JEEA Volume 16-4, August 2018
Abstracts

Presidential Address-2017: Firm Dynamics and Growth Measurement in France
Philippe Aghion, Collge de France and LSE, Antonin Bergeaud, Banque de France, Timo Boppart, IIES, Stockholm University, and Simon Bunel, INSEE

In this paper we use the same methodology as Aghion et al. (2017) to compute missing growth estimates from creative destruction in France. We find that from 2004 to 2015, about 0.5 percentage point of real output growth per year is missed by the statistical office, which is about the same as what was found in the U.S. We look at how missing growth varies across French sectors and regions, and we look at the underlying establishment and firm dynamics. In particular we show that the similar missing growth estimates between France and the U.S. hide noticeable differences in plant dynamics between the two countries.

Marshall Lecture-2017: Moral Hazard in Health Insurance: What We Know and How We Know It
Liran Einav, Stanford University and Amy Finkelstein, Stanford University

We describe research on the impact of health insurance on healthcare spending ("moral hazard"), and use this context to illustrate the value of and important complementarities between different empirical approaches. One common approach is to emphasize a credible research design; we review results from two randomized experiments, as well as some quasi-experimental studies. This work has produced compelling evidence that moral hazard in health insurance exists – that is, individuals, on average, consume less healthcare when they are required to pay more for it out of pocket – as well as qualitative evidence about its nature. These studies alone, however, provide little guidance for forecasting healthcare spending under contracts not directly observed in the data. Therefore, a second and complementary approach is to develop an economic model that can be used out of sample. We note that modeling choices can be consequential: different economic models may fit the reduced form but deliver different counterfactual predictions. An additional role of the more descriptive analyses is therefore to provide guidance regarding model choice.

Self-selection and Comparative Advantage in Social Interactions
Steve Cicala, University of Chicago, Roland Fryer, Harvard University, and Jörg L. Spenkuch, Northwestern University

We propose a theory of social interactions based on self-selection and comparative advantage. In our model, students choose peer groups based on their comparative advantage _within_ a social environment. The effect of moving a student into a different environment with higher-achieving peers depends on where in the ability distribution she falls and the shadow prices that clear the social market. We show that the model's key prediction—an individual's ordinal rank predicts her behavior and test scores—is borne out in one randomized controlled trial in Kenya as well as administrative data from the U.S. To test whether our selection mechanism can explain the effect of rank on outcomes, we conduct an experiment with nearly 600 public school students in Houston. The experimental results suggest

that social interactions are mediated by self-selection based on comparative advantage.

Agricultural Risk and the Spread of Religious Communities

Philipp Ager, University of Southern Denmark and Antonio Ciccone, Mannheim University, ICREA, UPF, and Barcelona GSE

Building on the idea that members of religious communities insure each other against some idiosyncratic risks, we argue that religious communities should be more widespread where populations face greater common risk. Our theoretical argument builds on idiosyncratic and common risks aggravating each other. When this is the case, individuals have a greater incentive to mutually insure against idiosyncratic risk when greater common risk makes the worst case scenario of bad realizations of common and idiosyncratic risks more likely. Our empirical analysis exploits common rainfall risk as a source of common county-level agricultural risk in the nineteenth-century United States. We find that a greater share of the population was organized in religious communities in counties with greater common agricultural risk, holding expected agricultural output constant. The link between rainfall risk and membership in religious communities is stronger among more agricultural counties and counties exposed to greater rainfall risk during the growing season. We also find that among the historically more agricultural counties, more than 1/3 of nineteenth-century differences in religious membership associated with rainfall risk persist to the turn of the twenty-first century.

Are Small-Scale SVARs Useful for Business Cycle Analysis? Revisiting Non-Fundamentalness

Fabio Canova, BI Norwegian Business School and Medhi Hamidi Saneh, Universidad Carlos III Madrid

Non-fundamentalness arises when current and past values of the observables do not contain enough information to recover SVAR disturbances. Using Granger causality tests, the literature suggested that several small scale SVAR models are non-fundamental and thus not necessarily useful for business cycle analysis. We show that causality tests are problematic when SVAR variables cross sectionally aggregate the variables of the underlying economy or proxy for non-observables. We provide an alternative testing procedure, illustrate its properties with Monte Carlo simulations, and re-examine a prototypical small scale SVAR model.

