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Abstracts

JEEA-FBBVA Lecture 2013: The New Empirical Economics of Management
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Over the last decade the World Management Survey (WMS) has collected firm-level management practices data across multiple sectors and countries. We developed the survey to try to explain the large and persistent TFP differences across firms and countries. This review paper discusses what has been learned empirically and theoretically from the WMS and other recent work on management practices. Our preliminary results suggest that about a quarter of cross-country and within-country TFP gaps can be accounted for by management practices. Management seems to matter both qualitatively and quantitatively. Competition, governance, human capital and informational frictions help account for the variation in management. We make some suggestions for both policy and future research.

Social Comparison and Effort Provision: Evidence from a Field Experiment
Alain Cohn, University of Zurich, Ernst Fehr, University of Zurich, Benedik Herrmann, European Commission, and Frédéric Schneider, University of Zurich

Social comparison has potentially far reaching consequences in many economic domains. We conducted a field experiment to examine how social comparison affects workers' effort provision if their own wage or that of a co-worker is cut. Workers were assigned to groups of two, performed identical individual tasks, and received the same performance-independent hourly wage. Cutting both group members' wages caused a decrease in performance. But when only one group member's wage was cut, the affected workers decreased their performance more than twice as much as when both workers' wages were cut. This finding indicates that social comparison among workers affects effort provision because the only difference between the two wage-cut treatments is the other group member's wage level. In contrast, workers whose wage was not cut but who witnessed their group member's pay being cut displayed no change in performance relative to the baseline treatment in which both workers' wages remained unchanged. This indicates that social comparison exerts asymmetric effects on effort.

More Missing Women, Fewer Dying Girls: The Impact of Sex-Selective Abortion on Sex at Birth and Relative Female Mortality in Taiwan
Ming-Jen Lin, National Taiwan University, Jin-Tan Liu, National Taiwan University, and Nancy Qian, Yale University

This study finds that the introduction of sex-selective abortion in Taiwan due to the legalization of abortion when pre-natal sex-detection technology was already available increased the fraction of males born at higher parities and changed the composition of mothers choosing to give birth. Controlling for compositional changes, we find that access to sex-selective abortion reduced relative neonatal female mortality rates for higher parity births.

Live Aid Revisited: Long-Term Impacts of the 1984 Ethiopian Famine on Children
Stefan Dercon, University of Oxford and Catherine Porte, Heriot-Watt University

In 1984, the world was shocked at the scale of a famine in Ethiopia that caused over half a million deaths, making it one of the worst in recent history. The mortality impacts are clearly significant. But what of the survivors? This paper provides the first estimates of the long-term impact of the famine twenty years later, on the height of young adults aged 19--22 years who experienced this severe shock
as infants during the crisis. An innovative feature of the analysis is that famine intensity is measured at the household level, while impacts are assessed using a difference-in-differences comparison across siblings, and compared with an IV cross-section, using rainfall as an instrument for the shock. We find that by adulthood, affected children who were aged of 12-36 months at the peak of the crisis are significantly shorter than the older cohort, and their unaffected peers, by at least 5cm. There are no significant effects on those in utero during the crisis, although we cannot rule out that for this cohort, the selection effect dominates scarring. Indicative calculations show that for the affected group such height loss may lead to income losses of around 5% per year over their lifetime. The evidence also suggests that the relief operations at the time made little difference to those who survived.

Expansionary Austerity? International Evidence
Jaime Guajardo, International Monetary Fund, Daniel Leigh, International Monetary Fund, and Andrea Pescatori, International Monetary Fund

This paper investigates the short-term effects of fiscal consolidation on economic activity in OECD economies. We examine contemporaneous policy documents to identify changes in fiscal policy motivated by a desire to reduce the budget deficit and not by responding to prospective economic conditions. Using this new dataset, our estimates suggest fiscal consolidation has contractionary effects on private demand and GDP. By contrast, estimates based on conventional measures of the fiscal policy stance used in the literature support the expansionary fiscal contractions hypothesis but appear to be biased toward overstating expansionary effects.

