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Abstracts

The Political Class and Redistributive Policies

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We study the relationship between the composition of the political class and the size of government. First, we use a citizen-candidate model to show that the extension of suffrage is inconsequential for government spending when stricter eligibility requirements are in place. The removal of eligibility requirements, on the other hand, leads to the election of less wealthy politicians and the enactment of more redistributive policies. We test these predictions empirically using data from the 13 U.S. original states. We find no robust correlation between the extension of the franchise and government spending or the composition of the political class. However, the subsequent elimination of eligibility restrictions is associated with an increase in government spending and the election of state senators with a less elite background. (JEL: D70, D72, D78, H72)

Experiments on Belief Formation in Networks

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We study belief formation in social networks using a laboratory experiment. Participants in our experiment observe an imperfect private signal on the state of the world and then simultaneously and repeatedly guess the state, observing the guesses of their network neighbours in each period. Across treatments we vary the network structure and the amount of information participants have about the network. Our first result shows that information about the network structure matters and in particular affects the share of correct guesses in the network. This is inconsistent with the widely used naive (deGroot) model. The naive model is, however, consistent with a larger share of individual decisions than the competing Bayesian model, while both models correctly predict only about $25-30\%$ of consensus beliefs. We then estimate a larger class of models and find that participants do indeed take network structure into account when updating beliefs. In particular they discount information from neighbours if it is correlated, but in a more rudimentary way than a Bayesian learner would. (JEL: 70, C91, D83, D85)

Endogenous Childlessness and Stages of Development

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Although developing countries are characterized by high average fertility rates, they are as concerned by childlessness as developed countries. Beyond natural sterility, there are two main types of childlessness: one driven by poverty and another by the high opportunity cost of child-rearing. We measure the importance of the components of childlessness with a structural model of fertility and marriage. Deep parameters are identified using census data from 36 developing countries. As average education increases, poverty-driven childlessness first decreases to a minimum, and then the

opportunity-driven part of childlessness increases. We show that neglecting the endogenous response of marriage and childlessness may lead to a poor understanding of the impact that social progress, such as universal primary education, may have on completed fertility. The same holds for family planning, closing the gender pay gap, and the eradication of child mortality. (J11: O11, O40)

Ethnically Biased? Experimental Evidence From Kenya

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Ethnicity has been shown to shape political, social, and economic behavior in Africa, but the underlying mechanisms remain contested. We utilize lab experiments to isolate one mechanism—an individual's bias in favor of coethnics and against non-coethnics—that has been central in both theory and in the conventional wisdom about the impact of ethnicity. We employ an unusually rich research design involving a large sample of 1,300 participants from Nairobi, Kenya; the collection of multiple rounds of experimental data with varying proximity to national elections; within-lab priming conditions; both standard and novel experimental measures of coethnic bias; and an implicit association test (IAT). We find very little evidence of an ethnic bias in the behavioral games, which runs against the common presumption of extensive coethnic bias among ordinary Africans and suggests that mechanisms other than a coethnic bias in preferences must account for the associations we see in the region between ethnicity and political, social and economic outcomes. (JEL: D71, O15)

Can Bureaucrats Really Be Paid Like CEOs? Substitution Between Incentives and Resources Among School Administrators in China

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Unlike performance incentives for private sector managers, little is known about performance incentives for managers in public sector bureaucracies. Through a randomized trial in rural China, we study performance incentives rewarding school administrators for reducing student anemia—as well as complementarity between incentives and orthogonally assigned discretionary resources. Large (but not small) incentives and unrestricted grants both reduced anemia, but incentives were more cost-effective. Although unrestricted grants and small incentives do not interact, grants fully crowd-out the effect of larger incentives. Our findings suggest that performance incentives can be effective in bureaucratic environments, but they are not complementary to discretionary resources. (JEL: O15, I12, H40, M52)

Unconventional Monetary Policy, Fiscal Side Effects and Euro Area (Im)balances

Michael Hachula, DIW Berlin, Michele Piffer, Queen Mary University London, Malte Rieth, DIW Berlin

We study the macroeconomic effects of unconventional monetary policy in the euro area using structural vector autoregressions, identified with external instruments. The instruments are based on the common unexpected variation in euro area sovereign yields for different maturities on policy announcement days. We first show that expansionary monetary surprises are effective at lowering

public and private interest rates and increasing economic activity, consumer prices, and inflation expectations. We then document that the shocks lead to a rise in primary public expenditures and a widening of internal trade balances. (JEL: E52, E58, E63)

Expanding School Resources and Increasing Time on Task: Effects on Students' Academic and Non-Cognitive Outcomes

Victor Lavy, University of Warwick and Hebrew University of Jerusalem

This paper uses a natural experiment in Israel to assess the impact of school teaching resources and how it is used, 'time-on-task', on academic achievements and non-cognitive outcomes. It exploits variation induced by a change in the funding formula that reduced instructional resources funding for some schools and increased them for others. The results suggest that increased school resources and students' spending more time at school and on key tasks all lead to increased academic achievements with no behavioral costs. Separate estimations of the effect of increasing subject-specific instructional time per week also show positive and significant effects on math, science, and English test scores and small and non-significant effects on Hebrew test scores. However, there are no cross effects of additional instructional time across subjects. This evidence is robust to using different identification strategies. The evidence also shows that a longer school week increases the time that students spend on homework without reducing social and school satisfaction and without increasing school violence. (JEL: I21,J18,J24)

Mothers, Peers and Gender-Role Identity

Claudia Olivetti, Boston College, Eleonora Patacchini, Cornell University, Yves Zenou, Monash University

