CONFERENCE PROGRAM

4TH RGS DOCTORAL CONFERENCE
IN ECONOMICS

FEBRUARY, 21 -23, 2011
TU DORTMUND UNIVERSITY

CONTENTS

DEAR PARTICIPANTS,

it is a pleasure for us to welcome you to the 4th Doctoral Conference of the Ruhr Graduate School in Economics at the University of Dortmund (TU). It is now the second time after its inaugural staging in 2007 that this Conference takes place in Dortmund. Judging from the steep increase in the number of submissions over the years (almost 200 by now) and the growing number of participants as a consequence this relatively new conference format has established itself as a success. It definitely succeeds in bringing together excellent PhD students from Germany and abroad at a professional and social forum conducive to the exchange and discussion of research ideas and career enhancement by establishing informal networks and joint research plans.

The Conference has become a landmark in the program of the Ruhr Graduate School in Economics, which itself is a joint initiative of the Universities of Bochum, Dortmund and Duisburg-Essen with the Rheinisch-Westfälisches Institut für Wirtschaftsforschung in Essen. Now in its 7th year of existence it has established itself as one of the major players among the German Graduate Schools in Economics and gained the status of a "NRW Research School" in the Graduate Excellence Program of the state of North-Rhine Westphalia.

We are very excited by the broadness and depth of the scientific program of this Conference and hence we are very much looking forward to this event. We sincerely hope you will have a very productive meeting in Dortmund, and also that you will be able to enjoy your visit to the city of Dortmund. The Conference is generously supported by Stiftung Mercator.

With kind regards

Prof. Wolfgang Leininger, PhD, Director RGS Econ
Prof. Christoph M. Schmidt, PhD, Director RGS Econ

THE RGS IS SPONSORED BY:

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RGS ECON

RGS ECON

The Ruhr Graduate School in Economics (RGS Econ) is a 3-year PhD program founded by the three universities of the University Alliance Metropolis Ruhr (UAMR) – the University of Bochum, the TU Dortmund University and the University of Duisburg-Essen – as well as by the RWI, one of Germany's leading economic research institutes. This cooperation between large universities and an independent research institute pools together a think-tank of top level researchers, with a worldwide reputation for their academic achievements.

Doctoral students at the RGS Econ are provided with thorough training in advanced methods in economics. They are taken to the frontier of state-of-the-art research in all fields of economics. Members are integrated into a stimulating research environment at the universities and the RWI, harbouring an ambitious and excellent faculty. Its approach is clearly a disciplinary one as opposed to an interdisciplinary one by trying to cover all major areas of Economics from positive theorizing to empirical validation and policy design as well as evaluation. This focus on economics per se is calculated to facilitate a particularly early start of individual research.

Faculty members of the RGS Econ group themselves into three major clusters of interest and research, which are briefly described as the School`s core areas of expertise below. Interactions and cooperation within and across clusters are intense; doctoral students are invited to contribute to these exchanges by following their own interests.

CLUSTER 1:
Applied Microeconometrics, Labour, Population and Health Economics

CLUSTER 2:
Macroeconomics, Monetary and International Economics, Financial Markets

CLUSTER 3:
Microeconomics, Game Theory, Mechanism Design and Public Finance

ABOUT STIFTUNG MERCATOR

Stiftung Mercator is one of Germany's largest foundations. It initiates and funds projects that promote better educational opportunities in schools and universities. In the spirit of Gerhard Mercator, it supports initiatives that embody the idea of open-mindedness and tolerance through intercultural encounters, encouraging the sharing of knowledge and culture. The foundation provides a platform for new ideas to enable people – regardless of their national, cultural or social background – to develop their personality, become involved in society and make the most of the opportunities available to them. In this way it wants to let ideas take flight. Stiftung Mercator takes an entrepreneurial, international and professional approach to its work. It has a particular affinity with the Ruhr area, the home of its founding family.

www.stiftung-mercator.de

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GRAPHICS & DESIGN

Julica Bracht (RWI)
Daniela Schwindt (RWI)
Benedict Zinke (RWI)

GENERAL INFORMATION

CONFERENCE VENUE

Internationales Begegnungszentrum (IBZ)
Emil-Figge-Str. 59
44227 Dortmund

PUBLIC TRANSPORT | FREE TRAVEL TICKET

Your conference badge includes a free travel ticket for public transport in Dortmund for the whole time of the RGS Conference (February, 21-23, 2011). It allows you to travel around the city of Dortmund using regional trains, S-Bahn, underground, trams and busses.

For more information, please check the VRR (Verkehrsbund Rhein-Ruhr) website: www.vrr.de/en/index.html

HOW TO GET TO THE TU DORTMUND UNIVERSITY?

The TU Dortmund University has its own train station ("Dortmund Universität"). From there suburban trains leave for Dortmund main station ("Dortmund Hauptbahnhof") and Düsseldorf main station via the "Düsseldorf Airport train station" (take the S-Bahn "S1" which leaves every 20 or 30 minutes). The travel time between "Dortmund Hauptbahnhof" and Dortmund Universität" is 7 minutes. The travel time between "Dortmund Hauptbahnhof" and "Düsseldorf Airport train station" is around 45 minutes.

For more information: http://www.tu-dortmund.de/uni/International/Contact_and_Directions/Directions/index.html

REGISTRATION AND INFORMATION DESK

The registration and information desk for the conference will be located in the foyer of the Internationales Begegnungszentrum (IBZ) and will be staffed during the following hours:

Monday, February 21, 16:00 - 20:00
Tuesday, February 22, 8:00 - 16:00
Wednesday, February 23, 8:30 - 21:00

CANTEEN / MENSA

In order to get the reduced price for students at the university canteen conference participants need to wear and show their conference badge at the cashier.

SMOKING POLICY

Smoking is strictly prohibited inside all university buildings and the IBZ. Smokers are permitted to smoke outside the buildings.

INTERNET ACCESS

Free wireless internet access will be available throughout the conference building at the IBZ. The name and access code of the wireless network is available at the information desk.

SOCIAL EVENTS

All social events are free of charge for conference participants, i.e. presenters, guest speakers, RGS professors and RGS students.

VISIT OF THE "DORTMUNDER U"

Guided tours (in English and German)

Tuesday, February 22, 17:00 – 18:00

Dortmunder U – Zentrum für Kunst und Kreativität
Leonie-Reygers-Terrasse / Brinkhoffstrasse 4
44137 Dortmund
www.dortmunder-u.de

The "Dortmunder U" can be reached within 5 minutes from the Dortmund main station.

IMPORTANT

A bus transfer from the IBZ to the "Dortmunder U" is organized. The bus leaves at 16:15 from the IBZ.

DINNER AT THE "VIEW"

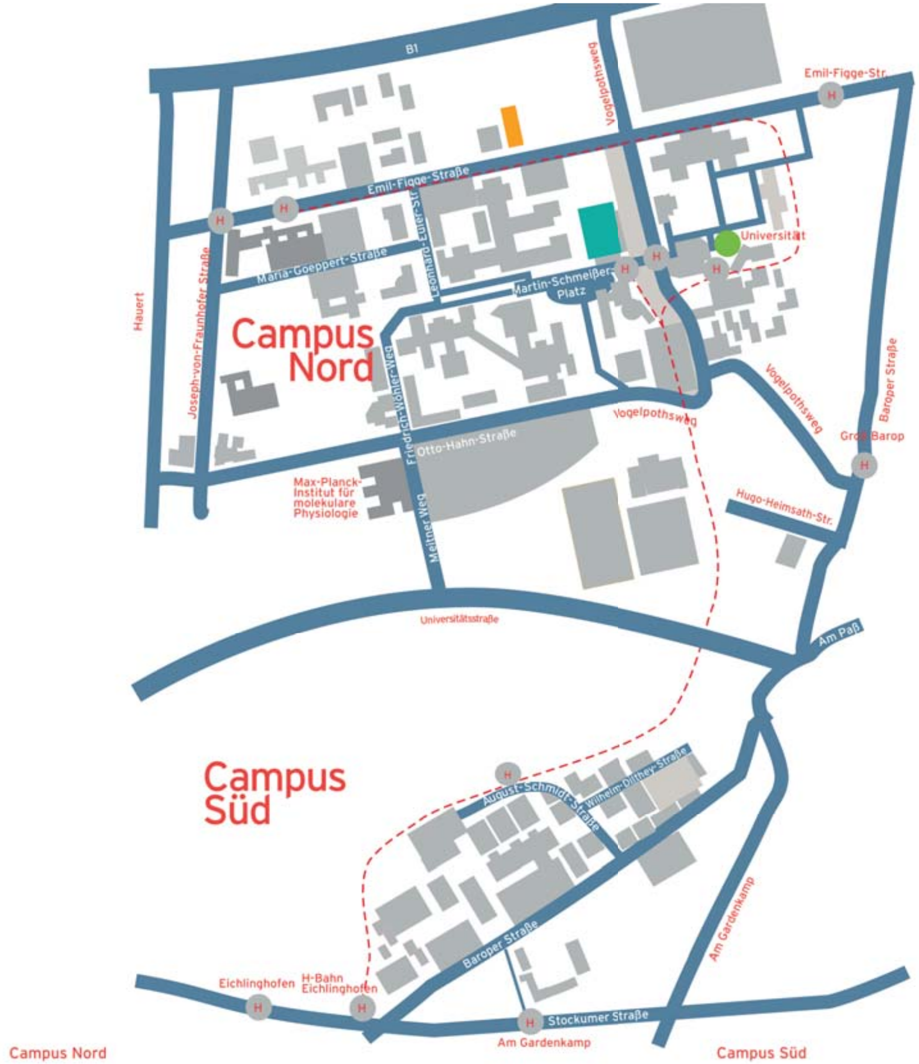
The guided tour ends on the top floor of the "Dortmunder U" where the "View" restaurant is situated.

