Selective Attention and Learning
Joshua Schwartzstein, Dartmouth College

What do we notice and how does this affect what we learn and come to believe? I present a model of an agent who learns to make forecasts on the basis of readily available information, but is selective as to which information he attends: he chooses whether to attend as a function of current beliefs about whether such information is predictive. If the agent does not attend to some piece of information, it cannot be recalled at a later date. He uses Bayes’ rule to update his beliefs given attended-to information, but does not attempt to fill in missing information. The model demonstrates how selective attention may lead the agent to persistently fail to recognize important empirical regularities, make systematically biased forecasts, and hold incorrect beliefs about the statistical relationship between variables. In addition, it identifies factors that make such errors more likely or persistent. The model is applied to shed light on stereotyping and discrimination, persistent learning failures and disagreement, and the process of discovery.

Book Translations as Idea Flows: The Effects of the Collapse of Communism on the Diffusion of Knowledge
Ran Abramitzky, Stanford University and Isabelle Sin, Motu Economic and Public Policy Research

We use book translations as a new measure of international idea flows and study the effects of Communism’s collapse in Eastern Europe on these flows. Using novel data on 800,000 translations and difference-in-differences approaches, we show that while translations between Communist languages decreased by two thirds with the collapse, Western-to-Communist translations increased by a factor of four and quickly converged to Western levels. Convergence was more pronounced in the fields of applied and social sciences, and was more complete in Satellite and Baltic than in Soviet countries. We discuss how these patterns help us understand how repressive institutions and preferences towards Western European ideas shaped the international diffusion of knowledge.

Critical Periods During Childhood and Adolescence

We identify the ages that constitute sensitive (or critical) periods in children’s development towards their adult health status, skills, and human capital. For this we use data on families migrating into Sweden from countries that are poorer, with less healthy conditions. Late-life health is proxied by adult height and other adult outcomes. The relation between siblings’ ages at migration and their adult outcomes allows us to estimate the causal effect of conditions at specific childhood ages. We effectively exploit that for siblings the migration occurs simultaneously in calendar time but at different developmental stages (ages). We find evidence that the period just before the puberty growth spurt constitutes a critical period for adult height and we find related critical periods for adult cognition, mental health, and education.

Deep Financial Integration and Volatility
Sebnem Kalemli-Ozcan, University of Maryland, CEPR and NBER, Bent Sorensen, University of Houston and CEPR and Vadym Volosovych, Erasmus University Rotterdam and Tinbergen Institute and Erasmus Research Institute of Management

We investigate the relationship between foreign direct ownership of firms and firm- and region-level output volatility using a novel panel data set for European countries. We document a positive, highly robust, relationship between firm-level foreign ownership and volatility of value added. This
relationship holds cross-sectionally and in panels with firm fixed effects where the relationship captures within firm variation over time. Considering domestic firms with assets in foreign countries, we document that it is international diversification, rather than the nationality of the owner, that explains this positive correlation. Our results can also be found at the aggregate-level, where we show that region-level volatility is correlated positively with foreign investment in the region. We show that this positive relation between aggregate volatility and foreign investment can be explained by the granularity of the firm size distribution and the fact that foreign ownership is concentrated among the largest firms.

**Explaining Gift Exchange - The Limits of Good Intentions**

Nick Netzer, University of Zürich and Armin Schmutzler, University of Zürich

This paper explores the limitations of intention-based social preferences as an explanation of gift-exchange between a firm and a worker. In a framework with one self-interested and one reciprocal player, gift-giving never arises in equilibrium. Instead, any equilibrium in a large class of multi-stage games must involve mutually unkind behavior of both players. Besides gift-exchange, this class of games also includes moral hazard models and the rotten kid framework. Even though equilibrium behavior may appear positively reciprocal in some of these games, the self-interested player never benefits from reciprocity. We discuss the relation of these results to the theoretical and empirical literature on gift-exchange in employment relations.

**The Political Economy of Regulation in Markets with Naïve Consumers**

Patrick L. Warren, Clemson University and Daniel H. Wood, Clemson University

In a model of a competitive industry selling base goods and add-ons, we investigate the conditions under which citizen-consumers will support policies that eliminate behavioral inefficiencies induced by naive consumers. Unregulated competitive markets have two effects: they produce deadweight losses, and they redistribute income away from biased consumers. Both unbiased and naive consumers believe that they benefit from this redistribution (the naive consumers are wrong), so support for efficiency-improving regulation is limited. Extending our model to consumers with partial sophistication about their naivete, we predict patterns of regulation consistent with the form and timing of the Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009.

**The Rise of the East and the Far East: German Labor Markets and Trade Integration**

Wolfgang Dauth, Institute for Employment Research (IAB), Sebastian Findeisen, University of Mannheim and Jens Suedekum, Heinrich-Heine-University Düsseldorf and Düsseldorf Institute for Competition Economics (DICE)

We analyze the effects of the unprecedented rise in trade between Germany and "the East" (China and Eastern Europe) in the period 1988-2008 on German local labor markets. Using detailed administrative data, we exploit the cross-regional variation in initial industry structures and use trade flows of other high-income countries as instruments for regional import and export exposure. We find that the rise of "the East" in the world economy caused substantial job losses in German regions specialized in import-competing industries, both in manufacturing and beyond. Regions specialized in export-oriented industries, however, experienced even stronger employment gains and lower unemployment. In the aggregate, we estimate that this trade integration has caused some 442,000 additional jobs in the economy and contributed to retaining the manufacturing sector in Germany. This is almost exclusively driven by the rise of Eastern Europe, not by China. We also conduct an analysis at the individual worker level, and find that trade had a stabilizing overall effect on employment relationships.

**Discrimination and Employment Protection**

Steinar Holden, University of Oslo and Åsa Rosén, Stockholm University (SOFI)

We study a search model with employment protection legislation. We show that if the output from the match is uncertain at the hiring stage, a discriminatory equilibrium may exist in which workers with
the same productive characteristics are subject to different hiring standards. If a bad match takes place, discriminated workers will take longer to find another job, prolonging the costly period for the firm. This makes it less profitable for firms to hire discriminated workers, thus sustaining the discrimination. In contrast to Becker's model, the existence of employers with a taste for discrimination may make it more profitable to discriminate, even for firms without discriminatory preferences.