EDEEM Doctoral Summer Workshop 2019

Book of Abstracts

Ca' Foscari University of Venice

13-14 June 2019

Contents

Abstracts of Oral presentations

Limited information Bayesian estimation of heterogeneous agents models with idiosyncratic risk and borrowing constraints

22 Nov
4:00pm
R102

Eva Janseens

University of Amsterdam

This paper is concerned with the identification and estimation of parameters in heterogeneous agents models with idiosyncratic income shocks and borrowing constraints à la Aiyagari (1994). Because of the inherent non-linearity of this model that complicates the evaluation of the likelihood function, the use of the limited information Bayesian estimation method Approximate Bayesian Computation is proposed. It is established that aggregate macro variables are not sufficient to locally identify all parameters of interest and one needs at least one higher-order moment of the distribution of consumption or capital holdings. Based on panel data, an auxiliary model can be estimated that follows from a perturbation of the underlying model. This auxiliary model produces an approximate likelihood function that can be used in the limited information Bayesian estimation procedure.

Real effect of central bank collateral policy: a free and risk-free lunch?

22 Nov
4:00pm
R102

Louis-Marie Harpedanne de Belleville

Paris School of Economics, Université Paris 1, Banque de France

In 2012, most central banks in Europe extended eligibility to refinancing. This extension provided banks with a liquidity insurance à la Diamond and Dybvig (1983) or Shin (2009). The specific institutional features of the Eurosystem (tolerance for non-neutrality) and France (large-scale firms' rating by the central bank) provide a unique opportunity to assess the real effects of such liquidity insurance. Recent research has evidenced positive financial effects of this extension, but has also stressed that funds made available by another policy (QE) were merely used to increase dividends. We evidence a strong positive effect of eligibility extension on employment and material investment, at the cost of very limited risks. This discards increased risk on the central bank balance-sheet (Benigno and Nistico, 2015, Reis, 2017) as the transmission channel of collateral policy. Conversely, we evidence stronger effects

for small firms, which is consistent with a channel of reduced financial frictions. Finally, we argue that our results are not consistent with substitution at the expense of control firms.

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22 Nov
4:00pm
R102

The political economy of a diverse monetary union

Oscar Soons
University of Amsterdam, Tinbergen Institute

We analyze the political economy of monetary unification among countries with very different institutions. Economies with stronger institutions are characterized by lower interest rates, a stronger currency and greater incentives to invest. Countries with weaker institutions have higher public spending and occasionally need to devalue, resulting in higher interest rates and a weaker currency. In a diverse monetary union the weaker country benefits from lower borrowing costs and more access to funding, leading to more public spending, while the stronger country benefits from a weak common currency. In equilibrium market prices and trade flows adjust, but persistent institutional quality differences lead to redistributive effects. In bad times weaker economies can no longer devalue, so stability may require a re-distributive transfer. A diverse monetary union can be beneficial for both countries, but workers in weaker countries and savers in rich countries may lose. As the choice of joining a monetary union is a political decision, institutionally weaker countries may join against the broader interest of society because it enables more public spending.

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22 Nov
4:00pm
R102

Export potential in service: do policies measure matters?

Camille Reverdy
Paris School of Economics, Université Paris 1

Trade in services has gain importance in the world economy in the last decades, outpacing the growth of trade in goods. Even though services trade represents 13% of global GDP, disaggregated services data is still scarce. Indeed, while developed countries usually report their trade data by service sector and partner, developing countries mostly report only the exports and imports of broad service sectors without any detail on the source or the destination of the trade flow. In an attempt to reduce the information gap existing in services trade, this paper assesses the general equilibrium effects of a reduction in bilateral trade costs, based on a structural gravity model. In a second step, the expected trade values following the reduction in trade costs are compared to the observed export values, representing the 'trade potential'. Thirdly, I estimate the impact of the policy measures applied by the destination country on the value of this potential. I find that an increase in the level of trade restrictiveness in a given sector decreases the probability that an exporter will face a positive potential with this partner in this sector. Almost 40% of negative potential are associated with a 'no restriction' environment in the partner country. Focusing on the 'intensive margin', i.e. on the positive potential values, I find that an increase of the restrictiveness level by 1 unit, decreases the value of the trade potential by 1.1%.