Tuesday, February 22, 18:00 – 20:00

ABOUT THE "DORTMUNDER U"

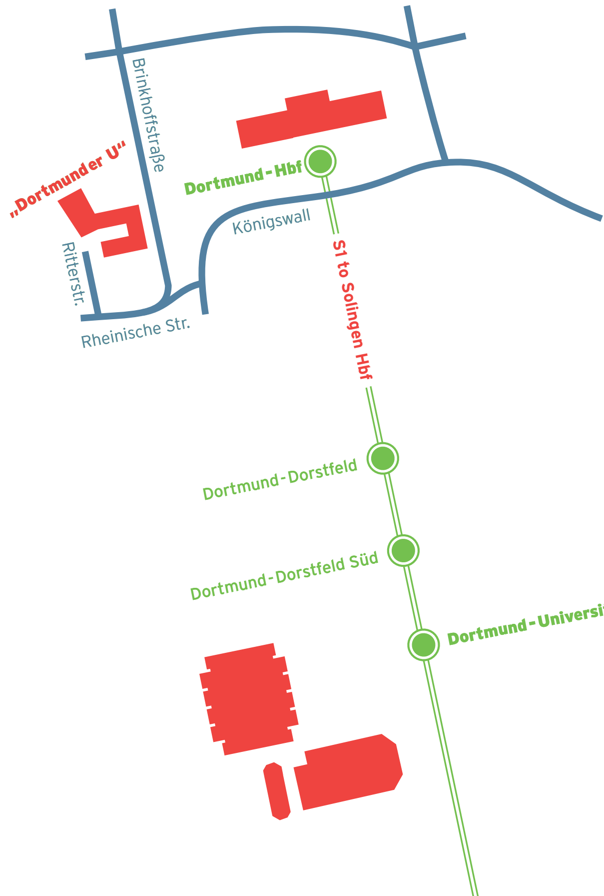
Constructed in 1926 the fermentation and storage tower of the Dortmund Union brewery was the first skyscraper in Dortmund. Alongside the well known history of the coal and steel industry the brewing industry has a long tradition in the Ruhr area. Nevertheless, in 1994 the brewery was closed and all its buildings were demolished – except the "Dortmunder U" which was considered to be a Dortmund landmark. In view of the "Ruhr 2010 – Cultural Capital of Europe" project it was decided to convert the eight-story tower into a centre for arts and media. Stairways run from the foyer on the ground floor up to the "cathedral space" on the top floor where the panoramic restaurant "VIEW" is situated.

Way to the University



TU Dortmund University

- Internationales Begegnungszentrum (IBZ)
- Canteen / Mensa
- S-Bahn station



PROGRAM

PROGRAM

MONDAY, FEBRUARY 21

16:00 - 17:00 REGISTRATION
Internationales Begegnungszentrum (IBZ),
Emil-Figge-Str. 59, 44227 Dortmund

17:00 - 18:30 PUBLIC SPEECH
Prof. Dr. Hamermesh (University of Texas at Austin):
How to Publish a Good Paper: I Wish that I Knew
Internationales Begegnungszentrum (IBZ)

18:30 - 20:00 **RECEPTION**
Internationales Begegnungszentrum (IBZ)

TUESDAY, FEBRUARY 22

08:00 - 08:30 REGISTRATION
Internationales Begegnungszentrum (IBZ)

08:30 - 09:00 WELCOME ADDRESS
Prof. Dr. Ursula Gather (Rector TU Dortmund University)
Prof. Dr. Wolfgang Leininger (Director RGS Econ)
Dr. Gunter Friedrich (Stiftung Mercator)

PARALLEL SESSIONS 1, 2, 3

1 Labour I
Chair: Prof. Bauer

2 Econometrics
Chair: Prof. Schmidt

3 Fiscal Policy
Chair: Prof. Linnemann

10:30 - 11:00 **COFFEE BREAK**

11:00 - 12:30 **PARALLEL SESSIONS 4, 5, 6**

4 Markets & Information Disclosure
Chair: Prof. Leininger

5 Experiments & Quasi-Experiments
Chair: Prof. Bauer

6 Time Series Econometrics
Chair: Prof. Schmidt

12:30 - 13:15 **LUNCH**

13:15 - 14:45 **PARALLEL SESSIONS 7, 8, 9**

7 Trade & Firm Organization
Chair: Prof. Südekum

8 Health & Pension
Chair: Prof. Richter

9 Taxation
Chair: Prof. Linnemann

14:45 - 15:45 **PUBLISHING IN INTERNATIONAL JOURNALS – VIEWPOINT FROM A PUBLISHER**

Jeroen Loos (Elsevier)

16:15 - 20:00 **EXCURSION & DINNER**

16:15 Bus transfer from IBZ to “Dortmunder U”

17:00 Guided tour “Dortmunder U”

18:00 Dinner “View” restaurant

WEDNESDAY, FEBRUARY 23

08:30 - 09:00 **MORNING COFFEE**

09:00 - 10:30 PARALLEL SESSIONS 10, 11, 12

10 Oligopoly
Chair: Prof. Leininger

11 Happiness
Chair: Prof. Haisken-DeNew

12 Business Cycles
Chair: Dr. Jüssen

10:30 - 11:00 **COFFEE BREAK**

11:00 - 12:30 PARALLEL SESSIONS 13, 14, 15

13 International Trade
Chair: Prof. Clausen

14 Labour II
Chair: Prof. Kraft

15 Search & Matching
Chair: Prof Schabert

12:30 - 14:00 **LUNCH**

14:00 - 15:30 PARALLEL SESSIONS 16, 17, 18

16 Internationalization of Firms
Chair: Prof. Südekum

17 Health
Chair: Prof. Schnabel

18 Empirical Finance
Chair: Prof. Roos

15:30 - 16:00 **COFFEE BREAK**

16:00 - 17:15 PARALLEL SESSIONS 19, 20, 21

19 Political Processes
Chair: Dr. Hehenkamp

20 Migration
Chair: Prof. Roos

21 New Keynesian Macroeconomics
Chair: Prof. Schabert

17:15 - 17:30 BEST PAPER AWARD & CLOSING REMARKS

Prof. Dr. Wolfgang Leininger (Director RGS)
Prof. Dr. Christoph M. Schmidt (Director RGS)

18:00 - 19:30 PUBLIC SPEECH

Prof. Dr. Karl Ulrich Mayer (President of the Leibniz Gemeinschaft)

Mythos Flexibilisierung?
Wie instabil sind Berufsbiografien wirklich und als wie instabil werden sie wahrgenommen?

19:30 - 21:00 RECEPTION

PUBLIC SPEECH

Prof. Dr. Karl Ulrich Mayer, Jahrgang 1945, studierte Germanistik, Philosophie und Soziologie. Er promovierte 1973 an der Universität Konstanz und habilitierte sich 1977 an der Universität Mannheim in Soziologie. Ab 1979 war Mayer zunächst als Programmdirektor, dann als Geschäftsführender Direktor am neugegründeten Zentrum für Umfragen, Methoden und Analysen (ZUMA) tätig. Von 1983 bis 2005 war er Direktor am Berliner Max-Planck-Institut für Bildungsforschung. 2003 nahm Mayer einen Ruf nach Yale an und wurde Professor am Department of Sociology. Dort baute er mit dem Center for Research on Inequalities and the Life Course (CIQLE) ein international renommiertes Forschungszentrum auf.

