

Abstracts

Former Foreign Affiliates: Cast Out and Outperformed?

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The literature has documented a positive effect of foreign ownership on firm performance. But is this effect due to a one-time knowledge transfer or does it rely on continuous injections of knowledge? To shed light on this question we focus on divestments, that is, foreign affiliates that are sold to local owners. To examine the effect of the ownership change we combine a difference-in-differences approach with propensity score matching. We use plant-level panel data from the Indonesian Census of Manufacturing covering the period 1990- 2009. We consider 157 cases of divestment, where a large set of plant characteristics is available two years before and three years after the ownership change and for which observationally similar control plants exist. The results indicate that divestment is associated with a drop in total factor productivity accompanied by a decline in output, markups as well as export and import intensity. The findings are consistent with the benefits of foreign ownership being driven by continuous supply of headquarter services from the foreign parent. (JEL: F21, F23)

Face-Saving or Fair-Minded: What Motivates Moral Behavior?

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We study the relative importance of intrinsic moral motivation and extrinsic social motivation in explaining moral behavior. The key feature of our experiment is that we introduce a dictator game design that manipulates these two sources of motivation. In one set of treatments, we manipulate the moral argument for sharing, in another we manipulate the information given to the recipient about the context of the experiment and the dictator's decision. The paper offers two main findings. First, we provide evidence of intrinsic moral motivation being of fundamental importance. Second, we show that extrinsic social motivation matters and is crowding-in with intrinsic moral motivation. We also show that intrinsic moral motivation is strongly associated with self-reported charitable giving outside the lab and with political preferences. (JEL: D63)

The Wild West is Wild: The Homicide Resource Curse

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We document interpersonal violence as a dimension of the resource curse. We rely on a historical natural experiment in the United States, where mineral discoveries occurred sometimes before, sometimes after formal institutions were established in the county of discovery. In places where mineral discoveries occurred before formal institutions were established, there were more homicides per capita historically and the effect has persisted to this day. Today, the share of homicides and assaults explained by the historical circumstances of mineral discoveries is comparable to the effect of education or income. Our results imply that short-term and quasi-exogenous variations in the institutional environment can lead to large and persistent differences in cultural and institutional development. (JEL: K42, N31, O14, Z13)

Speed 2.0 - Evaluating Access to Universal Digital Highways

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This paper shows that having access to a fast Internet connection is an important determinant of capitalization effects in property markets. Our empirical strategy combines a boundary discontinuity design with controls for time-invariant effects and arbitrary macro-economic shocks at a very local level to identify the causal effect of broadband speed on property prices from variation that is plausibly exogenous. Applying this strategy to a micro data set from England between 1995 and 2010 we find a significantly positive effect, but diminishing returns to speed. Our results imply that disconnecting an average property from a high-speed first-generation broadband connection (offering Internet speed up to 8 Mbit/s) would depreciate its value by 2.8%. In contrast, upgrading such a property to a faster connection (offering speeds up to 24 Mbit/s) would increase its value by no more than 1%. We decompose this effect by income and urbanization, finding considerable heterogeneity. These estimates are used to evaluate proposed plans to deliver fast broadband universally. We find that increasing speed and connecting unserved households passes a cost-benefit test in urban and some suburban areas, while the case for universal delivery in rural areas is not as strong. (JEL: L1, H4, R2)

Demand Shifts Due to Salience Effects: Experimental Evidence

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We conduct a laboratory experiment that tests two fundamental predictions unique to salience theory. If an agent purchases one of two vertically differentiated products, salience theory makes the following two distinct predictions. First, it hypothesizes that a higher expected price level for both products shifts demand toward the more expensive, high-quality product. Second, it predicts that demand for the high-quality product is larger if the price level is expectedly high than if it is unexpectedly high. In our experiment, subjects purchased fast or slow internet access at different price levels. Our results strongly support both predictions of salience theory. (JEL: D03)

Illegal Migration and Consumption Behavior of Immigrant Households

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We analyze the effect of immigrants' legal status on their consumption behavior using unique survey data that samples both documented and undocumented immigrants. To address the problem of sorting into legal status, we propose two alternative identification strategies as exogenous source of variation for current legal status: First, transitory income shocks in the home country, measured as rainfall shocks at the time of emigration. Second, amnesty quotas that grant legal residence status to undocumented immigrants. Both sources of variation create a strong first stage, and – although very different in nature – lead to similar estimates of the effects of illegal status on consumption, with undocumented immigrants consuming about 40% less than documented immigrants, conditional on background characteristics. Roughly one quarter of this decrease is explained by undocumented immigrants having lower incomes than documented immigrants. Our findings imply that legalization programs may have a potentially important effect on immigrants' consumption behavior, with consequences for both the source and host countries. (JEL: F22, D12, K42)

On the Interaction of Memory and Procrastination: Implications for Reminders, Deadlines, and Empirical Estimation

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The interaction between present-bias and limited memory can explain why individuals do not act at deadlines and why providing reminders can have large effects. Individuals in my model must choose when and whether to complete a task, but may forget or procrastinate. A calibration exercise shows that assuming perfect memory leads to biased estimates of present-bias because the rate of task completion at the deadline is much lower with imperfect memory. Negative procrastination explains why individuals do not set up reminders despite large gains to doing so. The model offers guidance for empirical studies of reminders, making a distinction between anticipated and unanticipated reminders: anticipated reminders can induce additional procrastination, lowering both welfare and the probability the task is completed. I then use this framework to show how to optimally set deadlines and time the delivery of reminders to present-biased individuals. (JEL: D01, D03, D91)