changes in future productivity growth translate into fluctuations in the natural rate of interest, which we show to have important implications for the conduct of monetary policy. Further, accounting for news shocks results in better specified macroeconomic risk factors that have significant explanatory power for the cross-section of stock and bond returns.

Sean Hundtofte (*Federal Reserve Bank of New York*), **Arna Olafsson** (*Bank of Denmark*), **Michaela Pagel** (*Columbia*)

Credit Smoothing

Standard economic theory suggests that high-interest, unsecured, short-term borrowing, e.g., via credit cards, helps individuals smooth consumption in the event of transitory income shocks. This paper shows that on average individuals do not use such borrowing to smooth consumption when they experience a typical transitory income shock due to unemployment. Rather, it appears as if individuals smooth their debt balances. We first use detailed longitudinal information on debit and credit account transactions, balances, and limits from a financial aggregator in Iceland to document that unemployment does not induce a large borrowing response at the individual level. We then replicate this finding in a representative sample of U.S. credit card holders, instrumenting local changes in employment using a Bartik-style instrument. This absence of a borrowing response occurs even when credit supply is ample and liquidity constraints do not bind (as captured by credit limits). This finding is difficult to reconcile with theories of consumption smoothing, which predict a strictly countercyclical demand for credit. On the contrary, credit rather demand appears to be procyclical, which may deepen business cycle fluctuations.

Lorenz Kueng (*Northwestern*), **Lee Lockwood** (*University of Virginia*), **Pinchuan Ong** (*Northwestern*)

Risk and Housing Tenure Choice

Housing is most homeowners' most important non-human asset, and housing costs are one of the largest determinants of the cost of living. House prices and housing costs are both subject to substantial risk, much of which is driven by changes in local labor market conditions. In spatial equilibrium, such location-level shocks create systematic correlations between wages, rents, and house prices that are crucial determinants of the riskiness of owning versus renting housing. Using Census data from 1940-2010, we estimate risk processes for county-level wages, rents, and house prices. For all period lengths ranging from 10 to 70 years, we find that location-specific risk is substantial and that wages and rents are strongly positively correlated. As a result, for a typical working-age household, owning is much riskier than renting housing. Owning both eliminates the household's exposure to rent risk, which is costly because rent risk hedges earnings risk, and exposes the household to house price risk, which is substantial even over long horizons. Analyses of a life-cycle model suggest that the risk-exposure advantages of renting are large on average and highly dependent on a few key characteristics of households and locations. These results have important implications for government policies that affect housing tenure choices and the elasticity of housing supply.

11:30 – 12:30 Session 6: Theory [E 308]

Roc Armenter (Federal Reserve Bank of Philadelphia), Michèle Müller-Ippen (University of Notre Dame), Zachary Stangebye (University of Notre Dame)

Geometric Rational Inattention

We demonstrate that a wide class of Rational Inattention (RI) problems can be re-cast as a set of geometric orthogonality conditions. This approach allows us to separate the role of information costs and payoffs from that of prior beliefs. It also allows us to characterize the optimal conditional choice by what we call the ignorance equivalent action (IEA) of a menu. We use the IEA to derive novel comparative statics for changes in the menu. Finally, it serves as the foundation for our new, highly efficient numerical algorithm for the solution of these models: Our algorithm provides accurate solutions orders of magnitudes faster than current techniques

Stefan Bucher (NYU), Paul Glimcher (NYU)

Measuring Evidence Accumulation in Choice and Beliefs

In theories of rational inattention, choice is stochastic because precision is subject to an information cost on the source of which rational inattention is agnostic. In sequential sampling models (SSM) on the other hand, the key input for precision is decision time: Recent theoretical advances (Fudenberg et al. 2017) have shown that the widely used Drift Diffusion Model is the solution of such an SSM, where time is subject to a cost. While formulated in a very similar spirit, rational inattention theories and SSM have thus far been developed largely independently of each other (with the notable exception of Hebert&Woodford 2017). This paper aims at reconciling the two perspectives. In an experiment adapted from Caplin&Dean (2014), we measure how choice accuracy as well as probabilistic beliefs evolve with time. This is interesting for at least two reasons: First, it provides empirical evidence on the previously untested assumption on how the stochastic process in SSMs evolves which is of critical importance for the theoretical predictions that depend upon it. Second, the data allow us to separately identify the returns of additional deliberation time and those of effort, thereby building a bridge between the information costs of rational inattention models and the time costs of SSMs.

