

Stéphane Dupraz (Columbia University), A Kinked-Demand Theory of Price Rigidity

Nominal rigidities are at the heart of Keynesian models; they are the main friction that render money non-neutral and allow monetary policy to affect real activity. Yet, existing models with price rigidities often lack compelling micro-foundations. The paper revisits an old rationale for price rigidity using state-of-the-art techniques. The key premise is that asymmetric information generates a kink in the demand for firms' products. If the firm raises its prices, then its own customers will be fully informed, causing demand to decrease; however, price reductions do not lead to comparable increases in demand because potential new customers are not fully informed about these price cuts. This kink in the demand curve means that it is often optimal for firms to maintain sticky prices.

The kinked demand curve, by itself, however, does not generate price rigidity but rather price multiplicity. The multiple equilibria require some way of selecting among them. The paper introduces an equilibrium selection mechanism to deal with this situation. This mechanism takes the view that, in assessing what other firms are going to do, there is coordination on "no change." As a consequence, the equilibrium that is selected is one where firms change their prices only when they have a *unilateral* incentive to do so. In other words, the mechanism rules out equilibria which require a huge amount of coordination—which seems a priori reasonable. Moreover, the paper points out that the model is consistent with survey evidence in which firms express an aversion to being first to adjust their prices.

These two ingredients together provide a powerful force for price rigidity. The paper generates a number of testable predictions that do not arise from other theories and that appear in line with the empirical regularities in the data.

Overall, the paper addresses an important problem, it is competently executed and very well written.

Matteo Gamalerio (University of Warwick), Fiscal Rules and the Selection of Politicians: Evidence from Italian Municipalities

The selection of politicians is a key driver of government effectiveness and political accountability. On the one hand, it characterizes democratic representativeness and preference alignment between voters and policymakers. On the other hand, it crucially determines the competence and capabilities of elected office holders. As a consequence, it is very important to understand how institutions affect citizens' decision to enter the political arena. The literature has focused mainly on the effects of politicians' pay and their careers within political parties. This paper studies for the first time the consequences of policymaking discretion. To identify its causal effect, it exploits a natural experiment from municipal governments in Italy.

The Italian government imposed in 1999 fiscal rules that severely curtailed local governments' ability to run deficits and accumulate debt. In 2001, these restrictions were lifted for municipalities with less than 5,000 residents. Grembi et al. (2016) exploited a "difference in discontinuity" approach to establish that these rules were effective at constraining municipal fiscal policy. Using the same methodology, the present paper shows that fiscal restraint came with a downside: more educated citizens were significantly deterred from running for local office. This novel result highlights an important institutional trade-off. Reducing local politicians' policymaking discretion alleviates interjurisdictional externalities, but it also lowers the quality of the political class by making local politics less attractive for potential candidates with a better outside option in the private sector.

Petra Thiemann (University of Southern California), Does Teacher Sorting Across and Within Schools Explain Inequality in Education Outcomes?

Inequality of access to educational opportunity is an important concern in all developed economies as it later affects economic opportunities and social mobility. Sorting of students to schools and teachers to schools are thought to be two of the drivers of the existing inequality of educational outcomes. The paper studies, for the first in a unified setting, both the classic determinants of individual educational performance (such as student and school characteristics) but also sorting of both teachers and students into schools and classrooms. To do so, the paper uses 15 years of data covering *all* elementary schools and all grade 3-5 students in North Carolina and extends a technique developed by Abowd, Kramarz and Lengerman to study assortative matching in the context of labor markets (in a paper published in EMA). The paper finds that students sorting is on average more important than teacher sorting, but importantly that in rural areas, the opposite is true: teacher sorting is a bigger determinant of differences in individual educational performance. This suggests that policy makers should do well to think about the organization of the labor markets for teachers in these areas.