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Abstracts

Do Leaders Affect Ethical Conduct?

Giovanna d'Adda, Politecnico di Milano, Donja Darai, Nicola Pavanini, Tilburg University, and Roberto A. Weber, University of Zurich

We study whether leaders influence the unethical conduct of followers. To avoid selection issues present in natural environments, we use an experiment in which we create simple laboratory firms and assign leadership roles at random. In our first experiment, firms engage in competition and unethical behavior enhances firm earnings but produces a negative externality for all firms. We vary, by treatment, two instruments through which leaders can influence follower conduct—prominent statements to the group and the allocation of monetary incentives. We find that leaders influence the ethical conduct of followers both through their statements and through the use of incentives. Moreover, leaders who are likely to have acted dishonestly in a preliminary stage of the experiment are more likely to employ mechanisms to encourage dishonesty among followers. As a result, firms randomly assigned one of these unethical leaders are more likely to engage in misreporting. A second experiment finds that the above relationships are present, though weaker, when firms do not engage in direct competition. (JEL: C92, D73, M14)

Public Sector Wage Policy and Labor Market Equilibrium: A Structural Model

Jake Bradley, University of Cambridge, Fabien Postel-Vinay, University of College London, and Hélène Turon, University of Bristol

We develop and estimate a structural model that incorporates a sizeable public sector in a labor market with search frictions. The wage distribution and the employment rate in the public sector are taken as exogenous policy parameters. Overall wage distribution and employment rate are determined within the model, taking into account the private sector's endogenous response to public sector employment policies. Job turnover is sector specific and transitions between sectors depend on the worker's decision to accept alternative employment in the same or different sector by comparing the value of employment in the current and prospective jobs. The model is estimated on British data by a method of moments. We use the model to simulate the impact of various counterfactual public sector wage and employment policies. (JEL: E24, J21, J68)

Overbooking

Jeffrey C. Ely, Northwestern University, Daniel F. Garrett, University of Toulouse Capitole, and Toomas Hinnosaar, Collegio Carlo Alberto

We consider optimal pricing policies for airlines when passengers are uncertain at the time of ticketing of their eventual willingness to pay for air travel. Auctions at the time of departure efficiently allocate space and a profit maximizing airline can capitalize on these gains by overbooking flights and repurchasing excess tickets from those passengers whose realized value is low. Nevertheless profit maximization entails distortions away from the efficient allocation. Under regularity conditions, we show that the optimal mechanism can be implemented by a modified double auction. In order to encourage early booking, passengers who purchase late are disadvantaged. In order to capture the information rents of passengers with high expected values, ticket repurchases at the time of departure are at a subsidized price, sometimes leading to unused capacity. (JEL: D42, D44, D82)

Unemployment Insurance and Unemployment Accounts: The Best of Both Worlds
Ofer Setty, Tel Aviv University

Unemployment accounts are mandatory individual savings accounts that can be used only during unemployment or retirement. Unlike unemployment insurance, unemployment accounts solve the moral hazard problem but provide no public insurance to workers. I study a hybrid system that borrows from concepts of both unemployment insurance and unemployment accounts, in which workers are mandated to save when employed and can withdraw from the account when unemployed. Once the account is exhausted, the unemployed worker receives unemployment benefits. This hybrid policy provides insurance to workers more efficiently than an unemployment insurance system because it provides government benefits selectively. As a consequence, young workers can reduce their precautionary savings and better smooth their consumption over the life cycle. Calibrating the model to the US economy, I find that, relative to an optimal unemployment insurance system, the optimal hybrid policy leads to a welfare gain of 2.4%, measured as consumption equivalent variation. (JEL: E24, E61, J64, J65)

Immigration and Voting for the Far Right
Martin Halla, University of Innsbruck, Alexander F. Wagner, Swiss Finance Institute - University of Zurich, and Josef Zweimüller, University of Zurich

Does the presence of immigrants in one's neighborhood affect voting for far right-wing parties? We study the case of the Freedom Party of Austria (FPÖ) that, under the leadership of Jörg Haider, increased its vote share from less than 5% in the early 1980s to 27% by the end of the 1990s and continued to attract more than 20% of voters in the 2013 national election. We find that the inflow of immigrants into a community has a significant impact on the increase in the community's voting share for the FPÖ, explaining roughly a tenth of the regional variation in vote changes. Our results suggest that voters worry about adverse labor market effects of immigration, as well as about the quality of their neighborhood. In fact, we find evidence of a negative impact of immigration on “compositional amenities”. In communities with larger immigration influx, Austrian children commute longer distances to school, and fewer daycare resources are provided. We do not find evidence that Austrians move out of communities with increasing immigrant presence. (JEL: P16, J61)

The Home Bias in Sovereign Ratings
Andreas Fuchs, Heidelberg University and Kai Gehring, University of Zurich and University of Goettingen

Using data on 143 sovereigns provided by nine agencies based in six countries, we estimate the determinants of sovereign ratings to test whether agencies assign higher ratings to their respective home countries, as well as to economically, geopolitically, and culturally aligned countries. Our regression results show that the respective home country, culturally more similar countries, and countries to which home-country banks have a larger risk exposure receive higher ratings than justified by their economic and political fundamentals. Cultural proximity, as measured by linguistic similarity, is shown to be the main transmission channel that explains the advantage of the home country. Further empirical tests that control for the existence of foreign offices and rated countries’ levels of information transparency suggest that a more optimistic perception of risks rather than informational advantages drives this cultural home bias. (JEL: G24, F34, H63, F65, G15)