Network of Swiss Economists Abroad

17th End-of-Year Conference of Swiss Economists Abroad

December 22, 2022

University of Basel

Organizers: Enrico Berkes (Ohio State University), Aline Bütikofer (Norwegian School of Economics) and Patrick Gaule (University of Bristol).

Local Organizers: Kurt Schmidheiny (University of Basel).

Learn more about our network at www.swisseconomistsabroad.org

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

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Société suisse d'économie et de statistique
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Swiss Society of Economics and Statistics

University of Basel

17th End-of-Year Conference of Swiss Economists Abroad

Daily Schedule

Wednesday, December 21

19:30 - 21:30	**Conference Dinner** (Atelier im Teufelhof, Leonhardsgraben 47-49, Basel)

Thursday, December 22

8:30 - 9:00	**Arrival, Registration, Coffee** (Foyer)		
9:00 - 9:10	**Welcome Session (**Auditorium)		
9:15 - 10:35	**Parallel Sessions 1 – 3**		
	1. Geography (Room S13)	2. International Finance (Auditorium)	3. Fiscal and Public Policy (Room S15)
10:35 - 11:05	**Coffee Break** (Foyer)		
11:05 - 12:25	**Parallel Sessions 4 – 6**		
	4. Innovation (Room S13)	5. Finance (Auditorium)	6. Behavioral (Room S15)
12:25 - 14:00	**Lunch** (Cafeteria La Strada)		
14:00 – 14:20	**A word from our Partner, the SNB** (Auditorium)		
14:20 - 15:40	**Parallel Sessions 7 – 9**		
	7. Climate and Family (Room S13)	8. Econometrics (Auditorium)	9. Firm dynamics (Room S15)
15:40 - 16:10	**Coffee Break** (Foyer)		
16:10 - 17:30	**Parallel Sessions 10 – 12**		
	10. Macro (Room S13)	11. International Finance II (Auditorium)	12. Public policy (Room S15)

17th End-of-Year Conference of Swiss Economists Abroad

Detailed Conference Program

Thursday, December 22

8:45 - 9:00	**Arrival, Registration, Coffee** (Foyer)
9:00 – 9:10	**Welcome Session** (Auditorium)
9:15 - 10:35	**Session 1: Geography** (Room S13)
Christoph Moser	Cross-Border Commuting, Gender Differences, and the Outside Option
Sara Bagagli	The (Express) Way to Segregation: Evidence from Chicago
9:15 - 10:35	**Session 2: International Finance** (Auditorium)
~~Philippe Mueller~~	~~Foreign Exchange Fixings and Returns Around the Clock~~
Oliver Vogt	Crowding out Foreign Investment: Costs of Foreign Exchange Intervention
Thomas Maurer	The Conditional Dollar-Carry FX Pricing Model
9:15 - 10:35	**Session 3: Fiscal and Public Policy** (Room S15)
Michael Barczay	On the Optimal Design of Consumption Taxes
Guillaume Sublet	Designing a Fiscal Rule for the European Union
Mathias Kruttli	Banking on Carbon: Corporate Lending and Cap-and-Trade Policy
10:35 - 11:05	**Coffee Break** (Foyer)
11:05 - 12:25	**Session 4: Innovation** (Room S13)
Ulrich Schetter	A Measure of Countries' Distance to Frontier Based on Comparative Advantage
Patrick Gaule	India's Missing Billion
11:05 - 12:25	**Session 5: Finance** (Auditorium)
Luzi Hail	Determinants and Career Consequences of Early Audit Partner Rotations
Lukas Altermatt	Market Choice in Asset Trading: The Role of Collateral
Andrea Vedolin	Model Complexity, Expectations, and Asset Prices
11:05 - 12:25	**Session 6: Behavioral** (Room S15)
Fidel Petros	Self-Confidence and Teamwork: An Experimental Test
Silvia Sonderegger	Strategic Behavior with tight, loose and polarized norms
Christian Ochsner	The Evolution of the Gender Aspiration Gap: Evidence from 50 Years of Alpine Skiing

