18^{th} End-of-Year Conference of Swiss Economists Abroad

December 22, 2023

University of Zurich

Organizers: Enrico Berkes (University of Maryland Baltimore County), Aline Bütikofer (Norwegian School of Economics) and Patrick Gaule (University of Bristol)

Local Organizers: Sandro Ambuehl (University of Zurich)

Learn more about our network at www.swisseconomistsabroad.org

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

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA
SWISS NATIONAL BANK

Schweizerische Gesellschaft für Volkswirtschaft und Statistik
Société suisse d'économie et de statistique
Società svizzera di economia e di statistica
Swiss Society of Economics and Statistics

Universität Zürich[UZH]

18th End-of-Year Conference of Swiss Economists Abroad

Daily Schedule

Thursday, December 21

19:00 - 21:30	**Conference Dinner** (Linde Oberstrass, Universitätstrasse 91, 8006 Zurich)		

Friday, December 22

8:30 - 9:00	**Arrival, Registration, Coffee** (RAA atrium)		
9:00 - 9:10	**Welcome Session** (RAA-G-01)		
9:15 - 10:35	**Parallel Sessions 1 – 3**		
	1. Science of Science, Labor (RAA-G-01)	2. Corporate Finance (RAA-E-29)	3. Macro I (RAA-E-30)
10:35 - 11:05	**Coffee Break** (RAA atrium)		
11:05 - 12:25	**Parallel Sessions 4 – 6**		
	4. Innovation (RAA-G-01)	5. Labor (RAA-E-29)	6. Trade and Growth (RAA-E-30)
12:25 - 14:20	**Lunch** (RAA atrium)		
14:20 - 15:40	**Parallel Sessions 8 – 9**		
		8. Finance (RAA-E-29)	9. Macro II (RAA-E-30)
15:40 - 16:10	**Coffee Break** (RAA atrium)		
16:10 - 17:30	**Parallel Sessions 10 – 12**		
	10. Environmental and Development (RAA-G-01)	11. Behavioral and Theory (RAA-E-29)	12. IO and Political (RAA-E-30)

18th End-of-Year Conference of Swiss Economists Abroad

Detailed Conference Program

Friday, December 22

8:30 - 9:00	**Arrival, Registration, Coffee** (RAA atrium)

9:00 – 9:10	**Welcome Session** (RAA-G-01)

9:15 - 10:35	**Session 1: Science of Science and Labor** (RAA-G-01)
Dennis Egger	Effects of Migrant Networks on Labor Market Integration, Local Firms and Employees
Enrico Berkes	Better Together? Faculty, Gender Match, and Credit in Science

9:15 - 10:35	**Session 2: Corporate Finance** (RAA-E-29)
Barthelemy Bonadio	The Value of Social Networks in Production Networks
Luzi Hail	Executive Compensation Contracts in the Presence of Adverse Selection
Andrea Vedolin	Shrinking Sharpe Ratios

9:15 - 10:35	**Session 3: Macro I** (RAA-E-30)
Michele Andreolli	Essential Business Cycles
Michele Pelli	How Do Households Respond to Negative Deposit Rates? Evidence from a Swiss Bank
Oliver Pfaeuti	Heterogeneity in What? Cognitive Skills, Beliefs and the Liquid Wealth Distribution

10:35 - 11:05	**Coffee Break** (RAA atrium)

11:05 - 12:25	**Session 4: Innovation** (RAA-G-01)
Adriano Rampini	Financing the Adoption of Clean Technology
Jenniffer Hunt	Is Distance from Innovation a Barrier to the Adoption of Artificial Intelligence?
Patrick Gaule	Why are Tropical Diseases Neglected?

11:05 - 12:25	**Session 5: Labor** (RAA-E-29)
Andreas Haller	Measuring the Value of Disability Insurance from Take-up Decisions
Lucienne N.Y. Disch	Migration and Human Capital Formation: The Impact of Family Disruption and Moving on Child Development
Aline Buetikofer	Generational Persistence in the Effects of an Early Childhood Health Intervention

11:05 - 12:25	**Session 6: Trade and Growth** (RAA-E-30)
Veda Narasimhan	Political Institutions, Rural Development & Aggregate Growth: Evidence from India
David Torun	Quantifying the Extensive Margins of Trade and Production
Uli Schetter	A Simple Theory of Economic Development at the Extensive Industry Margin
12:25 - 14:20	**Lunch** (RAA atrium)
14:20 - 15:40	**Session 8: Finance** (RAA-E-29)
Marcel Rindisbacher	Volatility during the COVID-19 Pandemic
Florian Fiaux	The Term Structure of Climate-Transition Risk
Filippo Cavaleri	A Preferred-Habitat Model with a Corporate Sector
14:20 - 15:40	**Session 9: Macro II** (RAA-E-30)
Lukas Altermatt	E-Money and Liquidity
Fabricius Somogyi	Constrained Liquidity Provision in Currency Markets
Constantin Burgi	Overreaction Through Anchoring
15:40 - 16:10	**Coffee Break** (RAA atrium)
16:10 - 17:30	**Session 10: Environmental and Development** (RAA-G-01)
Christian Ochsner	Fast Car to Boom and Bust: Transportation Technology and Its Causal Effects on Rural Economic Development
Joris Mueller	The Long-Run Effects of Climate Change on Conflict, 1400-1900
Fabrice Kampfen	Health Information and Survival without Treatment Option
16:10 - 17:30	**Session 11: Behavioral and Theory** (RAA-E-29)
Stefan Bucher	Algorithmic Choice Architecture for Boundedly Rational Consumers
Stefano Carattini	Lobbying in Disguise
Lingqing Jiang	Fair Play or Winning Ugly? Risk Taking Behavior in High-Stake Competition under Different Rules
16:10 - 17:30	**Session 12: IO and Political** (RAA-E-30)
Fidel Petros	Statements from Governmental Economic Institutions may help to foster tacit collusion
Richard Faltings	Market Timing as Platform Design: Evidence from Trucking
Guillaume Sublet	Pareto Improving Tax Reform
17:30 - 19:00	**Apéro** (RAA atrium)