Endogenous intermediation in security lending networks

22 Nov
4:00pm
R102

Erdem Yenerdag
Washington University in St. Louis

We study intermediation chains in over-the-counter markets in which the decision of agents is to choose to interact with counter-parties for lending and borrowing with collateral assets in the presence of heterogeneity in beliefs over their future returns. Given a financial network, agents with risky investment opportunities face a decision on investing or being an intermediary before obtaining the liquid asset. In the model, liquid assets are allocated from fund owners to final borrowers through a chain of intermediaries. Under a competitive trading protocol, bilateral prices and lending decisions are determined in equilibrium. We show that network structure determines the level of competition which in turn determines split of expected surplus and the efficiency of asset allocation. When network is not complete, the final allocation can be inefficient even though each lending in the intermediation chain is efficient.Moreover, we show that equilibrium allocation from a fund owner to a final borrower does not necessarily proceed along the shortest path which contradicts with the general intuition that lenders have incentive to minimize the number of intermediaries.

The effect of FDI liberalization on manifacturing firms' technology upgrading

22 Nov
4:00pm
R102

Nevine El Mallakh
Université Paris 1

FDI liberalization promotes the entrance of multinational firms relying on advanced technologies. This paper studies the effects of FDI liberalization on domestic downstream firms technology upgrading through two main mechanisms. Domestic final good producers might benefit from horizontal FDI technological spillovers and from vertical FDI spillovers. These effects can be unequal across domestic firms depending on their initial productivity level. We investigate the effects of FDI reform in India in the beginning of the 1990s on downstream manufacturing firms' decision to upgrade technology (capital investments, R&D and foreign technology embodied in imported inputs). Our estimation strategy relies on a difference-in-differences estimation comparing firms producing in industries where FDI has been liberalized against those firms producing in non-FDI liberalized industries. Our findings suggest that Indian firms benefited from FDI liberalization to improve their technical-know how. These results are concentrated on the most productive firms. The main channel driving these results is horizontal FDI spillovers, while we find only evidence of vertical FDI spillovers for capital investments.

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22 Nov
4:00pm
R102

Technologies non linearities and the determinants of inequality: new panel evidence

Antonio Gravina

University of Messina

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22 Nov
4:00pm
R102

Elections under endogenous media consumption

Junze Sun

University of Amsterdam, Tinbergen Institute

This paper explores voters' media consumption behavior and the information aggregation property of elections in an environment featured by information explosion and limited attention. Media consumption exhibits echo chamber if voters are exclusively exposed to ideologically aligned news sources. An election satisfies exact information equivalence (EIE) if, not only the elected candidate, but also voters' actual voting behavior would remain unchanged were all information commonly known. I show that, when voting is costless, echo chamber and EIE robustly hold in all equilibria. In sharp contrast, when voting incurs private and idiosyncratic costs, neither echo chamber nor EIE can hold in any equilibrium. In particular, I show that under costly voting ideologically extreme media will not be watched by any voter in any equilibrium, consistent with the empirical observation (Gentzkow and Shapiro, 2011). Finally, motivated by widespread public concerns about echo chamber, I study the performance of elections under echo chamber and costly voting through numerical examples. The results demonstrate that (i) the quality-inferior candidate can be elected with non-trivial probabilities even in moderately large elections, (ii) voter welfare can be improved by restricting the set of accessible media.

Nationalist populist, political polarisation & attitudes towards immigrant - a model of electoral competition

22 Nov
4:00pm
R102

Steve Nolan

University of Manchester

Recent European politics has been characterised by the electoral success (or near success) of right-wing nationalist parties. Many, if not all, of these events have been seen as part of a populist turn within Europe. Given that right-wing nationalists have been present on the European stage for decades and that restrictions on immigration are a fundamental element of their platform the question is raised - what has changed about these parties that they are now identified as populists? We argue that the notable policy difference is a trend towards greater fiscal spending. Such redistributive policy has historically been thought to be the domain of left-wing politics but Front National in France and La Liga in Italy are just two examples of right-wing nationalist parties that have moved policy in this direction.

We consider an electoral competition between a nationalist party that wishes to restrict immigration and one that defends the status quo immigration policy. Defining a right wing nationalist populist policy as one that offers both restrictions on immigration and relatively more spending on the less well off compared to a status quo party we develop a political economy model that considers the circumstances that may lead to such a change in fiscal position and the attendant impact on political polarisation. Our focus is on the influence of immigration on the development of a nationalist populist policy which necessarily requires us to look at how it affects individuals' political preferences. We assume voters are not only swayed by the material impact of policy for themselves - they also have an individual attitude towards immigration that informs their voting decision. How policy benefits immigrants informs their choice of party. In this our model extends the canonical probabilistic voting model of Lindbeck and Weibull (1987) where individual voter bias towards a party serves to model the impact of ideology. In our model policy combines with the individual voter's attitude towards immigration to allows us to model how both the economic and non-economic effects of immigration effect political decision making.

