

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

**December 22, 2016**

**University of Bern**

Organizers: Enrico Berkes (Northwestern University), Lorenz Küng (Northwestern University).

Local Organizer: Blaise Melly (University of Bern)

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

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11th End-of-Year Conference of Swiss Economists Abroad

## Wednesday, December 21

19:00 - 21:00      **Informal Dinner** [Ristorante Luce]

## Thursday, December 22

9:15 - 9:40      **Arrival, Registration, Coffee** [A-122]

9:40 - 9:55      **Welcome Session and a word from our Partner, the SNB** [A-122]

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

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1. Finance [A-122]
2. IO & Econometrics [B-102]
3. Behavioral & Theory [B-105]

11:00 - 11:30      **Coffee Break** [Hallway in front of seminar rooms]

11:30 - 12:30      **Parallel Sessions 4 and 5**

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4. Applied Micro [B-102]
5. Labor I [B-105]

12:30 - 13:50      **Lunch** [Main hall]

14:00 - 15:00      **Parallel Sessions 6 and 7**

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6. Health & Education [B-102]
7. International [B-105]

15:00 - 15:30      **Coffee Break** [Hallway in front of seminar rooms]

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

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8. Labor II [B-102]
9. Trade [B-105]

16:30 - 16:45      **Break**

16:45 - 17:45      **Parallel Sessions 10 and 11**

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10. Public Economics [B-102]
11. Macro [B-105]

17:45 - 19:00      **Apéro** [Main hall]

19:00 - 21:30      **Dinner** [Casino Kongress- and Kursaal Bern]

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## Thursday, December 22

9:15 - 9:45      **Arrival, Registration, Coffee** [Hallway in front of seminar rooms]

9:45 - 10:00      **Welcome Session and a Word from our Partner, the SNB: Address by** [A-122]

10:00 - 11:00      **Session 1: Finance** [A-122]

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Arna Olafsson      Technology Adoption Across Generations: Financial Fitness in the Information Age

Philippe Mueller      Variance Risk Premia on Stocks and Bonds

Florian Eugster      Passive institutional investors and audit fees: Empirical evidence from the Russell index reconstitution

10:00 - 11:00      **Session 2: IO & Econometrics** [B-102]

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Cornelia Ilin      Competition, Price Dispersion and Capacity Constraints: The Case of the U.S. Corn Seed Industry

Andras Niedermayer      Foreclosure Auctions

Mirco Rubin      Is Industrial Production Still the Dominant Factor for the US Economy?

10:00 - 11:00      **Session 3: Behavioral & Theory** [B-105]

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Sandro Ambuehl      For They Know Not What They Do. Who Responds To Incentives?

Stephan Meier      Non-Monetary Incentives and the Quest for Work Meaning

Shuo Liu      Optimal Delegation of Performance Evaluation

11:00 - 11:30      **Coffee Break** [Hallway in front of seminar rooms]

11:30 - 12:30      **Session 4: Applied Micro** [B-102]

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Enrico Berkes      The Rise of the Knowledge Economy and Segregation in US Cities

Patrick Gaule      The Role of Talent in Knowledge Creation: Evidence from the International Math Olympians

Lorenz Kueng      Shopping for Lower Sales Tax Rates

11:30 - 12:30      **Session 5: Labor I** [B-105]

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Timo Boppart      Labor supply in the past, present, and future: a balanced-growth perspective

Isabel Martinez      Intertemporal Labor Supply Substitution? Evidence from the Swiss Tax Holiday

Patrick Premand      Contemporaneous and Post-Program Impacts of a Public Works Program: Evidence from Cote d'Ivoire.

12:30 - 13:50      **Lunch** [Main hall]

14:00 - 15:00	<b>Session 6: Health &amp; Education [B-102]</b>
Flavio Hafner	Minority group size and parental human capital investments
Aline Buetikofer	The Impact of Paid Maternity Leave on Maternal Health
Carl Rudolf Blankart	Politics Matters: How State politics impacts Nursing Homes' Financial Performance, Resident Mix, Staff
14:00 - 15:00	<b>Session 7: International [B-105]</b>
Andreas Mueller	Sovereign Debt and Structural Reforms
Nicolas Maeder	Multistability in Economic Systems: Identification of a Regime Switch in the Market for Sovereign Debt
Lukas Schmid	A macrofinance view of US Sovereign CDS premiums
15:00 - 15:30	<b>Coffee Break [Hallway in front of seminar rooms]</b>
15:30 - 16:30	<b>Session 8: Labor II [B-102]</b>
Sebastian Weber	Firm responses to employment subsidies: a regression discontinuity approach to the 2012 Spanish labour
Andreas Steinhauer	Labour market consequences of motherhood timing: a bounding estimation with imperfect instrument and selectivity
Patrick Arni	Reservation Wages, Job Search Behavior, Unemployment Insurance, Extension of Benefits, Work Requirements
15:30 - 16:30	<b>Session 9: Trade [B-105]</b>
Yikai Wang	Divide and Rule: An Origin of Polarization and Ethnic Conflict
Christoph Moser	Hidden Protectionism? Evidence from Non-tariff Barriers to Trade in the United States
Lorenzo Bretscher	Offshorability, Competition and Asset Prices
16:30 - 16:45	<b>Break</b>
16:45 - 17:45	<b>Session 10: Public Economics [B-102]</b>
Armando Meier	Tired Judges, Parole Decisions and Recidivism
Charles Blankart	Rent seeking in regional policy
16:45 - 17:45	<b>Session 11: Macro [B-105]</b>
Julian Ludwig	News Shocks and Uncertainty
Yann Koby	The "Reversal Interest Rate": An Effective Lower Bound on Monetary Policy
17:45 - 19:00	<b>Apéro [Main hall]</b>
19:00 - 21:30	<b>Dinner [Casino Kongress- and Kursaal Bern]</b>

## Abstracts

[20 minutes per paper (30 for the last two sessions), including discussion. The last person in a session is timekeeper.]