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

18th End-of-Year Conference of Swiss Economists Abroad

Abstracts

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

9:15 - 10:35 Session 1: Science of Science and Labor

Effects of Migrant Networks on Labor Market Integration, Local Firms and Employees

Dennis Egger *(University of Oxford), Daniel Auer (Collegio Alberto Torino), Johannes Kunz (Monash Univeristy)*

We study the effects of migrant networks on the labor market integration of refugees, the performance of local firms, and the wages of their employees in Switzerland. To track outcomes of individuals and firms, we link six employer-employee matched administrative datasets covering the universe of residents (citizens, migrants, and refugees) and registered firms from 2008 to 2017. Leveraging the quasi-random placement of refugees across locations and a novel IV strategy, we show that larger local networks persistently increase employment and income of refugees. Network effects are large, accounting for 38% of the variation in incomes within nationality cohorts across cantons. In line with homophily, demographically similar networks and economically successful peers have larger positive impacts. Network effects are shaped by direct personal contacts: refugees who quasi-randomly lived in the same residential center are three times more likely to become co-workers at the same firm. Using a shift-share IV design, we then show that firms experiencing a positive shock to their employee's network hire both more migrants and natives. Their wage bill and the average wages of existing employees grow, and high-skilled natives rise within the firm hierarchy. This is consistent with referrals improving firm-worker match quality and productivity. Concerns about adverse economic impacts of spatially concentrated immigration are not borne out in the data, suggesting that existing migration policies in Switzerland and other high-income countries may need to be reconsidered.

Better Together? Faculty, Gender Match, and Credit in Science

Enrico Berkes *(University of Maryland Baltimore County), Aiday Sikhova (Ohio State), Bruce Weinberg (Ohio State)*

We use unique, linked data and a two-way fixed effects design to study the effects of leaders in promoting diversity, equity, and inclusion. Specifically, we study how women principal investigators (PIs) in biomedical fields affect gender disparities among the faculty on their projects. We find that teams with more women PIs are significantly more supportive of female faculty in five major ways. First, we show that teams with more female leaders have, on average, a higher share of women on their teams. Second, using researcher and paper fixed effects to identify plausibly causal estimates, we show that teams with women leaders give significantly more credit--in terms of authorship--to female faculty who work on those teams, with the effect being substantially larger on high impact papers. We show that this effect is particularly strong in heavily-male fields and largest for the most prominent women. Third, we provide suggestive evidence that the impact of female PIs on female faculty extends beyond credit attribution to an increase in the number of authored papers. Finally, we show that, although women leaders tend to narrow the gap in the number of authored papers between female and male researchers, they also seem to perpetuate within-group inequality in authorship for women.

9:15 - 10:35 Session 2: Corporate Finance

The Value of Social Networks in Production Networks

Barthelemy Bonadio *(New York University Abu Dhabi), Jaedo Choi (Federal Reserve Board)*

We study the impact of firm managers' previous social ties on the probability that there exists a bilateral trading relationship between their respective firms. We combine data on firm-to-firm trade with extensive work history of senior managers to construct data on firm-to-firm production network and social connectedness measure. At the bilateral buyer-seller pair level, a new social connection between the firms is associated with an increase in the probability of the firms trading by around 2 percentage points (or around 10%). A loss of connection is associated with a symmetrical decrease in the probability of trading. Using death of managers as an exogenous shifter to social connectedness between firms, we confirm that the results are causal. We find suggestive evidence that firms are more likely to drop an existing supplier after forming a new connection with a newly socially connected firm.

Executive Compensation Contracts in the Presence of Adverse Selection

Luzi Hail *(University of Pennsylvania), Chris Armstrong (Stanford University), Rachel Zhang (National University of Singapore)*

We develop three complementary tests to examine how adverse selection affects the design of executive compensation contracts: First, we show that externally hired CEOs receive higher total pay and have fewer equity incentives relative to internally promoted CEOs, consistent with their ability to extract larger information rents due to greater private information. These differences are more pronounced when less is known about the prospective CEO, but quickly dissipate over time. Second, we show that external CEOs' initial contracts differ more from those of their firm's incumbent senior managers than do those of internal CEOs—particularly in terms of accounting performance metrics and equity-based pay, in line with the use of these features to elicit private information. Third, we find that following an unanticipated change in option vesting schedules prompted by SFAS 123R, newly appointed executives do not increase their option exercises and share sales—despite their newfound ability to do so—while longer-tenured executives do, consistent with contracts initially being designed to screen for certain types of managers before shifting to encourage certain behaviors. Combined, our evidence supports the distinct role of adverse selection in the design of executive compensation contracts.

