Inherited Wealth over the Path of Development: Sweden, 1810–2016
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We estimate the importance of inherited wealth in Sweden over the past 200 years. Inheritance is measured both as the annual inheritance flow divided by national income and as the share of inherited wealth in all private wealth. In the nineteenth century, Sweden differs from France and the U.K. in having much lower inheritance-income flows, but at the same time exhibiting equally large shares of inherited wealth in total wealth. This pattern is in line with Sweden at the time being a poor country with low domestic capital accumulation, but at the same time exhibiting high economic growth rates. In the twentieth century the importance of inheritance in relation to national income fell, but since the 1990s it has increased rapidly, today reaching almost the same levels as a century ago. The share of inherited wealth in total wealth has also fallen over time, but remains relatively low due to a rapid accumulation of new wealth. We study potential determinants and explanations, pointing especially to Swedish welfare-state institutions, and in particular to the development of an extensive public occupational pension system contributing to keeping private inheritance low. (JEL: D30, J10, N10)

Perverse Consequences of Well Intentioned Regulation: Evidence From India’s Child Labor Ban
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Although bans against child labor are a ubiquitous policy tool, there is very little empirical evidence on their effectiveness. In this paper, we examine the consequences of India’s landmark legislation against child labor, the Child Labor (Prohibition and Regulation) Act of 1986. Using data from employment surveys conducted before and after the ban, and using age restrictions that determined whom the ban applied to, we show that the relative probability of child employment increases and child wages (relative to adult wages) decrease after the ban. Our main specification relies on comparing changes in work probabilities over time for children of the same age but with siblings who are rendered either eligible or ineligible for legal work when the ban is implemented. The increases in the probability of economic activity are largest for children (i) in areas where the industries targeted by the ban play a larger role in local labor markets, (ii) in areas where the probability of employer inspections is higher, and (iii) in families that are poorer. These results are consistent with a theoretical model building on the seminal work of Basu and Van (1998) and Basu (2005), where families use child labor to reach subsistence constraints and where child wages decrease in response to bans, leading poor families to utilize more child labor. We also find decreases in child participation in schooling (for younger children only) and no economically meaningful change in household outcomes like assets or calorie intake. (JEL: I38, J22, J82, O12)
Credit Constraints and the Composition of Housing Sales. Farewell to First-Time Buyers?
Felipe Carozzi, London School of Economics

During the housing bust of 2008–2009, housing prices and transaction volumes fell across the United Kingdom. Although the drop in prices was similar across housing types, transaction volumes fell more for units at the lower end of the market. I document this fact and provide panel and instrumental variable estimates showing its link with tightening credit conditions in England and Wales during 2008. I then use an overlapping-generation framework to relate the change in the composition of sales with the reduction in loan-to-value ratios by British banks and to derive additional predictions. As down-payment requirements increase, young households with scarce financial resources are priced out by older owners who retain their previous houses as rental properties when trading up. Recent changes in aggregate housing tenure, disaggregated changes in renting, and sales in areas with different age compositions, are consistent with these predictions. The results presented here show how the composition of sales changes over the housing cycle and may inform ongoing policy discussions about reduced access to home-ownership by the young. (JEL: R31, G21)

Borders and Nominal Exchange Rates in Risk-Sharing
Michael B. Devereux, University of British Columbia; Viktoria V. Hnatkovska, University of British Columbia

Models of risk-sharing predict that relative consumption growth rates are positively related to changes in real exchange rates. We investigate this hypothesis using a new multicountry and multiregional data set. Within countries, we find evidence for risk-sharing: episodes of high relative regional consumption growth are associated with regional real exchange rate depreciation. Across countries, however, the association is reversed: relative consumption and real exchange rates are negatively correlated. We define this reversal as a "border" effect. We find the border effect and show that it accounts for over half of the deviations from full risk-sharing. Since cross-border real exchange rates involve different currencies, it is natural to ask how much of the border effect is accounted for by movements in exchange rates. Our measures indicate that a large part of the border effect comes from nominal exchange rate fluctuations. We develop a simple open economy model that is consistent with the importance of nominal exchange rate variability in accounting for deviations from cross-country risk-sharing. (JEL: F3, F4)

