

Abstracts

JEEA-FBBVA Lecture 2016: Monetary Policy in the Capitals of Capital

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The importance of financial markets and international capital flows have increased greatly since the 1990s. How does this affect the effectiveness of monetary policy? We analyse the transmission of monetary policy in two important financial centres, the United States and the United Kingdom. Studying the responses of mortgage and corporate spreads we find evidence in favour of an important financial channel in both countries. Our identification strategy allows us to study movements in the policy rates and the effect of forward guidance, broadly defined. We also analyse international financial spillovers, which we find to be asymmetric. (JEL: E32, E43, E44, G01)

Neighbourhood Turnover and Teenage Attainment

Stephen Gibbons, Department of Geography and Environment and Centre for Economic Performance-Spatial Economics Research Centre, LSE, Olmo Silva, Department of Geography and Environment and Centre for Economic Performance-Spatial Economics Research Centre, LSE, and Felix Weinhardt, Humboldt-University Berlin and Centre for Economic Performance-Spatial Economics Research Centre, LSE

Theories about neighbours' influence on children's education that are based on social capital, cohesion, and disorganisation stress the importance of neighbourhood stability. This is because stability is regarded as necessary for building strong ties and friendships, which in turn affect educational outcomes. However, amongst the vast number of studies on the effect of neighbours on a child's education, none has tested whether neighbourhood stability matters. We fill this gap by estimating the causal effect of residential turnover on student test score gains. Estimation is based on administrative data on four cohorts of secondary school students in England, allowing us to control for pupil-level, neighbourhood-level, and school-by-cohort level unobservables and for changes in neighbourhood composition driven by students' residential mobility. We show that a high turnover of same-school-grade students reduces value added for teenagers who stay in their neighbourhood, although turnover of other age groups does not matter. These results coupled with auxiliary findings based on survey data suggest that neighbours' turnover damages education through the disruption of local ties and friendships, highlighting a so-far undiscovered spillover of mobility. (JEL: C21; I20, R23)

Trading in Networks: Theory and Experiments

Syngjoo Choi, Seoul National University, Andrea Galeotti, European University Institute and University of Essex, and Sanjeev Goyal, Faculty of Economics and Christ's College, University of Cambridge

We propose a model of posted prices in networks. The model maps traditional concepts of market power, competition, and double marginalization into networks, allowing for the study of pricing in complex structures of intermediation, such as supply chains, transportation and communication networks, and financial brokerage. We provide a complete characterization of equilibrium prices. Our experiments complement our theoretical work and point to *node criticality* as an organizing principle for understanding pricing, efficiency, and the division of surplus in networked markets. (JEL: C70, C71, C91, C92, D40)

Petro Rents, Political Institutions, and Hidden Wealth: Evidence from Offshore Bank Accounts

Jørgen Juel Andersen, BI Norwegian Business School, Niels Johannesen, University of Copenhagen, David Dreyer Lassen, University of Copenhagen, and Elena Paltseva SITE, Stockholm School of Economics

Do political institutions limit rent seeking by politicians? We study the transformation of petroleum rents, almost universally under direct government control, into hidden wealth using unique data on bank deposits in offshore financial centers that specialize in secrecy and asset protection. Our main finding is that plausibly exogenous shocks to petroleum income are associated with significant increases in hidden wealth, but only when institutional checks and balances are weak. The results suggest that around 15% of the windfall gains accruing to petroleum-producing countries with autocratic rulers is diverted to secret accounts. We find very limited evidence that shocks to other types of income not directly controlled by governments affect hidden wealth. (D72, O13, P51, Q32)

The Limits of Expectations-Based Reference Dependence

Uri Gneezy, University of California San Diego, Lorenz Goette, University of Bonn and University of Lausanne, Charles Sprenger, University of California San Diego, and Florian Zimmermann, University of Zurich

Theories of expectations-based reference-dependent preferences have provided a critical modeling innovation, incorporating a structured theory of the formation of reference points. An important prediction of these models is a monotone response in behavior to changes in expectations. To test such models we conduct a real-effort experiment manipulating expectations and examining consequences on effort provision. In contrast to the theory, we document substantial nonmonotonicities in the effort response to changing expectations. Our results provide some evidence on the limitations of expectations-based reference dependence. (JEL: D81, D84, D12, D03)

Incentives for Information Production in Markets Where Prices Affect Real Investment

James Dow, LBS, Itay Goldstein, Wharton School, University of Pennsylvania, and Alexander Guembel, Toulouse School of Economics and University of Toulouse Capitole (CRM-IAE)

We analyze information production incentives for traders in financial markets, when firms condition investment decisions on information revealed through stock prices. We show that traders' private value of information about a firm's investment project increases with the ex ante likelihood the project will be undertaken. This generates an informational amplification effect of shocks to firm value. Information production by traders may exhibit strategic complementarities for projects that would not be undertaken in the absence of positive news from the stock market. A small decline in fundamentals can lead to a market breakdown where information production ceases, and investment and firm value collapse. Our theory sheds light on how productivity shocks are amplified over the business cycle. (JEL: G14, G31, E32)

Tipping Versus Cooperating to Supply a Public Good

Scott Barrett, School of International and Public Affairs & Earth Institute, Columbia University and Astrid Dannenberg, University of Kassel and University of Gothenburg

In some important multiplayer situations, such as efforts to supply a global public good, players can choose the game they want to play. In this paper we conduct an experimental test of the decision by a group with fixed membership, playing over a finite number of periods, to choose between a "tipping" game, in which every player wants to contribute to the public good provided enough other players contribute, and a prisoners' dilemma, the classic cooperation game. In the prisoners' dilemma, the first best outcome is attainable, but cannot be sustained as a Nash equilibrium. In the tipping game, only a second best outcome may be attainable, but there exists a Nash equilibrium that is strictly preferred to the one in the prisoners' dilemma. We show that many groups persistently choose the prisoners' dilemma despite its strategic disadvantage, and that the groups that eventually choose the tipping game do better than the ones that stick with the prisoners' dilemma. (JEL: C72, C92, F53, H41)