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Abstracts

Presidential Address, EEA Annual Congress 2016: Growing and Slowing Down Like China

Fabrizio Zilibotti, Yale University

This article is based on the presidential address delivered at the EEA Annual Congress 2016. It discusses China's institutional and economic transformation through the lens of the model of growth and convergence developed in Acemoglu, Aghion, and Zilibotti (JEEA 2006), which emphasizes the dichotomy between investment- and innovation-led growth. The economic reforms introduced in the 1980s and 1990s have enabled the Chinese economy to grow at historically unprecedented rates through fostering investment, reallocation, and technology adoption from abroad. The Chinese stimulus package introduced in 2008 appears to have prolonged the longevity of China's investment-driven growth beyond its optimal point. Over the last decade, China has activated the engine of innovation-led growth. The article discusses the virtues and limits of such ongoing transition, based on research in progress using firm-level data on R&D and productivity growth. Finally, it provides an appraisal of the institutional and policy reforms that are necessary for China to continue on its path of rapid convergence. (JEL: H54, O11, O16, O25, O32, O33, O53)

Alfred Marshall Lecture, EEA Annual Congress 2016: Ordered Consumer Search

Mark Armstrong, Department of Economics and All Souls College, University of Oxford

The paper discusses situations in which consumers search through their options in a deliberate order. Topics include: the existence of ordered search equilibria with symmetric sellers (all consumers first inspect the seller they anticipate will set the lowest price, and a seller that is inspected first by consumers will set the lowest price); the use of price and non-price advertising to direct search; how purchase history can guide future search; and the incentive a seller can have to raise its own search cost. I also show how ordered search can be reformulated as a simpler discrete choice problem without search frictions. (JEL: D21, D43, D83, L11, L15)

Harnessing Emotional Connections to Improve Financial Decisions: Evaluating the Impact of Financial Education in Mainstream Media

Gunhild Berg, World Bank and Bilal Zia, World Bank

Responsible financial habits are important for economic welfare, yet it remains unclear whether they can be effectively taught. Entertainment media offers a unique and cost-effective channel of reaching millions of viewers with financial education messages that resonate. This paper uses random and symmetric encouragement methodology to study the economic impact of targeted messages on debt management and gambling scripted in a popular television soap opera in South Africa. The results show treated viewers score significantly higher on financial knowledge, are more likely to borrow from formal sources and for productive purposes, and are less likely to enter into retail credit or gamble. Quantitative and qualitative analyses of mechanisms show strong recall of messages conveyed by the lead character, which supports theories of psychological and emotional influences on decision-making. (JEL: C93, D03, D14, O12, O17).

Culture, Work Attitudes and Job Search: Evidence from the Swiss Language Border
Beatrix Eugster, University of St. Gallen, Rafael Lalive, Q2 University of Lausanne, Andreas Steinhauer, University of Edinburgh, and Josef Zweimüller, University of Zurich

Unemployment varies across space and in time. Can attitudes toward work explain some of these differences? We study job search durations along the Swiss language border, sharply separating Romance language speakers from German speakers. According to surveys and voting results, the language border separates two social groups with different cultural background and attitudes toward work. Despite similar local labor markets and identical institutions, Romance language speakers search for work almost seven weeks (or 22%) longer than their German speaking neighbors. This is a quantitatively large effect, comparable to a large change in unemployment insurance generosity. (JEL: J21, J64, Z10)

Infant Health and Longevity: Evidence from A Historical Intervention in Sweden
Sonia Bhalotra, University of Essex, Martin Karlsson, University of Duisburg-Essen, and Therese Nilsson, Lund University

This paper investigates the potential of an infant intervention to improve life expectancy, contributing to emerging interest in the early life origins of chronic disease. We track individuals from birth to death, and are able to identify age and cause of death. The intervention was pioneered in Sweden in 1931–1933, and appears to have been pivotal in the emergence of universal infant care programmes in the Scandinavian countries during the creation of the Welfare State. It provided information and support to mothers, with an emphasis on nutrition and sanitation, while monitoring infant care through home visits and clinics. We estimate that the average duration of programme exposure in infancy led to a 1.56% point decline in the risk of infant death (24% of baseline risk) and a 2.56% point decline in the risk of dying by age 75 (7.0% of baseline risk), and these impacts are much larger for children born out of wedlock. Intervention-led declines in the risk of dying after the age of 50 are dominated by reductions in cancer and cardiovascular mortality. We find no evidence of selective utilisation, and the estimates are similar when we exploit within-mother variation in outcomes. (JEL: I15; I18; H41)

Optimism and Pessimism with Expected Utility
David Dillenberger, University of Pennsylvania, Andrew Postlewaite, University of Pennsylvania, and Kareen Rozen, Brown University

Maximizing subjective expected utility is the classic model of decision making under uncertainty. Savage [Savage, Leonard J. (1954). *The Foundation of Statistics*. Wiley, New York] provides axioms on preference over acts that are equivalent to the existence of a subjective expected utility representation, and further establishes that such a representation is essentially unique. We show that there is a continuum of other "expected utility" representations in which the probability distributions over states used to evaluate acts depend on the set of possible outcomes of the act and suggest that these alternate representations can capture pessimism or optimism. A consequence of the multiplicity of alternative representations of preferences that satisfy Savage's axioms is that existing analyses of agents' market behavior in the face of uncertainty have a broader interpretation than would appear at first glance. Extending the decision maker's (DM) choice domain to include both subjective acts and objective lotteries, we consider a DM who behaves in accordance with expected utility on each subdomain, applies the same Bernoulli utility function over prizes regardless of their source, but may be optimistic or pessimistic with regard to subjective acts. This model can accommodate, for instance, the behavior in Ellsberg's two-urn experiment, and provides a framework within which optimism, pessimism, and standard Savage agents can be distinguished. (JEL: D80, D81)