Revenue-Capped Efficient Auctions
Nozomu Muto, Yokohama National University; Yasuhiro Shirata, Otaru University of Commerce; Takuro Yamashita, University of Toulouse

We study an auction that maximizes the expected social surplus under an upper-bound constraint on the seller’s expected revenue, which we call a revenue cap. Such a constrained-efficient auction may arise, for example, when (i) the auction designer is “pro-buyer”, that is, he maximizes the weighted sum of the buyers' and seller’s auction payoffs, where the weight for the buyers is greater than that for the seller; (ii) the auction designer maximizes the (unweighted) total surplus in a multiunit auction in which the number of units the seller owns is private information; or (iii) multiple sellers compete to attract buyers before the auction. We characterize the mechanisms for constrained-efficient auctions
and identify their important properties. First, the seller sets no reserve price and sells the good for sure. Second, with a nontrivial revenue cap, “bunching” is necessary. Finally, with a sufficiently severe revenue cap, the constrained-efficient auction has a bid cap, so that bunching occurs at least “at the top,” that is, “no distortion at the top” fails. (JEL: D44, C72, L51)

Institutions and the Location of Oil Exploration

James Cust, World Bank; Torfinn Harding, NHH Norwegian School of Economics

We provide evidence that institutions have a strong influence over where oil and gas exploration takes place. We utilise a global dataset on the location of exploration wells and national borders. This allows for a regression discontinuity design with the identifying assumption that the position of borders was determined independently of geology. In order to break potential simultaneity between borders, institutions and activities in the oil sector, we focus on drilling that occurred after the formation of borders and institutions. Our sample covers 88 countries over the 1966-2010 period. At borders, we estimate more than twice as much drilling on the side with better institutional quality. Sub-sample analyses reveal effects of institutions on exploration drilling in both developing and high income countries, as well as across three types of operating companies. We find that the supermajor international oil companies are particularly sensitive to institutional quality in developing countries. Our findings are consistent with the view that institutions shape both exploration companies’ incentives to invest in drilling and host countries’ supply of drilling opportunities. (JEL: F21, O13, O43, Q32)

Genes, Education, and Labor Market Outcomes: Evidence From the Health and Retirement Study

Nicholas W. Papageorge, The Johns Hopkins University; Kevin Thom, University of Wisconsin – Milwaukee

Recent advances have led to the discovery of specific genetic variants that predict educational attainment. We study how these variants, summarized as a linear index—known as a polygenic score—are associated with human capital accumulation and labor market outcomes in the Health and Retirement Study (HRS). We present two main sets of results. First, we find evidence that the genetic factors measured by this score interact strongly with childhood socioeconomic status in determining educational outcomes. In particular, although the polygenic score predicts higher rates of college graduation on average, this relationship is substantially stronger for individuals who grew up in households with higher socioeconomic status relative to those who grew up in poorer households. Second, the polygenic score predicts labor earnings even after adjusting for completed education, with larger returns in more recent decades. These patterns suggest that the genetic traits that promote education might allow workers to better accommodate ongoing skill biased technological change. Consistent with this interpretation, we find a positive association between the polygenic score and nonroutine analytic tasks that have benefited from the introduction of new technologies. Nonetheless, the college premium remains a dominant determinant of earnings differences at all levels of the polygenic score. Given the role of childhood SES in predicting college attainment, this raises concerns about wasted potential arising from limited household resources. (JEL: I20, J0, O3)
Relative Prices and Sectoral Productivity