### 10:00 – 11:00 Session 1: Finance [A-122]

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*Bruce Carlin (UCLA), Arna Olafsson (Copenhagen Business School) and Michaela Pagel (Columbia Business School)*

#### **Paying Attention to Personal Finance**

This paper analyzes the effect of technology adoption on access to information and financial fitness across generations. We use the introduction of a smartphone application as a source of exogenous variation to analyze how access to personal information via financial management technology affects peoples' tendencies to incur financial penalties and choose consumption baskets. We show that better access to information with technological advance improves decision-making, but differs cross-sectionally in the population. Baby Boomers do not adopt technology as much as Millennials and members of Generation X, and we quantify the adverse effect that this has on their welfare. Beyond documenting the benefit that Millennials and Gen X'ers experience in terms of financial penalties, we show that each group changes their consumption in different ways. Millennials shift more of their spending to discretionary entertainment, whereas members of Generation X remain more austere. Finally, while men tend to adopt new technology and access information at a higher rate than women, the economic impact per app access is higher for women.

*Philippe Mueller (London School of Economics), Andrea Vedolin (London School of Economics), Paul Whelan (Copenhagen Business School) and Petar Sabtchevsky (London School of Economics)*

#### **Variance Risk Premia on Stocks and Bonds**

We study equity (EVRP) and Treasury variance risk premia (TVRP) jointly and document a number of novel facts: First, relative to their volatility, TVRP are comparable in magnitude to EVRP. Second, while there is positive co-movement between TVRP at different maturities, and between EVRP and TVRP, there exists large time-variation in co-movement across assets. Third (i) short maturity TVRP predict excess returns on short maturity bonds; (ii) long maturity TVRP and EVRP predict excess returns on long maturity bonds; and (iii) while EVRP predict equity returns for horizons up to 6-months, long maturity TVRP contains robust information for equity returns at longer horizons.

*Florian Eugster (Stockholm School of Economics) and Ting Dong (Stockholm School of Economics)*

#### **Passive institutional investors and audit fees: Empirical evidence from the Russell index reconstitution**

In this paper, we examine the change in audit fee after firms experience an exogenous and substantial increase in passive institutional investor ownership. Previous research on the effects of institutional ownership on audit quality is plagued by endogeneity concerns. Exploiting the yearly Russell index reassignment provides us with an ideal setting to study the causal relation between passive institutional investors (i.e. index trackers) and the demand for audit quality by the firm. We exploit the fact that closely around the Russell 1000 and Russell 2000 cutoff line, firms are arguably randomly assigned, but those firms at the top of the Russell 2000 index face a higher fraction of passive institutional owners, because their implied index weight is higher. We provide empirical evidence for a significant increase in audit fees one year after firms switch from the Russell 1000 index to the Russell 2000 index and those firms experience an increase in "passive" institutional ownership. Using an instrumental variable approach, we find that the increase in audit fees is significantly and causally driven by the change in passive institutional ownership. Contrary to common understanding in the literature regarding the activism of passive investors, our results suggest that passive investors do seem to exert active influence on firms' auditing fee payment.

**10:00 – 11:00 Session 2: IO & Econometrics [B-102]**

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*Cornelia Ilin (University of Wisconsin-Madison) and Guanming Shi (University of Wisconsin-Madison)*

## **Competition, Price Dispersion and Capacity Constraints: The Case of the U.S. Corn Seed Industry**

This study examines the effect of competition on price dispersion and argues that the effect is contingent on the ability of firms to meet market demand. Our comparative static results show that competition among symmetrically capacity-constrained firms leads to a price decrease in the lower tail of the price distribution and a price increase in the upper tail. In contrast, competition among symmetrically capacity-unconstrained firms, or among firms with asymmetric capacities leads to an overall price increase along the distribution function. To investigate these findings empirically, we use a novel data set from the U.S. corn seed industry with farm-firm-level sales information for conventional and genetically modified corn seeds between 2004 - 2009. We estimate the empirical model using the IV FE Quantile Regression, and found evidence consistent with the theory. The analysis also shows that capacity-unconstrained seed firms charge a price premium, confirming the positive relationship between product availability and pricing found in our theoretical model.

*Andras Niedermayer (University of Mannheim), Artyom Shneyerov (Concordia University) and Pai Xu (University of Hong Kong)*

## **Foreclosure Auctions**

We develop a novel theory of real estate foreclosure auctions, which have the special feature that the lender acts as a seller for low prices and as a buyer for high prices. The theory yields several empirically testable predictions in relation to the strategic behavior of agents when the lender has an informational advantage about the quality of the property. Using novel data from Palm Beach County (FL, US), we find evidence that the lender has an informational advantage. Asymmetric information is found to be relevant in the two applications of our theory we investigate: mortgage securitization and integrated lenders.

