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Abstracts

Consumption Insurance in Networks with Asymmetric Information: Evidence from Tanzania

Orazio Attanasio, Yale, IFS, FAIR, and NBER; Sonya Krutikova, Institue for Fiscal Studies

This paper uses a dataset from Tanzania with information on consumption, income and income shocks within and across family networks. Crucially and uniquely, it also contains data on the degree of information existing between each pair of households within family networks. We use these data to construct a novel measure of the quality of information both at the level of household pairs and at the level of the network. We also note that the individual level measures can be interpreted as measures of network centrality. We study risk sharing within these networks and explore whether the rejection of perfect risk sharing that we observe can be related to our measures of information quality. We show that households within family networks with better information are less vulnerable to idiosyncratic shocks. Furthermore, we show that more central households within networks are less vulnerable to idiosyncratic shocks. These results have important implications for the characterisation of the empirical failure of the perfect risk sharing hypothesis and point to the importance of information frictions. (JEL: D15, D52, D82)

Accounting for Mismatch Unemployment

Benedikt Herz, European Commission; Thijs van Rens, University of Warwick and Centre for Macroeconomics

We investigate unemployment due to mismatch in the United States over the past three and a half decades. We propose an accounting framework that allows us to estimate the contribution of each of the frictions that generated labor market mismatch. Barriers to job mobility account for the largest part of mismatch unemployment, with a smaller role for barriers to worker mobility. We find little contribution of wage-setting frictions to mismatch. (JEL: E24, J61, J62)

On The Benefits of Set-Asides

Philippe Jehiel, Paris School of Economics (Ecole des Ponts, Paris Tech) and University College London; Laurent Lamy, CIRED (Ecole des Ponts, Paris Tech)

Set-aside programs that consist in forbidding access to specific participants are commonly used in procurement auctions. We show that when the set of potential participants is composed of an incumbent (whose entry costs are already sunk) and of entrants who show up endogenously (in such a way that their expected rents are fixed by outside options), then it is always beneficial for revenues to exclude the incumbent in the Vickrey auction. This exclusion principle is generalized to dominant-strategy auctions that favor the incumbent in the sense that the incumbent would always get the good when valuing it most. By contrast, set-asides are not desirable if the incumbent's payoff is included in the seller's objective in the Vickrey auction, and more generally it is detrimental to exclude a bidder that is not favored. (JEL: D44, H57, L10, L40)

Family Networks and Distributive Politics

Marcel Fafchamps, Stanford University; Julien Labonne, University of Oxford

We study the distribution of public services by local politicians when political support spreads through social networks. We sketch a model showing that incumbents target goods and services to individuals who would lead to the largest aggregate loss of support if they stopped supporting the incumbent.Those individuals have high betweenness centrality. Using data on 3.6 million households from the Philippines, we show that households with high betweenness centrality receive a greater number of public services from their local government. This result is robust to the inclusion of controls for program eligibility, detailed measure of family wealth and elite status, family ties with politicians, and other measures of centrality. (JEL: D72, P16)

Geography and State Fragmentation

Shuhei Kitamura, OSIPP, Osaka University; Nils-Petter Lagerlöf, York University

Some of the richest places in the world have very high historical border presence, and are often located in particular geographic environments. In this paper we compile grid-cell level data on borders between sovereign states in Europe and surrounding areas from 1500 until today to document that state borders tend to be located in rugged and mountainous terrain, by rivers, and where it rains a lot. Moreover, two commonly used measures of economic activity—night lights and population density—are higher in cells with more borders, in particular more stable borders. This result holds also when controlling for geography. However, by the same metric, cells with more borders than neighboring cells are less developed than those neighbors. These patterns are consistent with a theory in which state competition benefits long-run development, but these benefits accrue more to the center than the periphery of states. (JEL: O43, N43, N55, N77, H56)

Learning More With Every Year: School Year Productivity and International Learning Divergence

Abhijeet Singh, Stockholm School of Economics

I use unique child-level panel data from Ethiopia, India, Peru, and Vietnam, four developing countries with widely differing levels of student achievement, to study the extent to which differences in the productivity of primary schooling can explain international differences in human capital. I document, using identical tests of quantitative skills across countries, that although some cross-sectional gaps in test scores between these countries are evident at preschool ages, these grow substantially in the first2–3 years of schooling. By the age of 8 years, differences are particularly stark between Vietnam and the other three countries. Using value-added models, and a regression-discontinuity design based on enrolment guidelines, I show that the causal effect of an extra grade of schooling on test scores is substantially higher in Vietnam by 0.25–0.4 standard deviations compared to the other countries.This differential productivity of a school year accounts for most of the cross-country achievement gap at 8 years of age. Equalizing the exposure to and the productivity of schooling closes the gap with Vietnam almost entirely for Peru and India and by 60% for Ethiopian students enrolled. (JEL:O15, I21, I25)