Peter Esö (Oxford), Dezső Szalay (University of Bonn)

Incomplete Language as an incentive device

An expert acquires information before advising a receiver. We study how the richness of the expert language affects his incentives for information acquisition. We show that, in a broad class of environments, just two broad categories provide stronger incentives than arbitrarily many. Moreover, incentives are weakened by adding two further categories. We characterize a subclass of these environments, where incentives are decreasing in the nuancedness of language.

14:00 – 15:15 Session 7: Behavioral [E 101]

Ina Ganguli (University of Massachusetts), Patrick Gaule (University of Bath), Danijela Vuletic (CERGE-EI)

Biased beliefs and entry into scientific careers

Educational choices are based on beliefs about subsequent career outcomes but these beliefs may be incorrect. We investigate this possibility and its consequences among a sample of U.S. STEM doctoral students using a novel survey combined with a field experiment. We first document that chemistry graduate students are excessively optimistic about the state of the academic market. When we ask respondents to state their beliefs about the share of peers from their program eventually obtaining a tenure-track position in a US research-intensive university, only a third of respondents have beliefs in the correct range. Being overly optimistic in turn correlates with stated preferences for doing a postdoc and academic careers more generally.

Turning to the field experiment, a random subset of respondents to our baseline survey received an email with a link to a custom-built website providing information on historical placement records by institution. We verify that the website was visited after respondents received the email through web analytics. Preliminary results suggest that the intervention did not impact beliefs about the academic market, although we observe marginally significant effects on the likelihood of doing a postdoc and satisfaction with choosing the PhD as a career path.

This research may shed light on the apparent puzzle that there has been no decrease in demand for STEM graduate education, despite dwindling academic career prospects. Our results suggest that not only do individuals often have incorrect beliefs about the academic market but they also fail to update them when presented with information.

Stephan Meier (Columbia)

Preferences for Non-Monetary Aspects of Work

Workers care about non-monetary aspects of work, such as flexibility or how meaningful one's job is. While standard economic theory limits its attention to monetary aspects of work, there is continuous and growing interest in economics to understand the value of non-monetary job amenities. In this paper, we study how preferences for non-monetary aspects are shaped and how they change over time. Using data going back to the beginning of the 1970s, we investigate preferences for non-monetary aspects over time and across individuals.

Peter Egger (ETH Zurich), Christoph Moser (FAU Erlangen-Nurember)

Gambling for Resurrection? The Influence of Luck on Performance and Risk-Taking in a Competitive Environment

What is the impact of luck on individual performance and risk-taking? This paper investigates how individuals deal with exogenous shocks of good or bad luck in a competitive environment. Based on a novel dataset of FIS World Cup alpine skiing, we show that the performance of athletes worsens, if they face bad luck and, hence, worse conditions for their run. Our findings also show that athletes seek to compensate bad luck by increased risk-taking. This behavioral response is asymmetric in luck and tends to be driven by female racers. Finally, we discuss another important institutional feature of the FIS World Cup and its effect on racers' outcome.

Sandro Ambuehl (University of Toronto), B. Douglas Bernheim (Stanford), Axel Ockenfels (University of Cologne)

Projective Paternalism

We study the positive questions of when, why and how people paternalistically intervene with the choice sets of others. In our laboratory experiment, subjects in the role of Choice Architect decide which bundles, each consisting of a present and future reward, will be available to subjects in the role of Chooser. We find that subjects are paternalistic. They readily eliminate impatient options from Choosers' choice sets, and they do so with the belief that they are furthering the Choosers' own good. In contrast to hypotheses suggested by the behavioral welfare economics literature, more patient Choice Architects impose stricter restrictions, as if projecting their own preferences on others. Projective Paternalism explains additional behavioral patterns we document, such as increased paternalistic intervention after the introduction of front-end delays in intertemporal choice, and subjects' support for real-world policy proposals.