Mit Karl Ulrich Mayer hat im Juli 2010 einer der führenden deutschsprachigen Soziologen das Amt des Präsidenten der Leibniz-Gemeinschaft übernommen, einem Zusammenschluss von 87 Forschungseinrichtungen, die wissenschaftliche Fragestellungen von gesamtgesellschaftlicher Bedeutung bearbeiten. Er ist damit derzeit eine der wichtigsten Persönlichkeiten der Forschungs- und Wissenschaftspolitik in Deutschland, gleichzeitig prägt er nach wie vor den wissenschaftlichen Fortschritt seiner Disziplin. Von besonderer Bedeutung ist seine Forschung zu Lebens- und Erwerbsverläufen, die bestehende Mythen enttarnt und so den gesellschaftlichen Diskurs belebt. Sein Festvortrag bei der 4. RGS Doctoral Conference in Economics wird sich insbesondere mit der Stabilität von Berufsbiografien befassen.

ABSTRACTS

SESSION 1: LABOUR I
TUESDAY 9:00 - 10:30

1 SPATIAL DEPENDENCIES IN GERMAN MATCHING FUNCTIONS

Franziska Schulze

This paper proposes a spatial panel model for German matching functions to avoid possibly biased and inefficient estimates due to spatial dependence. We provide empirical evidence for the presence of spatial dependencies in matching data. Based on an official data set containing monthly information for 176 local employment offices, we show that neglecting spatial dependencies in the data results in overestimated coefficients. For the incorporation of spatial information into our model, we use data on commuting relations between local employment offices. Furthermore, our results suggest that a dynamic modeling is more appropriate for matching functions.

2 SOCIAL NETWORKS, JOB SEARCH METHODS AND RESERVATION WAGES: EVIDENCE FOR GERMANY

Marco Caliendo, Ricarda Schmidl, Arne Uhlendorff

In this paper we analyze the relationship between social networks and the job search behavior of unemployed individuals. It is believed that networks convey useful information in the job search process such that individuals with larger networks should experience a higher productivity of informal search. Hence, job search theory suggests that individuals with larger networks use informal search channels more often and substitute from formal to informal search. Due to the increase in search productivity, it is also likely that individuals set higher reservation wages. We analyze these relations using a novel data set of unemployed individuals in Germany containing extensive information on job search behavior and direct measures for the social network of individuals. Our findings confirm theoretical expectations. Individuals with larger networks use informal search channels more often and shift from formal to informal search. We find that informal search is mainly considered a substitute for passive, less cost intensive search channels. In addition to that, we find evidence for a positive relationship between the network size and reservation wages.

3 FLEXICURITY AND JOB REALLOCATION

Thomas Davoine, Christian Keuschnigg

This paper develops a general equilibrium model with safe and risky jobs where unemployment is concentrated in a highly productive but volatile sector. Frictional unemployment arises in the process of job creation, firing and retraining for alternative employment. The paper derives an optimal welfare policy which combines the design of the tax schedule with three pillars of the 'flexicurity' model. The optimal policy is characterized by (i) a progressive wage tax schedule; (ii) a wage subsidy to re-employed workers; (iii) unemployment insurance benefits; (iv) job protection to contain firing; and (v) active labor market policy to facilitate labor reallocation.

SESSION 2: ECONOMETRICS
TUESDAY: 9:00 - 10:30

1 HUMAN CAPITAL AND GROWTH: SPECIFICATION MATTERS

Uwe Sunde, Thomas Vischer

This paper suggests that the weak empirical effect of human capital on growth in existing cross-country studies is partly the result of an inappropriate specification that does not account for the different channels through which human capital affects growth. A systematic replication of earlier results from the literature shows that both, initial levels and changes in human capital, have positive growth effects, while in isolation, each channel often appears insignificant. Studies that do not account for both channels might underestimate the effect of human capital due to convergence in human capital, in particular when measuring human capital in log years of schooling. This study therefore complements alternative explanations for the weak growth effects of human capital based on outlier observations and measurement issues.

2 NEW ESTIMATION METHODS FOR RATING DATA

Raphael Studer

Rating variables, as self-assessed health or happiness, have been modeled by ordered latent models or the linear regression model. Both models give raise to several methodological concerns. This article proposes a new estimation procedure, which merges the advantages of the two existing models, but overcomes their shortcomings. The new procedure specifies the conditional mean non-linearly and employs three different regression methods: two parametric and one semiparametric method. The insights of an empirical application to discrete life satisfaction data are threefold. First, the methods are easy implementable. Second, the non-linear model allows for flexible marginal effects. Third, average marginal effects of the parametrical models are similar to ordinary least squares estimates.

3 ORDERED RESPONSE MODELS AND NON-RANDOM PERSONALITY TRAITS: MONTE CARLO SIMULATIONS AND A PRACTICAL GUIDE

Maximilian Riedl, Ingo Geishecker

The paper compares different estimation strategies of ordered response models in the presence of non-random unobserved heterogeneity. By running Monte Carlo simulations with a range of randomly generated panel data of differing cross-sectional and longitudinal dimension sizes we assess the consistency and efficiency of standard models such as linear fixed effects, ordered and conditional logit and several different binary recoding procedures. Among the analyzed binary recoding procedures is the conditional ordered logit estimator proposed by Ferrer-i-Carbonell and Frijters (2004) that recently has gained some popularity in the analysis of individual well-being. The Ferrer-i-Carbonell and Frijters estimator (FCF) performs best if the number of observations is large and the number of categories on the ordered scale is small. However, a much simpler individual mean based binary recoding scheme performs similarly well and even outperforms the FCF estimator if the number of categories on the ordered scale becomes large. If the researcher is, however, only interested in the relative size of coefficients with respect to a baseline the easy to compute linear fixed effect model essentially delivers the same results as the more elaborate binary recoding schemes.

4 CONSISTENT ESTIMATION OF THE FIXED EFFECTS ORDERED LOGIT MODEL

Gregori Baetschmann, Kevin E. Staub, Rainer Winkelmann

The paper re-examines existing estimators for the panel data fixed effects ordered logit model, proposes a new one, and studies the sampling properties of these estimators in a series of Monte Carlo simulations. There are two main findings. First, we show that some of the estimators used in the literature are inconsistent, and provide reasons for the inconsistency. Second, the new estimator is never outperformed by the others, seems to be substantially more immune to small sample bias than other consistent estimators, and is easy to implement. The empirical relevance is illustrated in an application to the effect of unemployment on life satisfaction.

SESSION 3: FISCAL POLICY
TUESDAY: 09:00 - 10:30

1 FISCAL CONSOLIDATION IN GERMANY

Tobias Cwik

In this paper I examine the duration and macroeconomic implications of fiscal consolidation in Germany. I estimate a medium size new Keynesian DSGE model with Bayesian techniques on German data up to 2009Q4 including the government debt to GDP ratio, government transfers, labour income tax, consumption tax and capital tax revenues. I generate density forecasts for the fiscal instruments until 2020 taking parameter uncertainty and shock uncertainty into account. I find that the debt-to-GDP ratio is expected to decrease due to the expected economic recovery in Germany although there is a lot of uncertainty present. The economic recovery leads to a direct decrease in the debt-to-GDP ratio. In addition higher labour income tax revenues due to higher real wages and hours worked and an increased average labour income tax rate are expected to foster the consolidation of the government budget. The fiscal stimulus in 2010 in the size of 2.41%of GDP, will drive the debt-to-GDP ratio up to 81.3%in 2010 but has only a moderate effect on GDP. Still it will be possible to reduce the debt-to-GDP ratio below 60% in 2015. Enforcing the German debt brake in 2010 and decreasing the output elasticity of the income tax could further stimulate the consolidation.

2 ANTICIPATION, LEARNING AND WELFARE: THE CASE OF DISTORTIONARY TAXATION

Emanuel Gasteiger, Shoujian Zhang

We study the impact of anticipated fiscal policy changes in the Ramsey economy when agents form expectations using adaptive learning. We extend the existing framework by distortionary taxes as well as elastic labour supply, which makes agents' decisions non-predetermined but more realistic. We detect that the dynamic responses to anticipated tax changes under learning have oscillatory behavior. Moreover, we demonstrate that this behavior can have important implications for the welfare consequences of fiscal reforms.

3 THE MACROECONOMIC EFFECTS OF FISCAL POLICY SHOCKS IN GOOD TIMES AND BAD

Szabolcs Deák, Andreja Lenarčič

We analyze the macroeconomic effects of fiscal policy shocks conditional on fiscal stress by introducing a model whose parameter evolution explicitly depends on initial conditions. Using US quarterly data from 1960:1-2009:4 we estimate a multivariate threshold autoregressive model where regime switches are triggered by the dynamics of the government debt-to-GDP ratio. We find that a model with two regimes and with a regime switch at 42:6 percent of the debt-to-GDP ratio fits the data better than the benchmark linear model or specifications of the threshold model using other measures of fiscal stress as a threshold variable. In the regime, where the debt-to-GDP ratio is below the estimated threshold, the predictions of our model are similar to the benchmark linear model: a government spending shock has a positive and a tax receipt shock a negative effect on output over time. However, if the debt-to-GDP ratio is above this threshold, then the results are the opposite.

