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Abstracts

Parental Beliefs about Returns to Educational Investments - The Later the Better?

Teodora Boneva, University College London, and Christopher Rauh, University of Montreal

In this paper, we study parental beliefs about the returns to parental investments made during different periods of childhood. Using two independent samples, we document that parents perceive the returns to different late investments to be higher than the returns to early investments, and that they perceive investments in different time periods as substitutes rather than complements. We show that parental beliefs about the returns to investments vary substantially across the population and that individual beliefs are predictive of actual investment decisions. Moreover, we document that parental beliefs about the productivity of investments differ significantly across socio-economic groups. Perceived returns to early parental investments are positively associated with household income, thereby potentially contributing to the intergenerational persistence in earnings.

When the State Mirrors the Family: The Design of Pension Systems

Vincenzo Galasso, Bocconi University, IGER, and Dondena, and Paola Profeta, Bocconi University and Dondena

We study how family culture has affected the adoption and generosity of public pension systems. Our theoretical framework suggests that inheritance rules shape filial obligations to parents, and thus the within-family intergenerational transmission of resources. In countries with egalitarian inheritance rules, inheriting children represent a large share of the population, and support generous pension systems; in countries with non-egalitarian inheritance rules, a majority of non-inheriting individuals prefers basic pension systems. An empirical cross-country analyses using historical data on inheritance rules support these predictions. These results are robust to controlling for alternative legal, religious, demographic, economic and political explanations. Evidence from individual (General Social Survey) data confirm our findings: US citizens whose ancestors came from countries featuring egalitarian inheritance rules rely more on the government as a provider of old age security income.

Price Setting in Online Markets: Does IT Click?

Yuriy Gorodnichenko, University of California, Berkeley, Viacheslav Sheremirov, Federal Reserve Bank of Boston, and Oleksandr Talavera, Swansea University

Using a unique dataset of daily U.S. and U.K. price listings and the associated number of clicks for precisely defined goods from a major shopping platform, we shed new light on how prices are set in online markets, which have a number of special properties such as low search costs, low costs of monitoring competitors' prices, and low costs of nominal price adjustment. We document that although online prices change more frequently than offline prices, they nevertheless exhibit relatively long spells of fixed prices. By many metrics, such as large size and low synchronization of price changes, considerable cross-sectional dispersion, and low sensitivity to predictable or unanticipated changes in demand conditions,

online prices are as imperfect as offline prices. Our findings suggest a need for more research on the sources of price rigidities and dispersion, as well as on the relative role of menu and search costs in online-pricing frictions.

Leveling the Playing Field: How Campaign Advertising Can Help Non-dominant Parties

Horacio A. Larreguy, Harvard University, John Marshall, Columbia University, and James M. Snyder Jr., Harvard University

We examine how campaign advertising affects electoral support. We propose a simple model where advertising disproportionately benefits non-dominant political parties, because voters are uncertain about and biased against such parties. We test this argument in Mexico, where one of the three main parties dominates in many localities. To identify the effects of exposure to campaign advertising, we exploit differences across neighboring precincts in campaign ad distribution. These differences originate from cross-state media coverage spillovers induced by a 2007 reform that equalized access to ad slots across all broadcast media. We find that, on average, ads on AM radio increase the vote shares of the PAN and the PRD, but not the previously-hegemonic PRI. Consistent with our model, campaign advertising is most effective in poorly informed and politically uncompetitive electoral precincts, and against locally dominant parties of intermediate strength.

What Impedes Efficient Adoption of Products? Evidence From Randomized Sales Offers for Fuel-Efficient Cookstoves in Uganda

David I. Levine, Walter A. Haas School of Business, University of California, Berkeley, Theresa Beltramo, United Nations High Commissioner for Refugees, Garrick Blalock, Charles H. Dyson School of Applied Economics and Management, Cornell University, Carolyn Cotterman, University of California, Berkeley, and Andrew M. Simons, Fordham University

Many consumers do not adopt products with health and wellbeing benefits apparently far greater than their costs. A sales offer combining a free trial, time payments, and the option of returning the product can overcome barriers such as liquidity constraints and poor information about benefits and usability. We tested this sales offer (and alternatives) in an experiment with a fuel-efficient charcoal stove in urban Uganda and a fuel-efficient wood stove in rural Uganda. Consistent with the importance of these barriers, this offer dramatically increased uptake in urban Kampala, from 4% to 46%, and in rural Mbarara, from 5% to 57%.

The Impact of Trade Agreements On Consumer Welfare - Evidence From the EU Common External Trade Policy

Giuseppe Berlingieri, ESSEC Business School and CEP, Holger Breinlich, University of Nottingham and CEP, and Swati Dhingra, London School of Economics and CEP

This paper estimates the consumer welfare impact of the new generation of trade agreements implemented by the European Union between 1993 and 2013. We decompose the overall effect into contributions of changes in prices, quality and variety. Estimating trade elastic-

ities for narrow product categories of EU imports, we infer quality from data on imported values and volumes. For the EU as a whole, we find that trade agreements increased quality by 7% on average but did not affect prices or variety. This translates into a cumulative reduction in the consumer price index of 0.24% over our sample period. We also find a high degree of impact heterogeneity across EU countries, trading partners and the type of trade agreement, with high-income EU countries seeing much stronger quality increases and larger overall consumer benefits.

The Organization of Knowledge in Multinational Firms

Anna Gumpert, LMU Munich

This paper studies the organization of knowledge in multinational firms. In the theory, knowledge is a costly input for firms that they can acquire at their headquarters or their production plants. Communication costs impede the access of the plants to headquarter knowledge. The model shows that multinational firms systematically acquire more knowledge at both their foreign and domestic plants than non-multinationals if their foreign plants face higher communication costs with headquarters than their domestic plants. This theoretical prediction helps understand why multinational firms pay higher wages to workers than non-multinational firms, and why their sales decrease across space. The empirical analyses show that higher communication costs indeed decrease multinational firms' foreign sales. Consistent with model-specific comparative statics, the decrease is stronger in sectors with less predictable production processes. Data on corporate transferees allow shedding light on one tool of multinational firms' organization of knowledge.