JEEA Tenth Anniversary Celebratory Issue: Introduction
Fabrizio Zilibotti

The Monopoly of Violence: Evidence from Colombia
Daron Acemoglu, MIT, James A. Robinson, Harvard University, and Rafael J. Santos, Yale University

In this paper we develop a new perspective on the establishment of the monopoly of violence, identified by Max Weber as the foundation of the state. We build a model to explain the incentive of central states to eliminate non-state armed actors (paramilitaries) in a democracy. Paramilitaries may choose to and can influence elections. Since paramilitaries have preferences over policies, this reduces the incentives of the politicians they favor to eliminate them. We then investigate these ideas using data from Colombia between 1991 and 2006. We first present regression and case study evidence supporting our postulate that paramilitary groups can have significant effects on elections. Next, we show that the evidence is also broadly consistent with the implication of the model that paramilitaries tend to persist to the extent that they deliver votes to candidates for the executive whose preferences are close to theirs and that this effect is larger in areas where the presidential candidate would have otherwise not done as well. Finally, we use roll-call votes to illustrate a possible ‘quid pro quo’ between the executive and paramilitaries in Colombia. (JEL: D1, H11)

Do Women Pay More for Credit? Evidence from Italy
Alberto F. Alesina, Harvard University and IIGIER, Francesca Lotti, Bank of Italy, and Paolo E. Mistrulli, Bank of Italy

By using a unique and large data set on loan contracts between banks and microfirms, we find robust evidence that women in Italy pay more for credit than men, although we do not find any evidence that women borrowers are riskier than men. The male/female differential remains even after controlling for a large number of characteristics of the type of business, the borrower and the structure of the credit market. The result is not driven by lack of credit history, nor by women using a different type of bank than men, since the same bank charges different rates to male and female borrowers. (JEL: G21, J16, J71)

Why Do Emerging Economies Borrow Short Term?
Fernando A. Broner, CREI and Universitat Pompeu Fabra, Guido Lorenzoni, MIT, and Sergio L. Schmukler, World Bank

We argue that one reason why emerging economies borrow short term is that it is cheaper than borrowing long term. This is especially the case during crises, as during these episodes the relative cost of long-term borrowing increases. We construct a unique database of sovereign bond prices, returns, and issuances at different maturities for 11 emerging economies from 1990 to 2009 and present a set of new stylized facts. On average, these countries pay a higher risk premium on long-term than on short-term bonds. During crises, the difference between the two risk premia increases and issuance shifts towards shorter maturities. To illustrate our argument, we present a simple model in which the maturity structure is the outcome of a risk sharing problem between an emerging economy subject to rollover crises and risk averse international investors. (JEL: E43, F32, F34, G15)
Housing Finance and Monetary Policy  
Alessandro Calza, European Central Bank, Tommaso Monacelli, Università Bocconi, and Livio Stracca, European Central Bank

We document three facts concerning how the structure of housing finance affects the monetary transmission mechanism: first, the characteristics of residential mortgage markets differ markedly across industrialized countries; second, the impact of monetary policy shocks to residential investment and house prices is significantly stronger in those countries with larger flexibility/development of mortgage markets; third, the transmission to consumption is stronger only in those countries where mortgage equity release is common and mortgage contracts are predominantly of the variable-rate type. We then build a two-sector DSGE model with financial constraints to rationalize those facts.  
(JEL: E21, E44, E52)

Maternal Education, Home Environments and the Development of Children and Adolescents  
Pedro Carneiro, University College London and Centre for Microdata Methods and Practice, Costas Meghir, Yale University and University College London, and Matthias Parey, University of Essex and Institute for Fiscal Studies

We study the intergenerational effects of maternal education on children’s cognitive achievement, behavioral problems, grade repetition and obesity, using matched data from the female participants of the National Longitudinal Survey of Youth 1979 (NLSY79) and their children. We address the endogeneity of maternal schooling by instrumenting it with variation in schooling costs during the mother’s adolescence. Our results show substantial intergenerational returns to education. Our data set allows us to study a large array of channels which may transmit the effect of maternal education to the child, including family environment and parental investments at different ages of the child. We discuss policy implications and relate our findings to the literature on intergenerational mobility. (JEL: I21, I24, J13, J24)

On the Theory of Ethnic Conflict  
Francesco Caselli, London School of Economics and Wilbur John Colleman II, Duke University

When considering engaging in conflict to secure control of a resource, a group needs to predict the amount of post-conflict leakage due to infiltration by members of losing groups. We use this insight to explain why conflict often takes place along ethnic lines, why some ethnic groups are more often in conflict than others (and some never are), and why the same groups are sometimes in conflict and sometimes at peace. In our theory ethnic markers help enforce group membership: in homogeneous societies members of the losing group can more easily pass themselves as members of the winning group, and this reduces the chances of conflict as an equilibrium outcome. We derive a number of implications of the model relating social, political, and economic indicators such as the incidence of conflict, the distance among ethnic groups, group sizes, income inequality, and appropriable resources. One of the insights is that the incidence of ethnic conflict is non-monotonic in appropriable resources as a fraction of total resources, with a low incidence for either low or high values. We use the model’s predictions to interpret historical examples of conflict associated with skin pigmentation, body size, language, and religion. (JEL: C72, D71, D72, D74, N40)
Labor-Market Heterogeneity, Aggregation, and Policy-(In)variance of DSGE Model Parameters
Yongsung Chang, University of Rochester and Yonsei University, Sun-Bin Kim, Yonsei University, and Frank Schorfheide, University of Pennsylvania

Data from a heterogeneous-agents economy with incomplete asset markets and indivisible labor supply are simulated under various fiscal policy regimes and an approximating representative-agent model is estimated. Preference and technology parameter estimates of the representative-agent model are not invariant to policy changes and the bias in the representative-agent model’s policy predictions is large compared to predictive intervals that reflect parameter uncertainty. Since it is not always feasible to account for heterogeneity explicitly, it is important to recognize the possibility that the parameters of a highly aggregated model may not be invariant with respect to policy changes. (JEL: C11, C32, E32, E62)

What Good Is Wealth Without Health? The Effect of Health on the Marginal Utility of Consumption
Amy Finkelstein, MIT, Erzo F.P. Luttmer, Darmouth College, and Matthew J. Notowidigdo, University of Chicago, Booth School of Business

We estimate how the marginal utility of consumption varies with health. To do so, we develop a simple model in which the impact of health on the marginal utility of consumption can be estimated from data on permanent income, health, and utility proxies. We estimate the model using the Health and Retirement Study’s panel data on the elderly and near-elderly, and proxy for utility with measures of subjective well-being. Across a wide range of alternative specifications and assumptions, we find that the marginal utility of consumption declines as health deteriorates, and we are able to clearly reject the null of no state dependence. Our point estimates indicate that a one-standard-deviation increase in the number of chronic diseases is associated with a 10%–25% decline in the marginal utility of consumption relative to this marginal utility when the individual has no chronic diseases. We present some simple, illustrative calibration results that suggest that state dependence of the magnitude we estimate can have a substantial effect on important economic problems such as the optimal level of health insurance benefits and the optimal level of life-cycle savings. (JEL: D12, I1)