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Abstracts

Salience and Skewness Preferences

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Whether people seek or avoid risks on gambling, insurance, asset, or labor markets crucially depends on the skewness of the underlying probability distribution. In fact, people typically seek positively skewed risks and avoid negatively skewed risks. We show that salience theory of choice under risk can explain this preference for positive skewness, because unlikely, but outstanding payoffs attract attention. In contrast to alternative models, however, salience theory predicts that choices under risk not only depend on the absolute skewness of the available options, but also on how skewed these options appear to be relative to each other. We exploit this fact to derive novel, experimentally testable predictions that are unique to the salience model and that we find support for in two laboratory experiments. We thereby argue that skewness preferences—typically attributed to cumulative prospect theory—are more naturally accommodated by salience theory. (JEL: D81)

On Attitudes to Choice: Some Experimental Evidence on Choice Aversion

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This paper investigates experimentally how people value choice. Our experiments elicit subjects' valuations of various choice sets (or menus) that differ in size and composition. The comparison of these valuations allows us to assess subjects' preferences between sets and test a number of the theories of preferences over menus proposed in the literature. The results suggest that subjects are choice-averse: the value of a choice set is significantly and robustly lower than that of its preferred element, and adding a suboptimal option reduces the value of a set. The data also reveal that the quality of suboptimal elements has a positive effect on set preferences. Taken together, these results suggest two possible explanations. The first is that individuals fear making bad decisions in the final choice; the second is that people value choice sets heuristically as a whole, and not on the basis of their final consequences. Other explanations of choice aversion that appear in the literature are not fully consistent with the behavior we observe. (JEL: C91, D03, D63)

Do the Unemployed Pay Lower Prices? A Reassessment of the Value of Unemployment Insurance

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It is well known that transitions from employment to unemployment reduce consumption expenditure, but is this fall mainly driven by quantities or by prices? Using panel data on expenditure and quantities from the Spanish consumption survey we find that the unemployed pay prices that are, on average, 1.5% lower, and that this difference in prices accounts for roughly one sixth of the gap in consumption expenditure between the employed and the unemployed. The reduction in prices estimated with panel data is considerably lower than the existing estimates for the United

States, which rely on cross- sectional comparisons. Based on our estimates, and using economic theory, we reassess the value of providing unemployment insurance and show how the social value of providing unemployment insurance can be decomposed into a consumption-smoothing component and a component that depends on prices. (JEL: D12, J64, H11)

Job Displacement, Unemployment, and Crime: Evidence From Danish Microdata and Reforms

Patrick Bennett, Norwegian School of Economics and FAIR, Amine Ouazad, HEC Montreal

This paper estimates the individual impact of a worker's job loss on his/her criminal activity. Using a matched employer–employee longitudinal data set on unemployment, crime, and taxes for all residents in Denmark, the paper builds each worker's timeline of job separation, unemployment, and crime. The paper focuses on displaced workers: high-tenure workers who lose employment during a mass-layoff event at any point between 1990 and 1994 (inclusive). Controlling for municipality- and time-specific confounders identifies the individual impact separately from the aggregate impact of the unemployment rate on crime. Placebo tests display no evidence of trends in crime prior to worker separation. Using Denmark's introduction of the Act on an Active Labor Market at the end of 1993, we estimate the impacts of activation and of a reduction in benefit duration on crime: crime is lower during active benefits than during passive benefits and spikes at the end of benefit eligibility. We use policy-induced shifts in the kink formula relating prior earnings to unemployment benefits to estimate the separate impacts of labor income and unemployment benefits on crime: the results suggest that unemployment benefits do not significantly offset the impact of labor income losses on crime. (JEL: K42, J63, J65)

Search-based Endogenous Asset Liquidity and the Macroeconomy

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We develop a search-theory of asset liquidity which gives rise to endogenous financing constraints on investment in an otherwise standard dynamic general equilibrium model. Asset liquidity describes the ease of issuance and resaleability of private financial claims, which is the outcome of a costly search-and-matching process for such claims implemented by financial intermediaries. Limited liquidity of private claims creates a role for liquid assets, such as government bonds, to ease financing constraints. We show that endogenising liquidity is essential to generate positive co-movement between asset liquidity and asset prices. When the cost of intermediating funds to entrepreneurs rises, investment and output fall whereas the hedging value of liquid assets increases, driving up liquidity premia. In the United States, such intermediation cost shocks can account for at least 37% of the variation in output, and more than 78% of the variation in liquidity premia. (JEL: E22, E44, G11)