*Elena Andreou (University of Cyprus & CEPR), Patrick Gagliardini (Universita della Svizzera Italiana and Swiss Finance Institute), Eric Ghysels (University of North Carolina at Chapel Hill & CEPR) and Mirco Rubin (University of Bristol)*

## **Is Industrial Production Still the Dominant Factor for the US Economy?**

We propose a new class of large approximate factor models which enable us to study the full spectrum of quarterly Industrial Production (IP) sector data combined with annual non-IP sectors of the economy. We derive the large sample properties of the estimators and test statistics for the new class of unobservable factor models involving mixed frequency data and common as well as frequency-specific factors. Despite the growth of service sectors, we find that a single common factor explaining 90% of the variability in IP output growth index also explains 60% of total GDP output growth fluctuations. A single low frequency factor unrelated to manufacturing explains 14% of GDP growth. The picture with a structural factor model featuring technological innovations is quite different. Last but not least, our identification and inference methodology rely on novel results on group factor models that are of general interest beyond the mixed frequency framework and the application of the paper.

**10:00 – 11:00 Session 3: Behavioral & Theory [B-105]**

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*Sandro Ambuehl (University of Toronto) and Axel Ockenfels (University of Cologne)*

### **For They Know Not What They Do. Who Responds To Incentives?**

Who reacts to incentives when individuals acquire costly information about the consequences of participation before making a decision? Examples of such transactions include living organ donation, human egg donation, surrogate motherhood, and others. We show in a model of rational costly information acquisition that subjects with higher marginal costs of information will often respond more strongly to an increase in the incentive, and decide to participate based on worse information. Consequently, as the incentive increases, the pool of participants consists of an increasing fraction of individuals with higher costs of information acquisition and a less complete understanding of the consequences of their decision. These predictions bear out in a behavioral experiment, both when we use a measure of subjects' IQ as a proxy for their marginal cost of information acquisition and when we experimentally vary the marginal cost of information. Respondents to a complementary vignette study about incentives for human egg donation correctly predict not only these selection effects but also the information acquisition behavior that generates them. They deem this ethically problematic, and support policy measures to alleviate the effects.

*Lea Cassar (University of Cologne) and Stephan Meier (Columbia University)*

### **Non-Monetary Incentives and the Quest for Work Meaning**

*Igor Letina (University of Zurich), Shuo Liu (University of Zurich & Columbia University) and Nick Netzer (University of Zurich)*

### **Delegating Performance Evaluation**

We study optimal incentive contracts with multiple agents when performance evaluation is delegated to a reviewer. The reviewer may be biased in favor of the agents, but the degree of the bias is unknown to the principal. We show that a contest, which is a contract in which the principal determines a set of prizes to be allocated to the agents, is optimal. By using a contest, the principal can commit to sustaining incentives despite the reviewer's potential leniency bias. The optimal effort profile can be uniquely implemented by a modified all-pay auction, and it can also be implemented by a nested Tullock contest. Our analysis has implications for applications as diverse as the design of performance pay, the awarding of research grants, the allocation of foreign aid, or the structure of grading scales.

**11:30 – 12:30 Session 4: Applied Micro [B-102]**

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

### **The Rise of the Knowledge Economy and Segregation in US Cities**

This paper studies the impact of an expansion in knowledge-intensive activities on income and educational segregation in U.S. cities. We use the network of patent citations across commuting zones and technological classes in the period 1975-1994 to instrument for recent trends in patenting. We show that an increase in local patenting activity has a strong positive impact on segregation, explaining 40% of the cross-city variation and 11% of the aggregate trend. In line with the suggestive evidence in the literature, we find that this effect is stronger for knowledge-intensive innovation (e.g. IT and chemistry) and weaker for less knowledge-intensive one (e.g. textiles). Only a small part of the increase in measured segregation can be explained by an increase in income inequality. This result suggests that people in innovative sectors relocate within the commuting zone to live closer to people of similar income and educational level. To identify the sources of the observed sorting, we develop a spatial model of the internal structure of cities in which agents choose where to live balancing housing costs, preferences for amenities and learning opportunities. We use the model to estimate the importance of knowledge spillovers in different technological areas in explaining the observed patterns of urban segregation.

*Ruchir Agarwal (IMF) and Patrick Gaule (CERGE-EI)*

### **The Role of Talent in Knowledge Creation: Evidence from the International Math Olympians**

This paper studies two related questions. First, what is the role of talent in knowledge production? Second, how does the country of birth affect the career choices of highly-talented teenagers and how much knowledge they produce? To study these questions, we construct an original dataset covering the career histories and scientific output of more than 2,000 medalists from an international competition for high school students- the International Mathematics Olympiad (IMO). We measure raw talent in late teenage years using IMO scores. Crucially for our analysis, IMO scores strongly predict future productivity and also propensity to enter academia. This allows us to compare teenagers with the same raw talent across countries, and over their life. Our results support the view that whether or not raw talent translates into knowledge production strongly depends on their country of birth, and that part of the global talent pool in mathematics is underutilized. The results provide a rationale for a number of supply side policies that are not often discussed in the context of enhancing global knowledge production.