14:00 – 15:00 Session 8: Innovation [E 126]

David Schoenholzer (Yale University), Eric Weese (Kobe University)

Creative Destruction in the European State System: 1000-1850

We argue that the optimal level of competition between states is subject to a tradeoff between short-term losses and long-term gains in economic growth. In a process of creative destruction, higher quality states displace lower quality states in the market for governance at a cost. We provide evidence for both the costs and benefits of state competition using newly available data on the universe of boundary changes for all European states combined with city population data over 1000-1850. In event studies, we show that cities switching between states suffer large transitory losses in population, while cities that end up under new governance enjoy sustained population increases. Using decomposition techniques, we then estimate the relative growth contributions of switching and unobserved state effects. We find that the estimated state effects are highly correlated with data on parliamentary activity and that improvements in the quality of states occur both due to improvement of the pool of states over time as well as due to cities gravitating towards higher quality states.

Adrien Bussy (LSE), Friedrich Geiecke (LSE)

Measuring Innovation

We study the question of how to measure innovation. Contrary to patent citations --- the more traditional way of assessing the importance of an invention --- we analyse patent contents themselves at a large scale. Applying methods from machine learning to all utility patents published by the US Patents and Trademarks Office (USPTO) over the period 1976-2017, we compute how similar these patents are to each other. We measure similarity at two different points in time: 1) When the patent is published and 2) in the last year of our dataset (2017). The hypothesis that we would like to test is whether patent abstracts which are unlike other patents at the time of publishing, yet, for which similar patents exist by 2017, correspond to inventions that were novel when made public and that provoked waves of related innovations. In a second phase of the project, we would like to explore the impact these patents have on firm-level outcomes (profits, sales, stock returns, etc.) of the innovating firm and its direct competitors.

Philippe Aghion (Harvard), Antonin Bergeaud (Bank of France), Timo Boppart (IIES), Pete Klenow (Stanford), Huiyu Li (Federal Reserve Bank of San Francisco)

Missing Growth from Creative Destruction

When products exit due to entry of better products from new producers, statistical agencies typically impute inflation from surviving products. This understates growth if creatively-destroyed products improve more than surviving products do. Accordingly, the market share of surviving products should shrink. Using entering and exiting establishments to proxy for creative destruction, we estimate missing growth in U.S. Census data on non-farm businesses from 1983-2013. We find: (i) missing growth is substantial - around half a percentage point per year; but (ii) missing growth did not accelerate much after 2005, and therefore does not explain the sharp slowdown in growth since then.

14:00 – 15:00 Session 9: Finance II [E 308]

Nicolas Maeder (*Vanderbilt University*)

Macroeconomic Transmission of a Financial Fire Sale

How do financial crises fuel involuntary unemployment? I contribute to the literature on the link between financial and economic crises by developing a theoretical framework in which a liquidity crisis causes layoffs because firms anticipate lower aggregate demand in the future. In the model, financial turmoil takes the form of financial fire sales, or sales forced by a set of binding constraints. When leverage is high and liquidity is low, investors are required to liquidate assets in which case the law of demand may fail to hold. Disposing over less financial wealth following the crisis, households reduce consumer spending. In accurate anticipation of the upcoming slump in aggregate demand, firms scale back production via employment.

Clemens Sialm (*University of Texas*), **Hanjiang Zhang** (*Washington State University*)

Tax-Efficient Asset Management: Evidence from Equity Mutual Funds

We investigate the relation between tax burdens and mutual fund performance from both a theoretical and empirical perspective. The theoretical model introduces heterogeneous tax clienteles in an environment with decreasing returns to scale and shows that the equilibrium performance of mutual funds depends on the size of the tax clienteles. Our empirical results show that the performance of U.S. equity mutual funds is related to their tax burdens. We find that tax-efficient funds do not only exhibit superior after-tax performance, they also exhibit superior before-tax performance due to lower trading costs, favorable style exposures, and better selectivity.

