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Abstracts

JEEA-FBBVA Lecture 2017: The Dynamics of Environmental Politics and Values

Timothy Besley, LSE and CIFAR, and Torsten Persson, IIES, Stockholm University and CIFAR

This paper develops a framework to study environmentalism as a cultural phenomenon, namely as reflecting a process of social identification with certain values. The model is used to explain how the shares of environmentalists and materialists in society can coevolve with taxes on emissions to protect society against damages caused by environmental degradation. These policies are determined by electoral competition. However, even though politicians internalize the welfare of those currently alive and pick Utilitarian optimal policies, the dynamic equilibrium paths of policies and evolving values may not converge to the steady state with the highest level of long-run welfare. (JEL: H11, H23, Q58)

The Many Faces of Human Sociality: Uncovering the Distribution and Stability of Social Preferences

Adrian Bruhin, University of Lausanne, Ernst Fehr, University of Zurich, and Daniel Schunk, University of Mainz

We uncover heterogeneity in social preferences with a structural model that accounts for outcome-based and reciprocity-based social preferences and assigns individuals to endogenously determined preferences types. We find that neither at the aggregate level nor when we allow for several distinct preference types do purely selfish types emerge, suggesting that other-regarding preferences are the rule and not the exception. There are three temporally stable other-regarding types. When ahead, all types value others' payoffs more than when behind. The first, strongly altruistic type puts a large weight on others' payoffs even when behind and displays moderate levels of reciprocity. The second, moderately altruistic type also puts positive weight on others' payoff, yet at a lower level, and displays no positive reciprocity. The third, behindness averse type puts a large negative weight on others' payoffs when behind and is selfish otherwise. In addition, we show that individual-specific estimates of preferences offer only very modest improvements in out-of-sample predictions compared to our three-type model. Thus, a parsimonious model with three types captures the bulk of the information about subjects' social preferences. (JEL: C49, C91, D03)

Can the Provision of Long-Term Liquidity Help to Avoid a Credit Crunch? Evidence From the Eurosystem's LTRO

Philippe Andrade, Banque de France and CREM, Christophe Cahn, Banque de France, Henri Fraisse, ACPR, and Jean-Stéphane Mésonnier, Banque de France

We exploit the Eurosystem's longer-term refinancing operations (LTROs) of 2011–2012 to assess whether a large provision of central bank liquidity to banks during a financial crisis has a positive impact on banks' credit supply to firms. We control for credit demand by examining firms that borrow from several banks, in addition to controlling for confounding factors at the level of banks. We find that the LTROs enhanced loan supply: according to our baseline estimate, banks borrowing 1 billion euros from the facility increased their loan supply by 186 million euros over one year. We

also find that the transmission mostly took place with the first operation of December 2011, in which banks that were more capital constrained bid more. Moreover, we show that the opportunity to substitute long- term central bank liquidity for short-term liquidity enhanced this transmission. Lastly, the operations benefited larger borrowers more and did not lead banks to increase their lending to riskier firms. (JEL: E44, E51, E52, G01, G21)

The Introduction of Academy Schools to England’s Education

Andrew Eyles, University College London and London School of Economics, and Stephen Machin, London School of Economics

This paper studies the origins of what has become one of the most radical and encompassing programmes of school reform seen in the recent past in advanced countries – the introduction of academy schools to English education. Academies are independent state funded schools that are allowed to run in an autonomous manner outside of local authority control. Almost all academies are conversions from already existent state schools and so are school takeovers that enable more autonomy in operation than was permitted in their predecessor state. Studying the first round of conversions that took place in the 2000s, where poorly performing schools were converted to academies, a focus is placed on legacy enrolled pupils who were already attending the school prior to conversion. The impact on end of secondary school pupil performance is shown to be positive and significant. Performance improvements are stronger for pupils in urban academies and for those converting from schools that gained relatively more autonomy as a result of conversion. (JEL: I20, I21, I28)

Mitigating the Gender Gap in the Willingness to Compete: Evidence From a Randomized Field Experiment

Sule Alan, University of Essex and Bilkent University, and Seda Ertac, Koc University