Endogenous Partial Insurance and Inequality

Eric Mengus, HEC Paris, Roberto Pancrazi, University of Warwick

In this paper, we propose a model of endogenous partial insurance and we investigate its implications for macroeconomic outcomes, such as wealth inequality, asset accumulation, interest rate, and consumption smoothing. To this end, we include participation costs to state-contingent asset markets into an otherwise standard Aiyagari (1994) model. We highlight the resulting nonmonotonic relationship between wealth and insurance-market participation when insurance is costly. Poor households remain uninsured, middle-class households participate in the insurance market, whereas rich households decide to self-insure by only purchasing risk-free assets. After theoretically characterizing the endogenous partial insurance equilibrium, we quantify its effect, emphasizing the roles of a participation channel and an interest rate channel. (JEL: E21, E44)

Aggregation and Labor Supply Elasticities

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We outline a formal procedure for deriving the aggregate wage-elasticity of labor supply for a large group of heterogeneous workers who operate under uncertainty. Heterogeneity relates to preferences, income, wealth, and the labor market status. If each worker faces a small, possibly nonuniform wage change, the implied aggregate wage-elasticity can be represented by a closed-form expression. This expression captures an extensive and an intensive margin. We empirically implement the procedure for a dynamic model of individual labor supply and a micro panel of men in Germany from 2000 to 2013. We find that the extensive margin is less time-varying than the intensive margin, and that its size varies with the measure of reservation wages. Self-reported reservation wages render a larger extensive margin than other proxies. The estimated aggregate Frisch wage-elasticity varies between 0.85 and 1.06, and the two margins matter equally strongly for the unbalanced sample. (JEL: C51, E10, J22)

Beliefs and Consumer Search in a Vertical Industry

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This paper studies vertical relations in a search market. As the wholesale arrangement between a manufacturer and its retailers is typically unobserved by consumers, their beliefs about who is to be blamed for a price deviation play a crucial role in determining wholesale and retail prices. The common assumption in the consumer search literature is that consumers exclusively blame an individual retailer for a price deviation. We show that in the vertical relations context, predictions based on this assumption are not robust in the sense that if consumers hold the upstream manufacturer at least partially responsible for the deviation, equilibrium predictions are qualitatively different. For robust beliefs, the vertical model can explain a variety of observations, such as retail price rigidity (or, alternatively, low cost pass-through), nonmonotonicity of retail prices in search costs, and (seemingly) collusive retail behavior. The model can be used to study a monopoly online platform that sells access to final consumers. (JEL: D40, D83, L13)

Sovereign Debt Restructurings: Delays in Renegotiations and Risk Averse Creditors

Tamon Asonuma, International Monetary Fund, Hyungseok Joo, University of Surrey

Foreign creditors' business cycles influence both the process and the outcome of sovereign debt restructurings. We compile two datasets on creditor committees and chairs and on creditor business and financial cycles at the restructurings. We find that when creditors experience high GDP growth, restructurings are delayed and settled with smaller haircuts. To rationalize these stylized facts, we develop a theoretical model of sovereign debt with multi round renegotiations between a risk averse sovereign debtor and a risk averse creditor. The quantitative analysis of the model shows that high creditor income results in both longer delays in renegotiations and smaller haircuts. Our theoretical predictions are supported by data. (JEL: F34, F41, H63)

The IT Revolution and Southern Europe's Two Lost Decades

Fabiano Schivardi, LUISS University and EIEF, Tom Schmitz, Bocconi University and IGIER

Since the middle of the 1990s, productivity growth in Southern Europe has been substantially lower than in other developed countries. We argue that this divergence was partly caused by inefficient management practices, which limited Southern Europe's gains from the IT Revolution. To quantify this effect, we build a multi-country general equilibrium model with heterogeneous firms and workers.In our model, the IT Revolution generates divergence for three reasons. First, inefficient management limits Southern firms' productivity gains from IT adoption. Second, IT increases the aggregate importance of management, making its inefficiencies more salient. Third, IT-driven wage increases in other countries stimulate Southern high-skill emigration. We calibrate our model using firm-level evidence, and show that it can account for 35% of Italy's, 47% of Spain's, and 81% of Portugal's productivity divergence with respect to Germany between 1995 and 2008. Counterfactual policy experiments show that subsidies to IT adoption or education cannot reduce this gap: only policies that directly tackle inefficient management are effective. (JEL: L23, O33)

