Abstracts

Matching In Informal Financial Institutions
Jan Eeckhout, University of Pennsylvania, Kaivan Munshi, Brown University

This paper analyzes an informal financial institution that brings heterogeneous agents together in groups. We analyze decentralized matching into these groups, and the equilibrium composition of participants that consequently arises. We find that participants sort remarkably well across the competing groups, and that they re-sort immediately following an unexpected exogenous regulatory change. These findings suggest that the competitive matching model might have applicability and bite in other settings where matching is an important equilibrium phenomenon. (JEL: O12, O17, G20, D40)

Vertical Integration And Technology: Theory And Evidence
Daron Acemoglu, Massachusetts Institute of Technology, Philippe Aghion, Harvard university, Rachel Griffith, University College London, Fabrizio Zilibotti, University of Zurich

We study the determinants of vertical integration. We first derive a number of predictions regarding the relationship between technology intensity and vertical integration from a simple incomplete contracts model. Then, we investigate these predictions using plant-level data for the UK manufacturing sector. Most importantly, and consistent with the theoretical predictions, we find that the technology intensity of downstream (producer) industries are positively correlated with the likelihood of integration whereas the intensity of upstream (supplier) industries are negatively correlated with it. Also consistent with theory, both correlations are stronger when the supplying industry accounts for a large fraction of the producer’s costs. These results are generally robust and hold with alternative measures of technology intensity, with alternative estimation strategies, and with or without controlling for a number of firm and industry-level characteristics. (JEL: L22, L23, L24, L60)

Distance To Retirement And Older Workers’ Employment: The Case For Delaying The Retirement Age
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This paper presents empirical evidence and a theoretical foundation in favor of the view that the retirement age decision affects older workers’ employment prior to retirement. To the extent that there are search frictions on the labor market, the return on jobs is determined by their expected duration: the time to retirement is then key to understanding older workers’ employment. Countries with a retirement age of 60 are indeed characterized by lower employment rates for workers aged 55–59. Based on the French Labor Force Survey, we show that the likelihood of employment is significantly affected by the distance to retirement, in addition to age and other relevant variables. We then extend McCall’s (1970) job search model by explicitly integrating life-cycle features with the retirement decision. Using simulations, we show that the distance effect in interaction with the generosity of unemployment benefits and the depressed demand for older workers explains the low rate of employment just before the eligibility age for the Social Security pension. Finally, we show that implementing actuarially-fair schemes not only extends the retirement age, but also encourages a more intensive job-search by older unemployed workers. (JEL: J22, J26, H55)

Social Incentives And Voter Turnout: Evidence From The Swiss Mail Ballot System
Patricia Funk, Universitat Pompeu Fabra

This paper uses a natural experiment to document the impact of social pressure on voting behavior. The main hypothesis is that social pressure creates incentives to vote for the purpose of being seen at the voting act. This incentive is particularly high in small and close-knit communities. Empirically, I analyze the effect of postal voting on voter participation in Switzerland. Optional postal voting decreased the voting costs, but simultaneously removed the social pressure to vote. In spite of the large reduction in voting costs, the effect on aggregate turnout was small. However, voter participation was more negatively affected in the smaller communities. This lends support to the view that social incentives played a role for certain people’s voting decisions. (JEL: H0, Z13)
Legal Standards, Enforcement And Corruption
Giovanni Immordino, Università di Salerno, Marco Pagano, Università di Napoli Federico II

Stricter laws require more incisive and costlier enforcement. Since enforcement activity depends both on available tax revenue and the honesty of officials, the optimal legal standard of a benevolent government is increasing in per-capita income and decreasing in officials’ corruption. In contrast to the "tollbooth view" of regulation, the standard chosen by a self-interested government is a non-monotonic function of officials' corruption, and can be either lower or higher than that chosen by a benevolent regulator. International evidence on environmental regulation show that standards correlate positively with per-capita income, and negatively with corruption, consistently with the model's predictions for benevolent governments. (JEL: D73, K42, L51)

On The Winner-Take-All Principle In Innovation Races
Vincenzo Denicolò, University of Bologna, Luigi A. Franzoni, University of Bologna

What is the optimal allocation of prizes in an innovation race? Should the winner take all, or is it preferable that the original inventor shares the market with subsequent independent duplicators? Some recent papers in law and economics have argued that the latter, more permissive solution is socially preferable under mild conditions. We re-examine that issue, arguing that a permissive regime may turn the innovation race into a waiting game, reducing the power of incentives, and may invite socially wasteful duplicative R&D expenditures. In a model that accounts for these effects, the winner-take-all system turns out to be preferable in a broad set of circumstances, especially in highly innovative industries. (JEL: K11, L1, O34)