

Shocks, Stocks and Socks: Smoothing Consumption Over a Temporary Income Loss

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We investigate how households in temporarily straitened circumstances due to an unemployment spell cut back on expenditures and how they spend marginal dollars of unemployment insurance (UI) benefit. Our theoretical and empirical analyses emphasise the importance of allowing for the fact that households buy durable as well as non-durable goods. The theoretical analysis shows that in the short run households can cut back significantly on total expenditures without a significant fall in welfare if they concentrate their budget reductions on durables. We then present an empirical analysis based on a Canadian survey of workers who experienced a job separation. Exploiting changes in the unemployment insurance system over our sample period we show that cuts in UI benefits lead to reductions in total expenditure with a stronger impact on clothing than on food expenditures. Our empirical strategy allows that these expenditures may be non-separable from employment status. The effects we find are particularly strong for households with no liquid assets before the spell started. These qualitative findings are in precise agreement with the theoretical predictions

Price Dispersion with Directed Search

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We present a model that generates empirically plausible price distributions in directed search equilibrium. There are many identical buyers and many identical capacity-constrained sellers who post prices. These prices can be renegotiated to some degree and the outcome depends on the number of buyers who want to purchase the good. In equilibrium all sellers post the same price, demand is randomly distributed, and there is sale price dispersion. Prices and distributions depend on market tightness and on the properties of renegotiation outcomes. In a labor market context, the model generates a strong empirical prediction. If workers can renegotiate the posted wage, then the model predicts a positively skewed and realistic-looking density function of realized wages when the mean number of job-seekers per vacancy is large.

Unemployment Insurance in Europe: Unemployment Duration and Subsequent Employment Stability

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This article provides evidence on the effect of unemployment insurance on unemployment and subsequent employment duration in Europe using individual data from the European Community Household Panel. Country-specific estimates based on a multivariate discrete-time duration model, which takes into account dynamic selection issues and the endogeneity of benefit receipt, suggest that although receiving benefits has an adverse effect in the sense of increasing unemployment duration, there is also a positive effect associated with the increased duration of subsequent employment. This beneficial effect of unemployment insurance on employment stability is pronounced in countries with relatively generous benefit systems, and for recipients who have remained unemployed for at least six months. These findings are in line with theories that suggest a matching effect of unemployment insurance.

The Organization of the Innovation Industry: Entrepreneurs, Venture Capitalists and Oligopolists

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We construct a model where incumbents can either acquire basic innovations from entrepreneurs, or wait and acquire developed innovations from entrepreneurial firms supported by venture capitalists. We show that venture-backed entrepreneurial firms have an incentive to overinvest in development vis à vis incumbents due to strategic product market effects on the sales price of a developed innovation. This will trigger preemptive acquisitions by incumbents, thus increasing the reward for entrepreneurial innovations. We also show that venture capital can emerge in equilibrium if venture capitalists have cost advantages, or if development is associated with double moral hazard problems.

Linguistic Diversity and Redistribution

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This paper investigates the effect of linguistic diversity on redistribution in a broad cross-section of countries. We use the notion of "linguistic distances" and show that the commonly used fractionalization index, which ignores linguistic distances, yields insignificant results. However, once distances between languages are accounted for, linguistic diversity has both a statistically and economically significant effect on redistribution. With an average level of redistribution of 9.5% of GDP in our data set, an increase by one standard deviation in the degree of diversity lowers redistribution by approximately one percentage point. We also demonstrate that other measures, such as polarization and peripheral heterogeneity, provide similar results when linguistic distances are incorporated.

The Private and Fiscal Returns to Schooling in the European Union

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We present estimates of the private and fiscal returns to schooling in 14 EU countries. Estimates of the private returns to post-compulsory formal education take into account the effects of schooling on wages and employment probabilities and allow for academic failure rates, the direct and opportunity costs of education and the impact of personal taxes, social security contributions and unemployment and pension benefits on lifetime earnings. Estimates of fiscal returns capture the long-term effects of a marginal increase in average educational attainment on public finances under conditions that approximate general equilibrium.

The Impact of Income Shocks on Health: Evidence from Cohort Data

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We study the effect of permanent income innovations on health for a prime-aged population. Using information on more than half a million individuals sampled over a twenty-five year period in three different cross-sectional surveys we aggregate data by date-of-birth cohort to construct a 'synthetic cohort' dataset with details of income, expenditure, socio-demographic factors, health outcomes and selected risk factors. We then exploit structural and arguably exogenous changes in cohort incomes over the eighties and nineties to uncover causal effects of permanent income shocks on health. We find that such income innovations have little effects on a wide range of health measures, but do lead to increases in mortality and risky health behaviour.

Modelling the Birth and Death of Cartels with an Application to Evaluating Competition Policy
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One of the primary challenges to measuring the impact of antitrust or competition policy on collusion is that the cartel population is unobservable; we observe only the population of discovered cartels. To address this challenge, a model of cartel creation and dissolution is developed to endogenously derive the populations of cartels and discovered cartels. With this theory, one can infer the impact of competition policy on the population of cartels by measuring its impact on the population of discovered cartels. In particular, changes in the duration of discovered cartels can be informative in assessing whether a new policy is reducing the latent rate of cartels.

Democratic Mechanisms
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We introduce democratic mechanisms as a set of rules that must obey liberal democracy's fundamental principles of equal voting and agenda rights. We show that an appropriate combination of three rules may yield efficient provision of public projects: first, flexible and double majority rules, where the size of the majority depends on the proposal, and taxed and non-taxed individuals need to support the proposal; second, flexible agenda costs, where the agenda-setter has to pay a certain amount of money if his proposal does not generate enough supporting votes; third, a ban on subsidies. We highlight that universal equal treatment with regard to taxation is undesirable. Finally, we illustrate how simple constitutions involving fixed super majority rules yield socially desirable outcomes if the agenda-setter is benevolent.