12:25 - 14:00	**Lunch** (Cafeteria La Strada)
14:00- 14:20	**A word by Lukas Voellmy from our Partner, the SNB** (Auditorium)
14:20 - 15:40	**Session 7: Climate and Family** (Room S13)
Aline Buetikofer	Collective Climate Action: Air Pollution, Child Outcomes, and Inequality
Jonas Meier	A Bivariate Distribution Regression Model For Intergenerational Mobility
Lucienne N.Y. Disch	Uncovering the separate contributions of family and neighborhood heterogeneity to wage dispersion
14:20 - 15:40	**Session 8: Econometrics** (Auditorium)
Marko Mlikota	Time Series Dynamics Derived From Network Structure
Constantin Burgi	Online Interactions And The Gravity Model Of Trade
14:20 - 15:40	**Session 9: Firm Dynamics** (Room S15)
Lukas Freund	Superstar Teams: How Coworker Complementarities Explain Between-Firm Inequality
Sara Signorelli	The spill-over effects of employment concentration. Evidence from mergers and acquisitions
Stefano Carattini	Climate policy uncertainty and firms' and investors' behavior
15:40 - 16:10	**Coffee Break** (Foyer)
16:10 - 17:30	**Session 10: Macro** (Room S13)
~~Romina Ruprecht~~	~~Unconventional Monetary Policy Transmission through Banks and Shadow Banks~~
Filippo Cavaleri	The Convenience Yield and the Demand for U.S. Treasury Securities
Yann Koby	Aggregation in Heterogeneous-Firm Models: A Sufficient Statistics Approach
16:10 - 17:30	**Session 11: International Finance II** (Auditorium)
Fabricius Somogyi	FX Liquidity Risk and Carry Trade Premia
Markus Hertrich	Foreign Exchange Interventions and their Impact on Expectations: Evidence from the USD/ILS Options Market
Felix Matthys	Political Risk and Currency Markets
16:10 - 17:30	**Session 12: Public policy** (Room S15)
Tim Dominik Maurer	Retirement Reform in a Multi-pillar Pension System *(virtual)*
Andreas Haller	Optimal Unemployment Insurance with Repeated Unemployment
Adrien Wicht	Efficient Sovereign Debt Management

Note: Presentations are 20 or 30 minutes per paper, including discussion, depending on number of papers in session. The last person in a session is timekeeper.

17th End-of-Year Conference of Swiss Economists Abroad

Abstracts

9:15 - 10:35 Session 1: Geography (Room S13)

Christoph Moser (FAU Erlangen Nuernberg), Christian Kleinertz (University of Duisburg-Essen & Klaus Nowotny (University of Salzburg)

Cross-Border Commuting, Gender Differences, and the Outside Option

We study a cross-border commuting reform that granted German workers in the German-Swiss border region access to the high-wage Swiss labour market. This exogenous increase in German workers‘ outside option led to an increase in average wages paid by German establishments in the border region. But this wage increase is not homogenous across worker types. First, high-skilled workers enjoyed a higher wage increase than low-skilled workers, consistent with a stronger increase in Swiss-labor demand for high-skilled German workers. Second, the positive wage effects only accrue to men in the border region, but not women, consistent with gender differences in the willingness to commute. The outside option clearly seems to play an important role in wage determination and its wage effects can be heterogeneous.

Sara Bagagli (Harvard University)

The (Express)Way to Segregation: Evidence from Chicago

I investigate how man-made barriers shape racial segregation within cities. I exploit the construction of expressways in Chicago in the 1950s as a source of variation in neighborhoods' quality and connectivity. Central to the analysis is the consideration that these multi-lane roads (i) produce a local shock to residential amenities, and (ii) divide the areas they cross through, by creating local barriers to the interaction of nearby communities. I document the effect of proximity to expressways on racial sorting, running difference-in-differences specifications with multiple time periods. I find that proximity to expressways is associated, on average, with an increase in the share of Black residents and, at the same time, with a decrease in the valuation of affected neighborhoods. The results are consistent with a resorting of people in response to changes in relative amenity values. Then, I estimate the barrier effect of expressways on opposite sides of the lanes. By increasing the physical separation between different portions of the city, I find that expressways also create a discontinuity along the racial dimension. A higher exposure to Black areas in the city increases the likelihood of a neighborhood to become more Black over time, with milder effects on its valuation. The results suggest that this feature of expressways provides a second channel of racial sorting which depends on individual preferences towards more or less integrated places to live in. Motivated by these findings, I develop a discrete choice model of residential sorting that will be used for counterfactual analyses.

9:15 - 10:35 Session 2: International Finance (Auditorium)

Ingomar Krohn (Bank of Canada), Philippe Mueller (Warwick Business School) & Paul Whelan (Copenhagen Business School)

Foreign Exchange Fixings and Returns Around the Clock

The U.S. dollar appreciates in the run up to foreign exchange fixes and depreciates thereafter, tracing a W-shaped return pattern around the clock. For the G9 pairs in a 21-year sample, return reversals are pervasive, highly statistically significant, and based on spot volumes imply swings exceeding one billion U.S. dollars per day. Usingnatural experiments, we show the existence of a published reference rate determines the timing of intraday return reversals. Studying potential explanations, we conclude this effect is due to the hedging activities of foreign exchange dealers who intermediate an unconditional demand for U.S. dollars at the fixes.

Oliver Vogt (University of British Columbia)

Crowding out Foreign Investment: Costs of Foreign Exchange Intervention

This paper introduces foreign investment in a small open economy model and studies its implications for optimal foreign exchange intervention (FXI) policy. Foreign investment is defined as a relatively high-yielding, internationally traded asset in which domestic households can hold a long position. Households also have access to an international bond through financial intermediaries. Due to aggregate demand externalities, overborrowing and unemployment may arise in the economy. In this case, FXI can be used to increase employment by improving the net foreign asset position ex-ante. Incorporating foreign investment, however, generates a new cost of FXI. Assuming that foreign reserves are invested in international bonds, reserve accumulation crowds out higher-yielding foreign investment. The associated deterioration in the income account dominates the improvement in the net foreign asset position, resulting in lower consumption both ex-ante and ex-post. As a result, the planner's problem exhibits two local optima: one corresponds to low amounts of foreign reserves and positive foreign investment holdings while the other is associated with high levels of foreign reserves and no foreign investment holdings. Whether the former or latter constitutes the global optimum crucially depends on the risk/return profile of foreign investment.

