Abstracts

Clash of Career and Family: Fertility Decisions after Job Displacement
Emilia Del Bono, University of Essex, Andrea Weber, University of Mannheim, and Rudolf Winter-Ebme University of Linz and IHS Vienna

In this paper we investigate how career considerations may affect fertility decisions in the presence of a temporary employment shock. We compare the birth rates of women displaced by a plant closure with those of women unaffected by job loss after establishing the pre-displacement comparability of these groups. Our results reveal that job displacement reduces average fertility by 5%-10%, and that these effects are largely explained by the response of women in more skilled occupations. We offer an explanation of our results based on career interruptions of women.

The Political Economy of Flexicurity
Tito Boeri, Universität Bocconi and Fondazione Rodolfo Debenedetti, Jose Ignacio Conde-Ruiz, Universidad Complutense de Madrid and FEDEA, and Vincenzo Galasso, Università Bocconi and Dondena

We document the presence of a trade-off in the labor market between the protection of jobs and the support offered to unemployed people. Different countries’ locations along this trade-off represent stable politico-economic equilibria. We develop a model in which individuals determine the mix of job protection and support to the unemployed in a political environment. Agents are heterogeneous along two dimensions: employment status (insiders and outsiders) and skills (low and high). Unlike previous work on the political economy of labor market institutions, we emphasize the role of job protection and unemployment benefits in the wage setting process. A key implication of the model is that flexicurity configurations with low job protection and high support to the unemployed should emerge in presence of a highly educated workforce. Panel regressions of countries’ locations along this institutional trade-off are consistent with the implications of our model.

Evolving International Inflation Dynamics: World and Country Specific Factors
Haroon Mumtaz, Bank of England and Paolo Surico, London Business School

The decline in the level and persistence of inflation over the 1980s is a common feature of the most industrialized economies in the world. The rise in inflation volatility of the late 1970s and the subsequent fall of the 1980s is country specific for the U.K., Canada and, to a lesser extent, U.S., Italy and Japan. Since the late 1980s, inflation predictability has declined significantly across the industrialized world. We link the empirical results to recent theories of international inflation.

Do Hiring Subsidies Reduce Unemployment among Older Workers? Evidence from Natural Experiments
Bernhard Boockmann, Institute for Applied Economic Research (IAW) and University of Tübingen, Thomas Zwick, Ludwig Maximilians University and ZEW, Andreas Ammermüller, Federal Ministry of Labour and Social Affairs (BMAS), and Michael Maier, University of Mannheim

We estimate the effects of hiring subsidies for older workers on transitions from unemployment to employment in Germany. Using a natural experiment, our first set of estimates is based on a legal change extending the group of eligible unemployed persons. A subsequent legal change in the opposite direction is used to validate these results. Our data cover the population of unemployed jobseekers in Germany and was specifically made available for our purposes from administrative data. Consistent support for an employment effect of hiring subsidies can only be found for women in East Germany. Concerning other population groups, firms’ hiring behavior is hardly influenced by the program and hiring subsidies mainly lead to deadweight effects.
The Lot of the Unemployed: A Time Use Perspective
Alan B. Krueger, CEA and Princeton University, and Andreas I. Mueller, Columbia University

This paper provides new evidence on the time use of employed and unemployed individuals in 14 countries. We devote particular attention to characterizing and modeling job search intensity, measured by the amount of time devoted to searching for a new job. Job search intensity varies considerably across countries, and is higher in countries that have higher wage dispersion. We also examine the relationship between unemployment benefits and job search.

Class Size and Class Heterogeneity
Giacomo De Giorgi, Stanford University, Michele Pellizzari, IGIER-Bocconi, and William Gui Woolston, Stanford University

We study how class size and class composition affect the academic and labor market performance of college students, two crucial policy questions given the secular increase in college enrollment. Our identification strategy relies on the random assignment of students to teaching classes. We find that a one standard deviation increase in class-size results in a 0.1 standard deviation deterioration of the average grade. Further, the effect is heterogeneous as it is stronger for males and lower income students. Also, the effects of class composition in terms of gender and ability appear to be inverse U-shaped. Finally, a reduction of 20 students (one standard deviation) in one's class size has a positive effect on monthly wages of about €80 ($115) or 6% over the average.

Media Mergers and Media Bias with Rational Consumers
Simon P. Anderson, University of Virginia and John McLaren, University of Virginia

We present an economic model of media bias and media mergers. Media owners have political motives as well as profit motives, and can influence public opinion by withholding information that is pejorative to their political agenda - provided that their agenda is not too far from the political mainstream. This is true even with rational consumers who understand the media owners' biases, because the public do not know how much information the news organizations have and so do not know when news is being withheld. In line with conventional wisdom, this problem can be undone by competition; but competition can be defeated in equilibrium by media mergers that enhance profits at the expense of the public interest. We thus derive a motive for media merger policy that is completely distinct from the motives behind conventional antitrust. While media bias may reduce the profit incentives to merge, media markets nonetheless err to being insufficiently competitive, and the consequences of merger are more severe than in other markets.

 Debt, Policy Uncertainty and Expectations Stabilization
Stefano Eusepi, Federal Reserve Bank of New York and Bruce Preston, Columbia University and CAMA, Australian National University

This paper develops a model of policy regime uncertainty and its consequences for stabilizing expectations. Because of learning dynamics, uncertainty about monetary and fiscal policy is shown to restrict, relative to a rational expectations analysis, the set of policies consistent with macroeconomic stability. Anchoring expectations by communicating about monetary and fiscal policy enlarges the set of policies consistent with stability. However, absent anchored fiscal expectations, the advantages from anchoring monetary expectations are smaller the larger is the average level of indebtedness. Finally, even when expectations are stabilized in the long run, the higher are average debt levels the more persistent will be the effects of disturbances out of rational expectations equilibrium.
Competition and Relational Contracts: The Role of Unemployment as a Disciplinary Device
Martin Brown, Swiss National Bank and CentER - Tilburg University, Armin Falk, University of Bonn and Ernst Fehr, University of Zurich

When workers are faced with the threat of unemployment, their relationship with a particular firm becomes valuable. As a result, a worker may comply with the terms of a relational contract that demands high effort even when performance is not enforceable by a third party. But can relational contracts motivate high effort when workers can easily find alternative jobs? We examine how competition for labor affects the emergence of relational contracts and their effectiveness in overcoming moral hazard in the labor market. We show that effective relational contracts do emerge in a market with excess demand for labor. Long-term relationships turn out to be less frequent when there is excess demand for labor than they are in a market characterized by exogenous unemployment. However, stronger competition for labor does not impair labor market efficiency: higher wages induced by competition lead to higher effort out of concerns for reciprocity.

Quality Ladders in a Ricardian Model of Trade with Nonhomothetic Preferences
Esteban Jaimovich, Collegio Carlo Alberto and Vincenzo Merella, City University London and University of Cagliari

The North-South trade literature has traditionally explored conditions under which international trade might further magnify income disparities between the advanced North and the backward South. We show that even when no single country is initially more advanced than any other one and productivity changes are uniform and identical in all countries, trade may still be a source of income divergence when nonhomothetic preferences and quality ladders are jointly taken into account. Income divergence will be experienced when comparative advantages induce patterns of specialisation that, although initially optimal for all countries, do not offer the same scope for quality upgrading of final products.