Shrinking Sharpe Ratios

Andrea Vedolin *(Boston University), Ngoc-Khanh Tran (Virginia Tech), Shixiang Xia (City University of Hong Kong)*

We theoretically show that ranking risk factors based on their ability to explain common variation in asset returns, e.g., principal component analysis (PCA), is ambiguous because PC volatilities can be arbitrarily scaled without changing the underlying fundamental asset pricing model. As a consequence, market-based stochastic discount factors (SDFs) constructed from such PCs suffer from overfitting issues. In contrast, ranking risk factors based on their prices of risks instead (i.e., Sharpe ratios) is not subject to such spurious scaling. We therefore argue that empirical SDF estimation should center around inference about Sharpe ratios. To this end, we propose a novel statistical method for factor analysis using Bayesian learning that shrinks more aggressively risk factors with lower prices of risk giving rise to sparse SDFs. Since our SDFs do not suffer from overfitting, we show using a large cross-section of asset returns that SDFs based on Sharpe ratios significantly outperform SDFs based on PCA, increasing out-of-sample maximum Sharpe ratios up to a factor of two.

9:15 - 10:35 Session 3: Macro I

Essential Business Cycles

Michele Andreolli *(Boston College), Natalie Rickard (London Business School), Paolo Surico (London Business School)*

In response to an increase in interest rates, households cut non-essential spending more than essentials. This causes a larger fall of labour demand in the non-essential sector, which employs a higher share of workers with lower earnings and with higher marginal propensity to consume out of disposable income. We use micro data for the United States and a structural model with nominal rigidities, non-homothetic preferences and skill heterogeneity to quantify this novel channel of monetary transmission. Our findings suggest that the interaction of spending heterogeneity and worker heterogeneity results in greater inequality during recessions and amplifies the effects of monetary policy on consumption and employment by about 20% and 40% respectively.

How Do Households Respond to Negative Deposit Rates? Evidence from a Swiss Bank

Michele Pelli *(Central Bank of Ireland)*

I employ bank-household relationship data from a Swiss bank to study, for the first time, the response of retail depositors to negative deposit rates. The tiered implementation allows me to employ both a Regression Kink Design and a Difference-in-Differences analysis to investigate the transmission of negative policy rates through the deposits channel. I find that affected households reduce their deposit holdings swiftly and substantially following the official announcement. They respond by investing with the bank some deposits exceeding the exemption threshold, by transferring some excess deposits to accounts held at other banks, and by withdrawing some cash. I do not observe any effect on consumption, which I proxy by debit and credit card spending. I also investigate if and how the characteristics of depositors differentially affect their responses.

Heterogeneity in What? Cognitive Skills, Beliefs and the Liquid Wealth Distribution

Oliver Pfaeuti *(UT Austin), Fabian Seyrich (FU Berlin, DIW), Jonathan Zinman (Dartmouth)*

We show that households with lower cognitive skills are persistently: (i) overconfident about their abilities, (ii) overly optimistic about their future financial situations, and (iii) more likely to be hand-to-mouth. We introduce permanent heterogeneity in households' cognitive skills and beliefs about their skills in a heterogeneous-agent New Keynesian model to account for these findings. Our model jointly matches the average marginal propensity to consume and the average wealth in the U.S. even when all wealth is liquid. Heterogeneity in skills and overconfidence matters for fiscal policy: providing liquidity is less effective in bringing households away from the borrowing constraint, transfers to low-income households are less stimulating, and the optimal level of public debt is substantially lower than in standard models.

11:05 - 12:25 Session 4: Innovation

Financing the Adoption of Clean Technology

Adriano Rampini *(Duke University), Andrea Lanteri (Duke University)*

We analyze the adoption of clean technology by heterogeneous firms subject to financing constraints. We develop a model of investment with heterogeneous capital goods, which differ in their associated energy needs and in their age. We show that, in equilibrium, cleaner and newer capital requires a larger down payment. Therefore, financially constrained, smaller firms optimally invest in dirtier and older capital than unconstrained, larger firms. The model is consistent with the empirical patterns of technology adoption we document using data on commercial shipping fleets. Larger firms operate with higher energy efficiency, by investing in cleaner new technologies and operating newer capital, which tends to be more energy efficient. This equilibrium pattern of technology adoption implies that environmental policy has important distributional consequences.

Is Distance from Innovation a Barrier to the Adoption of Artificial Intelligence?

Jennifer Hunt *(Rutgers University), James Bessen (Boston University), Iain Cockburn (Boston University)*

We investigate whether online vacancies for jobs requiring Artificial Intelligence (AI) skills grow more slowly in U.S. locations farther from AI "innovation hotspots." To do so, we create a dataset of AI publications (research papers and patents) and define hotspots based on locations' cumulative number of AI publications by 2006. The source for job vacancies is online job advertisements scraped by Burning Glass Technologies from 2007-2019. With a hotspot defined as a commuting zone with at least 1000 AI publications, a 10% greater distance from a hotspot (about a standard deviation) reduces a commuting zone's growth in AI jobs' share of job advertisements by 3-5% of median growth. Distance from a hotspot plays no role if a commuting zone is itself a hotspot, but distance is a greater barrier the greater a hotspot's share of publications that are patents rather than research papers. Analysis by occupation, industry and AI type suggests that the type of job posting for which distance is a barrier is jobs adapting AI for use in a new setting. We do not find convincing evidence for an effect of distance on the adoption of AI, perhaps because there is as yet little adoption.

