Abstracts

Working For God? Evidence From A Change In Financing Of Nonprofit Health Care Providers In Uganda
Ritva Reinikka, World Bank and Jakob Svensson, IIES, Stockholm University

What motivates religious nonprofit health care providers? This paper uses a change in financing of nonprofit health care providers in Uganda to test two theories of organizational behavior. We show that financial aid leads to more laboratory testing, lower user charges, and increased utilization. These findings are consistent with the view that religious nonprofit providers are intrinsically motivated to serve (poor) people and that these preferences matter quantitatively. (JEL: L31, I11, O15)

House Price Shocks, Negative Equity And Household Consumption In The United Kingdom
Richard Disney, University of Nottingham and Institute for Fiscal Studies, John Gathergood, University of Nottingham, and Andrew Henley, Swansea University

We examine the impact of unanticipated housing capital gains on consumption behaviour using data from the British Household Panel Survey and county-level house price data. We condition the models on household financial expectations and on household real financial capital gains imputed from the Family Resources Survey. We find a marginal propensity to consume out of unanticipated shocks to housing wealth of 0.01. Omitting the measure of financial expectations biases the results upwards. We find little evidence of heterogeneity in responses of young and old homeowners, but differences between owners and renters. We also find asymmetric behaviour between house price rises and falls, and a disproportionate impact on saving if the household had negative housing equity at the start of the period. (JEL: D91, E21, R31)

Does Inflation Targeting Anchor Long-Run Inflation Expectations? Evidence From The U.S., U.K., And Sweden
Refet S. Gürkaynak, Bilkent University, Andrew Levin, Federal Reserve Board, and Eric Swanson, Federal Reserve Bank of San Francisco

We investigate the extent to which inflation expectations have been more firmly anchored in the United Kingdom—a country with an explicit inflation target—than in the United States—a country with no such target—using the difference between far-ahead forward rates on nominal and inflation-indexed bonds as a measure of compensation for expected inflation and inflation risk at long horizons. We show that far-ahead forward inflation compensation in the U.S. exhibits substantial volatility, especially at low frequencies, and displays a highly significant degree of sensitivity to economic news. Similar patterns are evident in the U.K. prior to 1997, when the Bank of England was not independent, but have been strikingly absent since the Bank of England gained independence in 1997. Our findings are further supported by comparisons of dispersion in longer-run inflation expectations of professional forecasters and by evidence from Sweden, another inflation targeting country with a relatively long history of inflation-indexed bonds. Our results support the view that an explicit and credible inflation target helps to anchor the private sector’s views regarding the distribution of long-run inflation outcomes. (JEL: E31, E52, E58)

The Effect Of Financial Rewards On Students’ Achievement: Evidence From A Randomized Experiment
Edwin Leuven, École National de la Statistique et Administration Économique and CREST, Hessel Oosterbeek, University of Amsterdam, and Bas van der Klauw, VU University Amsterdam

This paper reports about a randomized field experiment in which first year university students could earn financial rewards for passing all first year requirements within one year. Financial incentives turn out to have positive effects on achievement of high ability students, whereas they have a negative impact on achievement of low ability students. After three years these effects have increased, suggesting dynamic spillovers. The negative effects for less able students are consistent with results from psychology and behavioral economics showing that external rewards may be detrimental for intrinsic motivation. (JEL: I21, I22, J24)
The Impact Of ECB Monetary Policy Decisions And Communication On The Yield Curve
Claus Brand, European Central Bank, Daniel Buncic, Universität St. Gallen, and Jarkko Turunen, European Central Bank

We use intraday changes in money market rates to construct indicators of news about monetary policy stemming separately from policy decisions and from official communication of the European Central Bank, and study their impact on the yield curve. We show that communication may lead to substantial revisions in expectations of monetary policy and, at the same time, exert a significant impact on interest rates at longer maturities. Thereby, the maturity response pattern to communication is hump-shaped, while that to policy decisions is downward sloping. (JEL: E43, E58)

Gift Exchange And Workers’ Fairness Concerns - When Equality Is Unfair
Johannes Abeler, Nottingham School of Economics, Steffen Altmann, University of Bonn and IZA, Sebastian Kube, Max Planck and University of Bonn, and Matthias Wibral, University of Bonn

We study how different payment modes influence the effectiveness of gift exchange as a contract enforcement device. In particular, we analyze how horizontal fairness concerns affect performance and efficiency in an environment characterized by contractual incompleteness. In our experiment, one principal is matched with two agents. The principal pays equal wages in one treatment and can set individual wages in the other. We find that the use of equal wages elicits substantially lower efforts. This is not caused by monetary incentives per se since under both wage schemes it is profit-maximizing for agents to exert high efforts. The treatment difference instead seems to be driven by the fact that the norm of equity is violated far more frequently in the equal wage treatment. After having suffered from violations of the equity principle, agents withdraw effort. These findings hold even after controlling for the role of intentions, as we show in a third treatment. Our results suggest that adherence to the norm of equity is a necessary prerequisite for successful establishment of gift-exchange relations. (JEL: J33, D63, M52, C92, J41)

Government Spending Composition, Technical Change And Wage Inequality
Guido Cozzi, University of Durham and Giammario Impullitti, IMT Lucca Institute for Advanced Studies

In this paper we argue that government spending played a significant role in stimulating the wave of innovation that hit the U.S. economy in the late 1970s and in the 1980s, as well as the simultaneous increase in inequality and in education attainments. Since the late 1970’s U.S. policy makers began targeting commercial innovations more directly and explicitly. We focus on the shift in the composition of public demand towards high-tech goods which, by increasing the market-size of innovative firms, functions as a de-facto innovation policy tool. We build a quality-ladders non-scale growth model with heterogeneous industries and endogenous supply of skills, and show that an increase in the technological content of public spending stimulates R&D, raises the wage of skilled workers and, at the same time, stimulates human capital accumulation. A calibrated version of the model suggests that government policy explains between 12% and 15% of the observed increase in wage inequality in the period 1976-1991. (JEL: E62, J31, O33, O41)