Evaluating Theories of Bank Runs with Heterogeneity Restrictions
Ferre De Graeve, Sveriges Riksbank and Alexei Karas, University College Roosevelt and Utrecht University School of Economics

This paper empirically tests theories of bank runs. We use a structural panel VAR to extract runs from deposit market data. Identification exploits cross-sectional heterogeneity in deposit insurance: we identify bank runs as adverse deposit market supply shocks hitting uninsured banks harder compared to insured. Conditional on a run, we study the behavior of uninsured banks with bad and good fundamentals. We find that both experience runs, but deposit outflows at the former are more severe. Panic effects, which affect all uninsured deposits alike, irrespective of fundamentals, dominate in the aggregate. Insured banks partially absorb the outflow of uninsured deposits.

Democratic Peace and Electoral Accountability
Paola Conconi, Université Libre de Bruxelles (ECARES), Nicolas Sahuguet, HEC and Maurizio Zanardi, Lancaster University Management School and Université Libre de Bruxelles (ECARES)

Democracies rarely engage in conflicts with one another, though they are not averse to fighting autocracies. We exploit the existence in many countries of executive term limits to show that electoral accountability is the key reason behind this "democratic peace" phenomenon. We construct a new dataset of term limits for a sample of 177 countries over the 1816-2001 period, and combine this information with a large dataset of interstate conflicts. Our empirical analysis shows that, although democracies are significantly less likely to fight each other, democracies with leaders who face binding term limits are as conflict prone as autocracies. The study of electoral calendars confirms the importance of re-election incentives: in democracies with two-term limits, conflicts are less likely to occur during the executive's first mandate than in the last one. Our findings support the Kantian idea that elections act as a discipline device, deterring leaders from engaging in costly conflicts.

Party Cues in Elections under Multilevel Governance: Theory and Evidence from US States
Benny Geys, Norwegian Business School BI and Vrije Universiteit Brussel (VUB) and Jan Vermeir, Centre of Expertise Economic Modelling & Studies, GDF Suez

In federal countries, voters’ ability to evaluate the performance of their leaders might be reduced when different levels of government shape policy outcomes. This can blur political accountability. In this article, we analyse how party cues (i.e., politicians’ party membership acting as a cue towards their
characteristics) affect voters’ incomplete information in a federal setting. We theoretically show that party cues allow indirect inference regarding politicians using observed policy outcomes, and can alleviate the accountability problem. Empirical evidence from US presidential election results across all 50 US states over the period 1972-2008 supports this proposition. However, party cues also have a downside in that they may reduce politicians’ effort, particularly when politicians at different levels of government are from different parties.

Preferences for Redistribution and Perception of Fairness: An Experimental Study
Ruben Durante, Sciences Po and Yale University, Louis Puterman, Brown University and Joël van der Weele, University of Amsterdam

We conduct a laboratory experiment to study how demand for redistribution of income depends on self-interest, insurance motives, and social concerns relating to inequality and efficiency. Our choice environments feature large groups of subjects and real world framing, and differ with respect to the source of inequality (earned or arbitrary), the cost of taxation to the decision maker, the dead-weight loss of taxation, uncertainty about own pre-tax income, and whether the decision-maker is affected by redistribution. We estimate utility weights for the different sources of demand for redistribution, with the potential to inform modeling in macroeconomics and political economy.

Reducing Overreaction to Central Banks' Disclosures: Theory and Experiment
Romain Baeriswyl, Swiss National Bank and Camille Cornand, CNRS-GATE and Université de Lyon

Financial markets are known for overreacting to public information. Central banks can reduce this overreaction either by disclosing information to only a fraction of market participants (partial publicity) or by disclosing information to all participants but with ambiguity (partial transparency). In theory, overreaction can be similarly reduced by either communication strategy. A laboratory experiment shows that both communication strategies succeed in reducing overreaction, though not as much as theory predicts. The opportunity in our information age for central banks to choose between partial publicity and partial transparency to control the market reaction is then discussed.