Luzi Hail (*UPenn*), **Maximilian Muhn** (*Humboldt University of Berlin*), **David Oesch** (*University of Zurich*)

Do Risk Disclosures Matter When It Counts? Evidence from the Swiss Franc Shock

We examine the long-term transparency effects of past risk disclosures following an exogenous shock to macroeconomic risk. In 2015 the Swiss National Bank (SNB) abruptly announced it would discontinue the longstanding minimum euro-Swiss franc exchange rate. We show that firms with more transparent disclosures regarding their foreign exchange risk exposure ex ante exhibit significantly lower information asymmetry ex post. The gap in bid-ask spreads appears within 30 minutes of the SNB announcement and persists for two weeks. We confirm the informational role of past risk disclosures with a field survey of three groups of market participants: (1) Sell-side analysts emphasize existing disclosures to evaluate the translational and transactional effects of the currency shock. (2) Lending banks' credit officers rely on past disclosures as the primary resource available for smaller unlisted firms in the immediate aftermath of the shock. (3) Investor-relations managers use existing financial filings as a key internal information source when communicating with external stakeholders. In sum, the results imply that risk disclosures continue to attenuate information asymmetry and the costs of adverse selection well beyond their initial publication date.

15:30 – 16:30 Session 10: Public and Health [E 101]

Armando Meier (University of Chicago), Ziad Obermeryer (Harvard), Devin G. Pope (University of Chicago), Kevin G. Volpp (UPenn)

Medical Guidelines and Doctors' Decision-making

The idea of the separation of powers as a guiding principle for government is prominently associated with the philosophy of John Locke Charles de Montesquieu. In modern day society, we basically see two differently strong developed versions of this principle. The strong version requires the powers of government to be embedded in two independent and collectively elected institutions, the independent and elected legislative and executive branch (such as the Congress and the President of the United States). The weak version, in contrast, requires the government to be elected by a majority of the representatives in parliament. In this paper it will be argued that the voters' preferences are best served by the strong version of the principle, but put at a risk under the weak version. A lucid experience of the weak version is the Fourth Republic of France (1944-1957). A constitutional reform should aim to realise the strong rather than the weak version of the Locke-Montesquieu principle.

Lingqing Jiang (University of Essex), Zhen Zhu (University of Greenwich)

Branching Out the Babytree: The Effects of Dual Peer Group Membership on Social Support During Pregnancy in Online Communities

Social support plays an important role in maternal well-being and infant health outcomes. Nowadays, besides the traditional ways of seeking social support from family, friends, or the government, pregnant women can register in the online maternity communities to form peer groups and seek social support from other users. We use data from the world's largest online maternity community, Babytree. While by default each user is assigned to only one peer group according to her estimated due date, over a quarter of users enroll in an additional peer group on this community. This paper investigate the effects of dual peer group membership on the supply of social support from over 30,000 pregnant women. We instrument the enrollment of peer groups by the day of users' estimated due date, which allows a causal interpretation of our results. We find that the enrollment of an additional peer group of the previous month has positive externality on user' supply of social support in their default peer group. Channels of knowledge transfer and reciprocity are discussed with suggestive evidence. We also present a simple model for policy implications.

Andreas Kuhn (Swiss Federal Institute for Vocational Education), Stefan Staubli (University of Calgary), Jean-Philippe Wuellrich (University of Zurich), Josef Zweimueller (University of Zurich)

Fatal Attraction? Extended Unemployment Benefits, Labor Force Exits, and Mortality

We estimate the causal effect of permanent and premature exits from the labor force on mortality. To overcome the problem of negative health selection into early retirement, we exploit a policy change in unemployment insurance rules in Austria that allowed workers in eligible regions to exit the labor force 3 years earlier compared to workers in non-eligible regions. Using administrative data with precise information on mortality and retirement, we find that the policy change induced eligible workers to exit the labor force significantly earlier. Instrumental variable estimation results show that for men retiring one year earlier causes a 6.8% increase in the risk of premature death and 0.2 years reduction in the age at death, but has no significant effect for women.

15:30 – 16:30 Session 11: International Macro [E 126]

Diego Kaenzig (London Business School)

The Macroeconomic Effects of Oil Supply Shocks: New Evidence from OPEC Announcements

This paper proposes a novel method to identify oil supply shocks, building on the high-frequency identification strategy pioneered by Gürkaynak et al. (2005) and Gertler and Karadi (2015) for monetary policy shocks. By looking at the behavior of oil futures prices in a tight window around OPEC announcements, I am able to isolate some exogenous variation in the price of oil that is driven by news about future oil supply. Using this variation as an instrument in a proxy VAR for the US economy, I am able to credibly identify a structural oil price shock – a shock that is best thought of as a news shock about future oil supply. I find that these oil supply news shocks lead to a persistent increase in oil prices, a sluggish but significant fall in world oil production and a significant increase in world oil inventories. This has important consequences for the US economy: industrial production falls and consumer prices rise significantly. Interestingly, the shock is also associated with a significant fall in stock prices, higher inflation expectations and a depreciation of the dollar. I also find that oil supply news shocks explain a significant share of the variation in economic activity and prices – providing evidence for a strong expectational channel in the oil market.