*Lorenz Kueng (Northwestern University) and Scott R. Baker (Northwestern University)*

### **Shopping for Lower Sales Tax Rates**

Using comprehensive high-frequency state and local sales tax data, we find that household spending responds strongly to changes in sales tax rates. Despite their complexity, such as the fact that sales taxes are not observed in posted prices and have a wide range of rates and exemptions, households increase online and cross-border shopping and stock up on storable goods before taxes increase. Interestingly, households adjust spending similarly on both taxable and tax-exempt goods. We demonstrate that this seemingly irrational behavior is optimal in the presence of shopping complementarities and provide independent evidence in favor of this new mechanism. While our results demonstrate that salience of sales tax changes is high on average, we also show that upcoming tax changes that are more salient prompt larger responses.



11:30 – 12:30 Session 5: Labor I [B-105]

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*Timo Boppart (IIES, Stockholm) and Per Krusell (IIES, Stockholm)*

### **Labor supply in the past, present, and future: a balanced-growth perspective**

What explains how much people work? Going back in time, a main fact to address is the steady reduction in hours worked. The long-run data, for the U.S. as well as for other countries, show a striking pattern whereby hours worked fall steadily by a little below a half of a percent per year, accumulating to about a halving of labor supply over 150 years. In this paper, we argue that a stable utility function defined over consumption and leisure can account for this fact, jointly with the movements in the other macroeconomic aggregates, thus allowing us to view falling hours as part of a macroeconomy displaying balanced growth. The key feature of the utility function is an income effect (of higher wages) that slightly outweighs the substitution effect on hours. We also show that our proposed preference class is the only one consistent with the stated facts. The class can be viewed as an enlargement of the well-known “balanced-growth preferences” that dominate the macroeconomic literature and that demand constant (as opposed to falling) hours in the long run. The postwar U.S. experience, over which hours have shown no net decrease and which is the main argument for the use of “balanced-growth preferences”, is thus a striking exception more than a representative feature of modern economies.

*Isabel Martinez (LISER), Emmanuel Saez (UC Berkeley) and Michael Siegenthaler (KOF ETH Zurich)*

### **Intertemporal Labor Supply Substitution? Evidence from the Swiss Tax Holiday**

In the late 1990s Switzerland changed from a tax system where taxes were paid upon previous two years’ income to a system of annual pay-as-you go character. As consequence, incomes earned during the last two years prior to the change remained untaxed. We use this policy experiment to study labor-supply and income shifting responses of individuals who faced a zero marginal and average income tax rate in the tax-free years. The setting provides a unique opportunity to estimate the intertemporal labor supply (Frisch) elasticity. Exploiting that Swiss cantons switched to the new regime at different points in time during the 1995–2003 period and the huge between-municipality heterogeneity in average tax rates, we compare labor supply and income components of Swiss taxpayers who were on “tax holiday” with those who were not at the same point in time. The analysis is based on individual earnings register data from the social security scheme (AHV) matched with census data, covering the near-universe of the prime age population in the transition period. We expect different responses for men and (married) women, for different age groups, and by initial tax rates. Preliminary results suggest that the overall labor supply and income responses were surprisingly small despite the large and salient incentives.

*Marianne Bertrand (University of Chicago, Booth School of Business), Bruno Crépon (CREST), Alicia Marguerie (CREST, University of Paris Saclay) and Patrick Premand (World Bank)*

### **Contemporaneous and Post-Program Impacts of a Public Works Program: Evidence from Cote d'Ivoire.**

Public works are one of the most popular safety nets and employment policy instrument in the developing world, despite limited evidence on their effectiveness and optimal design features. This paper presents results on contemporaneous and post-program impacts from a public works intervention in Cote d’Ivoire. The program provided 7 months of temporary employment in roads rehabilitation for urban youths. Participants self-selected to apply for the public works jobs, which paid the formal minimum wage and were randomized among applicants. Randomized sub-sets of beneficiaries also received complementary training on basic entrepreneurship or job search skills. During the program, results show limited contemporaneous impacts of public works on the level of employment, but a shift in the composition of employment towards the public works wage jobs. A year after the end of the program, there are no lasting impacts on the level or composition of employment, although positive impacts are observed on earnings through higher productivity in non-agricultural self-employment. Large heterogeneity in impacts are found. Results from machine learning techniques suggest potential trade-offs between maximizing contemporaneous and post-program benefits. Traditional heterogeneity analysis shows that a range of practical targeting mechanisms come close to the machine learning benchmark, leading to stronger contemporaneous and post-program benefits without sharp trade-offs. Overall, departing from self-targeting based on the formal minimum wage leads to strong improvements in program cost-effectiveness.

