Abstracts

Relative Risk Aversion Is Constant: Evidence from Panel Data
Pierre-André Chiappori, Columbia University and Monica Paiella, University of Naples

Most classical tests of constant relative risk aversion (CRRA) based on individual portfolio composition use cross-sectional data. Such tests must assume that the distributions of wealth and preferences are independent. We use panel data to analyze how individuals’ portfolio allocation between risky and riskless assets varies in response to changes in total financial wealth. We find the elasticity of the risky asset share to wealth to be small and statistically insignificant, supporting the CRRA assumption; this finding is robust when the sample is restricted to households experiencing large income variations. In addition, we find a small but significant negative correlation between wealth and risk aversion. Various extensions are discussed.

Managers and (Secret) Social Networks: The Influence of the Freemasonry on Firm Performance
Fabio Braggion, Tilburg University

This paper studies the impact of managers' affiliations with Freemasonry on companies' performances. Using a unique data set of 412 companies quoted on the London Stock Exchange between 1895 and 1902, I find that young and small firms run by Masonic managers exhibited larger leverage ratios. These companies earned higher profits, though the effect is not statistically significant. Large publicly quoted corporations that were managed by Freemasons, instead, had lower profits and lower Tobin's Q. I discuss the issue of endogeneity of Freemasonry membership and use four different approaches to partially address it.

Externalities in Program Evaluation: The Impact of a Women’s Empowerment Program on Immunization
Wendy Janssens, VU University Amsterdam

Impact evaluations of development programmes usually do not explicitly take into account externalities on non-participants. Based on a unique dataset we estimate the direct as well as the spillover effects of Mahila Samakhya, a women’s empowerment programme in India, on child immunization. The survey covers both participants and non-participants in programme villages, as well as respondents in control villages. We account for participation selection bias using instrumental variables. We propose a direct test for the exclusion restriction using the control villages. We find both direct effects on the immunization rates of participants’ children and significant spillovers on immunization rates of non-participants’ children. The impact of interventions might be substantially underestimated if such external effects were not taken into account. Alternative estimation methods such as propensity score matching and a regression discontinuity approach yield comparable results.

Testing the "Waterbed" Effect in Mobile Telephony
Christos Genakos, Cambridge University and Tommaso Valletti, Imperial College London

This paper examines the impact of regulatory intervention to cut termination rates of calls from fixed lines to mobile phones. Under quite general conditions of competition, theory suggests that lower termination charges will result in higher prices for mobile subscribers, a phenomenon known as the “waterbed” effect. The waterbed effect has long been hypothesized as a feature of many two-sided markets and especially the mobile telephony industry. Using a uniquely constructed panel of mobile operators’ prices and profit margins across more than twenty countries over six years, we document empirically the existence and magnitude of this effect. Our results suggest that although regulation reduced termination rates by about 10%, this also led to a 5% increase in mobile retail prices. We also provide evidence that both competition and market saturation, and most importantly their interaction, affect the overall impact of the waterbed effect on prices.
Economic Integration, Political Integration or Both?
Daniel Brou, The University of Western Ontario and Michele Ruta, World Trade Organization

We study the effects of economic and political integration by presenting a model in which firms compete with each other in both an economic market -- where they produce a good and compete for market share -- and in a political (rent seeking) market -- where they compete for transfers from the government. Growth is driven by firms' cost-reducing innovation activity and economic and political integration affect firms' incentive to innovate differently. In this setting, economic and political integration can be seen as complementary. Economic integration, when not accompanied by political integration, can lead to less innovation and slower growth as firms respond to increased competition in the economic market by focusing more on rent seeking activity. When economic integration is accompanied by political integration, innovation and growth will be stronger and welfare higher.

Search Intensity, Directed Search And The Wage Distribution
Bruno Decreuse, University of Aix-Marseille and André Zylberberg, Université Paris I Panthéon-Sorbonne

We propose a search equilibrium model in which homogenous firms post wages along with a vacancy to attract job seekers, while homogenous unemployed workers invest in costly job seeking. The key innovation relies on the organization of the search market and the search behavior of the job-seekers. The search market is continuously segmented by wage level, individuals can spread their search investment over the different sub-markets, and search intensity has marginal decreasing returns on each sub-market. We show that there exists a non-degenerate equilibrium wage distribution. The density of this wage distribution is increasing at low wages, and decreasing at high wages. Under additional restrictions, it is hump-shaped, and it can be right-tailed. Our results are illustrated by an example originating a Beta wage distribution.