Politics 2.0: The Multifaceted Effect of Broadband Internet On Political Participation

Filipe Campante, Harvard Kennedy School, Ruben Durante, Universitat Pompeu Fabra and Sciences Po, and Francesco Sobbrio, LUISS "Guido Carli"

We study the impact of the diffusion of high-speed Internet on different forms of political participation, using municipal data from Italy from 1996 to 2013. Our empirical strategy exploits the fact that the cost of providing ADSL-based broadband services in a given municipality depends on its relative position in the pre-existing voice telecommunications infrastructure. We first show that broadband Internet had a substantial negative effect on turnout in parliamentary elections up until 2008. It was, however, positively associated with other forms of political participation, both online and offline, such as the emergence of local online grassroots protest movements. The negative effect of the Internet on turnout

in parliamentary elections essentially reversed after 2008, when local grassroots movements coalesced into the Five-Star Movement (M5S) electoral list. Our findings support the view that: i) the effect of the Internet varies across different forms of political participation; ii) it changes over time, as new political actors emerge that are able to take advantage of the new technology to attract disenchanted or demobilized voters; and iii) these new forms of mobilization eventually feed back into the mainstream electoral process, converting "exit" back into "voice."

Immigration, Search and Redistribution: a Quantitative Assessment of Native Welfare
Michele Battisti, Ifo Institute - Leibniz Institute for Economic Research at the University of Munich, Gabriel Felbermayr, LMU Munich, Ifo Institute - Leibniz Institute for Economic Research at the University of Munich, Giovanni Peri, University of California, Davis, and Panu Poutvaara, LMU Munich, Ifo Institute - Leibniz Institute for Economic Research at the University of Munich

What are the welfare effects of immigration on low-skilled and high-skilled natives? To address this question, we develop a general equilibrium model featuring two skill types, search frictions, wage bargaining, and a welfare state that redistributes income through unemployment benefits and the provision of public goods. Our quantitative analysis suggests that, in all 20 countries studied, immigration attenuates the effects of search frictions. The resulting gains tend to outweigh the welfare costs of redistribution. Immigration has increased native welfare in almost all countries. In two-thirds of countries, both high- and low-skilled natives have benefited from the presence of immigrants, contrary to what models without search frictions or redistribution predict. Average total welfare gains from migration are 1.25% and 1.00% for high- and low-skilled natives, respectively.

The Half-Life of Happiness: Hedonic Adaptation in the Subjective Well-Being of Poor Slum Dwellers to the Satisfaction of Basic Housing Needs
Sebastian Galiani, University of Maryland, Paul J. Gertler, University of California, Berkeley, and Raimundo Undurraga, University of Chile

Subjective well-being may not improve in step with increases in material well-being due to hedonic adaptation, a psychological process that attenuates the long-term emotional impact of a favorable or unfavorable change in circumstances. As a result, people's degree of happiness eventually returns to a stable reference level. We use a multi-country field experiment to examine the impact on subjective measures of well-being of the provision of improved housing to extremely poor populations in order to test whether they exhibit hedonic adaptation when their basic housing needs are met. After sixteen months, we find that subjective perceptions of well-being improve substantially for recipients of improved housing but that, after, on average, eight additional months, 60% of that gain has dissipated. Extrapolation achieved through estimation of a structural model of hedonic adaptation suggests that the decay rate of the treatment effect is 20% per month. As a result, after 28 months of treatment exposure, we forecast that the entire treatment effect will have disappeared.

Ethnicity and Violence During Democratic Transitions: Evidence From South Africa

Francesco Amodio, McGill University and Giorgio Chiovelli, London Business School

This paper shows that ethnic diversity within the disenfranchised majority is a strong correlate of the incidence of violence during democratization. We study the relationship between ethnicity and conflict in South Africa during the fall of apartheid. Migration flows following the implementation and repeal of apartheid segregation laws induce cross-sectional and time variation in the ethnic composition of districts. Using Census data from the years before and after democratization, we compare the evolution of conflict across districts experiencing differential changes in ethnic composition. We find that ethnic polarization and inequality within the black majority correlate strongly and positively with the incidence of armed confrontations between black-dominated groups. Results suggest that during democratic transitions ethnic markers can become a salient technology to separate individuals into well-identified groups and mobilize them for political violence.