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Abstracts

Consistent Climate Policies
Reyer Gerlagh, University of Tilburg, and Matti Liski, Aalto University

What are the optimal climate policies when time preferences deviate from the standard exponential discounting and decision makers cannot commit to future policies? We show that, with time-declining discounting, the delay and persistence of climate impacts provide a commitment device to policy makers. We quantify the commitment value in a climate-economy model by solving time-consistent Markov equilibrium capital and emission taxes explicitly. The returns on capital and climate investments are no longer equal, leading to a large increase in the emission tax, compared to a benchmark with equalized returns. The commitment value increases the tax by a factor of 20 in our quantitative assessment.

Predestination and the Protestant Ethic
Larbi Alaoui, Universitat Pompeu Fabra and Barcelona GSE, and Alvaro Sandroni, Kellogg School of Business

This paper relates the secular premise that accumulating wealth is a moral obligation and the religious dogma that salvation is immutable and preordained by God. It thus formalizes Weber's renowned thesis on the connection between the worldly asceticism of Protestants and the religious doctrines of Calvinism.

The Decentralization of Wage Bargaining and Income Losses after Worker Displacement
Simon Janssen, IAB Nuremberg

This paper uses administrative data to study the relationship between the decentralization of wage bargaining systems and the costs of worker displacement. Specifically, the paper exploits a major reform of the wage bargaining system in the Danish manufacturing sector, a reform that changed the wage-setting process from a highly centralized bargaining system at the national level to a decentralized system with a strong emphasis on firm-level wage bargaining. The results show that under the centralized wage bargaining system, displaced workers' income losses were small, whereas under the decentralized wage bargaining system, these income losses increased substantially, particularly because displaced workers experienced worse wage growth under the decentralized system. The effect persists after controlling for a variety of macroeconomic indicators, and displaced workers' income losses did not increase in sectors that were not affected by a comparable change in the wage bargaining system.

Financial Consumption and the Cost of Finance: Measuring Financial Efficiency in Europe (1950–2007)
Guillaume Bazot, Université Paris 8, LED

This paper proposes a quantitative evaluation of the financial sector from 1950 to 2007 in Germany, France, the UK, and Europe more broadly. Three main facts are revealed. First, the ratio of domestic financial intermediaries' income to GDP increases continuously in all the countries over the period, even during the 1990s and the 2000s, contrary to the national accountant evaluation. Second, comparing financial income to the quantity of intermediated assets, the analysis shows that the unit cost of financial intermediation does not decrease over the period, except in France. In addition, because European unit cost decreased after the 1990s while it remained stable in the US, the unit cost increased more in the US than in Europe over the whole period. Third, an econometric investigation shows that (i) the increase in nominal interest rates during the 1970s and the 1980s is positively correlated to unit cost and (ii) the joint development of financial wealth management, credit intermediation, and the securities industry during the 1990s and the 2000s coincides with higher unit cost values.

Bidimensional Matching with Heterogeneous Preferences: Education and Smoking in the Marriage Market
Pierre-André Chiappori, Columbia University, Sonia Oreffice, University of Surrey, and Climent Quintana-Domeque, University of Oxford

We develop a frictionless matching model under transferable utility where individuals are characterized by a continuous trait and a binary attribute. The model incorporates attributes for which there are heterogeneous preferences in the population regarding their desirability, that is, the impact of the traits cannot be summarized by a one-dimensional attractiveness index. We present a general resolution strategy based on optimal control theory, and characterize the stable matching. We then consider education and smoking status, further specify the model by observing that there are more male than female smokers above each education level, and derive additional predictions about equilibrium matching patterns and how individuals with different smoking habits "marry down" or "marry up" by education. Using the CPS March and Tobacco Use Supplements for the period 1996 to 2003, we find that the hypotheses based on our model predictions are borne out in the data.

Motivation, Resources and the Organization of the School System
Facundo Albornoz, University of Nottingham, Samuel Berlinski, Inter-American Development Bank, and Antonio Cabrales, University College London

This paper studies a model where student effort and talent interact with parental and teachers' investments, as well as with school system resources. The model is rich, yet sufficiently stylized to provide novel implications. It can show, for example, that an improvement in parental outside options will reduce parental and school effort, which are partially compensated through school resources. In this way, by incorporating the behavioral responses of parents, teachers and policymakers, the paper provides a rationale for the existing ambiguous empirical evidence on the effect of school resources. The paper also provides a novel microfoundation for peer effects, with empirical implications for welfare and different edu-

cation policies.

The Role of Bounded Rationality and Imperfect Information in Subgame Perfect Implementation - An Empirical Investigation
Philippe Aghion, Harvard University, Ernst Fehr, University of Zurich, Richard Holden, University of New South Wales, and Tom Wilkening, University of Melbourne

In this paper we conduct a laboratory experiment to test the extent to which Moore and Repullo's subgame perfect implementation mechanism induces truth-telling, both in a setting with perfect information and in a setting where buyers and sellers face a small amount of uncertainty regarding the good's value. We find that Moore-Repullo mechanisms fail to implement truth-telling in a substantial number of cases even under perfect information about the valuation of the good. Our data further suggests that a substantial proportion of these lies are made by subjects who hold pessimistic beliefs about the rationality of their trading partners. Although the mechanism should — in theory — provide incentives for truth-telling, many buyers in fact believe that they can increase their expected monetary payoff by lying. The deviations from truth-telling become significantly more frequent and more persistent when agents face small amounts of uncertainty regarding the good's value. Our results thus suggest that both beliefs about irrational play and small amounts of uncertainty about valuations may constitute important reasons for the absence of Moore-Repullo mechanisms in practice.