14:00 – 15:00 Session 6: Health & Education [B-102]

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*Flavio Hafner (Pompeu Fabra University)*

## **Minority group size and parental human capital investments**

This paper examines how minority group size affects parental investments in childhood, and the human capital of second-generation immigrants. I propose a theoretical framework where parents care about child quality in two dimensions: human capital and ethnic minority identity. Investments in these two traits are substitutes. Under cultural substitution (Bisin & Verdier, 2001), an increase in the number of co-ethnics makes minority parents invest more in the human capital of their child, and less in its ethnic identity. I use an extensive survey on children of immigrants in San Diego and Miami to support this theory. I show that the Mariel boatlift of 1980 had a positive human capital effect on younger cohorts of Hispanic children in Miami, as well as on their identification with the home country. I also find that these children were more likely to speak English with their parents in adolescence. Most of these findings are robust to excluding Cubans in Miami, for whose parents I document a strong trend towards more integration before Mariel. I discuss other potential mechanisms, and conclude that minority group size is an important determinant of the integration of second-generation immigrants.

*Aline Buetikofer (Norwegian School of Economics), Meghan Skira (University of Georgia) and Julie Riise (University of Bergen)*

## **The Impact of Paid Maternity Leave on Maternal Health**

This paper examines the impacts of the introduction of paid maternity leave in Norway on maternal health. Before the reform, mothers were eligible for 12 weeks of unpaid leave. Mothers giving birth after July 1st 1977 were entitled to 4 months of paid leave and 12 months of unpaid leave. If maternity leave benefits are protective of health, we should observe that eligible mothers are healthier. Combining registry data with survey data on health and health behaviors, we find a lower probability of having risky levels of biomarkers for eligible mothers. In addition, we find that these same women self-report better health, better mental health, and less pain.

*Carl Rudolf Blankart (University of Hamburg), Andrew D. Foster (Brown University) and Vincent Mor (Brown University)*

## **Politics Matters: How State politics impacts Nursing Homes' Financial Performance, Resident Mix, Staff**

As the single largest component of total State expenditures, Medicaid budget is heavily debated between Republicans and Democrats resulting in considerable variation across States. State policy making highly affects nursing homes, because more than a third of their revenues originates from Medicaid. We show that Republican and Democrat control over the legislative chambers enables them to implement their political ideology. We created a 19-year panel (1996-2014) by merging cost report data with nursing home provider data, and State election outcomes. Our analysis is based on 12,121 for-profit and not-for-profit nursing homes. We estimate several econometric models with facility and year fixed effects to determine the effect of controlling the legislature. A unified Democratic legislature leads to increased revenues compared to a split legislature, while nursing homes' revenues are not significantly affected by a unified Republican legislature. However, majorities do not affect expenses on facility level; therefore profits increase significantly with a unified Democratic, while profits fall significantly with a unified Republican legislature. Posing the governor in addition to holding the majority in both legislative chambers does not impact findings. For-profit nursing homes are more affected by State politics than not-for-profit. During Republican control of the legislature, nursing homes are shifting their revenue to the private payer markets to stabilize revenues; however, Republican domination leads to lower profits in the nursing home sector. During a Democratic led State legislature, nursing homes prosper by increasing revenues and profits.

**14:00 – 15:00 Session 7: International [B-105]**

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*Andreas Mueller (University of Oslo), Kjetil Storesletten (University of Oslo) and Fabrizio Zilibotti (University of Zurich)*

### **Sovereign Debt and Structural Reforms**

Motivated by the European debt crisis, we construct a tractable theory of sovereign debt and structural reforms under limited commitment. A sovereign country which has fallen into a recession of an uncertain duration issues one-period debt to smooth consumption. It can also implement structural policy reforms to speed up recovery from the recession. The sovereign can renege on its debt obligations by suffering an observable stochastic default cost, in which case creditors offer a take-it-or-leave-it debt haircut to avert default. The laissez-faire Markov equilibrium features large fluctuations in consumption, debt, and reform effort. During the recession, consumption falls whenever debt is honored. A large debt destroys incentives for structural reforms since some of the gains from reform accrue to the lenders. Allowing for financial markets with state-contingent debt provides only limited consumption insurance. We contrast the Markov equilibrium with an optimal contract with one-sided commitment. This allocation, which features step-wise increasing consumption and step-wise decreasing reform effort, can be interpreted as a flexible assistance program provided by an international institution with commitment. We calibrate the model and show that it can match a number of key stylized facts about debt and debt crises. We quantify the effect of relaxing different contractual and financial frictions.

*Nicolas Maeder (Vanderbilt University)*

### **Multistability in Economic Systems: Identification of a Regime Switch in the Market for Sovereign Debt**

A highly stylized theoretical model of the market for sovereign debt produces a nonlinear dynamical system giving rise to two distinct attractors, each complemented by its own basin of attraction. Accordingly, the evolution of the system's state crucially depends on the prevailing regime, given by its location vis-a-vis the two basins. The phenomenon of multistability helps build intuition in regard to self-fulfilling crises and highlights the importance of financing conditions separate from prevailing debt levels. It further offers an explanation as to how Japan successfully continues to avoid default and theoretically underpins the politically often challenged *raison d'être* of the IMF. The existence of multiple regimes is tested with reduced form and structural Bayesian methods using Greek data prior to default in 2012.