Why are Tropical Diseases Neglected?

Patrick Gaule *(University of Bristol), Ruchir Agarwal (Harvard University)*

Tropical diseases, such as malaria, exert a heavy burden in many developing countries. Low R&D investment in tropical diseases has traditionally been attributed to the relative poverty of tropical countries. Using a well-established framework linking R&D effort to death burden and market size, we document that R&D effort for tropical diseases is even below what would be implied by their market size. We suggest that one reason for this pattern is low levels of public (as opposed to private) investment in drug discovery and early clinical development. We estimate that the R&D inequity could be eliminated if 16% of pharmaceutical R&D was directed toward neglected diseases.

11:05 - 12:25 Session 5: Labor

Measuring the Value of Disability Insurance from Take-Up Decisions

Andreas Haller *(Norwegian School of Economics), Stefan Staubli (University of Calgary)*

This paper develops a new approach to estimate the insurance value of disability insurance (DI) benefits. Our approach identifies the insurance value from the relative DI take-up responses to more generous DI benefits and the take-up responses to wage reductions. Empirically, we find that increasing Canadian DI benefits by $1 creates a societal benefit of $1.9 (insurance value). At the same time we estimate the moral hazard costs of a $1 increase in DI benefits to be $1.5. Therefore, while providing DI benefits is costly with sizeable moral hazard costs, we find that the improved insurance outweighs the costs of higher benefits.

Migration and Human Capital Formation: The Impact of Family Disruption and Moving on Child Development

Lucienne N. Y. Disch *(University of Pennsylvania)*

This paper studies the consequences of family disruption and moving for human capital formation. I capitalize on features of standardized test scores, surveys, and geocoded microdata. The exogeneity of parental separation for the child allows me to exploit quasi-random variation induced by changes in household composition due to initial presence and subsequent absence of the father. I document that family disruption leads to lower test scores for children and highlight a common occurrence in the context of family disruption, which is residential relocation. I show that moving to a new place of residence in connection with family disruption can be disadvantageous for the child in terms of school performance, since the phenomenon of moving contributes to the test score gap, rather than family disruption per se. I provide evidence that, especially when moving beyond a mile away from the original place of residence, children are more adversely affected. One potential mechanism behind the gap in test scores between the studied stable two-parent households and those experiencing family disruption could be peer disruption. Disruption events are unequally prevalent across different racial groups and thus, potentially contributing to the overall test scores gap by race, and inequality. Targeted policies can help prevent the adverse effects of moving (far) away in the context of family disruption by allowing new single mothers and their children to stay for at least three years in their familiar residential area after separation.

Generational Persistence in the Effects of an Early Childhood Health Intervention

Aline Buetikofer *(NHH), Sara Abrahamson (Norwegian Institute of Public Health), Katrine Loken (Norwegian School of Economics), Marianne Page (UC Davis)*

We investigate multi-generational impacts of early life health interventions. Using Norwegian administrative data with variation in the timing of infant health care center adoption between 1936-1955, we find that the program's long-term education and earnings benefits on exposed cohorts extended to their later offspring, but only for offspring who had an exposed mother. A plausible mechanism is supported by the finding that women exposed to the program were more likely to partner with highly educated and high earnings men. We also show that benefits accruing to the second generation are larger for those whose mothers were born in low-income municipalities and municipalities that had high infant mortality rates, suggesting that public investments in early childhood health can be important levers towards increasing future generations' equality of opportunity.

11:05 - 12:25 Session 6: Trade and Growth

Political Institutions, Rural Development & Aggregate Growth: Evidence from India

Veda Narasimhan *(New York University Abu Dhabi)*

This paper considers a potential channel of rural development that may help to both generate growth and encourage rural-urban migration. I use a 1992 reform in India that decentralized power to local village councils to look at the role that political institutions play in influencing rural economic development, and the impact that this has on aggregate growth. I utilize a regression discontinuity design (RDD) based on population thresholds for the state of Uttar Pradesh that determined eligibility for independent village councils versus shared councils. I complement this analysis by using an aggregated RDD at the district-level to study aggregate economic impacts. I find that villages with an independent political unit have marginally differential economic activity, a greater provision of infrastructure-related public goods, and higher population growth. At the district-level I find that this population growth seems to be driven predominantly by rural-rural migration, but a surprising result is that rural-urban migration is higher for districts with a higher share of independent village councils. I provide suggestive evidence that improvements at the local-level help to drive down migration frictions associated with rural-urban migration which drives this finding. Finally, I show that the changes at the local-level have a positive impact on district-level GDP.

Quantifying the Extensive Margins of Trade and Production

David Torun *(University of California, San Diego)*

This paper builds a model of international trade capturing that most countries have only a few trading partners within narrowly defined industries. The set of partner countries responds endogenously to shocks, thereby allowing to identify alternatives to key trading partners. I introduce trade zeros or, an extensive margin of trade via a bounded productivity distribution and a non-homothetic final-goods-assembly function. In the limit, without productivity caps, trade shares reduce to a standard gravity equation. I develop a novel calibration strategy to fit data on industry-level bilateral trade flows and aggregate production. Counterfactual exercises suggest that welfare changes after trade-cost shocks are typically amplified when accounting for the extensive margin of trade. This is primarily true for low- to medium-income countries. The number of inactive industry-level trade relations changes by approximately half the shock size; for instance, a 10% rise in global trade costs increases the number of bilateral zeros by 5%.