Sining Liu (HKU), Thomas Maurer (HKU), Andrea Vedolin (Boston University) & Yaoyuan Zhang (HKU)

The Conditional Dollar-Carry FX Pricing Model

We introduce a novel GMM estimation procedure to assess conditional factor models without the need to specify a set of conditioning variables. The conditional Dollar-Carry (DOL-CAR) two factor pricing model is able to explain a rich cross-section of average currency returns. It is important to account for the time-variation in the conditional moments when estimating FX factor models. Unconditional estimations which ignore this time-variation mistakenly reject the DOL-CAR two factor model. Our results imply that there is predictability in factor returns. We estimate lower bounds for the predictive regression R2 of 6.69% for DOL and 4.06% for CAR.

9:15 - 10:35 Session 3: Fiscal and Public Policy (Room S15)

Michael Barczay (European University Institute)

On the Optimal Design of Consumption Taxes

How should consumption be taxed in the presence of progressive income taxes? More redistributive income taxes may allow the government to focus on consumption tax efficiency whereas distributional concerns can dominate when the income tax system is only mildly progressive. In this paper, I revisit this equity-efficiency trade-off using a quantitative incomplete markets model featuring heterogeneous households with non-homothetic CES preferences. I estimate the demand system generated by these preferences using data from the US Consumption Expenditure Survey and calibrate the model to the US. I evaluate the effects of switching from a world in which consumption taxes target equity to one where taxes are set according to an inverse elasticity rule, thereby focusing more on efficiency concerns. My results indicate that implementing such a policy would result in a welfare loss of up to 3%. This loss could be reduced substantially if implemented alongside an increase in the income tax progressivity. For the inverse elasticity rule to increase welfare over a consumption tax focused on distributional aspects, the US income tax would have to be markedly more progressive than what is empirically observed in OECD countries nowadays.

Guillaume Sublet (University of Montreal)

Designing a Fiscal Rule for the European Union

The design of a fiscal rule involves a fundamental trade-off between committing governments to a fiscally responsible budget and giving governments the discretion to respond to shocks. This paper quantifies this trade-off in the optimal design of a reform of the fiscal rule for the European Union. Novel evidence of a thick (Pareto) tail of the distribution of shocks to the need for government spending implies that a well-designed fiscal rule for EU members should grant more discretion than the discretion granted by the Stability and Growth Pact.

Ivan Ivanov (Federal Reserve Board of Chicago), Mathias Kruttli (Federal Reserve Board of Governors) & Sumudu Watugala (Indiana University)

Banking on Carbon: Corporate Lending and Cap-and-Trade Policy

We estimate the effect of carbon pricing policy on bank credit to greenhouse gas emitting firms. Our analyses exploit the geographic restrictions inherent in the California cap-and-trade bill and a discontinuity in the embedded free-permit threshold of the federal Waxman-Markey cap-and-trade bill. Affected high-emission firms face shorter loan maturities, lower access to permanent forms of bank financing, higher interest rates, and higher participation of shadow banks in their lending syndicates. These effects are concentrated among private firms, suggesting banks are less concerned about the policy's impact on public firms. Overall, banks quickly mitigate their exposure to climate transition risks.

11:05 - 12:25 Session 4: Innovation (Room S13)

Ulrich Schetter (Harvard University)

A Measure of Countries' Distance to Frontier Based on Comparative Advantage

This paper presents a structural ranking of countries by their distance to frontier. The ranking is based on comparative advantage. Hence, it reveals information on the productive capabilities of countries that is fundamentally different from GDP per capita. The ranking is centered on the assumption that countries' capabilities across products are similar to those of other countries with comparable distance to frontier. It can be micro-founded using standard trade models. The estimation strategy provides a general, non-parametric approach to uncovering a log-supermodular structure from the data, and I use it to also derive a structural ranking of products by their complexity. The underlying theory provides a flexible micro-foundation for the Economic Complexity Index (Hidalgo and Hausmann, 2009).