We evaluate the impact on competitiveness of a randomized educational intervention that aims to foster grit, a skill that is highly predictive of achievement. The intervention is implemented in elementary schools, and we measure its impact using a dynamic competition task with interim performance feedback. We find that when children are exposed to a worldview that emphasizes the role of effort in achievement and encourages perseverance, the gender gap in the willingness to compete disappears. We show that the elimination of this gap implies significant efficiency gains. We also provide suggestive evidence on a plausible causal mechanism that runs through the positive impact of enhanced grit on girls’ optimism about their future performance. (C93, J16, I28)

The Influence of Ancestral Lifeways on Individual Economic Outcomes in Sub-Saharan Africa

Stelios Michalopoulos, Brown University, Louis Putterman, Brown University, and David N. Weil, Brown University

Does a person’s historical lineage influence his or her current economic status? Motivated by a large literature in the social sciences stressing the effect of an early transition to agriculture on current economic performance at the country level, we examine the relative contemporary status of individuals as a function of how much their ancestors relied on agriculture during the pre-industrial era. We focus on Africa, where – by combining anthropological records of groups with individual-

level survey data – we can explore the effect of the historical lifeways of one’s forefathers. Within enumeration areas (typically a single village or group of villages in the countryside and a city block in urban areas) as well as occupational groups, we find that individuals from ethnicities that derived a larger share of subsistence from agriculture in the pre-colonial era are today more educated and wealthy. A tentative exploration of channels suggests that differences in attitudes and beliefs as well as differential treatment by others, including differential political power, may contribute to these divergent outcomes. (JEL: O15, N37, N97, J6, Z1)

The Commitment Role of Equity Financing

Matthias Fahn, Johannes Kepler University Linz, Valeria Merlo, University of Tuebingen, and Georg Wamser, University of Tuebingen

Existing theories of a firm’s optimal capital structure seem to fail in explaining why many healthy and profitable firms rely heavily on equity financing, even though benefits associated with debt (like tax shields) appear to be high and the bankruptcy risk low. This holds in particular for firms that show a strong commitment towards their workforce and are popular among employees. We demonstrate that such financing behavior may be driven by implicit arrangements made between a firm and its managers/employees. Equity financing generally strengthens a firm’s credibility to honor implicit promises. Debt, however, has an adverse effect on the enforceability of these arrangements because too much debt increases the firm’s renegeing temptation, as some of the negative consequences of breaking implicit promises can be shifted to creditors. Our analysis provides an explanation for why some firms only use little debt financing. Predictions made by our theory are in line with a number of empirical results, which seem to stay in contrast to existing theories on capital structure. (JEL: C73, D24, D86, G32)

Services Deepening and the Transmission of Monetary Policy

Alessandro Galesi, Banco de España, and Omar Rachedi, Banco de España

The structural transformation from manufacturing to services comes with a process of services deepening: the services share of intermediate inputs rises over time. Moreover, inflation reacts less to monetary policy shocks in countries which are more intensive in services intermediates. We rationalize these facts using a two-sector New Keynesian model where trends in sectoral productivities generate endogenous variations in the Input-Output matrix. Services deepening reduces the contemporaneous response of inflation to monetary policy shocks through a marginal cost channel. Since services prices are stickier than manufacturing prices, the rise of services intermediates raises the sluggishness of sectoral marginal costs and inflation rates. (JEL: E31, E43, E52, O41)

Selection Effects With Heterogeneous Firms

Monika Mrázová, University of Geneva, and J. Peter Neary, University of Oxford

We characterize how firms select between alternative ways of serving a market. “First-order” selection effects, whether firms enter or not, are extremely robust. “Second-order” ones, how firms serve a market conditional on entry, are much less so: more efficient firms select the entry mode with lower market-access costs if firms’ maximum profits are supermodular in production and market-access costs, but not necessarily otherwise. We derive microfoundations for supermodularity in a range of canonical models. Notable exceptions include horizontal and vertical FDI with

“subconvex” demands (i.e., less convex than CES), fixed costs that increase with productivity, and R&D with threshold effects. (JEL: F23, F15, F12)