Mirela Sandulescu (University of Lugano), Fabio Trojani (University of Geneva), Andrea Vedolin (Boston University)

Model-Free International Stochastic Discount Factors

We provide a theoretical characterization of international stochastic discount factors (SDFs) under different degrees of market segmentation. We find that estimated model-free SDFs perfectly match international macro-finance puzzles, regardless of market structure. However, properties of SDFs and uninsurable risks differ starkly across different degrees of segmentation: While SDFs and uninsurable risks are highly volatile and almost perfectly comoving in integrated markets, segmented markets feature less correlated uninsurable risks and less volatile and correlated SDFs. We interpret these findings through the lens of an economy with two building blocks: limited participation by households and constrained financiers who intermediate the market for complex assets.

Kurt Annen (University of Guelph), Stephen Kosempel (University of Guelph)

Why Aid-to-GDP Ratios

Virtually all aid-growth regression studies normalize aid by dividing it by GDP. This paper questions the usefulness of this practice: First, there are no clear theoretical reasons for this practice unless one assumes that donors allocate aid-to-GDP ratios. Second, using aid-to-GDP ratios introduces econometric problems that most likely introduce a downward bias for the aid-growth relationship. We illustrate this point by running simulations in which aid does not affect growth by construction but find strong negative and in some cases also positive correlations when using aid-to-GDP ratios. We replicate two influential aid effectiveness studies, Burnside-Dollar (2000) and Rajan-Subramanian (2008), and show that the aid normalization choice makes a difference in these studies. Finally, we find a robust positive and statistically significant relationship between aid and growth when using total aid instead of the aid-to-GDP ratio when using data for the last 20 years (1995-2014).

16:45 – 17:45 Session 12: Institutions [E 101]

Thiemo Fetzer (Warwick University), Stephan Kyburz (Center for Global Development)

Cohesive Institutions and Political Violence

Can institutionalized transfers of resource rents be a source of civil conflict? Are cohesive institutions better in managing distributive conflicts? We study these questions exploiting exogenous variation in revenue disbursements to local governments together with new data on local democratic institutions in Nigeria. We make three contributions. First, we document the existence of a strong link between rents and conflict far away from the location of the actual resource. Second, we show that distributive conflict is highly organized involving political militias and concentrated in the extent to which local governments are non-cohesive. Third, we show that democratic practice in form of having elected local governments significantly weakens the causal link between rents and political violence. We document that elections (vis-a-vis appointments), by producing more cohesive institutions, vastly limit the extent to which distributional conflict between groups breaks out following shocks to the available rents. Throughout, we confirm these findings using individual level survey data.

Charles Blankart (Humboldt University of Berlin), David Ehmke (Humboldt University of Berlin)

Divide and choose

The EU has so far missed the chance to present a budget which is unionwide perceived as an investment into a public good accessible and beneficial to all EU citizens. The focus of the current EU Budget is on Transfer which has caused division instead of union. The voting rule proposed follows the simple cake cutting procedure of divide and choose.

Claudio Schilter (LSE)

Hate Crime after the Brexit Vote: Heterogeneity Analysis based on a Universal Treatment

I investigate the change in hate crimes targeting the victim's race or religion after the Brexit vote. The vote represents a public information shock about the preferences of insiders regarding outsiders. My results reveal a substantial and transitory increase in such crimes following the vote. The central focus of my analysis is the considerable spatial heterogeneity of this increase. Areas with a greater increase in hate crime are characterized by both a greater immigrant share, and higher income proxies. Differences in unemployment rates do not significantly contribute to the observed variance. More specifically, parsimonious linear prediction models show the shares of recent immigrants and people with formal qualifications as key predictors of the hate crime increase. My findings are consistent with treating the Brexit vote as an update of expected social sanctions to hate offenders. Issues of multiple hypothesis testing and model selection limit the use of classic methods; therefore I apply and adapt recent machine learning methods as well.