SESSION 4: MARKETS & INFORMATION DISCLOSURE
TUESDAY: 11:00 - 12:30

1 ON THE VALUE OF CUSTOMER INFORMATION

Sina Litterscheid

I consider a model of sequential monopolistic screening with information exchange between two monopolists and discounting. The value of information of a customer list can be strictly positive. Fully rational consumers are sometimes strictly better o_ in a disclosure regime, but never worse off. Disclosure leads sometimes to higher welfare than anonymity.

2 VOLUNTARY DISCLOSURE WITH A POTENTIAL COMPETITOR

Eda Orhun

This paper analyzes affirm's incentives to disclose private information of market demand and its own cost when there is a potential entrant into the market. Both market demand and incumbent's production cost could be high or low. In such a situation, revelation of the state by the incumbent affects the entry decision. The model illustrates that there is a unique fully revealing disclosure equilibrium in which every type of incumbent, except the high demand-high cost type (the most favorable state for the entrant), is transparent. This result is mainly due to the strong incentive of the high demand-high cost type to be nontransparent in any equilibrium candidate in order to discourage entry. This keeps other types from being nontransparent so that they can prevent pooling with the high demand-high cost type. This result changes once costly auditing (information gathering) is introduced. When the auditing of transparent incumbents is costly and the entrant avoids it due to its high cost, there exist pooling and partially pooling equilibria. In such equilibria, the incumbent type with the most favorable information succeeds in hiding herself, though sometimes imperfectly, since the other types cannot credibly communicate their real states.

3 VALUING VOLUNTARY DISCLOSURE USING A REAL OPTIONS APPROACH

Laura Delaney

This paper outlines a real options approach to valuing those announcements which are made by firms outside their legal requirements. Information will be disclosed if the manager of the firm is sufficiently certain that the market response to the announcement will have a positive impact on the value of the firm. The problem is also analysed from (i) a potential shareholder's and (ii) an existing shareholder's perspective. The main finding is that the threat of a corporate control challenge imposed upon the manager better aligns his incentives with those of the existing shareholder. This is shown in two ways; firstly, the manager discloses his information earlier and secondly, the agency costs which the shareholder may incur are noticeably reduced. An implication of this result is that the traditional net present value (NPV) approach is not such a poor proxy for valuing voluntary disclosure as the standard real-options theory would suggest.

SESSION 5: EXPERIMENTS & QUASI-EXPERIMENTS
TUESDAY: 11:00 - 12:30

1 ENTRY REGULATION AND ENTREPRENEURSHIP - EMPIRICAL EVIDENCE FROM A GERMAN NATURAL EXPERIMENT

Davud Rostam-Afschar

The amendment to the German Trade and Crafts Code in 2004 offers a natural experiment to asses the causal effects of this reform on the probabilities of being self-employed and transition into and out of self-employment, using cross-sections (2002-2006) of German microcensus data. This study applies the difference-in-differences technique in logit models for four occupational groups. Easing the educational entry requirement has fostered self-employment significantly for less qualified craftsmen, almost doubling the entry probability, even as exit rates remained unaffected. Weaker effects occur for other occupational groups. These findings have implications for the design of regulations with educational requirements.

2 RURAL ELECTRIFICATION IN RWANDA – AN IMPACT ASSESSMENT USING MATCHING TECHNIQUES

Gunther Bensch, Jochen Kluve, Jörg Peters

Rural electrification is believed to contribute to the achievement of the Millennium Development Goals (MDGs) via various channels. In this paper, we investigate the impacts of electrification on the household's lighting usage, home studying, energy expenditures and income. We use household data that we collected in rural Rwanda in villages with and without access to mini grids. To account for self selection processes in the connection decision we use households from the electrified villages to estimate the probability to connect for all households – including those in the non electrified villages. Based on these propensity scores we identify counterfactual households to determine the impacts of electrification on the outcome indicators. We find some indication for positive effects on home studying and income, but particularly on lighting usage. We conclude by highlighting the potentially profound changes in social life of rural people induced by improved lighting and call for research on impacts beyond the MDGs.

3 DOUBLE OR NOTHING!? DECISION MAKING UNDER RISK BY SMALL GROUPS: EVIDENCE FROM THE QUIZ TAXI

Klemens Keldenich, Marcus Klemm

This paper analyzes the behavior of contestants in the game show "Quiz Taxi" to identify sources of heterogeneity in risk attitudes. The relevant decision makers in the show are groups, so the communication leading to the final decision is analyzed in order to look into the decision making process. By using data from this game show, the influence of self-selection can be reduced, as possible contestants are chosen without having to apply actively. Overall, contestants show risk averse behavior: the higher the winnings at stake, the smaller the propensity to choose the risky alternative. In contrast, a better performance of contestants during the show is related to a higher propensity because of higher knowledge and/or larger confidence. Furthermore, all-female groups are slightly more risk averse than mixed or all-male groups, and three-person groups are slightly more risk averse than two person groups. The communication analysis reveals a robust and strong correlation between the communication's content and decisions under risk. This indicates that decisions are rational from a contestant's point of view, and that the context of the decision is an important factor for the final decision, in particular if a group is initially undecided.

SESSION 6: TIME SERIES ECONOMETRICS
TUESDAY: 11:00 - 12:30

1 A MODIFIED LLC PANEL UNIT ROOT TEST OF THE PPP HYPOTHESIS

Joakim Westerlund, Johan Blomquist

In a recent study, Westerlund (Empirical Economics 37, 517–531, 2009) shows that the performance of the popular LLC (Levin et al., Journal of Econometrics 98, 1–24, 2002) panel unit root test depends critically on the choice of lag truncation used when correcting for serial correlation, and that it is only when this parameter is set as a function of time that the power raises above size. The purpose of the current paper is to propose a modified test that does not suffer from this drawback. The new test is not only simpler to compute but also superior in terms of small-samples performance, which is illustrated using as an example purchasing power parity for less developed countries.

2 LONG-RUN MONEY DEMAND IN OECD COUNTRIES: CROSS-MEMBER COINTEGRATION

Frauke Dobnik

This paper examines the long-run money demand function for 11 OECD countries from 1983 to 2006 using panel data and including wealth. The distinction between common factors and idiosyncratic components using principal component analysis allows to detect cross-member cointegration and to distinguish between international and national developments as drivers of the long-run relation between money and its determinants. Indeed, cointegration between the common factors of the underlying variables, i.e. crossmember cointegration, indicates that the long-run relationship is mainly driven by international stochastic trends. Furthermore, it is found that the impact of income and the exchange rate on money demand is positive, while it is negative for the interest rate and stock prices. The estimated (semi-)elasticities of money are larger for the common components than for the original variables, except the income elasticity. Finally, the results of a panel-based error-correction model suggest that money demand converges to an international cross-member equilibrium relation of the common components.

3 DYNAMIC CONSUMPTION MODELS FOR GERMAN STATES: THE ROLE OF EXCESS SENSITIVITY TO INCOME AND REGIONAL HETEROGENEITY IN ADJUSTMENT

Timo Mitze

This paper analyzes the sensitivity of regional consumption patterns to current income shocks for different samples of German state level data between 1970 and 2007. We estimate dynamic consumption models derived from neoclassical consumption theory, where our estimation approach rests on both short-run as well as combined short- and long-run consumption models. In particular, using a habit formation augmented model for the Permanent Income Hypothesis the paper tests the significance and size of "excess sensitivity" in consumption due to predictable income shocks. The latter may reflect myopic behavior, liquidity constraints or loss aversion. Generally, our results do not support the hypothesis of strong excess income sensitivity. This may hint at the (limited) effectiveness of policy measures for short-term demand stabilization. Additionally, by testing for slope homogeneity in the dynamic consumption models, we are able to identify regional asymmetries in the adjustment path to long-run equilibrium. Finally, given the regional nature of our data, we also account for the likely role of spatial interrelations among the variables.

SESSION 7: TRADE & FIRM ORGANIZATION
TUESDAY: 13:15 - 14:45

1 THE GLOBAL DIMENSION OF THE GLOBAL DISINFLATION

Gregor Schwerhoff, Mouhamadou Sy

The dramatic decline in inflation across the world over the last 20 years has been largely credited to improved monetary policy. The universal nature of the phenomenon and its simultaneity with globalization however indicate that there might also be a "real" side to it. We build a model based on Melitz (2003) in which falling transport cost lead to greater openness, higher productivity and lower inflation. Following a decline in transport cost openness increases and firm selection eliminates the least productive domestic firms. The consequent increase in average productivity leads to falling relative prices for goods. A cash-in-advance constraint allows to analyse how falling relative prices can lead to lower inflation. Using a dataset of macroeconomic variables for 108 countries from all world regions we are able to show that openness-induced productivity growth leads to a significant decline in inflation world wide.