A Simple Theory of Economic Development at the Extensive Industry Margin

Uli Schetter *(Harvard Growth Lab / University of Pavia), Dario Diodato (JRC European Commission), Ricardo Hausmann (Harvard Kennedy School)*

We revisit the well-known fact that richer countries tend to produce a larger variety of goods and analyze economic development through (export) diversification. We show that countries are more likely to enter `nearby' industries, i.e., industries that require fewer new occupations. To rationalize this finding, we develop a small open economy (SOE) model of economic development at the extensive industry margin. In our model, industries differ in their input requirements of non-tradeable occupations or tasks. The SOE grows if profit maximizing firms decide to enter new, more advanced industries, which requires training workers in all occupations that are new to the economy. As a consequence, the SOE is more likely to enter nearby industries in line with our motivating fact. We provide indirect evidence in support of our main mechanism and then discuss implications: We show that there may be multiple equilibria along the development path, with some equilibria leading on a pathway to prosperity while others resulting in an income trap and discuss implications for industrial policy. We finally show that the rise of China has a non-monotonic effect on the growth prospects of other developing countries and provide suggestive evidence for this theoretical prediction.

14:20 - 15:40 Session 8: Finance

Volatility during the COVID-19 Pandemic

Marcel Rindisbacher *(Boston University), Tony Berrada (Universite de Geneve), Jerome Detemple (Boston University)*

This paper examines the economic impact of COVID-19 on market volatility in an equilibrium framework. Our model, BDRA-SSL, combines two ingredients: (i) beliefs-dependent preferences for economic dynamics and (ii) stochastic SEIRD model with unpredictable birth and vaccine discovery events, and mitigating policy and behavioral responses, for disease propagation. We estimate the model based on economic time series and COVID-19 data. We show it explains the realized trajectories of the S&P 500 volatility and the number of new cases during the recent outbreak, identifies the source of the volatility spike recorded, while providing a good match for 25 unconditional moments of economic time series. Beliefs-dependence emerges as a critical ingredient for this comprehensive explanation of short-term dynamics during the COVID-19 outbreak and of long run statistical properties. A comparison study establishes the performance of BDRA-SSL versus alternative specifications.

The Term Structure of Climate-Transition Risk

Florian Fiaux *(Stanford University), Christian Kontz (Stanford GSB)*

We use state-of-the-art machine learning methods to identify firms exposed to climate change through text data. We then estimate the impact of climate-transition risk on the term structure of dividend yields from synthetic dividend strips of firms exposed to climate regulation risk. We document several novel facts about transition risk: (i) There is considerable time variation in the impact of climate policy uncertainty on dividend yields; (ii) The impact is on average positive and similar across maturities during the Obama administration; (iii) The effect becomes negative during the Trump administration.

A Preferred-Habitat Model with a Corporate Sector

Filippo Cavaleri *(University of Chicago)*

I study a preferred-habitat model of the term structure in which government and corporate bonds are priced by the same marginal investor. The model endogenously generates variation in credit spreads over and above changes in credit quality. In equilibrium, credit spreads are affine functions of the aggregate risk factors, providing an equilibrium justification to credit risk valuation models. Risk premia on interest rate and credit risk are time-varying and jointly determined. Arbitrageurs strengthen the risk-neutral dependence between the aggregate risk factors beyond the observed correlation between default rates and the policy rate. Movements in credit spreads are driven by (i) variation in credit quality (ii) risk-neutral correlation of the risk factors, and (iii) portfolio rebalancing due to diversification motives. A calibrated model matches the level and the slope of the term structure of credit spreads for both investment-grade and high-yield issuers. As government bonds hedge against default risk, the strength of monetary policy transmission to corporate (Treasury) yields is weaker (stronger) when default uncertainty increases. Shocks to the short-term rate move credit spreads by altering risk premia on both credit and interest rate risk. The impact of quantitative easing interventions is asymmetric and depends on the specific assets being purchased.

14:20 - 15:40 Session 9: Macro II

E-Money and Liquidity

Lukas Altermatt *(University of Essex), Louphou Coulibaly (University of Wisconsin), Kohei Iwasaki (Osaka University), Randall Wright (University of Wisconsin)*

In this paper, we propose a parsimonious model where intrinsically useless e-money may be valued both for direct and indirect liquidity purposes. We derive necessary conditions for e-money to be valued in equilibrium and discuss how they depend on the specific role of e-money. Further, we show that endogenous fluctuations in the value of e-money are possible, and that the magnitude of these depends on whether e-money has direct liquidity purposes. We also discuss what the existence of e-money implies for policy and to what extent e-money may be used as a hedge against inflation.

Constrained Liquidity Provision in Currency Markets

Fabricius Somogyi *(Northeastern University), A. Schrimpf (BIS), W. Huang (BIS), A. Ranaldo (HSG)*

We use a simple model of liquidity demand and supply to study dealers' liquidity provision in the currency market. Drawing on a globally representative currency trade data set, we show that at times when dealers' intermediation capacity is constrained the cost of liquidity provision increases disproportionately relative to dealer-provided volume. The otherwise strong and positive relation between liquidity costs and trading volume thus effectively shrinks to zero when dealer constraints tighten. Using various econometric approaches, we show that this result primarily stems from a reduction in the elasticity of liquidity supply, rather than changes in liquidity demand.

