

Abstracts

Social Norms and the Enforcement of Laws

Daron Acemoglu, Massachusetts Institute of Technology, and Matthew O. Jackson, Stanford University, and Santa Fe Institute

We examine the interplay between social norms and the enforcement of laws. Agents choose a behavior (e.g., tax evasion, production of low-quality products, corruption, harassing behavior, substance abuse, etc.) and then are randomly matched with another agent. There are complementarities in behaviors so that an agent's payoff decreases with the mismatch between her behavior and her partner's, and with overall negative externalities created by the behavior of others. A law is an upper bound (cap) on behavior. A law-breaker, when detected, pays a fine and has her behavior forced down to the level of the law. Equilibrium law-breaking depends on social norms because detection relies, at least in part, on whistle-blowing. Law-abiding agents have an incentive to whistle-blow on a law-breaking partner because this reduces the mismatch with their partners' behaviors as well as the negative externalities. When laws are in conflict with norms and many agents are breaking the law, each agent anticipates little whistle-blowing and is more likely to also break the law. Tighter laws (banning more behaviors), greater fines, and better public enforcement, all have counteracting effects, reducing behavior among law-abiding individuals but increasing it among law-breakers. We show that laws that are in strong conflict with prevailing social norms may backfire, whereas gradual tightening of laws can be more effective in influencing social norms and behavior. (JEL: C72, C73, P16, Z1)

Electoral Cycles in Savings Bank Lending

Florian Englmaier, University of Munich (LMU), and Till Stowasser, University of Munich (LMU)

We provide evidence that German savings banks, which are controlled by county-level politicians, systematically adjust lending policies in response to local electoral cycles. The different timings of county elections across states and the existence of a comparable group of cooperative banks—that are very similar to savings banks but lack their political connectedness—allow for identification of the effects of county elections on savings bank lending. These effects are economically meaningful and very robust to various specifications. We find that election-induced lending negatively impacts savings bank profitability and is associated with an increase in credit defaults roughly three years after an election. Examining the political-economy aspects of our findings, we provide evidence that savings bank excess lending and public spending at the county level are substitute levers for county politicians. Finally, we find indications that subpar pre-election economic county performance hurts re-election prospects and increases the intensity of lending cycles. (JEL: G21, D72, D73)

The Cognitive Effects of Micronutrient Deficiency: Evidence from Salt Iodization in the United States

James Feyrer, Dartmouth College, Dimitra Politi, University of Edinburgh, David N. Weil, Brown University

Iodine deficiency is the leading cause of preventable mental retardation in the world today. The condition, which was common in the developed world until the introduction of iodized salt in the 1920s, is connected to low iodine levels in the soil and water. We examine the impact of salt iodization on cognitive outcomes in the United States by taking advantage of this natural geographic

variation. Salt was iodized over a short period of time beginning in 1924. We use military data collected during World War I and World War II to compare outcomes of cohorts born before and after iodization in localities that were naturally poor and rich in iodine. We find that for the one-quarter of the population most deficient in iodine this intervention raised intelligence quotient (IQ) by approximately one standard deviation. Our results can explain roughly one decade's worth of the upward trend in IQ in the United States (the Flynn effect). We also document a large increase in thyroid-related deaths following the countrywide adoption of iodized salt, which affected mostly older individuals in localities with high prevalence of iodine deficiency. (JEL: I12, I18, J24, N32)

Rationalizable Suicides: Evidence from Changes in Inmates' Expected Length of Sentence

Nadia Campaniello, University of Essex, Theodoros M. Diasakos, University of Stirling, and Giovanni Mastrobuoni, University of Essex and Collegio Carlo Alberto

Is there a rational component in the decision to commit suicide? Economists have been trying to shed light on this question by studying whether suicide rates are related to contemporaneous socioeconomic conditions. This paper goes one step further: we test whether suicides are linked to forward-looking behavior. In Italy, collective sentence reductions (pardons) often lead to massive releases of prisoners. More importantly, they are usually preceded by prolonged parliamentary activity (legislative proposals, discussion, voting, etc.) that inmates seem to follow closely. We use the legislative proposals for collective pardons to measure changes in the inmates' expectations about the length of their sentences, and find that suicide rates tend to be significantly lower when pardons are proposed in congress. This suggests that, among inmates in Italian prisons, the average decision to commit suicide responds to changes in current expectations about future conditions. At least partially, therefore, the decision seems rationalizable. (JEL: I1, D1, K4)

Cognitive Constraints on Valuing Annuities

Jeffrey R. Brown, University of Illinois, Arie Kapteyn, University of Southern California, Erzo F.P. Luttmer, Dartmouth College, and Olivia S. Mitchell, University of Pennsylvania

This paper documents consumers' difficulty valuing life annuities. Using a purpose-built experiment in the American Life Panel, we show that the prices at which people are willing to buy annuities are substantially below the prices at which they are willing to sell them. We also find that buy values are negatively correlated with sell values and that the sell-buy valuation spread is negatively correlated with cognition. This spread is larger for those with less education, weaker numerical abilities, and lower levels of financial literacy. Our evidence contributes to the emerging literature on heterogeneity in financial decision-making abilities, particularly regarding retirement payouts. (JEL: D14, D91, G11, H55)

Government Distortion in Independently Owned Media: Evidence from U.S. News Coverage of Human Rights

Nancy Qian, Yale University, and David Yanagizawa-Drott, University of Zurich

This study provides evidence of government distortion of news coverage amongst independently owned media outlets in a democratic regime. It uses data from 1946–2010 and documents that U.S. news coverage of human rights abuses committed by foreign governments was associated with membership on the United Nations Security Council and the degree of political alliance with the United States. For countries that were not allied with the United States, coverage increased with membership; for countries that are strongly allied with the United States, coverage decreased with membership. There is an analogous effect on reports of human rights abuses by the U.S. State Department, but no such effect on human rights practices according to other measures. The results are driven by the Reagan and Bush Sr. Administrations, 1981–1992, a period during which the government was known to have actively influenced the press. (JEL: P16, N4)