2 GLOBAL SOURCING OF COMPLEX PRODUCTION PROCESSES

Christian Schwarz, Jens Südekum

We develop a theory of a firm in an environment with incomplete contracts. The firm's headquarter decides on the complexity, the organization, and the global scale of its production process. Specifically, it decides: i) on the mass of symmetric intermediate inputs that are part of the value chain, ii) if the supplier of each component is an external contractor or an integrated affiliate, and iii) if the supplier is offshored to a foreign low-wage country. Afterwards we consider a related scenario where the headquarter contracts with a given number of two asymmetric suppliers. Our model is consistent with several stylized facts from the recent literature that existing theories of multinational firms cannot account for.

3 MODE OF INTERNATIONAL INVESTMENT AND ENDOGENOUS RISK OF EXPROPRIATION

Ramin Dadasov, Oliver Lorz

In this paper, we develop a politico-economic model to analyze the relationship between the mode of international investment and institutional quality of the host country. Foreign investors from the North can either purchase productive assets in the South and transfer their capital within an integrated multinational firm or they can form joint ventures with local asset owners. The South is ruled by an autocratic elite that uses its political power to implement expropriatory policies. In an integrated firm, the risk of expropriation targets the foreign investor, whereas in a joint venture the domestic agent bears the risk. This effect lowers the incentives for specific investments in an integrated firm and it distorts the decision between a joint venture and integrated production. In this setting, we determine the equilibrium institutional quality of the host county, i.e. the risk of expropriation and the resulting pattern of international production. We also analyze how globalization, which is reflected in a decline in investment costs, influences institutional quality.

SESSION 8: HEALTH & PENSION
TUESDAY: 13:15 - 14:45

1 EQUITY AND EQUALITY OF HEALTH CARE ACROSS EUROPE

Marc-André Nehrkorn-Ludwig, Reinhold Schnabel

The literature on equity and equality in health care utilization focuses on institutional characteristics and the distribution of socioeconomic variables in order to explain horizontal inequity. Huber (2008) proposed a micro-simulation based decomposition approach, which allows decomposing horizontal inequity indices into contributions of the distributions socioeconomic variables and the contributions of heterogeneity in behaviors. It thereby emphasizes the relevance of individual preferences. We apply this approach to twelve European countries. The data is taken from the second wave (2006) of the Survey of Health, Aging and Retirement in Europe (SHARE) that offers comprehensive data on health and socioeconomic determinants of health for the elderly. We find that need is concentrated towards the poor. After controlling for morbidity, the worse-off in a society tend to seek more general practitioner care than the better-off for a given need. In contrast, specialist care is basically concentrated towards the rich. Our findings suggest that heterogeneity of preferences considerably contributes to inequity. Additionally, the distribution of variables might contribute in favor of the poor, whereas the contribution of preferences might be pro rich, or vice versa. Moreover, we find large opposing influences of demand- and supply-side preferences. The results indicate that neither institutional characteristics nor the distribution of socioeconomic variables can solely explain inequity.

2 PENSION FUNDING AND HUMAN CAPITAL

Fabian Kindermann

In this paper we analyze the consequences of pension funding in a general equilibrium model of both formal schooling decisions and on-the-job human capital formation à la Heckman, Lochner and Taber (1998). Our focus lies on the distortive and redistributive effects of a Bismarckian pension system as well as the macroeconomic and welfare consequences of its abolition. We find that a Bismackian PAYG style pension system like the German one strongly enhances on-the-job human capital formation and redistributes from the lower to the higher skilled, a result that, to the best of our knowledge, is new to the literature. Our reform simulations indicate that in a small open economy setting pension funding reduces the amount of human capital formed via on-the-job training by about 50 percent on average. In a closed economy setup however, the annual interest rate decreases by 2.6 percentage points which in turn boosts human capital accumulation. In the long run, we report a strong welfare gain of about 6.5 percent of initial resources. However, this gain comes along with short run losses up to nearly 5 percent for the middle aged generations, who still have to pay contributions in order to finance existing pension claims.

3 SOCIAL ENVIRONMENT AND ADHD - IS THERE A CAUSAL LINK?

Kai Eberhard Kruk

Attention Deficit Hyperactivity Disorder has become the most common mental disorder among children. Previous research suggests that the presence of ADHD symptoms can best be explained by either a genetic disposition or exposure to toxic substances in early age. While the role of the social environment is well acknowledged for disorders such as depression or antisocial behavior, any such effect on ADHD symptomatology has been doubted. This article tests whether the social environment has an effect on ADHD symptoms. We investigate the consequences of changes in the household composition. In particular, we study the effect of father's moving out of the household and the birth of a sibling. Using a long and very informative panel data set of American children we show that changes in the family environment significantly put children at risk to develop ADHD symptoms just like they are associated with other mental disorders. Since we control for unobserved time invariant characteristics this effect can neither be solely due to genetic disposition nor to prenatal exposure to environmental toxins.

SESSION 9: TAXATION
TUESDAY: 13:15 - 14:45

1 OPTIMAL NONLINEAR REDISTRIBUTIVE TAXATION WITH MINIMUM HOURS OF WORK

Normann Lorenz, Dominik Sachs

We characterize the solution to the optimal nonlinear income taxation problem if individuals face a minimum hours constraint when choosing their labor supply; this minimum hours constraint gives rise to labor supply responses along the extensive margin. We derive a formula for the optimal marginal tax rate and the participation tax at every income level and provide conditions under which marginal tax rates are positive everywhere. Further we discuss whether labor supply of low incomes should be upwards distorted at either the extensive or the intensive margin and thereby contribute to the Earned Income Tax Credit vs. Negative Income Tax debate.

2 COOPERATION IN TAX COMPETITIONIN A REPEATED GAME SETTING

Sonja Brangewitz, Sarah Brockhoff

We study a basic model of tax competition where regions are allowed to cooperate by forming coalitions. We allow every possible coalition structure to form. First, we derive the optimal tax rates and tax revenues for a given coalition structure. Second, we compare the tax rates and the tax revenues between different coalition structures. Furthermore, we analyze the sustainability of cooperative behavior for particular coalition structures in a repeated game setting. We illustrate our results by numerical examples.

3 TAXING HUMAN CAPITAL: A GOOD IDEA

Christoph Braun

This paper studies a Ramsey optimal taxation model with human capital in an infinite-horizon setting. Contrary to Jones, Manuelli, and Rossi (1997), the human capital production function does not include the current stock of human capital as a production factor. As a result, the return to human capital, namely labor income, does not vanish in equilibrium. In a stationary state, the household underinvests in human capital relative to the first best, i.e., education is distorted. Human capital is effectively taxed. The optimal tax scheme prescribes making the cost of education not fully tax-deductible.

SESSION 10: OLIGOPOLY
WEDNESDAY: 09:00 - 10:30

1 MERCHANT FEE DETERMINATION IN UNITARY NETWORKS WITH PRICE COMPETITION AMONG MERCHANTS

Markus Langtet, Jens Uhlenbrock

This paper looks at the determination of the merchant usage fee of a monopolistic unitary payment card network based on characteristics of the downstream market. Merchants engage in Bertrand price competition. We find that the payment card network extracts a part of the economic rent that merchants obtain. The higher this rent, the higher the corresponding merchant usage fee. This fee is increasing in the downstream market size and the other-price sensitivity of consumer demand but decreasing in the own-price elasticity of consumers as well as, interestingly, in the fraction of consumers preferring card payments.

2 HABIT FORMATION AND PRODUCT DIFFERENTIATION

Amal Hili

The paper proposes a model to account for the effect of consumed quality on consumers' preferences over time. A vertical differentiation model is considered in a two-period setting, where the perception of quality at the second period depends on the quality consumed at the first one. We prove that a Nash equilibrium may not exist. We identify necessary and sufficient condition for its existence and characterize completely the firm's strategies at equilibrium.

3 LOBBYING AND CAPITAL REGULATION

Florian Buck, Sebastian Watzka

This paper analyzes the competitive effects of capital regulation on the contest for political favors. The immediate effect of increasing capital requirements is a reduction in the total supply of risky loans and accordingly a decrease of refinancing costs in the banking sector. Thereby the regulator indirectly affects the stakes of the competitors and their equilibrium expected profits. Since short-term recapitalization is costly, capital requirements temporarily constrain the bank's lending activities. With this capacity constraint, we show that defining a new capital ratio has rent shifting effects within the banking sector. An increase of capital requirements decreases the low capitalized bank's margins inducing them to shift their portfolio choice, while high capitalized banks benefit from lower refinancing costs. Thus, in contrast to the literature of the impact of capital regulation, this analysis suggests that some banks may benefit from the introduction of binding capital constraint due to regulatory requirements. This demand for regulation by some banks provides the ground for a political contest for capital regulation. Our preliminary results demonstrate the importance of the organisation structure of the banking market for the political equilibrium.