Overreaction Through Anchoring

Constantin Burgi *(University College Dublin), Julio L. Ortiz, (Federal Reserve, FOMC)*

We show that updates to macroeconomic expectations among professional forecasters exhibit an offsetting pattern where increases in current-quarter predictions lead to systematic decreases in three quarter ahead predictions. We then review evidence of individual overreaction at the quarterly frequency and document a lack of overreaction at the annual frequency. We explain these facts with a model of annual anchoring in which quarterly predictions must be consistent with annual predictions. We estimate our model to fit survey expectations and show that it provides a unified explanation for our empirical facts. Furthermore, our model yields frequency-specific estimates of information frictions which imply a larger role for inattention at the annual frequency.

16:10 - 17:30 Session 10: Environmental and Development

Fast Car to Boom and Bust: Transportation Technology and Its Causal Effects on Rural Economic Development

Christian Ochsner *(CERGE-EI Prague), Flavio Malnati (CERGE-EI Prague)*

New technologies have always been reshuffling economic activity but little is known how an abrupt access to a break-through transportation technology affects regional economic development. In this paper, we use the abolition of the automobile ban in 1925 in the Swiss canton of Grisons to estimate the causal effect of a new transportation technology on subsequent rural economic development and structural economic change. Until 1925, automobiles were totally banned from Grisons streets. This ended unexpectedly in 1925 after a popular vote. We use the universe of self-compiled commercial registers from 1890 to 1940 in an event-study setup by comparing firm foundations in Grisons with neighboring regions without any car ban. Firm registers contain information of the universe of firms, cooperatives and associations, their sector and ownership structure (private firm, stock company, etc.). We find that automobiles spurred rural economic development. Foundations spiked in Grisons mainly during the first two years after the ban. However, we can also document over-investments and subsequent waves of bankruptcies in some sectors mainly in the lodging industry likely driven by an over-optimistic perception about tourist flows with the new technology. Boom and bust cycles are particularly pronounced in smaller municipalities. Our findings thus show how new transportation technologies affect the rural economic activity causing periods of boom and bust. We may also contribute to the current debate on mobility cost and how it affects urban and rural places differently.

The Long-Run Effects of Climate Change on Conflict, 1400-1900

Joris Mueller *(National University of Singapore), Murat Iyigun (University of Colorado-Boulder), Nancy Qian (Northwestern University)*

We investigate the long-run effects of cooling on conflict. We construct a geo-referenced and digitized database of conflicts in Europe, North Africa, and the Near East from 1400-1900, which we merge with historical temperature data. We show that cooling is associated with increased conflict. When we allow the effects of cooling over a fifty-year period to depend on the extent of cooling during the preceding period, the effect of cooling on conflict is larger in locations that experienced earlier cooling. We interpret this as evidence that the adverse effects of climate change intensify with its duration.

Health Information and Survival without Treatment Options

Fabrice Kampfen *(University College Dublin), Alberto Ciancio (University of Glasgow), Hans-Peter Kohler (University of Pennsylvania), Rebecca Thornton (Baylor University)*

Providing personal health information allows individuals to take action to improve their health. If treatment is not available, however, being informed about having a life-threatening disease could lead to feelings of despair or fatalistic behaviors resulting in negative health outcomes. We document this possibility utilizing an experiment in Malawi that randomized incentives to learn HIV testing results in a context where anti-retroviral treatment (ART) was not yet available. Six years after the experiment, receiving an HIV-positive diagnosis reduced survival rates by 23% and this effect persists after 15 years. We show that HIV+ persons who learned they were HIV+ engaged in more risky health behaviors, have greater anxiety and a higher discount rate.

16:10 - 17:30 Session 11: Behavioral and Theory

Algorithmic Choice Architecture for Boundedly Rational Consumers

Stefan Bucher *(Max Planck Institute & Tuebingen AI Center), Peter Dayan (Max Planck Institute for Biological Cybernetics & Tuebingen AI Center)*

Information overload is ubiquitous, as constraints on our cognitive capacity to process information adversely impact the quality of the decisions we make. Popular “nudging” remedies from behavioral economics, such as choice architecture, have arguably not kept up with the development of behavior-influencing technologies such as recommender systems, which have become crucial in an information economy in which firms compete for our scarce attention. In this paper, we introduce cognition-optimized information filters as a principled, algorithmic approach to mitigating information overload, based on an information-theoretic model of decision-making under cognitive costs. Specifically, we first develop a rational inattention model of multi-attribute choice under cognitive information processing costs. We then study the problem of a Sender choosing an information filter that determines which options and attributes are accessible to a rationally inattentive Receiver, in order to nudge them. The Sender learns in repeated interaction which information is effective in attaining desirable Receiver choices, by inferring the Receiver's unobservable preferences and cognitive constraints solely from observing their choice behavior. We rely on model-based reinforcement learning algorithms to solve the Sender's problem. We conclude that careful cognitive and economic modeling opens the door for algorithmically tailoring information to decision-makers' preferences and cognitive constraints as revealed by their boundedly rational behavior. By permitting to optimize for revealed welfare, this approach promises to be (1) less paternalistic than traditional nudging techniques, and (2) less susceptible to misalignment than recommender systems, which often optimize for imperfect welfare proxies such as click rates.