16:45 – 17:45 Session 13: Metrics [E 126]

*Simon Alder (University of North Carolina – Chapel Hill), Timo Boppart (IIES), **Andreas Mueller** (University of Essex)*

Consumption Demand Estimation under Slutsky Restrictions

We propose a simple routine to estimate consumption demand systems under the restriction that the associated Slutsky matrix is symmetric (S) and negative semi-definite (NSD). Given S and NSD the demand system corresponds to the optimum of a standard utility maximization problem and welfare statements are meaningful. While imposing the S restriction is standard in the demand estimation literature, NSD violations have often been ignored. We propose a new penalty method to impose the NSD of the Slutsky matrix on the non-linear least squares estimator. We apply our routine to macroeconomic demand systems with the class of intertemporally aggregable preferences (Alder et al., 2018) and use the United States private consumption demand in agriculture, manufacturing and services over more than a century to estimate the restricted preference parameters. We find that the NSD restriction is relevant when the Slutsky matrix is evaluated at the price and income data in early periods of the sample, but the fit of the observed structural change is not significantly worse compared to the unrestricted estimation.

*Victor Chernozhukov (MIT), **Kaspar Wuthrich** (UCSD), Yinchu Zhu (University of Oregon)*

An Exact and Robust Conformal Inference Method for Counterfactual and Synthetic Controls

This paper introduces new inference methods for counterfactual and synthetic control methods for evaluating policy effects. Our inference methods work in conjunction with many modern and classical methods for estimating the counterfactual mean outcome in the absence of a policy intervention. Specifically, our methods work together with the difference-in-difference, canonical synthetic control, constrained and penalized regression methods for synthetic control, factor/matrix completion models for panel data, interactive fixed effects panel models, time series models, as well as fused time series panel data models. The proposed method has a double justification. (i) If the residuals from estimating the counterfactuals are exchangeable as implied, for example, by i.i.d. data, our procedure achieves exact finite sample size control without any assumption on the specific approach used to estimate the counterfactuals. (ii) If the data exhibit dynamics and serial dependence, our inference procedure achieves approximate uniform size control under weak and easy-to-verify conditions on the method used to estimate the counterfactual. We verify these conditions for representative methods from each group listed above. Simulation experiments demonstrate the usefulness of our approach in finite samples. We apply our method to re-evaluate the causal effect of election day registration (EDR) laws on voter turnout in the United States.

Network of Swiss Economists Abroad

Accommodation (20-22 December 2018)