SESSION 11: HAPPINESS
WEDNESDAY: 09:00 - 10:30

1 DEAD MAN WALKING: THE IMPACT OF OVER-EDUCATION ON LIFE SATISFACTION

Jan Kleibrink, John P. Haisken-De New

As numerous studies show negative effects of unemployment, workers threatened by the possible danger of losing their jobs might be willing to accept worse ones. One measure for this is educational match. Empirically, it can be shown that an educational mismatch has negative consequences on wage and job satisfaction. In an empirical analysis, the effects of downchanges, job changes from an educational match the state of over-education, and their influence on life satisfaction is tested. This seeks to show if there is an effect to be found which can be considered as "hidden unemployment", showing people not being out of work but suffering a loss in life satisfaction caused by taking bad jobs just to stay in employment.

2 CONTINUOUS TRAINING, JOB SATISFACTION AND GENDER - AN EMPIRICAL ANALYSIS USING GERMAN PANEL DATA

Claudia Burgard, Katja Görlitz

Using data from the German Socio-Economic Panel (GSOEP), this paper analyzes the relationship between training and job satisfaction focusing in particular on gender differences. While controlling for a variety of socio-demographic, job and firm characteristics, we find differences between males and females in the correlation of training with job satisfaction. This correlation becomes even more pronounced when applying individual fixed effects. While it is significantly positive for males, the estimate is insignificant for females. To gain insights into the reasons for this difference, we further analyze training characteristics by gender. Course duration, financing and career-orientation only seem to matter for the job satisfaction of men but not for women

3 BEYOND GDP AND BACK: WHAT IS THE VALUE-ADDED BY ADDITIONAL COMPONENTS OF WELFARE MEASUREMENT?

Sonja Kassenböhmer, Christoph M. Schmidt

The modern welfare economics literature acknowledges that GDP alone is an inadequate measure of individual well being and suggests a variety of ways to go "Beyond GDP". Recently, building on the highly polarized Stiglitz report, a growing literature requests statistical offices and applied researchers to explore other determinants apart from material well-being, such as job security, crime, health, environmental factors and subjective perceptions. Yet, while it is a conceptionally convincing idea that such indicators might convey important additional information, it is far from clear that researchers will indeed be able to exploit this theoretical potential in this practiced work. Not only is the work with real-world data fraught with all sorts of limitations and measurement errors, it very much seems that the further we want to go beyond GDP, the more serious these problems become. In the extreme, the additional information might be so highly correlated with GDP that it is impossible to justify cost and effect spent. To explore this issue, we analyze data on the macro and micro level from the German Federal Statistical Office combined with German SOEP data (1991-2008) on the personal work situation and subjective feelings concerning several aspects of life. We use factor analysis to show that all available variables suggested by the "Beyond GDP" movement can be reduced to three main underlying background variables explaining 77% of the variation. GDP is highly correlated with the first factor which is the most important one (ρ = 0.95), unemployment with the second (ρ = 0.93) and health satisfaction with the third (ρ = 0.97). As the latter two factors are only weakly correlated with GDP, subjective measures obviously manage augment the informational content of the well-weathered hard general measures of welfare, GDP and unemployment refer, although their contribution is rather limited.

SESSION 12: BUSINESS CYCLES
WEDNESDAY: 09:00 - 10:30

1 THE RELEVANCE OF COMMODITY AND INVESTMENT PRICES FOR THE BUSINESS CYCLE: A SVAR APPROACH

Matthias Gubler, Matthias Hertweck

This paper identifies four structural shocks to investigate the driving forces of the US business cycle. We filter all series prior to estimation. This procedure allows us to control for low-frequency movements in the data and to maintain spectral coherence. Our main result is that investment-specific technology shocks and commodity price shocks are key in explaining the variation of output, inflation, and total hours at the business cycle frequencies. Neutral technology shocks and monetary policy shocks seem less important over the business cycle. The impulse response dynamics provide support for medium-scaled DGSE models, but not for strong price rigidities.

2 EXAMINING NEWS SHOCKS IN SVARS

Patrick Bunk

Recent studies proposed news about future technology growth as the main driver of macroeconomic fluctuations. I employ a variety of cointegrated SVARs to examine the relative importance of these news shocks. I find that news shocks identified through stock prices exhibit the same dynamics as patent or real interest rate shocks. The main finding is that news shocks are unlikely to be a statistical artifact but rather reflect a technological change in productivity that demands time, economic activity and natural resources. Neither surprise TFP shocks, commodity shocks nor monetary policy seem to be causal for the vast amount of economic fluctuations.

3 CONSUMER PERCEPTIONS, UNCERTAIN FUNDAMENTALS AND THE BUSINESS CYCLE

Patrick Hürtgen

This paper explores a new Keynesian model where agents receive imperfect information about the fundamentals of the economy. Specifically, agents cannot distinguish between the temporary and permanent component of aggregate productivity. In addition, they observe a noisy signal about the permanent component which gives rise to noise shocks. While Blanchard et al. (2009) show that noise shocks are an important driver of short-run consumption volatility if prices are fully fixed, the effect becomes negligible if the degree of price stickiness drops below 0.9. The main contributions of this paper are twofold: First, I extend the standard new Keynesian model by nominal sticky wages and find that noise shocks explain between 20 - 40 per cent of consumption fluctuations for reasonable degrees of nominal rigidities. Second, I estimate the model with Bayesian methods on quarterly U.S. data from 1970 to 2009 and find that 20 per cent of consumption fluctuations on impact are due to expectational errors by consumers.

SESSION 13: INTERNATIONAL TRADE
WEDNESDAY: 11:00 - 12:30

1 INTERNATIONAL SUPPLY CHAINS AND TRADE ELASTICITY IN TIMES OF GLOBAL CRISIS

Hubert Escaith, Nannette Lindenberg, Sébastien Miroudot

We investigate the role of international supply chains in explaining the long-run trade elasticity and its short-term volatility in the context of the recent trade collapse. We adopt an empirical strategy based on two steps: first, stylized facts on long- and short-term trade elasticity are derived from exploratory analysis and formal modeling on a large and diversified sample of countries. Then, we derive observations of interrelated input-output matrices for a demonstrative sub-set of countries. We do find evidence for two supply-chain related factors to explain the overshooting of trade elasticity during the 2008-09 trade collapse: the composition and the bullwhip effect. However, evidence for a magnification effect could not be found. Overall, we do not accept the hypothesis that international supply chains explain all by themselves the changes in trade-income elasticity.

2 THE IMPACT OF AID FOR TRADE FACILITATION ON THE COSTS OF TRADING

Matthias Busse, Ruth Hoekstra, Jens Königer

There have been ongoing discussions within the WTO Doha Round on Trade Facilitation and the wider Aid for Trade agenda to assist developing countries in reducing behind-the-border restrictions and to help them benefit from trade reform. Our paper contributes to this debate by analyzing the impact of foreign aid spent on Aid for Trade and Trade Facilitation on the costs of trading. In our empirical investigation, we conduct a panel data estimation for a sample of 99 developing countries for the period 2004-2009. Overall, we find that our aid measures have a negative effect on the costs of trading.

3 DEMOGRAPHIC STRUCTURE AND THE SECURITY OF PROPERTY RIGHTS IN DEVELOPING COUNTRIES: AN EMPIRICAL EXPLORATION

Philipp Harms, Philipp an de Meulen

It is often argued that countries with a high population share of children and young workers should attract large capital inflows from aging industrialized economies. However, many of these countries deter foreign investors by a high risk of creeping or outright expropriation. In this paper we explore whether the correlation between countries' demographic structure and the perceived security of property rights reflects a causal relationship. We show that, once we control for other potential determinants of expropriation risk, the ratio of young to old workers has a positive effect on the perceived security of property rights in low-income countries. This effect is the stronger the more democratic the political system.

SESSION 14: LABOUR II
WEDNESDAY: 11:00 - 12:30

1 THE PROTESTANT ETHIC AND WORK: MICRO EVIDENCE FROM CONTEMPORARY GERMANY

Jörg Spenkuch

Few theories in the social sciences have gained more widespread acceptance than Max Weber's "The Protestant Ethic and the Spirit of Capitalism"—despite a lack of conclusive empirical evidence. At the core of Weber's theory lies a connection between Protestantism and attitudes toward work. Using micro-data from contemporary Germany, this paper investigates the impact of Protestantism on economic outcomes and whether any such connection still exists. To break the endogeneity in religious affiliation the paper exploits the fact that the geographic distribution of Catholics and Protestants is an artifact of a provision in the Peace of Augsburg in 1555. Reduced form and instrumental variable estimates indicate that, even today, Protestantism leads to higher earnings through increased hours of work, and substantially more self-employment. Institutional factors, or differences in human capital acquisition cannot account for this effect. Instead, the data point to an explanation based on individual values akin to a Protestant Ethic.