The Decision to Move House and Aggregate Housing-Market Dynamics

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Using data on house sales and inventories, this paper shows that housing transactions are driven mainly by listings and less so by transaction speed, thus the decision to move house is key to understanding the housing market. The paper builds a model where moving house is essentially an investment in match quality, implying that moving depends on macroeconomic developments and housing-market conditions. The number of transactions has implications for welfare because each transaction reduces mismatch for homeowners. The quantitative importance of the decision to move house is shown in understanding the U.S. housing-market boom during 1995–2003. (JEL: D83, E22, R31)

Political Identity: Experimental Evidence on Anti-Americanism in Pakistan

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We identify Pakistani men's willingness to pay to preserve their anti-American identity using two experiments imposing clearly specified financial costs on anti-American expression, with minimal consequential or social considerations. In two distinct studies, one-quarter to one-third of subjects forgo payments from the U.S. government worth around one-fifth of a day's wage to avoid an identity-threatening choice: anonymously checking a box indicating gratitude toward the U.S. government. We find sensitivity to both payment size and anticipated social context: when subjects anticipate that rejection will be observable by others, rejection falls suggesting that, for some, social image can outweigh self-image. (JEL: P16, D03, C90)

Bismarck's Health Insurance and the Mortality Decline

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We study the impact of social health insurance on mortality. Using the introduction of compulsory health insurance in the German Empire in 1884 as a natural experiment, we estimate difference-in-differences and regional fixed effects models exploiting variation in eligibility for insurance across occupations. Our findings suggest that Bismarck's health insurance generated a significant mortality reduction. Despite the absence of antibiotics and most vaccines, we find the results to be largely driven by a decline of deaths from infectious diseases. Further evidence suggests that statutory access to well-trained doctors was an elementary channel. This finding may be explained by insurance fund physicians transmitting new knowledge on infectious disease prevention. (JEL: I13, I18, N33, J11)

Scientific Education and Innovation: From Technical Diplomas to University STEM Degrees

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This paper studies the effects of university STEM education on innovation and labor market outcomes by exploiting a change in enrollment requirements in Italian STEM majors. University-level scientific education had two direct effects on the development of patents by students who had acquired a STEM degree. First, the policy changed the direction of their innovation. Second, it allowed these individuals to reach top positions within firms and be more involved in the innovation process. STEM degrees, however, also changed occupational sorting. Some higher-achieving individuals used STEM degrees to enter jobs that required university-level education, but did not focus on patenting. (JEL: I21, I25, I26, I28, J24, O30)

Optimal Contracting With Endogenous Project Mission

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Empirical evidence suggests that workers care about the mission of their job, in addition to their wage. This paper studies how organizations can choose a mission to attract, incentivize, and screen their workers. We analyze a model in which a principal offers a contract to an agent for the development of a project and can influence the agent's marginal return of effort through the choice of project mission. The principal's and the agents' mission preferences are misaligned and the agents vary in the intensity of their mission drive. Our main results highlight that how far the organization chooses to move from its preferred mission depends on the contractual environment in which it operates. Missions will be more agent-preferred in environments in which effort is noncontractible. In environments in which agents' drive is unknown, missions will be less agent-preferred and the organization will find it optimal to offer contract menus that may be implemented via scoring auctions when there are competing agents. Our analysis applies to the design and allocation of aid contracts, research funding, and creative jobs. (JEL: H41, D23, D82, M52)

Knowledge As Property Rights Under the Ratchet Effect of Innovation

Teck Yong Tan, Nanyang Technological University

This paper studies how reduced oversight creates an incentive for process innovation. With incomplete contracts, tight monitoring of workers creates a ratchet effect of innovation. Under reduced oversight, a worker accrues private knowledge about his innovation, which serves as a substitute for its inalienable property rights. The resulting asymmetric information generates an information rent for the worker, which feeds back as an innovation incentive ex ante. A weak early production incentive is required to complement it. Innovations are generally underutilized ex post, and mildly successful innovations are not distinguished from failed innovation attempts. (JEL: D21, D86, O31)