Margarida Duarte, University of Toronto; Diego Restuccia, University of Toronto

The relative price of services rises with development. A standard interpretation of this fact is that productivity differences across countries are larger in manufacturing than in services. The service sector comprises heterogeneous categories and we document that many disaggregated service categories feature a negative income elasticity of relative prices. We divide service industries into two broad categories based on the income gradient of its relative price: traditional services with positive income elasticities and nontraditional services with negative income elasticities of relative prices. Using an otherwise standard multisector development accounting framework extended to include an input–output structure, we find that the cross-country income elasticity of sectoral productivity is large in nontraditional services (1.15), smaller in manufacturing (1.05), and much smaller in traditional services (0.67). Eliminating cross-country productivity differences in nontraditional services reduces aggregate income disparity by 58%, a 7.9-fold reduction in aggregate productivity differences. Heterogeneity between traditional and nontraditional services also has a substantial impact on aggregate productivity. (JEL: O4, O5, O11, O14, E01, E13)

Horizontal Reputation and Strategic Audience Management

Matthieu Bouvard, McGill University; Raphaël Lévy, HEC Paris

We study how a decision maker uses his reputation to simultaneously influence the actions of multiple receivers with heterogeneous biases. The reputational payoff is single-peaked around a bliss reputation at which the incentives of the average receiver are perfectly aligned. We establish the existence of two equilibria characterized by repositioning toward this bliss reputation that only differ through a multiplier capturing the efficiency of reputational incentives. Repositioning is moderate in the more efficient equilibrium, but the less efficient equilibrium features overreactions, and welfare may then be lower than in the no-reputation case. We highlight how strategic audience management (e.g., centralization, delegation to third parties with dissenting objectives) alleviates inefficient reputational incentives, and how multiple organizational or institutional structures may arise in equilibrium as a result. (JEL: D80, D82, D83)

Horizontal Reputation and Strategic Audience Management

Matthieu Bouvard, McGill University; Raphaël Lévy, HEC Paris

Many experts see a move toward high-value export crops, such as fruits and vegetables, as an important opportunity for economic growth and poverty reduction, but little is known about the effects of export crops in fragile and conflict-affected countries. We exploit movements in world market prices combined with geographic variation in crop production to show that increases in the value of bananas, the country’s biggest export crop, caused an increase in conflict violence and insurgent-controlled territory in the Philippines. This effect was concentrated in provinces where bananas are produced in large plantations with areas greater than 25 hectares. Our results are consistent with a mechanism in which insurgents fund their operations by extorting large agricultural export firms. (JEL: O13, Q17, H56, D74)
On the Possibility of Informative Equilibria in Futures Markets With Feedback

Robert P. Lieli, Central European University; Augusto Nieto-Barthaburu, Universidad Nacional de Tucuman

We study the existence of equilibria and the information content of prices in futures markets where the probability of future payoffs can be altered by an intervening agent who acts in response to the market price, hence creating a feedback effect. We focus on the market with the simplest possible structure: traders betting on the occurrence of a future event by buying or selling Arrow-Debreu securities (one dollar claims contingent on a binary outcome). We find that in the presence of feedback: (i) a rational expectations equilibrium may not exist; (ii) the market price may decline in response to information that is ex-ante more favorable to the occurrence of the underlying event; (iii) an equilibrium that reveals no information may obtain. Thus, feedback from an intervening agent materially alters the way in which price responds to information, and potentially undermines the viability of the market itself. (JEL: D53, D82, G13, G14)

Endogenous Market Formation and Monetary Trade: An Experiment

Gabriele Camera; Chapman University and University of Bologna; Dror Goldberg, The Open University of Israel; Avi Weiss, Bar-Ilan University and Taub Center for Social Policy Studies in Israel

The theory of money assumes decentralized bilateral exchange and excludes centralized multilateral exchange. However, endogenizing the exchange process is critical for understanding the conditions that support the use of money. We develop a “traveling game” to study the emergence of decentralized and centralized exchange, theoretically and experimentally. Players located on separate islands can either trade locally, or pay a cost to trade elsewhere, so decentralized and centralized markets can both emerge in equilibrium. The former minimize trade costs through monetary exchange; the latter maximizes overall surplus through nonmonetary exchange. Monetary trade emerges when coordination is problematic, whereas centralized trade emerges otherwise. This shows that to understand the emergence of money it is important to amend standard theory such that the market structure is endogenized. (JEL: E4, E5, C9, C92)