How Do Informal Agreements and Revision Shape Contractual Reference Points?
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The notion of contracts as reference points provides the basis for a deeper understanding of important phenomena such as the employment contract, vertical integration, firm scope, authority and delegation. Previous experiments lend support to this notion but they ignore realistic aspects of trading relationships such as informal agreements and ex post renegotiation or revision. Here we show that the central behavioral mechanism underlying contractual reference points is robust to such considerations. Our data reveal that informal agreements can mitigate the trade-off between rigidity and flexibility but they do not fully resolve the problem of misaligned reference points. Our experiments also show that contract revision is a more nuanced process than the previous literature has recognized. We find, for example, that it is sometimes better for parties to write a simple (rigid) contract and then revise it ex post if needed, rather than to anticipate and include future contingencies in a (flexible) contract from the outset.

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Using data from 1869 to 1928, we estimate the effect of party control of state governments on the entry, exit, circulation, prices, number of pages, and content of Republican and Democratic daily newspapers. We exploit changes over time in party control of the governorship and state legislatures in a differences-in-differences design. We exploit close gubernatorial elections and state legislatures with small majorities in a parallel regression-discontinuity design. Neither method reveals evidence that the party in power affects the partisan composition of the press. Our confidence intervals rule out modest effects, and we find little evidence of incumbent party influence even in times and places with high political stakes or low commercial stakes. The one exception is the Reconstruction South, an episode that we discuss in detail.

Getting It Done: Dynamic Incentives to Complete a Project
Robin Mason, University of Exeter Business School and Juuso Välimäki, Aalto University School of Business

A principal wants an agent to complete a project. The agent under- takes unobservable effort, which affects in each period the probability that the project is completed. We characterise the contracts that the principal sets, with and without commitment. With full commitment, the contract involves the agent’s value and wage declining over time, in order to give the agent incentives to exert effort. The best sequentially rational equilibrium for the principal also involves the agent’s wage declining over time, while the worst sequentially rational equilibrium for the principal has a constant wage (and is in fact the unique stationary equilibrium). The best (weakly) renegotiation-proof equilibrium for the principal is achieved by a constant wage that maximizes the principals payoff, conditional on wages being constant. We compare these solutions to the efficient outcome.

Reference Points, Social Norms, and Fairness in Contract Renegotiations
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How does an ex ante contract affect behavior in an ex post renegotiation game? We address this question in a canonical buyer-seller relationship with renegotiation. Our paper provides causal experimental evidence that an initial contract has a highly significant and economically important impact on renegotiation behavior that goes beyond the effect of contracts on bargaining threat points.
We compare situations in which an initial contract is renegotiated to strategically equivalent bargaining situations in which no ex ante contract was written. The ex ante contract causes sellers to ask for markups that are 45% lower than in strategically equivalent bargaining situations without an initial contract. Moreover, buyers are more likely to reject given markups in renegotiations than in negotiations. These effects do not depend on whether the contract was written under competitive or monopolistic conditions. Our results provide strong evidence supporting the hypothesis that contracts serve as reference points that shape and coordinate the expectations of the contracting parties.

**Unemployed but Optimistic: Optimal Insurance Design with Biased Beliefs**

*Johannes Spinnewijn, London School of Economics*

This paper analyzes how biased beliefs about employment prospects affect the optimal design of unemployment insurance. Empirically, I find that the unemployed greatly overestimate how quickly they will find work. As a consequence, they would search too little for work, save too little for unemployment and deplete their savings too rapidly when unemployed. I analyze the use of “sufficient-statistics” formula to characterize the optimal unemployment policy when beliefs are biased and revisit the desirability of providing liquidity to the unemployed. I also find that the optimal unemployment policy may involve increasing benefits during the unemployment spell.

**A Global View of Cross-Border Migration**

*Julian di Giovanni, Universitat Pompeu Fabra and Barcelona GSE, Andrei A. Levchenko, University of Michigan and Francesc Ortega, Queens College -- CUNY*

This paper evaluates the global welfare impact of observed levels of migration using a quantitative multi-sector model of the world economy calibrated to aggregate and firm-level data. Our framework features cross-country labor productivity differences, international trade, remittances, and a heterogeneous workforce. We compare welfare under the observed levels of migration to a no-migration counterfactual. In the long run, natives in countries that received a lot of migration -- such as Canada or Australia -- are better off due to greater product variety available in consumption and as intermediate inputs. In the short run the impact of migration on average welfare in these countries is close to zero, while the skilled and unskilled natives tend to experience welfare changes of opposite signs. The remaining natives in countries with large emigration flows -- such as Jamaica or El Salvador -- are also better off due to migration, but for a different reason: remittances. The welfare impact of observed levels of migration is substantial, at about 5% to 10% for the main receiving countries and about 10% in countries with large incoming remittances.