Lobbying in Disguise

Stefano Carattini *(Georgia State University), Ulrich Matter (University of St. Gallen), Matthias Roesti (University of St. Gallen)*

The ability of private interests to influence the political process is an important topic in economics and political science. While some of these efforts appear as campaign finance and lobbying expenditures in the official record, anecdotal evidence suggests that private interests may also engage in `covert' influence through media capture. In this paper, we systematically examine whether and to what extent corporations in the United States with interests in slowing climate action might have used corporate advertisements in media outlets as a strategic tool to align such outlets' coverage. Based on several complementary empirical strategies, we find that advertisement spending from such actors (i) increases during election periods and (ii) is associated with less and more skeptical leaning coverage of climate change and climate policy.

Fair Play or Winning Ugly? Risk Taking Behaviour in Elite Competition under Different Rules

Alessandro Di Mattia (Molde University College), **Lingqing Jiang** (University of Essex), Pierre Regibeau (Essex), Katherine E. Rockett (Essex, CEPR), Elke Weidenholzer (Essex)

We study risk-taking behavior of elite athletes in high-stake competition under different rules using data from the IAAF world championships. We focus on the decision to start a short distance run (100m). Waiting for the gun is safe (and fair) but lowers performance, while jumping the gun gains performance but takes the risk of being ruled a “false start”, resulting in the severe penalty of. In some sense it presents a mirror image of a Dutch auction where an early bid guarantees certainty but paying a higher price and a later bid could get a lower price but takes the risk of losing. The IAAF rules regarding false starts have been tightened a couple of times in the past two decades, offering a natural experiment. We find 1) Athletes with high starting ability tend to wait for the gun, whereas those with low starting ability tend to jump the gun. 2) Where athletes value finishing time rather than winning, they are more likely to wait for the gun all else equal. 3) The tendency to wait the gun is increasing as the rules become stricter.

16:10 - 17:30 Session 12: IO and Political

Statements from Governmental Economic Institutions May Help to Foster Tacit Collusion

Fidel Petros *(Wissenschaftszentrum Berlin and Berlin School of Economics), Steffen Huck (WZB and UCL), Hans-Theo Normann (Duesseldorf Institute for Competition Economics)*

We use a laboratory experiment to show whether public statements from economic institutions about a particular market can foster tacit collusion. Such statements are usually disclosed when a permanent, unexpected, significant cost shock occurs. Such statements can thus represent a coordination device for the firms to collude tacitly. The two channels through which a statement may affect tacit collusion are 1) the reduction of strategic uncertainty about the cooperation of the two other firms and 2) the correlation of the beliefs. Using triopolies, firms play in Bertrand Oligopoly markets, and after an unexpected shock, markets face an exogenously stylized statement. The treatment intervention arises just after the unanticipated cost shock. We used three conditions in our experiment: the disclosure of a statement fearing collusion (the treatment is called pessimistic), the disclosure of a statement that does not fear collusion (the treatment is called optimistic), and a baseline condition where no statement is disclosed after the cost shock. We find a permanent increase in the degree of profitability (12 percentage points) due to the pessimistic statement, while we do not find a significant effect of the optimistic statement. Strategic uncertainty reduction is the main channel through which the degree of tacit collusion increases. In other words, the pessimistic statement shifts upwards the firm's beliefs about the cooperation of the two other firms. Our results suggest that governments should be careful with such statements to avoid creating an additional channel allowing firms to increase their profitability to the detriment of consumers.

Market Timing as Platform Design: Evidence from Trucking

Richard Faltings *(UT Austin), Fabian Seyrich (FU Berlin, DIW), Jonathan Zinman (Dartmouth)*

Market timing is a key market design question. When all potential market participants are present simultaneously and trade as late as possible, market thickness is maximized and uncertainty is minimized. This research uses data from a trucking platform called Convoy to investigate whether a digital platform can successfully enforce a later market timing with the added constraint of facing competition from the rest of the market which can snatch up truck drivers earlier. To answer this question, a structural model of the platform's auction format is developed to estimate drivers' costs and the distribution of outside offers they receive. The output of the research will shed light on the platform's market timing decisions, which include its cancellation policies and its switch to a new auction format.

Pareto Improving Tax Reform

Guillaume Sublet *(Universite de Montreal), A. Schrimpf (BIS), W. Huang (BIS), A. Ranaldo (HSG)*

Debates around tax policy suggest that a single tax inevitably benefit some group at the expense of other groups. In an economy with externalities, under what condition can a combination of taxes---a tax package---be Pareto improving? A Pareto improving tax package exists so long as marginal externalities are not collinear across the different interest groups. The intuition is reminiscent of the “Tinbergen rule.” If marginal externalities are not collinear, the span of welfare changes that can be induced by tax packages includes a Pareto improvement.