2 IS PART-TIME EMPLOYMENT BENEFICIAL FOR FIRM PRODUCTIVITY

Annemarie Nelen, Andries De Grip, Didier Fouarge

This paper analyzes whether part-time employment is beneficial for firm productivity in the service sector. Using a unique dataset on the Dutch pharmacy sector including work hours of all employees and an unambiguous physical measure of firm productivity, we estimate a production function including heterogeneous employment shares based on work hours. We find that a larger part-time employment share leads to greater firm productivity. Additional data on the timing of labor demand, show that part-time employment enables firms to allocate labor more efficiently. First, firms with part-time workers can bridge the gap between operating hours and a full-time work week. Second, we find that part-time workers are allocated differently than full-timers. Among others, we find that part-time workers enable their full-time colleagues to take lunch breaks without temporarily closing the firm.

3 TRANSITIONAL CHANGES IN THE OCCUPATIONAL STRUCTURE AND THEIR IMPACT ON INDIVIDUAL WAGES

Alexandra Fedorets

This paper estimates wage losses of East Germans due to occupational changes that were necessary for the overall adjustment of the occupational structure after reunification of 1990. The occupation of the apprenticeship completed in the GDR is employed to instrument endogenous occupational changes. The IV computation reveals a negative wage effect of more than 20% associated with an occupational change due to the relocation of individual human capital. The estimated time to compensate for these losses is at least 11 years.

SESSION 15: SEARCH & MATCHING
WEDNESDAY: 11:00 - 12:30

1 TEMPORARY LAYOFFS WITH INCOMPLETE WORKER ATTACHMENT IN SEARCH EQUILIBRIUM

Anna Zaharieva

This paper revisits the no-attachment assumption in job search models with random productivity fluctuations and Nash-bargaining. Both workers and firms value the option to remain in attachment: firms profit from a reduced hiring cost, while workers gain from a higher reservation wage when bargaining with a new employer. Ex-post differentiation of workers into attached and unattached unemployed produces endogenous binary wage dispersion. The decentralized equilibrium with a Hosios value of the bargaining power is no longer constrained efficient: when changing attachment workers impose a negative externality on their former employer originating from a loss of the recall option. This inefficiency tends to produce excessive job creation. The paper also investigates returns to job mobility in Germany and shows that being recalled to the previous employer as opposed to the new job is associated with about 8% lower probability of wage improvement.

2 LABOR MARKET DYNAMICS WITH SEARCH FRICTION AND FAIR WAGE CONSIDERATIONS

Pei Kuang, Tong Wang

We modify the Diamond-Mortensen-Pissarides search and matching model (DMP model) by incorporating fair wage consideration to study the cyclical behavior of equilibrium unemployment and vacancies. In addition to vacancy posting and employment level, employers also set wage taking workers' effort into consideration instead of Nash wage bargaining. Employing the effort function of Danthine and Kurmann (2004) in which worker's effort depends on individual wage, aggregate real wage, aggregate employment and aggregate past wage, we find that effort plays an important role in labor market dynamics. The volatility of labor market tightness depends critically on the sensitivity of effort to individual wage. Moreover, the inclusion of past wage in the wage norm gives rise to backward looking view of wage determination and endogenous wage rigidity. We show the model could generate plausible statistical moments of aggregate wage, labor market flows as well as unemployment.

3 RECIPROCITY AND MATCHING FRICTIONS

Dennis Wesselbaum

The ability of search and matching models to replicate stylized facts - such as volatilities and correlations - have been a center of attraction over the last couple of years. This paper introduces the Akerlof (1982) fair wage approach into an endogenous separation search and matching model. Within a RBC general equilibrium context, we show that the efficiency wage model outperformes its benchmark Nash bargaining pendant. In particular, the model generates the empirically observed volatilities in response to a productivity shock. Furthermore, the model replicates a strong Beveridge curve and the negative correlation between job creation and destruction rate. The efficiency wage consideration adds an additional margin to the firms decision problem. As effort varies over the cycle, this has implications for the dynamics of unemployment and vacancies, as effort affects the marginal product of labor.

SESSION 16: INTERNATIONALIZATION OF FIRMS
WEDNESDAY: 14:00 - 15:30

1 DELAYERING AND FIRM PERFORMANCE: EMPIRICAL EVIDENCE FROM SWISS FIRM-LEVEL DATA

Dieter Kuhn

The past decades witnessed a broad trend towards flatter organizations with less hierarchical layers. A reduction of the number of management levels in a corporation can have both positive and negative effects on firm performance with the net effect being theoretically unclear ex ante. The present study uses a nationally representative data set of firms in Switzerland and empirically examines the direct performance effects of delayering. Applying ordinary least squares regressions and propensity score matching, this study finds that delayering significantly increases subsequent firm performance. It can be concluded that flatter hierarchical structures seem to enable firms to better realize their competitive advantage in today's fast moving and knowledge-intensive market environment.

2 ACQUIRED VERSUS NON-ACQUIRED SUBSIDIARIES - WHICH ENTRY MODE DO PARENT FIRMS PREFER?

Esther Kalkbrenner

Despite the economic importance of international foreign direct investment (FDI) flows, it seems that investment decisions of multinational firms are not well understood. A multinational firm can either establish a subsidiary in a foreign country through greenfield investment or through acquiring an existing firm in the target country. The subsidiary can either be wholly owned or jointly owned. How do those firms organize their international production? Which investment mode serves best domestic/foreign markets? The goal of this paper is to shed some light on the determinants of foreign market entry modes. In particular to analyze the systematic variation in the mode choice of FDI, namely acquisition versus non-acquisition (greenfield) investments. We propose a transparent and general applicable method of data base construction. This database includes information about parent firms and their subsidiaries (majority owned affiliates) in foreign countries. A particular feature is the construction of a variable which indicates how the subsidiaries were established, either by acquisition or not. This variable allows to potentially differentiate the establishment mode of parent firms into foreign markets. For this purpose two databases from the Bureau van Dijk are interlinked: Osiris and Zephyr. We provide evidence that firm heterogeneity is important for U.S. multinational firms in determining their entry mode choice. However, this is not a distinguishing feature for European multinational firms. For both sets of parents the host country characteristics play an important role in deciding on the entry mode. Higher institutional quality increases the likelihood of acquisitions versus greenfield investments.

3 FLIP SIDE OF THE POLLUTION HAVEN: DO EXPORT DESTINATIONS MATTER?

Svetlana Batrakova

This paper looks at a reverse side of the pollution haven argument by answering a question on whether environmental regulations of the destination, rather than source countries play a role. The study utilises a firm-level dataset with aggregate export destinations of Europe and rest of the world (ROW) to establish whether a firm adjusts its energy use in response to a decision to start exporting to a more (Europe) or a less (ROW) regulated destination. Although on average, no energy adjustments are found for these destinations, focusing on the most polluting industries or the most energy-intensive firms reveals that firms' decision to start exporting to Europe brings about significant energy improvements, unlike a decision to start exporting to the ROW. Further estimations suggest that no adjustments found for firms exporting to the ROW are consistent with exporting to non-OECD region.

SESSION 17: HEALTH
WEDNESDAY: 14:00 - 15:30

1 QUALITY DIFFERENTIATION OF STATE-OWNED HEALTH INSURANCE COMPANIES

Alexander Ellert, Oliver Urmann

Using a vertical differentiation model, we investigate the product quality strategies of two competing state-owned health insurance companies in the market for additional health care. The firms are maximizing their output, are facing variable costs of quality improvement and choose their prices under the constraint of nonnegative profits. We show that in equilibrium there is no differentiation in quality if the market coverage is either increasing or decreasing and concave in quality. Otherwise the existence of an equilibrium depends on the structure of the game. If the firms choose their qualities simultaneously there is no equilibrium, while there is an equilibrium with a first mover advantage and quality differentiation in the sequential quality competition.

2 THE VALUE OF MEDICAL DIAGNOSIS: WHY PEOPLE REJECT MEDICAL INFORMATION

Markus Fels

This paper uses a model of reference-dependent preferences proposed by Koszegi and Rabin (2009) to derive the value of medical information when a decision-maker is loss averse over changes in beliefs. This allows to model the anticipation of potential disappointment upon receiving bad news about one's health status. The information's value in terms of improved subsequent decision-making with regard to a treatment decision is then amended by the anticipated emotional impact of information. It is shown that this emotional impact changes when information is instrumental, i.e. is affecting the decision about a subsequent action. The questions whether information is desirable from a decision-making or from an emotional point of view can thus not be separated. The model is applied to a patient's choice problem to undergo medical screening. The availability of effective cure and the timing of testing are found to be significant determinants of test uptake. This is in line with empirical research concerning patients' motives to decline testing.

