Presidential Address, EEA Annual Congress 2014: The Determinants of Human Capital Formation During the Early Years of Life: Theory, Measurement and Policies.
Orazio Attanasio, University College London

In this paper, I discuss a research agenda on the study of human capital accumulation in the early years, with a particular focus on developing countries. I discuss several methodological issues, from the use of structural models, to the importance of measurement and the development of new measurement tools. I present a conceptual framework that can be used to frame the study of human capital accumulation and view the current challenges and gaps in knowledge within such an organizing structure. I provide an example of the use of such a framework to interpret the evidence on the impacts of an early years intervention based on Randomized Controlled Trial. (JEL: O15)

Alfred Marshall Lecture, EEA Annual Congress 2014: Managed Competition in Health Insurance
Liran Einav, Stanford University and Jonathan Levin, Stanford University

Rising healthcare costs have sparked debate about the best way to provide high-quality affordable health insurance. We discuss the potential for regulated insurance markets to outperform single-payer public insurance. We use as an example the private Medicare plans that now provide insurance to almost a third of seniors in the United States. The evidence suggests that private plans can limit costs and potentially appeal to enrollees, and that well-designed risk-adjustment can mitigate market failures due to adverse selection. However, fostering competition between insurers, especially in smaller markets, is difficult. We discuss how future research might illuminate the relative advantages of public and private health insurance. (JEL: D12, H20, H71, L81)

Joseph Schumpeter Lecture, EEA Annual Congress 2014: Model Uncertainty
Massimo Marinacci, Department of Decision Sciences and IGIER, Università Bocconi

We study decision problems in which consequences of the various alternative actions depend on states determined by a generative mechanism representing some natural or social phenomenon. Model uncertainty arises because decision makers may not know this mechanism. Two types of uncertainty result, a state uncertainty within models and a model uncertainty across them. We discuss some two-stage static decision criteria proposed in the literature that address state uncertainty in the first stage and model uncertainty in the second (by considering subjective probabilities over models). We consider two approaches to the Ellsberg-type phenomena characteristic of such decision problems: a Bayesian approach based on the distinction between subjective attitudes toward the two kinds of uncertainty; and a non-Bayesian approach that permits multiple subjective probabilities. Several applications are used to illustrate concepts as they are introduced. (JEL: D81)

The Demand for Liquid Assets, Corporate Saving, and International Capital Flows
Philippe Bacchetta, University of Lausanne and Swiss Finance Institute and Kenza Benhima, University of Lausanne and Center for Economic Policy Research

The recent period of capital outflows from emerging economies has coincided with an increase in their corporate saving. In this paper, we model corporate saving as a demand for liquid assets by credit-constrained firms in a dynamic open-economy macroeconomic model. We find that the implications of this model are very different from standard models, because the demand for foreign bonds is a complement to domestic investment rather than a substitute. We show that this complementarity is at work when an emerging economy is on its convergence path or when it has a higher TFP growth rate. This framework is consistent with a number of stylized facts found in high-growth, high-investment emerging economies. (JEL: E22, F21, F41, F43)
Sorting and the Output Loss Due to Search Frictions
Pieter A. Gautier, VU University Amsterdam, Tinbergen Institute and Coen N. Teulings, University of Cambridge, University of Amsterdam, Tinbergen Institute

We analyze a general search model with on-the-job search (OJS) and sorting of heterogeneous workers into heterogeneous jobs. For given values of non-market time, the relative efficiency of OJS, and the amount of search frictions, we derive a simple relationship between the unemployment rate, mismatch and wage dispersion. We estimate the latter two from standard micro data. Our methodology accounts for measurement error, which is crucial to distinguish true from spurious mismatch and wage dispersion. We find that without frictions, output would be about 9.5% higher if firms can commit to pay wages as a function of match quality and 15.5% higher if they cannot. Non-commitment leads to a business-stealing externality which causes a 5.5% drop in output. (JEL: E24, J62, J63, J64)

The Impact of Trade Liberalization on Industrial Productivity
Paul S. Segerstrom, Stockholm School of Economics and Yoichi Sugita, Institute of Developing Economies

An empirical finding by Trefler (2004, AER) and others that industrial productivity increases more strongly in liberalized industries than in non-liberalized industries has been widely accepted as evidence for the Melitz (2003, Econometrica) model. We show that under fairly standard assumptions a multi-industry version of the Melitz model does not predict this relationship. Instead, it predicts the opposite relationship that industrial productivity increases more strongly in non-liberalized industries than in liberalized industries. (JEL: F12, F13)

Measuring Intertemporal Substitution: The Importance of Method Choices and Selective Reporting
Tomáš Havranek, Czech National Bank and Charles University, Prague

I examine 2,735 estimates of the elasticity of intertemporal substitution in consumption (EIS) reported in 169 published studies. The literature shows strong selective reporting: researchers discard negative and insignificant estimates too often, which pulls the mean estimate up by about 0.5. The reporting bias dwarfs the effects of methods, with the exception of the choice between micro and macro data. When I correct the mean for the bias, for macro estimates I get zero, even though the reported t-statistics are on average two. The corrected mean of micro estimates of the EIS for asset holders is around 0.3-0.4. Calibrations greater than 0.8 are inconsistent with the bulk of the empirical evidence. (JEL: E21, C83)