Building Reputation for Contract Renewal: Implications for Performance Dynamics and Contract Duration
Elisabetta Iossa, University of Rome "Tor Vergata" and Patrick Rey, Toulouse School of Economics

We study how career concerns affect the dynamics of incentives in a multi-period contract, when the agent’s productivity is a stochastic function of his past productivity and investment. We show that incentives are stronger and performance is higher when the contract approaches its expiry date. Contrary to common wisdom, long-term contracts may strengthen reputational effects whereas short-term contracting may be optimal when investment has persistent, long-term effects.

Materials Prices and Productivity
Enghin Atalay, University of Chicago

There is substantial within-industry variation in the prices that plants pay for their material inputs. Using plant-level data from the U.S. Census Bureau, I explore the consequences and sources of this variation in materials prices. For a sample of industries with relatively homogeneous products, the standard deviation of plant-level productivity would be 7% smaller if all plants faced the same materials prices. Moreover, plant-level materials prices are persistent, spatially correlated, and positively associated with the probability of exit. The contribution of entry and exit to aggregate productivity growth is smaller for productivity measures that are purged of materials price variation. After documenting these patterns, I discuss three potential sources of materials price variation: geography, differences in suppliers’ marginal costs, and within-supplier markup differences. Together, these variables explain 15% of the variation of materials prices.

Ecology, Trade and States in Pre-Colonial Africa
James Fenske, University of Oxford

State capacity matters for growth. I test Bates’ explanation of pre-colonial African states. He argues that trade across ecological boundaries promoted states. I find that African societies in ecologically diverse environments had more centralized states. This is robust to reverse causation, omitted heterogeneity, and alternative interpretations of the link between diversity and states. The result survives including non-African societies. I test mechanisms connecting trade to states, and find that trade supported class stratification between rulers and ruled. I underscore the importance of ethnic institutions and inform our knowledge of the effects of trade on institutions.

Knowing the Right Person in the Right Place: Political Connections and Resistance to Change
Giorgio Bellettini, University of Bologna, Carlotta Berti Ceroni, University of Bologna, and Giovanni Prarolo, University of Bologna

In a political economy model of Schumpeterian growth with entry, we investigate how an incumbent politician can strategically use the level of red tape to acquire incumbency advantage. By setting sufficiently high red tape, the politician induces the incumbent firm in the intermediate sector to invest in political connections which are valued also by voters, who recognize that bureaucratic costs can be reduced by connected firms. Within this framework, we study the Markov perfect equilibria of an infinitely repeated game between politicians, firms and voters and show that all equilibria are characterized by investment in political connections and re-election of the incumbent politician. Political connections may prevent entry of advanced competitors and cause the economy to lag behind the technological frontier. Our model provides a possible explanation for the persistence of inefficient democracies and political barriers to technology development, where these reflect shared rather than conflicting interests.
**Optimal Aging and Death: Understanding the Preston Curve**  
*Carl-Johan Dalgaard, University of Copenhagen and Holger Strulik, University of Goettingen*

Does prosperity lead to greater longevity? If so, what is the strength of the income channel? To address these questions we develop a life cycle model in which households are subject to physiological aging. In modeling aging we draw on recent research in the fields of biology and medicine. The speed of the aging process, and thus the age of death, are endogenously determined by optimal health investments. A calibrated version of the model accounts well for the observed non-linear cross-country link between longevity and income, also known as the Preston curve.

**Designing Order-Book Transparency in Electronic Communication Networks**  
*Romans Pancs, University of Rochester*

A significant fraction of trade in stock exchanges (e.g., Euronext and NASDAQ) involves “iceberg orders,” which are orders to sell or buy a certain number of shares with the caveat that only a part of that number be made public. This paper provides a normative justification for the lack of transparency in this kind of orders: imperfect disclosure is shown to be a necessary feature of any optimal mechanism when the asset's potential buyers must incur a cost in order to become active and learn their valuations for the asset. This finding raises a caveat for regulation that seeks to mandate the open order-book or otherwise increase the pre-trade transparency of stock exchanges.

**Technology Adoption, Turbulence and the Dynamics of Unemployment**  
*Georg Duernecker, University of Mannheim*

Starting in the late 1970s, European unemployment began to increase while US unemployment remained constant. At the same time, capital-embodied technical change began to accelerate, and the US adopted the new capital much faster than Europe. I argue that these two facts are related. The main idea is that if there is capital-embodied technical change, then the unemployment rate depends critically on how obsolete the installed capital stock is compared to the frontier. In particular, European workers initially worked with relatively obsolete capital, and so they lacked the skills required to work with frontier capital. When they lost their jobs they therefore stayed unemployed for longer than their American counterparts. I find that this channel accounts for about 70 percent of the discrepancy between the behavior of unemployment rates in Europe and the US.

**Competitive Markets with Endogenous Health Risks**  
*Alberto Bennardo, Università di Salerno (DISES) and Salvatore Piccolo, Università Cattolica del Sacro Cuore (Milano), DEF*

We study an economy where agents' productivity and labor endowment depend on their health status, and indivisible occupational choices affect individual health distributions. We show that efficiency requires cross-transfers across occupations. Moreover, workers with relatively less safe jobs must get positive transfers whenever labor supply is not very reactive to wages, a condition in line with the findings of a large empirical literature. In these instances, compensating wage differentials equalizing the utilities of ex ante identical workers in different jobs undermine ex ante efficiency. Moreover, competitive equilibria where only assets with deterministic payoffs are traded are not first-best. Finally, we show that simple transfer schemes, implemented through linear subsidies to health insurance, enhance efficiency.
Sales and Collusion in a Market with Storage
Francesco Nava, London School of Economics and Political Science and Pasquale Schiraldi,
London School of Economics and Political Science

Sales are a widespread and well-known phenomenon documented in several product markets. This paper presents a novel rationale for sales that does not rely on consumer heterogeneity, or on any form of randomness to explain such periodic price fluctuations. The analysis is carried out in the context of a simple repeated price competition model, and establishes that firms must periodically reduce prices in order to sustain collusion when goods are storable and the market is large. The largest equilibrium profits are characterized at any market size. A trade-off between the size of the industry and its profits arises. Sales foster collusion, by magnifying the inter-temporal links in consumers' decisions.