Ruchir Agarwal (Harvard University) & Patrick Gaule (University of Bristol)

India' Missing Billion

This paper quantifies the role of family background in patenting in India—using the information content in surnames. Indian surnames typically contain information about one's caste, religion, or geographic origin. Based on records of all adult Indians alive (~850 million individuals), a national survey of 200 million families, and historical registers from the British India civil service and university graduates in the 1850s, we develop a novel dataset—the Name Advantage Index Map (NAIM)—to track inequality between family groups over time and space in India. We present four main findings. First, based on family background alone, the bottom two-third of India's population (~1 billion individuals) have a very low chance (i.e., around ten times lower than the top decile) of becoming an inventor. This pattern is unique to India with no other major country having nearly as much name-based advantage in outcomes. Second, the divergence in outcomes across family groups has been persistent at least since the 1850s, suggesting entrenched underlying social stratification in the economy. Third, studying the lifecycle of a cohort of half a million individuals who participated in the national entrance exams, we find divergence in lifetime outcomes even among equally-talented teenagers based on their family background—suggesting the inequality of opportunity persists over the lifecycle. Overall, the findings suggest that about 1 billion individuals in India may have a near-zero chance to become an inventor based on their family background alone, but the experience of migrants and certain states show that there is scope for policy measures to make India's economic system more inclusive. India's missing billion represents 2 in 3 within India, and 1 in 8 people worldwide. Integrating them will not only benefit the excluded communities within India but will also enable India to enhance its aggregate contribution to the knowledge frontier.

11:05 - 12:25 Session 5: Finance (Auditorium)

Brandon Gipper (Stanford University), Luzi Hail (University of Pennsylvania) & Christian Leuz (University of Chicago)

Determinants and Career Consequences of Early Audit Partner Rotations

For a sample of 3,973 within-audit firm partner rotations for Big 6 issuer clients from 2008 to 2014, we find that partner rotations occurring early-before the end of the maximum five-year term-are associated with major audit quality issues such as financial restatements or PCAOB inspection findings. This link is present only for early rotations that are not explained by retirements, promotions, or temporary leaves, and for large clients and less experienced partners. Female partners are also more likely to be rotated for audit quality reasons. Early rotations have career consequences. Incoming partners are more senior and can spend more time on the engagement. Exiting partners are assigned to fewer SEC issuer clients, manage fewer audit hours, and receive lower partner ratings. Our results suggest that audit quality concerns are an important factor for partner reassignments, consistent with early rotations serving a disciplinary or incentive role within audit firms.

Lukas Altermatt (University of Essex) & Piero Gottardi (University of Essex)

Market Choice in Asset Trading: The Role of Collateral

For many financial assets, Walrasian markets coexist with bilateral over-the-counter (OTC) markets which are riddled with frictions. In this paper, we investigate why agents choose to trade on OTC markets, with a specific focus on collateral requirements. Our model suggests that if trade on Walrasian markets is restricted by collateral requirements, agents with large trading needs find it preferable to trade on OTC markets in order to avoid collateral constraints. However, their presence on OTC markets also attracts agents with small trading needs, as these agents can extract gains from trade by trading with an agent with a large trading need, while their gains from trade on Walrasian markets are near zero. Meanwhile, agents with medium-sized trading needs prefer Walrasian markets, since they are less severly affected by collateral requirements, while their trading needs are strong enough so that they prioritize efficency over uncertain, but potentially larger gains from trade on the OTC market. These results accord well with empirical findings on trading patterns in asset markets.

Pooya Molavi (Northwestern University), Alriza Tahbaz-Salehi (Northwestern University) & Andrea Vedolin (Boston University)

Model Complexity, Expectations, and Asset Prices

This paper analyzes how limits to the complexity of statistical models used by market participants can shape asset prices. We consider an economy in which agents can only entertain models with at most k factors, where k may be distinct from the true number of factors that drive the economy's fundamentals. We first characterize the implications of the resulting departure from rational expectations for return dynamics and relate the extent of return predictability at various horizons to the number of factors in the agents' models and the statistical properties of the underlying data-generating process. We then apply our framework to two applications in asset pricing: (i) violations of uncovered interest rate parity at different horizons and (ii) momentum and reversal in equity returns. We find that constraints on the complexity of agents'models can generate return predictability patterns that are consistent with the data.

11:05 - 12:25 Session 6: Behavioral (Room S15)

Adrian Bruhin (University of Lausanne), Fidel Petros (Wissenschaft Zentrum Berlin / Technische Universität Berlin) & Luis Pedro Santos Pinto (University of Lausanne)

Self-Confidence and Teamwork: An Experimental Test

One important aspect of self-confidence is its impact on the work environment. We build on and extend the contribution by Gervais and Goldstein (2007) to test the effect of self-confidence bias on effort provision in teams. Using a general knowledge quiz to assign skill levels to our subjects by ranking them according to their performance, we elicit their beliefs about their own rank in 12-people groups. Subjects are then matched pairwise to perform the ball-catching task of Gaechter et al. (2016). Each subject is shown her own estimated productivity and also knows the actual and estimated productivity of her partner, i.e., her level of own bias. We find that own self-perception bias has a sizable positive effect on own effort provision while partner self-perception bias has no significant effect. Finally, own self-perception bias has a hump-shaped effect on own earnings. These results emphasize and confirm that high self-confidence in teams may lead to a Pareto-improvement.