We study whether a woman's labor supply as a young adult is shaped by the work behavior of her adolescent peers' mothers. Using detailed information on a sample of U.S. teenagers who are followed over time, we find that labor force participation of high school peers' mothers affects adult women's labor force participation, above and beyond the effect of their own mothers. The analysis suggests that women who were exposed to a larger number of working mothers during adolescence are less likely to feel that work interferes with family responsibilities. This perception, in turn, is important for whether they work when they have children. (JEL: J22, Z13)

TFP, News, and "Sentiments:" The International Transmission of Business Cycles

Andrei A. Levchenko, University of Michigan, Nitya Pandalai-Nayar, University of Texas at Austin

We propose a novel identification scheme for a non-technology business cycle shock, that we label "sentiment." This is a shock orthogonal to identified surprise and news TFP shocks that maximizes the short-run forecast error variance of an expectational variable, alternatively a GDP forecast or a consumer confidence index. We then estimate the international transmission of three identified shocks – surprise TFP, news of future TFP, and sentiment – from the US to Canada. The US sentiment shock produces a business cycle in the US, with output, hours, and consumption rising following a positive shock, and accounts for the bulk of US short-run business cycle fluctuations. The sentiment shock also has a significant impact on Canadian macro aggregates. In the short run, it is more important than either the surprise or the news TFP shocks in generating business cycle comovement between the US and Canada, accounting for over 40% of the forecast error variance of Canadian GDP and over one-third of Canadian hours, imports, and exports. The news shock is responsible for some comovement at 5-10 years, and surprise TFP innovations do not generate synchronization. We provide a simple theoretical framework to illustrate how US sentiment shocks can transmit to Canada. (JEL: E32, F41, F44)

International Spillovers of Large-Scale Asset Purchases

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This paper evaluates the international spillover effects of large-scale asset purchases (LSAPs) using an estimated two-country dynamic stochastic general-equilibrium model with nominal and real rigidities and portfolio balance effects. Portfolio balance effects arise from imperfect substitutability between short- and long-term bond portfolios in each country, as well as between domestic and foreign bonds within these portfolios. We show that LSAPs in the US lower long-term yields and stimulate economic activity not only in the US, but also in the rest of the world (ROW) economy. This occurs despite the currency appreciation in the ROW and the resulting deterioration in their trade balance. The key for this result is the decline in the ROW term premia through the portfolio balance channel, as the relative demand for ROW long-term bonds increases following an LSAP in the US. Our model indicates that US asset purchases that generate the same output effect as US conventional monetary policy have larger international spillovers due to stronger portfolio balance effects. We also show that international openness in financial markets reduces the stimulatory effects of LSAPs in the originating country, while increasing their international spillover effects. (JEL: E52, F41)

The Long-Term Impacts of Low-Achieving Childhood Peers: Evidence From Project STAR

Jan Bietenbeck, Lund University

This paper evaluates how sharing a kindergarten classroom with low-achieving repeaters affects the long-term educational performance of regular first-time kindergarten students. Exploiting random assignment of teachers and students to classes in Project STAR, I document three sets of causal impacts: students who are exposed to repeaters (1) score lower on a standardized math test at the end of kindergarten, an effect that fades out in later grades; (2) show persistent improvements in non-cognitive skills such as effort and discipline; and (3) are more likely to graduate from high school and to take a college entrance exam around the age of eighteen. I argue that the positive spillovers on long-term educational attainment are driven by the differential accumulation of non-cognitive skills by repeater-exposed students during childhood. Results are consistent with the hypothesis that the improvements in these skills are driven by behavioral adjustments of teachers to the presence of repeaters in the classroom. (JEL: I21, I24)

Spillover Effects of Mass Layoffs

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Using administrative data on firms and workers in Germany, we quantify the spillover effects of mass layoffs. Our empirical strategy combines matching with an event study approach to trace employment and wages in regions hit by a mass layoff relative to suitable control regions. We find sizable and persistent negative spillover effects on the regional economy: regions, and especially firms producing in the same broad industry as the layoff plant, lose many more jobs than in the initial layoff. In contrast, negative employment effects on workers employed in the region at the time of the mass layoff are considerably smaller. Strikingly, workers younger than 50 suffer no employment losses, as geographic mobility fully shields them from the decline in local employment opportunities. (JEL: J21, J31, J61, J63, R12)

The Effect of Teacher's Aides in the Classroom: Evidence From a Randomized Trial

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Teacher's aides are used worldwide, in various school systems, although, there is no strong evidence of their impact on student outcomes. We use a randomized trial to challenge this state of evidence. We randomly allocate 105 schools to two types of treatment – aides with or without a teaching degree – compared to a control group. Both types of aides have positive impacts on test scores and the effects are persistent over time for disadvantaged students. Exploratory analyses of mechanisms suggest that a teacher's aide is not just a class-size reduction, but especially impactful when sharing instructional responsibility for the classroom. (JEL: I21, H52)

The Speed of Exchange Rate Pass-Through

Barthélémy Bonadio, University of Michigan, Andreas M. Fischer, Swiss National Bank, Philip Sauré, University of Mainz

On January 15, 2015, the Swiss National Bank discontinued its minimum exchange rate policy of one euro against 1.2 Swiss francs. This policy change resulted in a sharp, unanticipated, and permanent appreciation of the Swiss franc by more than 11% against the euro. We analyze the pass-through of this unusually clean exchange rate shock into import unit values at the daily frequency using Swiss transaction-level trade data. Our key findings are twofold. First, for goods invoiced in euros, the pass-through is immediate and complete. Second, for goods invoiced in Swiss francs, the pass-through is partial and exceptionally fast: beginning on the second working day after the exchange rate shock, the medium-run pass-through is reached after 12 working days. (JEL: F14, F31, F41)