*Mikhail Chernov (UCLA), Lukas Schmid (Duke University) and Andres Schneider (UCLA)*

### **A macrofinance view of US Sovereign CDS premiums**

Premiums on US sovereign CDS have risen to persistently elevated levels since the financial crisis. In this paper, we ask whether these premiums reflect the probability of a US *fiscal default*, namely a state in which budget balance can no longer be restored by further raising taxes or eroding the real value of debt by raising inflation. To that end, we develop an equilibrium macrofinance model of the US economy, in which the fiscal and monetary policy stance jointly endogenously determine nominal debt, taxes, inflation and growth. While US CDS cannot be valued using standard replication arguments, we show how in our equilibrium model, CDS premiums reflect endogenous risk adjusted fiscal default probabilities. A calibrated version of the model is quantitatively consistent with high premiums on US sovereign CDS.

**15:30 – 16:30 Session 8: Labor II [B-102]**

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*Sebastian Weber (European Central Bank), Elisa Gamberoni (European Central Bank) and Katerina Gradeva (European Central Bank)*

### **Firm responses to employment subsidies: a regression discontinuity approach to the 2012 Spanish labour**

This study focuses on the employment effect of a hiring subsidy available to firms with less than 50 employees, granted in the context of the 2012 Spanish labour market reform. Exploiting the arbitrary firm size threshold using regression discontinuity design, estimates show on average 2 percentage points higher employment growth for firms that became eligible for the scheme. However, tests and complementary regressions suggest that the higher employment growth for smaller firms in 2013 is driven by a 2010 reform, which imposes more stringent reporting requirements on larger firms. Accounting for this using difference-in-discontinuity regressions, we fail to find any significant effect of the subsidy on increasing employment of eligible firms. While our study suggests several pitfalls arising from size-contingent regulations, more data are needed to test for beneficial long-term effects from the hiring subsidy in addressing duality of the Spanish labour market.

*Aniko Biro (University of Edinburgh), Steven Dieterle (University of Edinburgh) and Andreas Steinhauer (University of Edinburgh)*

### **Labour market consequences of motherhood timing: a bounding estimation with imperfect instrument and selectivity**

There is a strong association between age at first birth and labor market outcomes of women. Identifying causal effects, however, is difficult. One common approach to obtain exogenous variation in first birth timing is to make use of the event of pregnancy loss as an instrumental variable. In this paper we use detailed administrative data from Austria to show problems associated with this strategy, focusing on contamination by direct health effects and missing data. In a second step, we relax the assumption of strict exogeneity and derive two-sided bounds using the imperfect instruments strategy of Nevo and Rosen (2012) and inverse probability weighting to address the missing data problem. We find that previous estimates of the effect of age at first birth on career outcomes are likely too large. Finally, we discuss various channels through which fertility timing could positively or negatively impact career outcomes.

*Patrick Arni (University of Bristol)*

### **Reservation Wages, Job Search Behavior, Unemployment Insurance, Extension of Benefits, Work Requirements**

This paper contributes to the current debate (see AER) about how to interpret wage effects of extensions of unemployment insurance (UI) benefits. Is it mostly through unemployment duration (i.e., human capital depreciation etc.) that UI affects wages, or are reservation wage effects (i.e., higher demands towards a future job match) of key importance as well? The two channels lead to fundamentally different policy conclusions on how (non-)beneficial UI extensions are. This paper is based on a unique combination of register data, which will make it possible for the first time to consider all the three necessary outcomes (reservation earnings, realized earnings and unemployment durations) for the same population and within the same natural experiments. Based on Swiss data, we explore different discontinuities with respect to potential benefit durations (PBD): a threshold at age 25 as well as a work requirement (contribution duration) threshold, which can be exploited for individuals aged between 20 and 55. Preliminary results point to the existence of a significant reservation wage effect. Per additional month of PBD, reservation earnings tend to increase by about 0.6%; this corresponds to an elasticity of about 0.11. These results are consistent with the found earnings effects of changes in UI generosity. Thus, such UI changes also seem to affect the job acceptance behavior of individuals, they not only operate through a depreciating quality of arriving job offers.

15:30 – 16:30 Session 9: Trade [B-105]

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*Simon Alder (University of North Carolina at Chapel Hill) and Yikai Wang (University of Oslo)*

### **Divide and Rule: An Origin of Polarization and Ethnic Conflict**

We propose a theory of ethnic conflict where political elites strategically initiate conflicts in order to polarize society and thus sustain their own power. We provide a micro-foundation for this divide-and-rule strategy by modelling polarization as a lack of trust. Trust is shaped by economic interactions between different groups as in Rohner, Thoenig, and Zilibotti (2013). Low trust reduces the expected gains from trade. By starting a conflict and thus interrupting trade, the elite can prevent trust from emerging. The elite will follow this strategy whenever it faces a large threat of revolution which originates in the common interest of people to reap gains from trade without being taxed by the elite. This is likely to be the case if current trust levels are high and if the cost of revolution is low.

*Robert Grundke (OECD) and Christoph Moser (University of Salzburg)*

### **Hidden Protectionism? Evidence from Non-Tariff Barriers to Trade in the United States**

Can the enforcement of product standards be protectionism in disguise? This paper estimates the costs of non-compliance with U.S. product standards, using a new database on U.S. import refusals from 2002 to 2014. We find that import refusals decrease exports to the United States. This trade reducing effect is driven by developing countries and by refusals without any product sample analysis, in particular during the Subprime Crisis and its aftermath. We also provide evidence that given product standards have been enforced more strictly during the crisis. These results are consistent with the existence of counter-cyclical, hidden protectionism due to non-tariff barriers to trade in the United States.