Eugen Dminant (University of Pennsylvania), Michele Gelfand (Stanford University), Anna Hochleitner (University of Nottingham), Silvia Sonderegger (University of Nottingham)

Strategic Behavior with tight, loose and polarized norms

Descriptive norms -- the behavior of other individuals in one's reference group -- play a key role in shaping individual decisions. When characterizing the behavior of others, a standard approach in the literature is to focus on *average* behavior. In this paper, we argue both theoretically and empirically that not only averages, but the shape of the whole distribution of behavior can play a crucial role in how people react to descriptive norms. Using a representative sample of the U.S. population, we experimentally investigate how individuals react to strategic environments that are characterized by different distributions of behavior, focusing on the distinction between *tight* (i.e., characterized by low behavioral variance), *loose* (i.e., characterized by high behavioral variance), and *polarized* (i.e., characterized by u-shaped behavior) environments. We find that individuals indeed strongly respond to differences in the variance and shape of the descriptive norm they are facing: loose norms generate greater behavioral variance and polarization generates polarized responses. In polarized environments, most individuals prefer extreme actions that expose them to considerable strategic risk to intermediate actions that would minimize such risk. Importantly, we also find that, in polarized and loose environments, personal traits and values play a larger role in determining actual behavior. This provides important insights into how individuals navigate environments that contain strategic uncertainty.

Lusine Ivanov-Davytan (CERGE-EI), Gregor Gabriel Pfeifer (U Sydney) & Christian Ochsner (CERGE-EI)

The Evolution of the Gender Aspiration Gap:Evidence from 50 Years of Alpine Skiing*

We study the evolution of the gender aspiration gap measured as risk-behavior, willingness to succeed and performance over a time spam of 50 years. We focus on individual competitive behavior once a person has learnt about its own potential to be successful. To do so, we link a surprise success of a certain athlete to the competitive responses of his or her peers. We use alpine skiing data from 1967 to 2022. Alpine skiing has some particular features that make analysis insightful: Ski competition take place for more than 50 years in almost the same format, athletes compete in all subsequent races within a discipline, the gender pay gap is small and detailed race and within-race data on risk behavior and performance are available. The combination of hazard estimation technique and the comparison by gender over time is novel and may lead to cutting-edge insights of peer-group and network effects to understand risk-taking behavior and performance. Initial results show that men are very reactive after the success of their peer, while women do neither chance their risk behavior nor performance. The findings can be transferred to real economic situations in competitive environments such as risky financial investments and shed light on gender differences on which policy makers and compliance managers should account for.

14:20 - 15:40 Session 7: Climate and Family (Room S13)

Aline Buetikofer (Norwegian School of Economics), Zichen Deng (Norwegian School of Economics) & Kjell Salvanes (Norwegian School of Economics)

Collective Climate Action: Air Pollution, Child Outcomes, and Inequality

This paper examines the long-term impacts of early childhood pollution exposure by exploiting the Air Convention (Convention on Long-Range Transboundary Air Pollution) as a natural experiment using Norwegian administrative data. We use a difference-in-differences design to analyze the outcomes between cohorts born in municipalities before and after significant improvements in acid exposure relative to those same cohorts born in municipalities with no improvements. We find that a higher pollution level is associated with lower academic performance and earnings at age 30. The effects are mainly driven by individuals from municipalities with initial exposure above certain thresholds. The mover design on top of DID provides new evidence on age-specific estimates of the pollution-human capital relationship.

Ivan Fernandez-Val (Boston University), Jonas Meier (University of Amsterdam), Aico Van Vuuren (University of Groningen) & Francis Vella (Georgetown University)

A Bivariate Distribution Regression Model For Intergenerational Mobility

This paper investigates intergenerational mobility by modeling the joint distribution of parents's and children's earnings. Using a bivariate distribution regression framework, we (i) flexibly account for the effect of observables on the distribution and (ii) assess the role of the remaining local correlation. The latter indicates how strongly earnings correlate at a specific location in the distribution once controlled for covariates. Comparing the observed distribution with a potential counterpart with no remaining correlation, we address the effect of unobservables throughout the distribution. Exploiting unique administrative data from Switzerland, we find that the distribution of father's and son's earnings considerably differ from the one mother's and daughter's. In particular, the magnitude and the shape of the local correlation vary substantially.

Lucienne N.Y. Disch (University of Pennsylvania)

Uncovering the separate contributions of family and neighborhood heterogeneity to wage dispersion

Families have both direct influences on children (through investments, resources, and their structure) and indirect influences (by choosing the neighborhood they live in, which in turn, determines children's peers). The objective of this paper is to understand the separate contributions of family input heterogeneity and neighborhood composition heterogeneity to variations in earnings. The goal is to address policy-related questions that concern the drivers of inequality across and within neighborhoods.