Hotel Restaurant Bar Helvetia

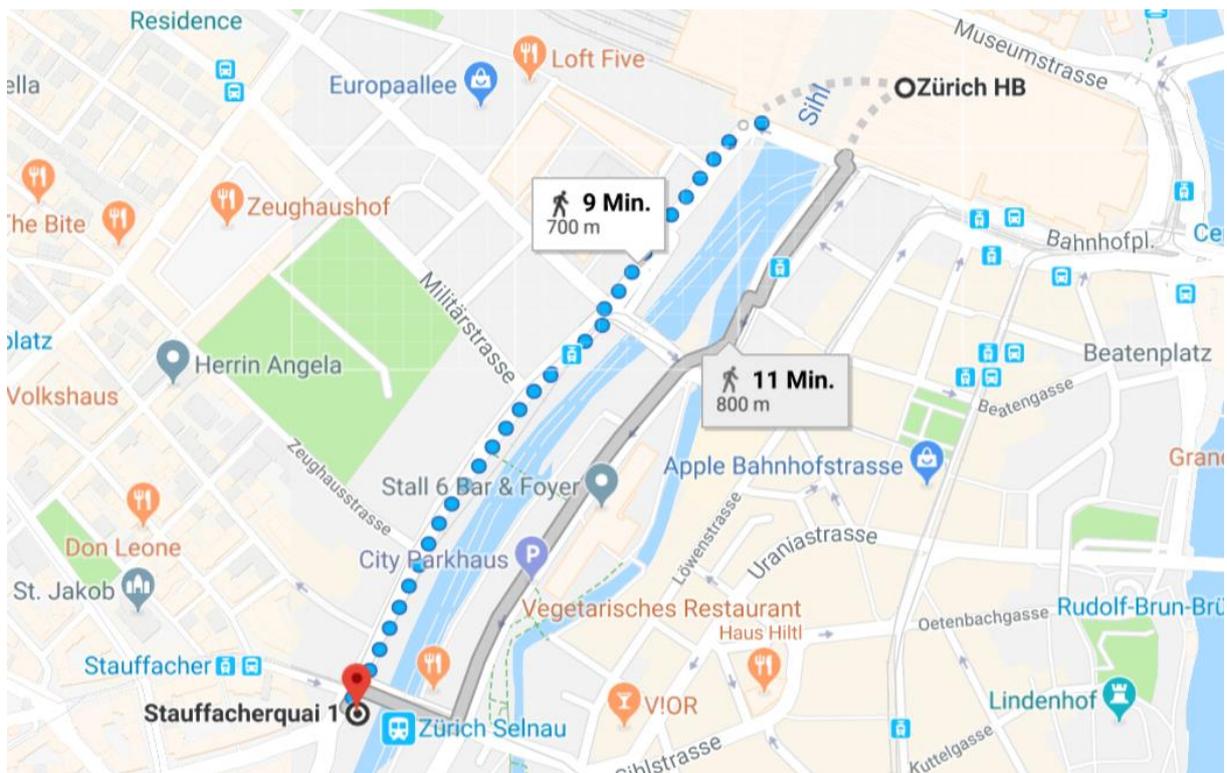
Stauffacherquai 1
8004 Zürich

T: +41 (0) 44 297 99 99

F: +41 (0) 44 297 99 90

E: info@hotel-helvetia.ch

W: www.hotel-helvetia.ch



Network of Swiss Economists Abroad

Informal Dinner (December 20):

