Abstracts

Partisan Control, Media Bias, and Viewer Responses: Evidence from Berlusconi’s Italy
Ruben Durante, Sciences Po and Brian Knight, Brown University

This paper examines whether and how viewers respond to changes in partisan bias in media news. We use data from Italy, where the main private television network is owned by Silvio Berlusconi, the leader of the center-right coalition, and the public television corporation is largely controlled by the ruling coalition. We first document that after the 2001 national elections, when the control of the government moved from the center-left to the center-right, news content on public television shifted to the right. Using individual survey data, we find robust evidence that viewers responded to these changes by modifying their choice of favorite news programs. On the one hand, right-leaning viewers increased their propensity to watch public channels which, even after the change, remained to the left of private channels. On the other hand, left-wing viewers reacted by switching from the main public channel to another public channel that was controlled by the left during both periods. We show that this behavioral response, which tended to shift ideological exposure to the left, significantly, though only partially, offset the movement of public news content to the right.

Understanding the Evolution of the U.S. Wage Distribution: A Theoretical Analysis
Fatih Guvenen, University of Minnesota and Burhanettin Kuruscu, University of Toronto

In this paper, we propose an analytically tractable overlapping-generations model of human capital accumulation and study its implications for the evolution of the U.S. wage distribution from 1970 to 2000. The key feature of the model, and the only source of heterogeneity, is that individuals differ in their ability to accumulate human capital. Therefore, wage inequality results only from differences in human capital accumulation. We examine the response of this model to skill-biased technical change (SBTC) theoretically. We show that in response to SBTC, the model generates behavior consistent with some prominent trends observed in the U.S. data including (i) a rise in overall wage inequality both in the short run and long run, (ii) an initial fall in the education premium followed by a strong recovery, leading to a higher premium in the long run, (iii) the fact that most of this fall and rise takes place among younger workers, (iv) a rise in within-group inequality, (v) stagnation in median wage growth (and a slowdown in aggregate labor productivity), and (vi) a rise in consumption inequality that is much smaller than the rise in wage inequality. These results suggest that the heterogeneity in the ability to accumulate human capital is an important feature for understanding the effects of SBTC and interpreting the transformation of the U.S. labor markets since the 1970s.

Unemployment Insurance in Welfare States: The Impacts of Soft Duration Constraints
Knut Roed, Ragnar Frisch Centre for Economic Research and Lars Westlie, Ragnar Frisch Centre for Economic Research

Based on a major reform of Norwegian unemployment insurance (UI), we examine the behavioral impacts of soft and hard UI duration constraints. A constraint is interpreted as hard if a claimant cannot rely on any form of income support after exhaustion, and as soft if UI is replaced by follow-on benefits or participation in active labor market programs (ALMP). We find that both hard and soft constraints raise the job hazard significantly, with surprisingly similar spikes at UI exhaustion. Participation in ALMP raises the probability of eventually finding a job, but at the cost of lengthening the overall job-search period.
Norm Enforcement: Anger, Indignation or Reciprocity?
Jeffrey P. Carpenter, Middlebury College and Peter Hans Matthews, Middlebury College

The enforcement of social norms often requires that unaffected third parties sanction offenders. Given the renewed interest of economists in norms, the literature on third party punishment is surprisingly thin. In this paper, we report the results of an experiment designed to replicate the anger-based punishment of directly affected second parties and evaluate two distinct explanations for third party punishment, indignation and group reciprocity. We find evidence in favor of both, with the caveat that the incidence of indignation-driven sanctions is perhaps smaller than earlier studies have hinted. Furthermore, our results suggest that second parties use sanctions to promote conformism while third parties intervene primarily to promote efficiency.

Convergence: An Experimental Study of Teaching and Learning in Repeated Games
Kyle Hyndman, Southern Methodist University, Erkut Y. Ozbay, University of Maryland, Andrew Schotter, New York University and Center for Experimental Social Science and Wolf Ze'ev, Ehrblat, Symphony IRI Group

Nash equilibrium can be interpreted as a steady state where players hold correct beliefs about the other players' behavior and act rationally. We experimentally examine the process that leads to this steady state. Our results indicate that some players emerge as "teachers" - those subjects who, by their actions, try to influence the beliefs of their opponent and lead the way to a more favorable outcome - and that the presence of teachers appears to facilitate convergence to Nash equilibrium. In addition to our experiments, we examine games, with different properties, from other experiments and show that teaching plays an important role in these games. We also report results from treatments in which teaching is made more difficult. In these treatments, convergence rates go down and any convergence that does occur is delayed.

A Political Economy Theory of Partial Decentralization
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We revisit the classic problem of tax competition in the context of federal nations, and derive a positive theory of partial decentralization. A capital poor median voter chooses to use redistributive capital taxes to provide public goods. The expectation of high capital taxes, however, results in a small capital stock which lowers returns to redistribution. The median voter therefore wants to commit to a lower level of capital taxes. She does so by setting a partial degree of decentralization in the Constitution. The equilibrium degree of decentralization balances the positive effect of tax competition on capital taxes with the loss in redistribution that results. We show that the degree of decentralization is non-monotonic in inequality, increasing in the redistributive efficiency of public good provision, and decreasing in capital productivity. When public goods are heterogeneous in their capacity to transfer funds, all voters agree that goods with high redistributive capacity should be decentralized.

Inflation Risk Premia in the Term Structure of Interest Rates
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This paper estimates the size and dynamics of inflation risk premia in the euro area, based on a joint model of macroeconomic and term structure dynamics. Information from both nominal and index-linked yields is used in the empirical analysis. Our results indicate that the inflation risk premium on euro area 10-year nominal yields was approximately equal to 20 basis points on average over the 1999-2007 period. The inflation premium has also been subject to moderate, but statistically significant fluctuations. For the post-2003 period in which reliable index-linked bond prices are available, our results suggest that increases in the raw break-even inflation rate above 2%, the upper bound of the ECB's definition for price stability, have mostly reflected variations in the inflation risk premium, while long-term inflation expectations have remained well anchored.