14:20 - 15:40 Session 8: Econometrics (Auditorium)

Marko Mlikota (University of Pennsylvania)

Time Series Dynamics Derived From Network Structure

Numerous environments in economics feature a cross-section of agents or units linked through a network of bilateral ties. This paper develops a Vector Autoregression (VAR) which is based on the assumption that innovations transmit cross-sectionally via such bilateral links and can accommodate general patterns of how network effects of different order accrue over time. I show that the model approximates the process of sectoral prices in an economy with input-output linkages and time lags between the purchase of inputs and their usage in producing other goods. I then apply it to document how sectoral price shocks propagate over time through the US input-output network. The results show that sectors differ not only in the strength of their overall, long-term effect on aggregate PPI, but also in its timing. Transmission is faster the more important a sector is as an immediate - as opposed to further upstream - supplier to other sectors in the economy.

Constantin Buergi (University College Dublin) & Zuzanna Studicka (University College Dublin)

Online Interactions And The Gravity Model Of Trade

We assess the importance of distance in economic online interaction in a low trade cost environment. To this end, we analyze a unique data set with over 25m multiplayer games played between December 2019 and August 2022 in the game Age of Empires 2. As there are various ways of how players can interact with other players and the game, we are able to distinguish situations where physical distances matter to larger and lesser extents. We find that the distances are an important factor determining the number of interactions when there are trade costs in line with a gravity model of trade. At the same time, we find distances matter even in settings where trade costs are nonexistent leading to a puzzle.

14:20 - 15:40 Session 9: Firm dynamics (Room S15)

Lukas Freund (University of Cambridge)

Superstar Teams: How Coworker Complementarities Explain Between-Firm Inequality

An increasing share of wage inequality in most rich economies is accounted for by differences in pay between firms. I develop and quantify a parsimonious theoretical model to explain this macro-distributional fact. In the model, firms coordinate the division of labor in teams of heterogeneous workers whom they hire in a frictional labor market. Complementarities between coworkers' abilities emerge endogenously; they are greater when tasks are more complex. In equilibrium, these complementarities induce coworker sorting and greater wage dispersion across firms ``superstar teams'' pull away from the rest. The model's key mechanisms find support

in rich, administrative micro-data from Germany and Portugal. I show, in particular, that a theory-informed measure of coworker complementarities (i.) is greater in occupations performing more complex tasks, and (ii.) has almost doubled over the two decades since 1990. A structural estimation exercise suggests that greater coworker complementarities, disciplined by the micro evidence, can account for ~40% of the empirically observed rise in the between-establishment share of wage inequality in Germany (1990-2010).

Sara Signorelli (University of Amsterdam) & Francois Fontaine (Paris School of Economics)

The spill-over effects of employment concentration. Evidence from mergers and acquisitions

Labor market concentration is attracting a growing attention among labor economists because of the downward pressure it exerts on wages. However, little evidence exist on how it affects market dynamism, job to job flows and average firm productivity. In this project we use mergers and acquisitions and apply an event study design on French administrative data to test how this sudden shock in employment concentration affects non-merging firms competing in the same market. We find that affected markets see a decrease in overall employment driven by a drop in firm creation. Merging firms see an increase in profits and mark-ups, which generates negative spill-overs on the performance of competing firms. Finally, effects are highly heterogeneous depending on the pre-existing levels of concentration in the market and on the average productivity of merging firms.

Pier Basaglia (University of Hamburg), Stefano Carattini (Georgia State University), Antoine Dechezlepetre (OECD) & Tobias Kruse (OECD)

Climate policy uncertainty and firms' and investors' behavior

Whether and how firms are affected by uncertainty revolving around the implementation of climate policy is crucial to understand their behavior as well as investors', which are interesting per se and also have implications for the potential for systemic risk related with the coordinated implementation of ambitious climate policy. Hence, we develop a new index of climate policy uncertainty, covering the United States with monthly-level variation between 1990 and 2019. We analyze the relationship between climate policy uncertainty and firm-level outcomes such as stock returns, share price volatility, investments in research and development and patenting, and employment for all publicly-listed firms in the country. We find that climate policy uncertainty tends to considerably affect all these outcomes, and often more so than existing indices of economic policy uncertainty. The direction of the effect may, however, be driven by the underlying source of uncertainty, which we measure explicitly. In particular, we leverage the fact that climate policy requires the transition from a dirty to a low-carbon equilibrium, with progress and setbacks along the road, which create a promising context to analyze short-term versus long-run planning and belief revision. Consistently with expectations, we find that climate policy uncertainty can lead to positive effects on the abovementioned outcomes in periods of setbacks, i.e. when uncertainty is driven by failure in the climate policy process rather than success.

16:10 - 17:30 Session 10: Macro (Room S13)

Filippo Cavaleri (University of Chicago)

The Convenience Yield and the Demand for U.S. Treasury Securities

This paper investigates heterogeneity in investors' valuations of the convenience services associated with U.S. Treasuries. My goal is to determine which groups of investors draw benefits from holding Treasuries and the reason why they are willing to pay a premium over comparatively safe and liquid corporate bonds. I present a conceptual framework to interpret the implications of heterogeneity in valuations of convenience services for Treasury yield and price elasticities. Using sector-level holding data from the Financial Accounts, I then estimate the structural demand curves for the purpose of ranking sectors based on their valuation of convenience services. Estimates reveal that the convenience of long term Treasuries is mostly valuable for U.S. private depository institutions, and security brokers and dealers, whereas it is less attractive to households, pension funds and insurance companies. The ordering suggests that safety is a secondary concern with regard to liquidity and neutrality even for long term spreads. These results suggest that models of convenience yields should accommodate cross- sectional heterogeneity in the elasticity of substitutions

between Treasuries and corporate bonds as well as rationalize the importance of the liquidity motive for longer maturities.

