

JEEA Volume 16-2, April 2018

Abstracts

The Costs of Occupational Mobility: An Aggregate Analysis

Guido Matias Cortes, University of Manchester, and Giovanni Gallipoli, University of British Columbia

We estimate the costs of occupational mobility and quantify the relative importance of differences in task content as a component of total mobility costs. We use a novel approach based on a model of occupational choice that delivers a gravity equation linking worker flows to occupation characteristics and transition costs. Using data from the Current Population Survey and the Dictionary of Occupational Titles we find that task-specific costs account for no more than 15% of the total transition cost across most occupation pairs. Transition costs vary widely across occupations and, while increasing with the dissimilarity in the mix of tasks performed, are mostly accounted for by task-independent occupation-specific factors. The fraction of transition costs that can be attributed to task-related variables appears fairly stable over the 1994–2013 period.

What Makes a Price Fair? an Experimental Study of Transaction Experience and Endogenous Fairness Views

Holger Herz, University of Fribourg, and Dmitry Taubinsky, Dartmouth College

People's fairness preferences are an important constraint for what constitutes an acceptable economic transaction, yet little is known about how these preferences are formed. In this paper, we provide clean evidence that previous transactions play an important role in shaping perceptions of fairness. Buyers used to high market prices, for example, are more likely to perceive high prices as fair than buyers used to low market prices. Similarly, employees used to high wages are more likely to perceive low wages as unfair. Our data further allows us to decompose this history-dependence into the effects of pure observation vs. the experience of payoff-relevant outcomes. We propose two classes of models of path-dependent fairness preferences—either based on endogenous fairness reference points or based on shifts in salience—that can account for our data. Structural estimates of both types of models imply a substantial deviation from existing history-independent models of fairness. Our results have implications for price discrimination, labor markets, and dynamic pricing.

Long-term Relationships: Static Gains and Dynamic Inefficiencies

David Hmous, University of Zurich, and Morten Olsen, University of Copenhagen

In the 1980s the Japanese keiretsu system of interconnected business groups was praised as a model to emulate, but since then Japan has often been criticized for being less innovative than the United States. In this paper we connect the two views and argue that tight business relationships can create dynamic inefficiencies and reduce broad innovations. In particular, we consider the repeated interaction between final good producers and intermediate input suppliers, where the provision of the intermediate input is non-contractible. We build a cooperative equilibrium where producers can switch suppliers and start cooperation immediately with new suppliers. We first consider broad innovations: every period, one

supplier has the opportunity to create a higher quality input that can be used by all producers. Since relationships are harder to break in the cooperative equilibrium the market size for potential innovators is smaller and the rate of innovation might be lower than in the non-cooperative equilibrium. We contrast this with a setting with relationship-specific innovations which we show are encouraged by the establishment of relational contracts. We illustrate the predictions of the model using the recent business history of the United States and Japan and further use patent data to show that U.S. patents are more general than Japanese and even more so in sectors using more differentiated inputs.

Monetary Shocks in Models With Observation and Menu Costs

Fernando Alvarez, University of Chicago, Francesco Lippi, University of Sassari, and Einaudi Institute for Economics and Finance (EIEF), and Luigi Paciello, Einaudi Institute for Economics and Finance (EIEF)

We study economies where price stickiness arises due to the simultaneous presence of both menu and information costs. We identify the relative importance of these costs using firms survey data and analyze the response of prices and output following a permanent unexpected monetary shock. For a given frequency of price adjustment, we find that the information friction significantly amplifies the real effect of the shock when the shock is small, or when it is not known by firms. Instead, when the shock is large and known to firms the flexibility of prices increases and the real effects gradually vanish.

Asset Pricing and the Propagation of Macroeconomic Shocks

Ivan Jaccard, European Central Bank, DG-Research

This paper considers the implications of habit formation and financial frictions for the propagation of macroeconomic shocks. In a model that is capable of matching asset pricing moments, a short-lived shock that destroys a small fraction of the economy's stock of pledgeable collateral generates a persistent recession, a stock market crash, and a flight-to-safety effect. This novel mechanism creates a tight link between the asset pricing implications of macroeconomic models and their ability to propagate and amplify the effects of macroeconomic shocks.

Fertility and Early-life Mortality: Evidence From Smallpox Vaccination in Sweden

Philipp Ager, University of Southern Denmark, Casper Worm Hansen, University of Copenhagen, and Peter Sandholt Jensen, University of Southern Denmark

The smallpox vaccination method was the paramount medical innovation of the late 18th and early 19th centuries. We exploit the introduction of the smallpox vaccine in Sweden to identify the causal effect of early-life mortality on fertility. Our analysis shows that parishes in counties with higher levels of smallpox mortality prior to the introduction of vaccination experienced greater declines in infant mortality afterwards. Exploiting this finding in an instrumental-variable approach reveals that the decline in infant mortality had a negative effect on the number of children born, whereas we find a small insignificant effect on the number of surviving children and natural population growth.

Your Loss is My Gain: a Recruitment Experiment With Framed Incentives

Jonathan de Quidt, Institute for International Economic Studies, Stockholm University

As predicted by loss aversion, numerous studies find that penalties elicit greater effort than bonuses, even when the underlying payoffs are identical. However, loss aversion also predicts that workers will demand higher wages to accept penalty contracts. In six experiments I recruited workers online under framed incentive contracts to test the second prediction. None find evidence for the predicted distaste for penalty contracts. In four experiments penalty framing actually increased the job offer acceptance rate relative to bonus framing. I rule out a number of explanations, most notably self- commitment motives do not seem to explain the finding. Two experiments that manipulate salience are successful at eliminating the effect, but do not significantly reverse it. Overall, loss aversion seems to play surprisingly little role in this setting. The results also highlight the importance of behavioral biases for infrequent, binding decisions such as contract take-up.