Creative Destruction and Uncertainty

Petr Sedláček, University of Oxford

Uncertainty rises in recessions. But does uncertainty cause downturns or vice versa? This paper argues that counter-cyclical uncertainty fluctuations are a by-product of technology growth. In a firm dynamics model with endogenous technology adoption, faster technology growth widens the dispersion of firm-level productivity shocks, a benchmark uncertainty measure. Moreover, faster technology growth spurs a creative destruction process, generates a temporary downturn, and renders uncertainty counter-cyclical. Estimates from structural vector auto regressions (VARs) on U.S. data confirm the model's predictions. On average, 1/4 of the cyclical variation in uncertainty is driven by technology shocks. This fraction rises to 2/3 around the "dot-com" bubble. (JEL: D22, E32, D80)

Economic Mobility Under Pressure

Simen Markussen, The Ragnar Frisch Centre for Economic Research; Knut Røed, The Ragnar Frisch Centre for Economic Research

Based on complete population data, with the exact same definitions of family class background and economic outcomes for a large number of birth cohorts, we examine post-war trends in intergenerational economic mobility in Norway. Standard summary statistics indicate stable or mildly declining rank mobility for sons and sharply declining mobility for daughters. The most conspicuous trend in the mobility patterns is that men and women born into the lowest parts of the parental earnings distribution have fallen behind in terms of own earnings rank, as well as a number of other quality-of-life indicators. A considerable part of this development can be explained by changes in the class distribution of educational attainment and in its rising influence on earnings rank. We argue that although the educational revolution has diminished the role of inherited ability, it has enlarged the influence of the family as provider of a social learning environment. (JEL: J62, D63, J24))

As the Wind Blows: The Effects of Long-Term Exposure to Air Pollution on Mortality

Michael L. Anderson, University of California, Berkeley

There is strong evidence that short-run fluctuations in air pollution negatively impact infant health and contemporaneous adult health, but there is less evidence on the causal link between long-term exposure to air pollution and increased adult mortality. This project estimates the impact of long-term exposure to air pollution on mortality by leveraging quasi-random variation in pollution levels generated by wind patterns near major highways. I combine geocoded data on the residence of every decedent in Los Angeles over three years, high-frequency wind data, and Census short form data.Using these data, I estimate the effect of downwind exposure to highway-generated pollutants on the age-specific mortality rate by using orientation to the nearest major highway as an instrument for pollution exposure. I find that doubling the percentage of time spent downwind of a highway increases mortality among individuals 75 or older by 3.8%–6.5%. These estimates are robust and imply significant loss of life years. (JEL: Q53, I12)

Intrahousehold Bargaining, Female Autonomy, and Labor Supply: Theory and Evidence From India

Rachel Heath, University of Washington; Xu Tan, University of Washington

Standard models of labor supply predict that unearned income decreases labor supply. We propose an alternative noncooperative household model in which a woman's unearned income improves her autonomy within the household, which raises her gains from working and can increase her labor supply. We find empirical support for this model, using women's exposure to the Hindu Succession Act in India as a source of exogenous variation in their unearned income. Exposure to the Hindu Succession Act increases a woman's labor supply by between 3.8 and 6.1 percentage points, particularly into high-paying jobs. Autonomy increased by 0.17 standard deviations, suggesting that control of income is a potential channel for these effects. Thus, policies that empower women can have an additional impact on the labor market, which can further reinforce autonomy increases.(JEL: D13, J22, O12, K11, J16)

The Political Economy of Public Debt: A Laboratory Study

Marco Battaglini, Cornell University and EIEF; Salvatore Nunnari, Bocconi University; Thomas R. Palfrey, California Institute of Technology

This paper reports the results from a laboratory experiment designed to study political distortions in the accumulation of public debt. A legislature bargains over the levels of a public good and of district specific transfers in two periods. The legislature can issue or purchase risk-free bonds in the first period and the level of public debt creates a dynamic linkage across policymaking periods. In line with the theoretical predictions, we find that public policies are inefficient and efficiency is increasing in the size of the majority requirement, with higher investment in public goods and lower debt associated with larger majority requirements. Debt is lower when the probability of a negative shock to the economy in the second period is higher indicating that even in a political equilibrium debt is used to smooth consumption and to insure against economic uncertainty. Also in line with the theoretical predictions, we find that dynamic distortions are eliminated when the first period proposer can commit to a policy for both periods. The experiment, however, highlights two phenomena that are surprising in terms of standard theory and have not been previously documented. First, balancing the budget in each period is a focal point, leading to lower distortions than predicted. Second, higher majority requirements induce significant delays in reaching an agreement. (JEL: D71, D72, C78,C92, H41, H54)

Holes in the Dike: The Global Savings Glut, U.S. House Prices, and the Long Shadow of Banking Deregulation

Mathias Hoffmann, University of Zurich; Iryna Stewen, Johannes Gutenberg University Mainz

We show how capital inflows into and financial deregulation within the United States interacted in driving the recent boom and bust in U.S. housing prices. Interstate banking deregulation during the 1980s cast a long shadow: in states that opened their banking markets to out-of-state banks earlier, house prices were more sensitive to aggregate U.S. capital inflows during 1997–2012. Capital inflows relaxed the value-at-risk constraints of geographically diversified ("integrated") U.S. banks more than those of local banks. Therefore, integrated banks absorbed a larger share of capital inflows and expanded mortgage lending more. This drove up housing prices. (JEL: G10, G21, G28, F20,F32, F40)