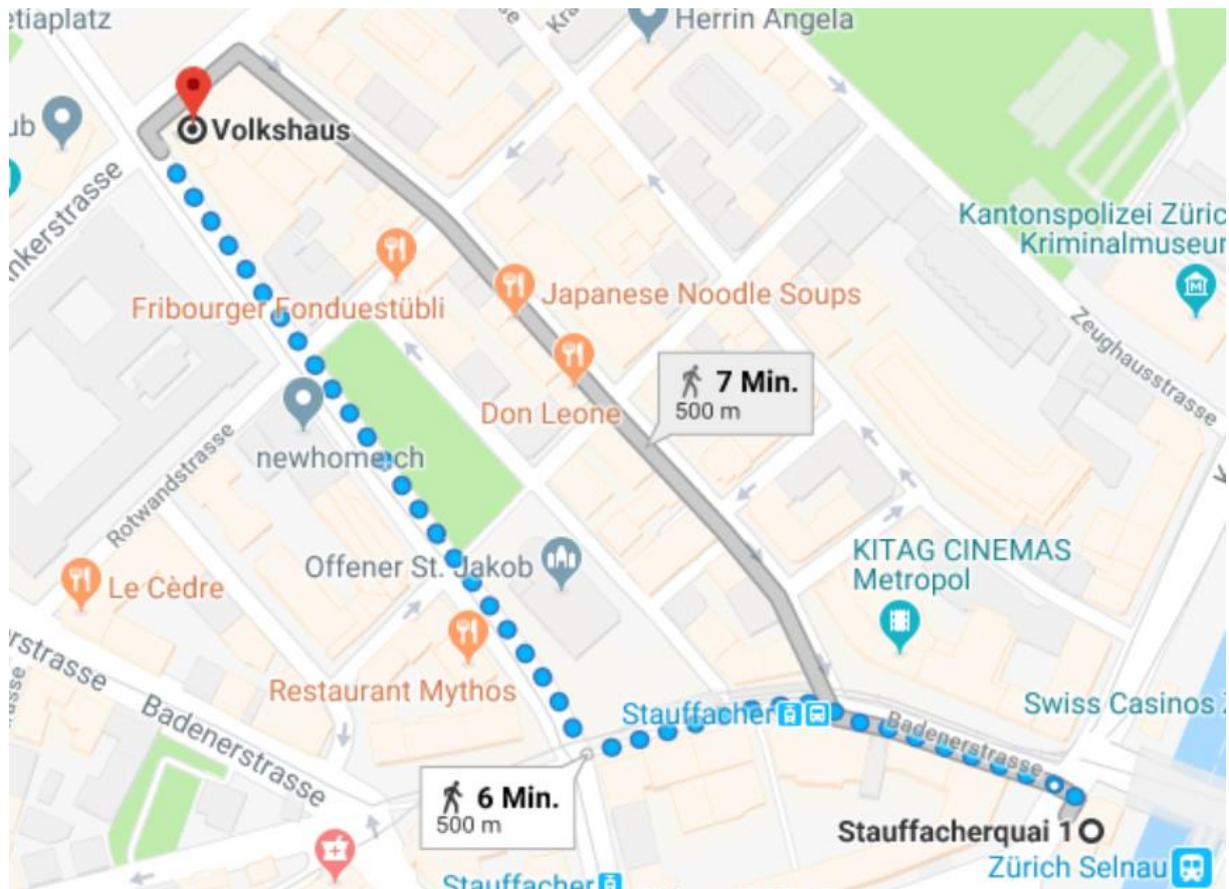
Volkshaus

Cafe Bar Restaurant Zürich

Stauffacherstrasse 60 Zürich 4

T: +41 (0)44 242 1155

W: www.restaurantvolkshaus.ch



Conference Dinner (December 21):

Hotel Restaurant Bar Helvetia

Stauffacherquai 1
8004 Zürich

T: +41 (0) 44 297 99 99

F: +41 (0) 44 297 99 90

E: gastronomie@hotel-helvetia.ch

W: www.hotel-helvetia.ch

Conference (December 21):

KOF, ETH Zürich, LEE Building

Seminar rooms: LEE E101 (Main Meeting room), LEE E126, LEE E308

Leonhardstrasse 21

8092 Zürich

Telefon +41 44 632 42 39

kof@kof.ethz.ch

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Map



Public Transport to KOF

From Zurich Main Station

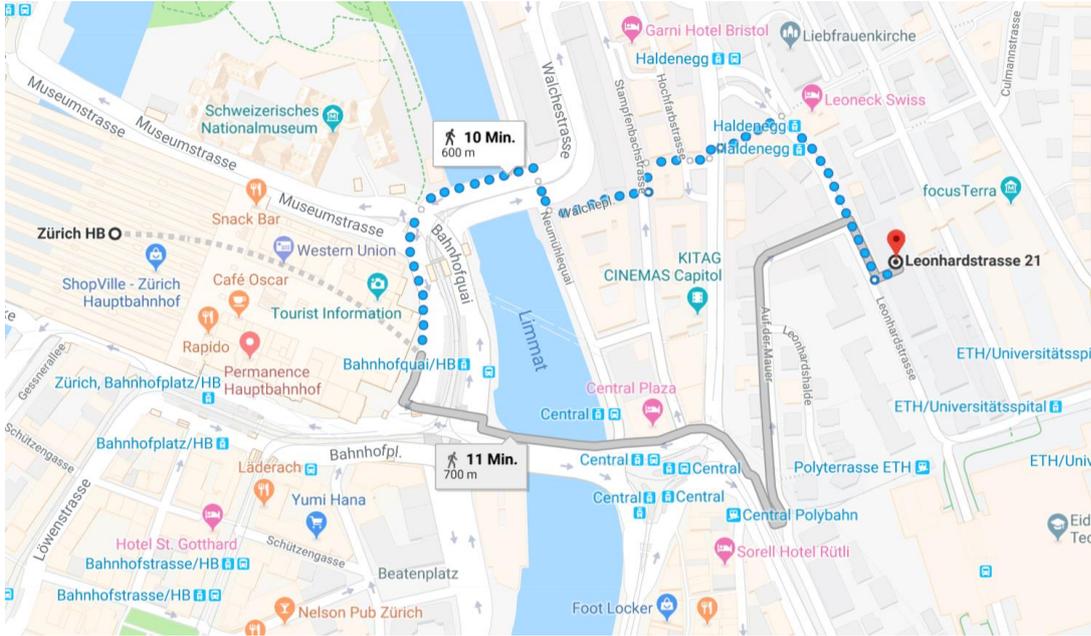
Tram nos. 6, 7, 10 and 15 to stop „Haldenegg“
Travelttime: 5 minutes

Or tram nos. 3, 6, 7 and 10 to stop „Central“
take Polybahn to ETH Polyterrasse
Travelttime: 7 minutes

Please buy a ticket for Zone 110 (Zürich City)



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