*Lorenzo Bretscher (London School of Economics)*

### **Offshorability, Competition and Asset Prices**

Firms differ in the extent to which they can offshore their production. I find that industries with low offshoring potential carry a sizeable risk premium compared to industries with high offshoring potential, suggesting that the option to offshore is valuable. The option value is higher in industries that are more exposed to foreign competition. Put differently, offshorability effectively serves as an insurance against foreign competition.

**16:45 – 17:45 Session 10: Public Economics [B-102]**

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*Jonathan Levav (Stanford GSB), Armando Meier (University of Basel & Columbia Business School) and Stephan Meier (Columbia Business School)*

## **Tired Judges, Parole Decisions and Recidivism**

Does prison length affect recidivism? We exploit extraneous factors in judicial decisions to assess this question. First, we document that judges are more likely to reject a parole request the more decisions they had to take previously, consistent with Danziger et al. (2011). We then exploit this relationship, relying on quasi random case ordering. Thereby, we use the ordinal position of the case since the last break as an instrument for the outcome of parole decisions. This allows us to assess the causal effect of getting out of prison early on recidivism. We find that an early release substantially reduces the propensity of prisoners to go back to prison. Our results suggest that there may be larger than expected individual and collective costs associated with keeping individuals in prison.

*Charles Blankart (Humboldt University Berlin)*

## **Rent seeking in regional policy**

Becker, Egger and Ehrlich find in a well renowned and often quoted paper in the EER 2012 "that, overall, EU transfers enable faster growth in the recipient regions as intended [by EU policy]". This is an important conclusion as about 50% of the EU budget is spent for regional policy. The authors use good econometrics, but a theory is missing. When applying the theory of property rights by Ronald Coase, however, it can be shown that the benefits pretended by Becker Egger and Ehrlich dissipate in rent seeking on average.

16:45 – 17:45 Session 11: Macro [B-105]

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*Julian Ludwig (University of Texas at Austin)*

### **News Shocks and Uncertainty**

Both good and bad news shocks coincide with higher uncertainty. This new stylized fact is discovered using empirical models of the news shock literature and different proxies for U.S. macro uncertainty. The new stylized fact has implications in three fields. First, bad news shocks produce the dynamics discovered in the uncertainty literature: spikes in uncertainty are followed by drops in output. I show that the effect of an uncertainty shock is weak when controlling for news shocks. Second, I show that the close relationship between quarterly stock returns and stock market volatility - a proxy for uncertainty - is mainly caused by news shocks. This contributes to the finance literature examining this relationship. Third, introducing a non-linear empirical model, I find additional asymmetries in the responses to news shocks caused by the new stylized fact. This contributes to literature on news shocks.

*Markus Brunnermeier (Princeton University) and Yann Koby (Princeton University)*

### **The “Reversal Interest Rate”: An Effective Lower Bound on Monetary Policy**

The "reversal interest rate" is the rate at which accommodative monetary policy "reverses" its effect and becomes contractionary. The reversal interest rate depends on various factors: (i) banks' asset holdings with fixed (non-floating) interest payments, (ii) the degree of interest rate pass-through to loan rate and deposit rate, (iii) the amount of bank's whole sale funding, (iv) their dividend policy. Low interest rates beyond the time when fixed interest rate mature do not lead to recapitalization gains while still potentially lowering banks' margins, suggesting a shorter forward guidance policy. Moreover, quantitative easing (QE) increases the reversal rate. QE should only employed after interest rate cut is exhausted.

## **Venues**

### **Conference (December 22):**

University of Bern  
Department of Economics (UniS building)  
Seminar Rooms: B205, B207 & G120  
Schanzeneckstrasse 1  
3012 Bern

### **Informal Dinner (December 21):**

Ristorante Luce  
Zeughausgasse 28  
CH-3011 Bern  
<http://ristoranteluce.ch/home/>

### **Conference Dinner (December 22):**

Casino Kongress- and Kursaal Bern  
Kornhausstrasse 3  
3013 Bern  
<http://www.kursaal-bern.ch/Restaurants-en>