3 COMPETITION IN THE MARKET FOR ADDITIONAL HEALTH INSURANCE

Alexander Ellert, Oliver Urmann

Using a vertical differentiation model, we investigate duopolistic competition in the market for additional health insurance. The firms are either nonprofit sickness funds or private health insurance companies, facing variable costs of quality improvement in a business that has to be self-financing. We examine market equilibria and show that in the mixed competition the firms differentiate and the private health insurance company is the high quality provider. It is shown that the market for additional health insurance should be privately organized. This remains valid if the firms can collude.

SESSION 18: EMPIRICAL FINANCE
WEDNESDAY: 14:00 - 15:30

1 CARRY TRADE ACTIVITIES: A MULTIVARIATE THRESHOLD MODEL ANALYSIS

Matthias Gubler

In this empirical study we analyze the relationship between carry trade positions and some key financial as well as macroeconomic variables using a multivariate threshold model. It is often stated that the Swiss Franc serves as a funding currency. Therefore, we focus on carry trades based on the currency pairs US Dollar/Swiss franc and Euro/Swiss franc. Generalized impulse responses differ in magnitude and significance between periods with a large and small interest-rate differential. Furthermore, in periods with a small interest-rate differential, carry trade activities "Granger cause" the nominal exchange rate. The Granger causality test results further indicate feedback trading. Overall, carry trade positions are driven to a large extend by the expected risk on financial markets and the nominal exchange rate. Liquidity constraints can be important too, whereas the carry itself plays only a minor role.

2 BOARD ACCOUNTABILITY AND RISK TAKING IN BANKING: EVIDENCE FROM A QUASI-EXPERIMENT

Tobias Körner

I evaluate a law reform that aimed at improving corporate governance of German savings banks by tightening accountability and legal liability of outside directors. The causal effect of the law reform on bank risk is identified by difference-in-differences and triple differences strategies. The estimation results show that savings banks subject to the reform have increased capital ratios and hold more liquid assets relative to total assets and short-term funding. Hence, they have become less vulnerable to unexpected losses and liquidity shocks. This indicates that the low occurrence of outside director litigation is not only due to a director-friendly environment but also due to incentive effects of current liability regimes.

3 INVESTMENT, CASH FLOW VOLATILITY AND FINANCIAL CONSTRAINTS

Bruno Merlevede, Klaas Mulier, Koen Schoors

The interpretation of investment-cash flow sensitivities as a measure of financial constraints is hotly debated because high investment-cash flow sensitivities reflect mixed demand and supply (the firm's demand for external finance is constrained) effects. We use implicit interest rates on external finance as an additional variable to better identify financial constraints. We apply this methodology to a sample of nearly 8 million firm-year observations of mainly unquoted firms for 11 European countries over the period 1994-2008. In line with asymmetric information theories, the elevated investment-cash flow sensitivities of young and small firms are found to reflect financial constraints. The high investment-cash flow sensitivities of well internally funded firms and firms with high coverage ratios are found not to reflect financial constraints. Investment-cash flow sensitivities also rise with cash flow volatilities. But firms with higher cash flow volatilities are better endowed with internal funds and do not pay higher interest rates. We therefore caution against the interpretation that these firms are financially constrained.

SESSION 19: POLITICAL PROCESSES
WEDNESDAY: 16:00 - 17:15

1 MULTI-STAGE PAIRWISE ELIMINATION CONTESTS WITH HETEROGENEOUS AGENTS

Rudi Stracke

This article presents a solution technique for pairwise elimination contests with heterogeneous players. Players differ in terms of their effort productivities, which are common-knowledge among participants of the contest. It is shown under which conditions a subgame perfect Nash equilibrium exists when a Tullock contest success function is used. Moreover, the equilibrium solution is derived analytically for the special case of a lottery CSF, and approximately for the remaining cases. A distinct feature of multi-stage pairwise elimination contests with heterogeneous agents is that continuation values in early stages become endogenous due to feedback effects across different branches of the game. Those feedback effects are analyzed in some detail, as well as several other properties of the equilibrium solution.

2 CAMPAIGN FINANCE REGULATIONS AND POLICY CONVERGENCE: THE ROLE OF INTEREST GROUPS AND VALENCE

Monika Turnya

We test the impact of campaign finance regulations, introduced to decrease the influence of special interest groups on parties' platforms. We find that public funding of parties leads to divergence in platforms along the main electoral axis, whereas ceilings on individual contributions cause platforms to converge. These effects are caused by the impact of differences in valence among the parties. We also find unexpected divergence related to a ban on corporate donations and the public disclosure of income statements.

SESSION 20: MIGRATION
WEDNESDAY: 16:00 - 17:15

1 KICK IT LIKE ÖZIL? SECOND GENERATION MIGRANTS' INITIAL DISADVANTAGE AND THE FAILURE OF THE EDUCATION SYSTEM

Annabelle Krause, Ulf Rinne, Simone Schüller

This paper studies the progression of second generation migrants and natives in Germany's education system. It has been shown that native-migrant gaps in labor market and schooling outcomes are surprisingly persistent over migrant generations. We shed more light on this puzzle and address the question at which stage those developments are initiated. By employing a matching approach, in which we control for family background and other observed characteristics at pre-school ages, we carefully take into account the fact that the migrant population is a selected group and hence different from the native one. Our results show that second generation migrants are both, initially disadvantaged due to their socioeconomic family background and disadvantaged by the education system. However, we also find that comparable natives—in terms of their family background—face similar difficulties. This indicates a general failure of Germany's education system to provide equal opportunities for initially disadvantaged individuals rather than a migrant-specific problem.

2 GENDER DIFFERENCES IN THE EARNINGS MOBILITY OF SECOND-GENERATION MIGRANTS IN GERMANY

Regina Flake

This study analyses the earnings mobility of second-generation migrants in Germany. We compare the mobility of migrants to the mobility of natives – differentiating between men and women. Thereby, we take the potential influence of assortative mating in the form of ethnic marriages of migrants into account. First results do not reveal significant differences neither between natives and migrants nor between men and women. While we do not find evidence that endogamous marriages influence the degree of mobility of migrants, the parental integration has a significant impact on daughters' mobility. Quantile regressions show that fathers' impact on the children's earnings varies along the earnings distribution. Finally, by means of an ordered probit estimation we do not find significant differences in the mobility within the earnings distribution. This study suggests that migrants are mostly as mobile or immobile as the native population.

3 WHO STAYS, WHO LEAVES? EXPLAINING STUDENT RETURN MIGRATION BY RELATIVE DEPRIVATION

Jens Wrona

International student migration has become an important channel to attract high-skilled workers. Many industrialized countries allow foreign students to stay after completing university education. However, despite the possibility to earn higher wages, recent OECD numbers suggest that most international students reject this offer and return home. I develop a two sector general equilibrium model to analyze the return decision of international students who are sensitive to relative deprivation. In equilibrium high-skilled/income students stay, while low-skilled students, more heavily exposed to relative deprivation, return home, where they are among top-earners and thus less affected by relative deprivation.

SESSION 21: NEW KEYNESIAN MACROECONOMICS
WEDNESDAY: 16:00 - 17:15

1 MONETARY POLICY, RISK PREMIUM AND PORTFOLIO HOLDINGS IN A SMALL OPEN ECONOMY

Jørn Halvorsen, Michal Zděnek

In both the dynamic macroeconomic theory as well as in the policy debate concerned with the desirability of a monetary union, exchange rate risk premium and nominal exchange uncertainty are perceived to distort an economy's risk sharing opportunities. For the policy debate, arguments linked to the theory of optimal currency areas are often referred to, while in dynamic macroeconomic models it is common to model the risk premium as an exogenous stochastic process. In this paper, we make the risk premium and portfolio holdings endogenous in a dynamic general equilibrium model for a small open economy and investigate the impact of monetary policy. Our results challenge the conventional view of the risk premium and nominal exchange uncertainty as factors that distort a small open economy's risk sharing opportunities.

2 THE COST CHANNEL, INDETERMINACY, AND PRICE-LEVEL VERSUS INFLATION STABILIZATION

Sebastian Schmidt

In a New Keynesian model with a cost channel of monetary transmission, discretionary inflation targeting becomes susceptible to a multiplicity of equilibria and results in a significantly larger stabilization bias than in the standard model. Both observations can be attributed to a reduction in the effectiveness of the traditional demand channel of monetary transmission. Based on this insight, we evaluate the desirability of an alternative monetary policy regime, price-level targeting. We find that the latter is almost immune to equilibrium indeterminacy and remains successful in stabilizing output and inflation. Due to the weak demand channel the ability of the central bank to manage private sector expectations takes center stage. This is accomplished by price-level targeting, through the introduction of history dependence, but not by inflation targeting.

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