

Abstracts

Culture and Institutions: Economic Development in the Regions of Europe

Guido Tabellini, Università Bocconi

Does culture have a causal effect on economic development? The data on European regions suggest that it does. Culture is measured by indicators of individual values and beliefs, such as trust and respect for others, and confidence in individual self-determination. To isolate the exogenous variation in culture, I rely on two historical variables used as instruments: the literacy rate at the end of the XIX century, and the political institutions in place over the past several centuries. The political and social history of Europe provides a rich source of variation in these two variables at a regional level. The exogenous component of culture due to history is strongly correlated with current regional economic development, after controlling for contemporaneous education, urbanization rates around 1850 and national effects..

Workaholics and Dropouts in Organizations

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This paper reports the results of experiments designed to test the theory of the optimal composition of prizes in contests. In the aggregate the behavior of subjects is consistent with that predicted by the theory, but we find that such aggregate results mask an unexpected compositional effect on the individual level. Whereas theory predicts that subject efforts are continuous and increasing functions of ability, the actual efforts of our laboratory subjects bifurcate. Low-ability workers drop out and exert little or no effort, and high-ability workers try too hard. This bifurcation, which is masked by aggregation, can be explained by assuming loss aversion on the part of the subjects.

Education, Matching and the Allocative Value of Romance

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Societies are characterized by customs governing the allocation of non-market goods such as marital partnerships. We explore how such customs affect the educational investment decisions of young singles and the subsequent joint labor supply decisions of partnered couples. We consider two separate matching paradigms - one where partners marry for money and the other where partners marry for romantic reasons orthogonal to productivity or debt. While marrying for money generates greater investment efficiency, romantic matching, by increasing the number of educated and talented women who participate in the labour market, increases aggregate productivity.

Law Enforcement and Firm Financing: Theory and Evidence

Daniela Fabbri, University of Amsterdam

This paper investigates the economic effects on firms' policies of differences in law enforcement. We find that in judicial districts where trials are longer, bank financing is more costly and firms are smaller. However, we do not find any significant relation between law enforcement and firms' leverage ratio. We rationalize our results within a two-region dynamic general equilibrium model with asymmetric information and collateralized credit contracts. We find that a stronger enforcement of creditors' rights not only improves credit conditions (partial equilibrium effect), but also fosters individual capital accumulation (general equilibrium effect). In line with this theoretical prediction, we find a positive relation between individual savings and quality of legal enforcement.

In Search of Workers' Real Effort Reciprocity – A Field and a Laboratory Experiment

Heike Hennig-Schmid, University of Bonn, Bettina Rockenbach, University of Erfurt and Abdolkarim Sadrieh, University of Magdeburg

We present a field experiment to assess the effect of own and peer wage variations on actual work effort of employees with hourly wages. Work effort neither reacts to an increase of the own wage, nor to a positive or negative peer comparison. This result seems at odds with numerous laboratory experiments that show a clear own wage sensitivity on effort. In an additional real-effort laboratory experiment we show that explicit cost and surplus information that enables to exactly calculate

employer's surplus from the work contract is a crucial pre-requisite for a positive wage-effort relation. This demonstrates that employee's reciprocity requires a clear assessment of the surplus at stake.

Quorum and Turnout in Referenda

Helios Herrera, SIPA, Columbia University, Andrea Mattozzi, California Institute of Technology

We analyze the effect of turnout requirements in referenda in the context of a group turnout model. We show that a participation quorum requirement may reduce the turnout so severely that it generates a "quorum paradox": in equilibrium, the expected turnout exceeds the participation quorum only if this requirement is not imposed. Furthermore, a participation quorum does not necessarily imply a bias for the status quo. We also show that in order to induce a given expected turnout and avoid the quorum paradox, the quorum should be set at a level that is lower than half the target. Finally, we argue that a super majority requirement to overturn the status quo is never equivalent to a participation quorum.

Insurance Policies for Monetary Policy in the Euro Area

Keith Kuester, Federal Reserve Bank of Philadelphia and Volker Wieland, Goethe University of Frankfurt, CFS, CEPR and SCID

In this paper, we aim to design a monetary policy for the euro area that is robust to the high degree of model uncertainty at the start of monetary union and allows for learning about model probabilities. To this end, we compare and ultimately combine Bayesian and worst-case analysis using four reference models estimated with pre-EMU synthetic data. We start by computing the cost of insurance against model uncertainty, that is the relative performance of worst-case or minimax policy versus Bayesian policy. While maximum insurance comes at moderate costs, we highlight three shortcomings of this worst-case insurance policy: (i) prior beliefs that would rationalize it from a Bayesian perspective indicate that such insurance is strongly oriented towards the model with highest baseline losses; (ii) the minimax policy is not as tolerant towards small perturbations of policy parameters as the Bayesian policy; and (iii) the minimax policy offers no avenue for incorporating posterior model probabilities derived from data available since monetary union. Thus, we propose preferences for robust policy design that reflect a mixture of the Bayesian and minimax approaches. We show how the incoming EMU data may then be used to update model probabilities, and investigate the implications for policy.

How Important is Selection? Experimental vs non-Experimental Measures of Migration's Income Gains

David McKenzie, World Bank, John Gibson, University of Waikato and Steven Stillman, Motu Economic and Public Policy Research

How much do migrants stand to gain in income from moving across borders? Answering this question is complicated by non-random selection of migrants from the general population, which makes it hard to obtain an appropriate comparison group of non-migrants. New Zealand allows a quota of Tongans to immigrate each year with a random ballot used to choose amongst the excess number of applicants. A unique survey conducted by the authors allows experimental estimates of the income gains from migration to be obtained by comparing the incomes of migrants to those who applied to migrate, but whose names were not drawn in the ballot, after allowing for the effect of non-compliance among some of those whose names were drawn. We also conducted a survey of individuals who did not apply for the ballot. Comparing this non-applicant group to the migrants enables assessment of the degree to which non-experimental methods can provide an unbiased estimate of the income gains from migration. We find evidence of migrants being positively selected in terms of both observed and unobserved skills. As a result, non-experimental methods other than instrumental variables are found to overstate the gains from migration by 20%-82%, with difference-in-differences and bias-adjusted matching estimators performing best among the alternatives to instrumental variables.