Yann Koby (Brown University)

Aggregation in Heterogeneous-Firm Models: A Sufficient Statistics Approach

TBA

16:10 - 17:30 Session 11: International Finance 2 (Auditorium)

Paul Soederlind (University of St. Gallen) & Fabricius Somogyi (Northeastern University)

FX Liquidity Risk and Carry Trade Premia

The currency market is the largest and presumably most liquid financial market in the world. We show that even in this highly liquid market exposure to liquidity risk commands a nontrivial risk premium of up to 3.6% per annum. However, we also find that liquidity risk and carry trade premia are significantly correlated. We show that the commonality is only confined to the static but not the dynamic carry trade. Lastly, we use a novel instrument based on monetary policy announcement dates to provide causal evidence that changes in interest rates affect the composition of liquidity risk sorted portfolios.

Markus Hertrich (Deutsche Bundesbank) & Daniel Nathan (Bank of Israel)

Foreign Exchange Interventions and their Impact on Expectations: Evidence from the USD/ILS Options Market

Using confidential daily foreign exchange interventions (FXI) data, we analyse how the FXI episode of the Bank of Israel (BOI) from 2013 to 2019 has affected the foreign value of the Israeli new shekel (ILS) and the expectations about its future value. We find that FXI amounting to US dollar (USD) 1 billion are on average associated with a depreciation of the ILS by 0.82%-0.85%, which is at the upper bound of the estimated impact in other studies. The (indirect) effect on the forward rate is smaller - the BOI's USD purchases have widened the negative deviation from covered interest parity. The higher moments of the risk-neutral probability distribution of future exchange rates proxied by the scaled price quotes of USD/ILS options, on the contrary, are unaffected. The USD purchases simply shift the whole distribution towards higher USD/ILS values. Crash risk, for instance, is unaffected. We also find that the USD/ILS options market anticipates intervention episodes and prices them in before they occur.

Markus Leippold (University of Zurich), Felix Matthys (ITAM), Philippe Mueller (Warwick University) & Michal Svaton (University of Zurich)

Political Risk and Currency Markets

In this paper, we study the impact of political events such as elections and referendums on FX implied volatility and its skewness. Our empirical analysis shows that, on average, both FX implied volatility and skewness react strongly in response to news about a political event. To be more precise, around elections and referendum dates, not only is FX implied volatility is considerably elevated, i.e. political risk is priced in, but also crash risk, i.e. as measured by skewness of the currency in which the political event takes place, tends to be high around those dates. Moreover, we document considerable heterogeneity as to how political events affect FX implied volatility and its skewness. As our empirical analysis reveals, these economically and statistically significant effects of elections and referendums can in large part be explained by, whether the election outcome was expected, whether a country's currency is considered free floating, what type of election or referendum has taken place and whether the perceived governance of a currency's government is considered as high quality.

16:10 - 17:30 Session 12: Public policy (Room S15)

Andreas Haller (NHH) & Damian Osterwal (University of Zurich)

Optimal Unemployment Insurance with Repeated Unemployment

Repeated unemployment is wide-spread. In Austria, 76 percent of all unemployment spells are repeated spells. While there is a large literature studying optimal unemployment insurance (UI), repeated unemployment has been ignored so far. We show that repeated unemployment spells are different from the first spell. Repeated spells are shorter and do not respond to changes in the potential benefit duration. From an optimal policy perspective our results suggest that first, repeated and recall-spells should have different UI generosity.

Adrien Wicht (European University Institute)

Efficient Sovereign Debt Management

This paper identifies the role of past history, maturity, buyback and default in the context of constrained efficient sovereign borrowing. I derive a market economy in which a sovereign borrower trades non-contingent bonds of different maturities with a foreign lender. The borrower is relatively impatient and lacks commitment. I show that the market economy cannot implement the Planner's constrained efficient allocation through defaults but instead by changes in maturity and debt buybacks. Moreover, as the lender must enforce those buybacks, the implementation often requires history-dependent strategies. Nevertheless, interpreting the impatient borrower as a short-run player, small perturbations in the payoff of the market participants rule out any other strategies than Markov ones. In this case, the Planner's allocation can only be approximated by the market economy through Markov debt management policies. Developing economies present evidence of such approximation albeit with different policies and outcome.