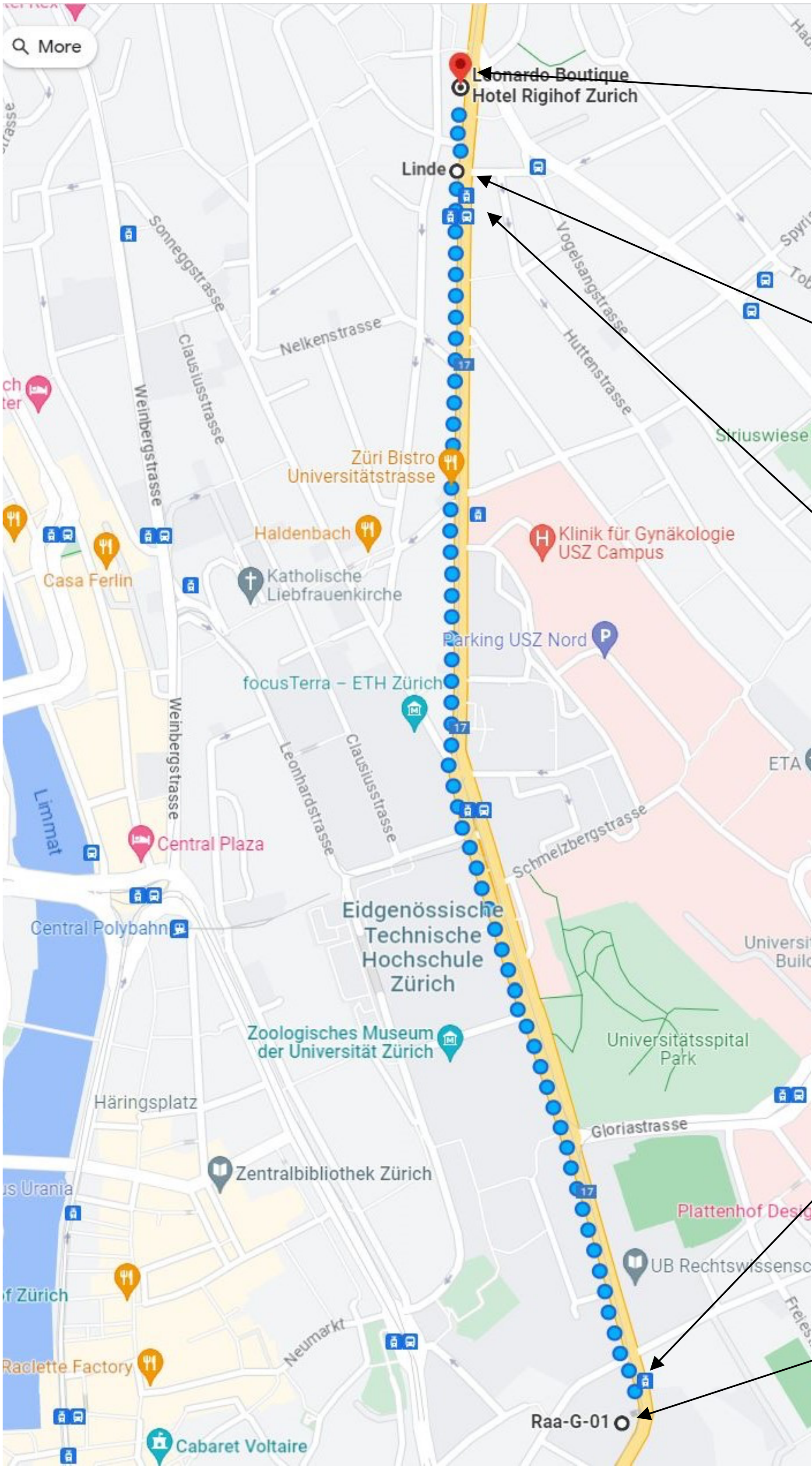
17:30 - 19:00 **Apéro** (RAA atrium)

18th End-of-Year Conference of Swiss Economists Abroad

List of Participants

Lukas Altermatt	University of Essex
Michele Andreolli	Boston College
Enrico Berkes	University of Maryland Baltimore County
Barthemely Bonadio	New York University Abu Dhabi
Stefan Bucher	Max Planck Institute & Tuebingen AI Center
Aline Buetikofer	NHH
Constantin Burgi	University College Dublin
Stefano Carattini	Georgia State University
Filippo Cavaleri	University of Chicago
Laure de Preux	Imperial College London
Lucienne Disch	University of Pennsylvania
Dennis Egger	University of Oxford
Richard Faltings	UT Austin
Florian Fiaux	Stanford University
Patrick Gaule	University of Bristol
Luzi Hail	University of Pennsylvania
Andreas Haller	Norwegian School of Economics
Jennifer Hunt	Rutgers University
Lingqing Jiang	University of Essex
Fabrice Kampfen	University College Dublin
Joris Mueller	National University of Singapore
Veda Narasimhan	New York University Abu Dhabi
Christian Ochsner	CERGE-EI Prague
Michele Pelli	Central Bank of Ireland
Fidel Petros	Wissenschaftszentrum Berlin and Berlin School of Economics
Oliver Pfaeuti	UT Austin
Adriano Rampini	Duke University
Marcel Rindisbacher	Boston University
Uli Schetter	Harvard Growth Lab/University of Pavia
Fabricius Somogyi	Northeastern University
Guillaume Sublet	Universite de Montreal
David Torun	University of California, San Diego
Andrea Vedolin	Boston University

18th End-of-Year Conference of Swiss Economists Abroad



<u>Accommodations</u>:
Leonardo Boutique Hotel Rigihof
Universitätstrasse 101, 8006 Zurich

<u>Restaurant for Dinner</u> (on December 21):
Linde Oberstrass
Universitätstrasse 91, 8006 Zurich

<u>Tram stop **“Winkelriedstrasse”**</u>
<u>Trams 5, 6, 8, 9, 10</u>

Tram stop “**Kantonschule**”
Trams 5, 8, 9

<u>Conference Sessions</u>:
University of Zurich RAA Building
Rämistrasse 59,
8001 Zurich