### **Accommodation (21/22.12.2015 and 22/23.12.2015)**

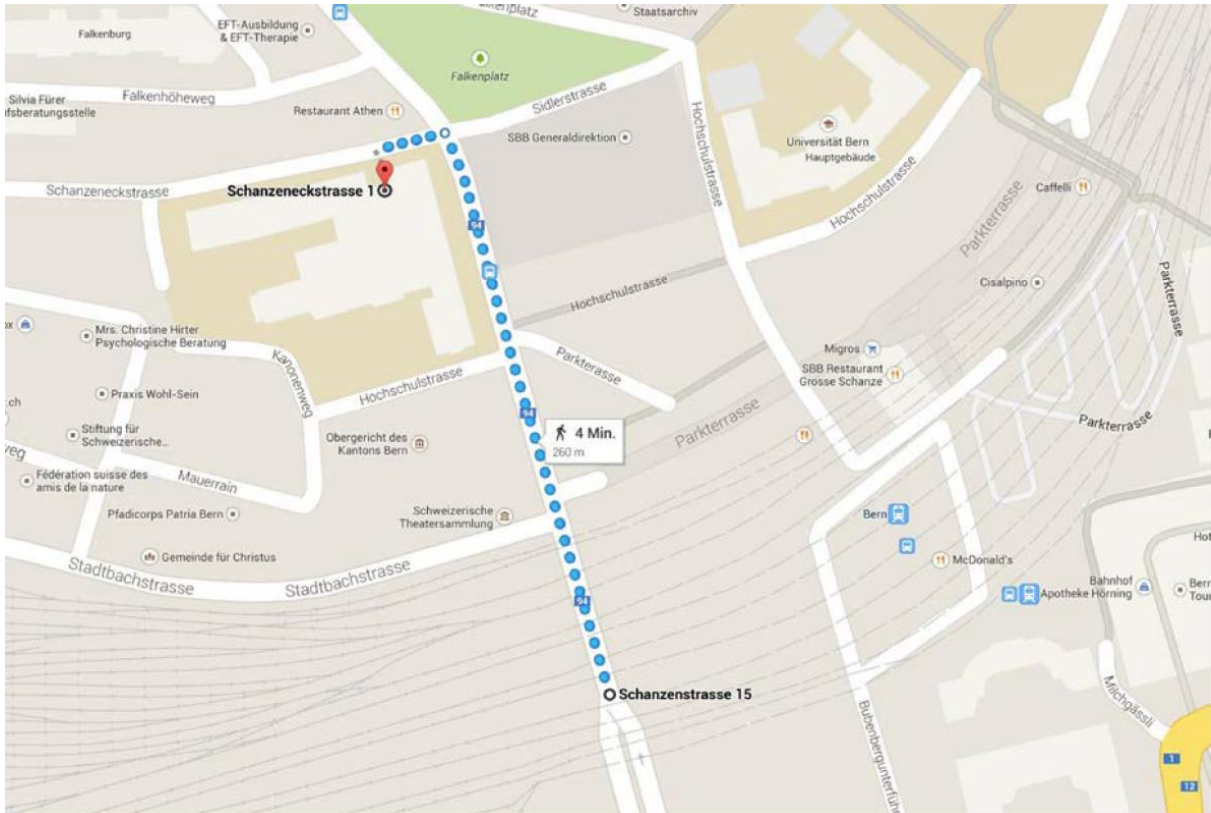
Hotel Kreuz  
Zeughausgasse 39/41  
3011 Bern  
<http://www.kreuzbern.ch/>



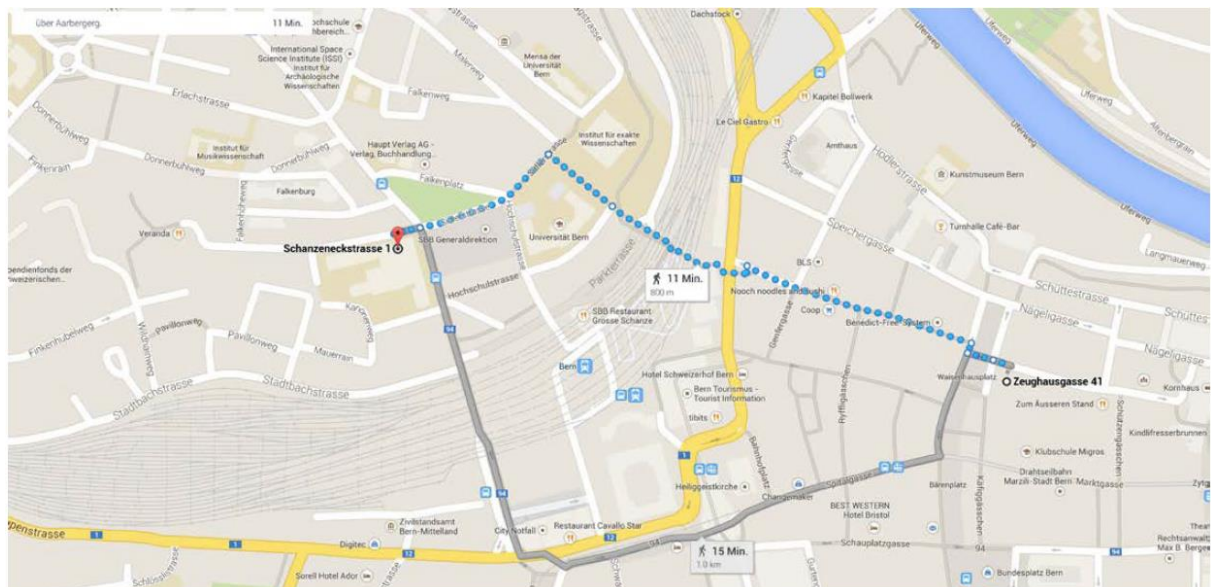
## Directions and Maps

### Railway station to the Department of Economics

Exit the railway station at its west end (towards the direction of the train coming from Zurich) through the "wave" overpass. Then walk up Schanzenstrasse for about 200m and you will see our office building on the left-hand side.



### Hotel Kreuz to the Department of Economics



# Network of Swiss Economists Abroad

Department of Economics to Casino Kongress- and Kursaal Bern (a shuttle service will be provided)