17th End-of-Year Conference of Swiss Economists Abroad

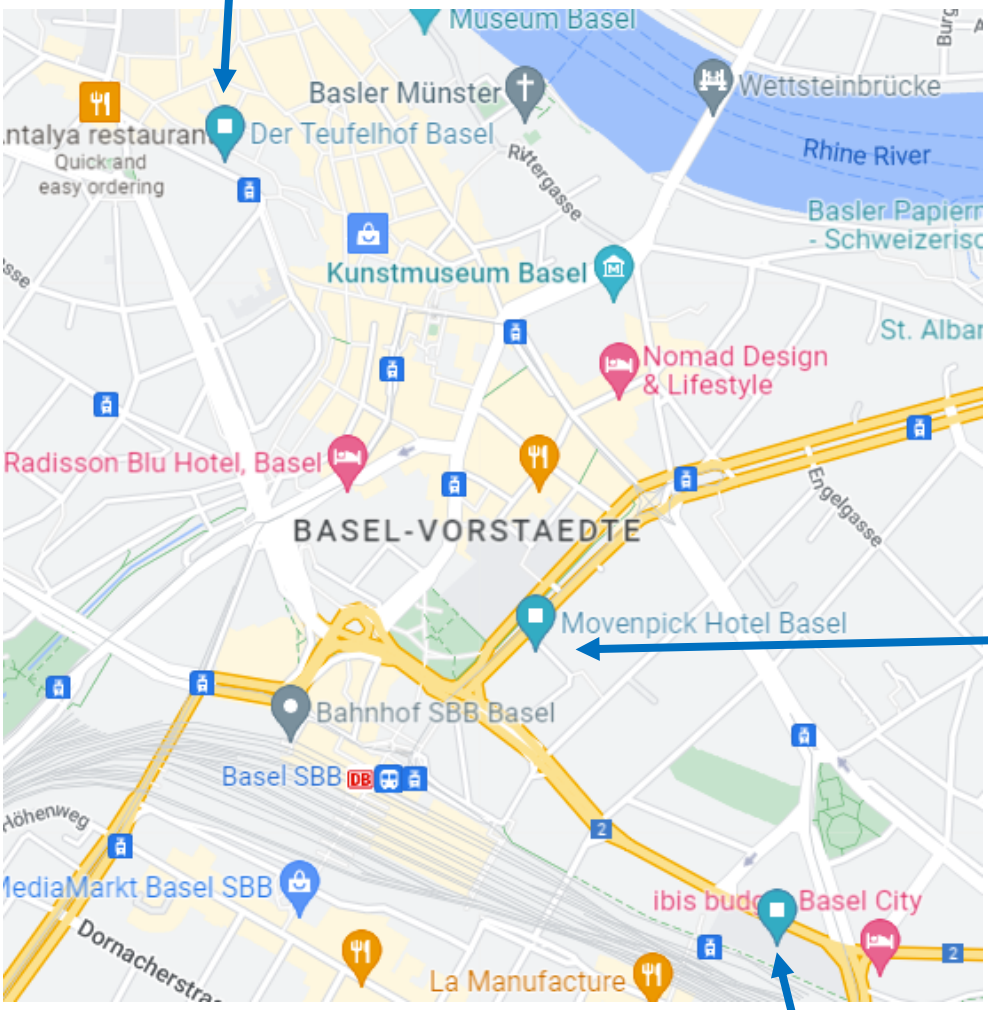
List of Participants

Lukas Altermatt	University of Essex
Sara Bagagli	Harvard University
Michael Barczay	European University Institute
Constantin Bürgi	University College Dublin
Aline Bütikofer	NHH
Stefano Carattini	Georgia State University
Filippo Cavaleri	University of Chicago
Lucienne N.Y. Disch	University of Pennsylvania
Lukas Freund	University of Cambridge & Princeton
Patrick Gaule	University of Bristol
Luzi Hail	University of Pennsylvania
Andreas Haller	NHH
Markus Hertrich	Deutsche Bundesbank
Mathias Kruttli	Federal Reserve Board of Governors
Felix Matthys	ITAM
Thomas Maurer	HKU
Tim Dominik Maurer	Copenhagen Business School
Jonas Christoph Meier	University of Amsterdam
Marko Mlikota	University of Pennsylvania
Christoph Moser	FAU Erlangen-Nuremberg
Philippe Mueller	Warwick Business School
Christian Ochsner	CERGE-EI Prague
Fidel Petros	WZB and Berlin School of Economics
Romina Ruprecht	Federal Reserve Board
Ulrich Schetter	Harvard Kennedy School
Sara Signorelli	University of Amsterdam
Fabricius Somogyi	Northeastern Univeristy
Silvia Sonderegger	University of Nottingham
Guillaume Sublet	Université de Montréal
Andrea Vedolin	Boston University
Oliver Vogt	University of British Columbia (UBC)
Adrien Wicht	European University Institute

17th End-of-Year Conference of Swiss Economists Abroad

Venues

Restaurant for dinner (on 21):
Restaurant Atelier (im Teufelhof)
Leonhardsgraben 47-49 4051 Basel



Accommodation:
Mövenpick Hotel Basel
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Conference Sessions:
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