Notes for a New Guide to Keynes (I): Wages, Aggregate Demand, and Employment
Jordi Galí, CREI, Universitat Pompeu Fabra and Barcelona GSE

I revisit the General Theory's discussion of the role of wages in employment determination through the lens of the New Keynesian model. The analysis points to the key role played by the monetary policy rule in shaping the link between wages and employment, and in determining the welfare impact of enhanced wage flexibility. I show that the latter is not always welfare improving.

Economic Science and Political Influence
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When policymakers and private agents use models, the economists who design the model have an incentive to alter it in order to influence outcomes in a fashion consistent with their own preferences. I discuss some consequences of the existence of such ideological bias. In particular, I analyze the role of measurement infrastructures such as national statistical institutes, the extent to which intellectual competition between different schools of thought may lead to polarization of views over some parameters and at the same time to consensus over other parameters, and finally how the attempt to preserve influence can lead to degenerative research programs.

Why are the 2000s so Different from the 1970s? A Structural Interpretation of Changes in the Macroeconomic Effects of Oil Prices
Olivier J. Blanchard, Massachusetts Institute of Technology and IMF and Marianna Riggi, Bank of Italy

In the 1970s, large increases in the price of oil were associated with sharp decreases in output and large increases in inflation. In the 2000s, even larger increases in the price of oil were associated with much milder movements in output and inflation. Using a structural VAR approach, Blanchard and Galí (2009) argued that this reflected a change in the causal relation from the price of oil to output and inflation. They then argued that this change could be due to a combination of three factors, namely, a smaller share of oil in production and consumption, lower real wage rigidity, and better monetary policy. Their argument, based on simulations of a simple new-Keynesian model, was informal. Our purpose in this paper is to take the next step, and to estimate the explanatory power and contribution of each of these factors. To do so, we use a minimum distance estimator that minimizes, over the set of structural parameters and for each of two samples (pre- and post-1984), the distance between the empirical SVAR-based impulse response functions and those implied by a new-Keynesian model. Our empirical results point to an important role for all three factors.

Lack of Commitment and the Level of Debt
Davide Debortoli, University of California, San Diego and Ricardo Nunes, Federal Reserve Board

The tendency of countries to accumulate public debt has been rationalized in models of political disagreement and lack of commitment. We analyze in a benchmark model how the evolution of public debt is affected by lack of commitment per se. While commitment introduces indeterminacy in the level of debt, lack of commitment creates incentives for debt to converge to specific levels. One of the levels that debt often converges to implies no debt accumulation at all. In a simple example we prove analytically that debt converges to zero, and we analyze numerically more complex models. We also show in an imperfect credibility setting that a small deviation from full-commitment is enough to obtain these results.
Team Incentives: Evidence from a Firm Level Experiment
Oriana Bandiera, London School of Economics, Iwan Barankay, University of Pennsylvania and Imran Rasul, University College London

Many organizations rely on teamwork, and yet field evidence on the impacts of team-based incentives remains scarce. Compared to individual incentives, team incentives can affect productivity by changing both workers' effort and team composition. We present evidence from a field experiment designed to evaluate the impact of rank incentives and tournaments on the productivity and composition of teams. Strengthening incentives, either through rankings or tournaments, makes workers more likely to form teams with others of similar ability instead of with their friends. Introducing rank incentives however reduces average productivity by 14%, whereas introducing a tournament increases it by 24%. Both effects are heterogeneous: rank incentives only reduce the productivity of teams at the bottom of the productivity distribution, and monetary prize tournaments only increase the productivity of teams at the top. We interpret these results through a theoretical framework that makes precise when the provision of team-based incentives crowds out the productivity enhancing effect of social connections under team production.

Financial Constraints and Innovation: Why Poor Countries Don't Catch Up
Yuriy Gorodnichenko, University of California, Berkeley and Monika Schnitzer, University of Munich

This paper examines micro-level channels of how financial development can affect macroeconomic outcomes like the level of income. Specifically, we investigate theoretically and empirically how financial constraints affect a firm's innovation activities. Theoretical predictions are tested using unique firm survey data which provide direct measures for innovations and firm-specific financial constraints, as well as information on shocks to firms' internal funds that can serve as firm-level instruments for financial constraints. We find unambiguous evidence that financial constraints restrain the ability of domestically owned firms to innovate and hence to catch up to the technological frontier.

Estimating the Stock-Flow Matching Model Using Micro Data
Martyn J. Andrews, University of Manchester, Steve Bradley, Lancaster University, Dave Stott, Lancaster University and Richard Upward, University of Nottingham

We estimate the stock-flow matching model using micro-level data from a well-defined labour market. Using a dataset of complete labour-market histories for both sides of the market, we estimate hazard functions for job-seekers and vacancies. We find that the stock of new vacancies has a significant positive impact on the job-seeker hazard, over and above that of the total stock of vacancies. There is an even stronger robust result for vacancy hazards. Thus we find evidence in favour of stock-flow matching, even when controlling for unobserved search heterogeneity and stratifying into sub-markets defined by location and occupation.

Patricia Funk, Universitat Pompeu Fabra and Christina Gathmann, University of Heidelberg

Using a new data set on Swiss cantons since 1890, we analyze how the adoption of proportional representation affects fiscal policy. In line with economic theory, we show that proportional systems shift spending toward broad goods (like education and welfare benefits) but decrease spending on geographically targetable goods (like roads). We find little evidence that proportional representation increases the overall size of government. An analysis of the underlying theoretical mechanisms reveals that proportional representation increases electoral turnout, left-wing representation and political fragmentation. These changes in political representation explain a substantial share of the rise in education spending, but a small share of the rise in welfare spending or the decline in road expenditures.
Lying About What You Know or About What You Do?
Marta Serra-Garcia, University of Munich, Eric van Damme, Tilburg University and Jan Potters, Tilburg University

We compare communication about private information to communication about actions in a one-shot 2-person public good game with private information. The informed player, who knows the exact return from contributing and whose contribution is unobserved, can send a message about the return or her contribution. Theoretically, messages can elicit the uninformed player's contribution, and allow the informed player to free-ride. The exact language used is not expected to matter. Experimentally, however, we find that free-riding depends on the language: the informed player free-rides less, and thereby lies less frequently, when she talks about her contribution than when she talks about the return. Further experimental evidence indicates that it is the promise component in messages about the contribution that leads to less free-riding and less lying.