Given the opposing ideologies of the two parties we find a unique equilibrium where the offer from the nationalist party always differs from that of the status quo party. We find that whether the nationalist party offers a nationalist populist policy depends on the average attitude of voters regarding immigration. Our first main result is that the trend towards nationalist populism can be explained both by voters turning against immigration and by a rise in income inequality.

The asymmetric equilibrium also allows us to discuss political polarisation - defined here as the absolute distance between party policies. Increased partisanship is a key facet of debate surrounding populism and in another key result the model predicts a positive relationship between the level of recent immigration and the scale of polarisation. Utilising data from the Manifesto Project Database to construct a measure of political polarisation we test this relationship finding significant empirical support for the findings of our model.

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22 Nov
4:00pm
R102

Maternal postpartum effects on child's health

Lucia Schiavon
Collegio Carlo Alberto, University of Turin

This paper aims at empirically assessing the impact of maternal postpartum depression on child's health development. Several studies indicate that children, whose mother experienced postpartum depression, are at greater risks of emotional, behavioural, cognitive and interpersonal problems later in life. However, the maternal postpartum depression might influence child's development by affecting her/his health outcomes. Using data from the Millennium Cohort Study (UK data service), we investigate whether maternal postpartum depression has an impact on early child health development. In detail, we study the effects of maternal postpartum depression on a range of potential child health diseases at ages of 3, 5, 7 and 11 years, and on the number of injuries or accidents occurred at the child, for which s/he was taken to the hospital. Our findings show a non-negligible impact of maternal postpartum depression on those child health issues enhanced by a stressful environment: wheezing and hay fever throughout childhood. At later ages (7 and 11 years), children with a mother who experienced postpartum depression are also more likely to suffer from asthma. Furthermore, results indicate a significant strong effect of maternal postpartum depression on the accident rate at the ages of 3 and 5 years (the incidence-rate ratios are of 1.193 and 1.280 respectively).

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22 Nov
4:00pm
R102

Industry revenue dynamics in the presence of a cartel: an empirical assessment

Nina Scherl
Maastricht University

This paper empirically assesses the impact of cartel formation on the revenues of cartel and non-cartel firms. Using a sample of 74 recent European cartel cases, we analyze the difference in revenue between the pre-cartel and the cartel-period for 224 cartel and 46 non-cartel firms. The results show that cartel revenues are increasing whereas non-cartel revenues do not statistically differ between the pre-cartel and the cartel period. Distinguishing between all-time non-cartel firms and the non-cartel firms eventually joining a cartel, shows that the first experience a decrease in revenues, whereas the latter's revenues do not significantly differ between both period. A follow-up analysis suggests that the decrease for all-time non-cartel firms may be caused by cartel firms' monopolization conduct. Additional analyses on the timing of the effects reveals that cartel firms experience higher revenues during the entire cartel period starting immediately after cartel formation. All-time non-cartel firms have lower revenues particularly in the first years of the cartel. Finally, the late joining non-cartel firms show significant revenue increases in several years before their join the cartel and during later years, once they have joined the cartel.

Ethnic roots of risk attitudes: the impact of ancestral lifestyles on risk taking behaviour

22 Nov
4:00pm
R102

Angelina Nazarova

University of Bologna

Variation in risk behavior is systematically related to both individual and aggregate economic outcomes, however, there is still not much known about the origins of this variation. The present paper aims to uncover ethnic roots of risk attitudes by analyzing persistence and transmission of cultural traits through one's early ancestry. For this reason, we use different determinants of modern risk preferences and behaviour to link them to the past ethnographic data.

Both attitudes towards risk and risky behavior are cornerstones of many crucial economic decisions. Over the last years, understanding the roots of heterogeneity of risk attitudes across populations has become a major concern. Therefore, the within-population analysis of heterogeneity of risk attitudes is key for a better understanding of individual decision-making. Linking historical data on individual ancestral ethnic group characteristics with current individual outcomes, this paper targets to evaluate to what extent does ancestral culture affect individual willingness to take risks. In particular, we focus on the distinct cultural traits adopted through two different lifestyles – sedentarism and nomadism. Sedentarism has played a crucial role in the urbanization and subsequent industrialization that led to the increasing prosperity in many countries. However, little attention was given to nomadism, despite the large spread of nomadic populations. The last official figures estimate that there are 120 millions of nomadic groups worldwide with 115 millions of them from less developed areas in Sub-Saharan and North Africa, West, South and Central Asia. Although moving from one place to another is a fundamentally risky activity, nomadic groups perceived uncertainty as an opportunity to get higher returns. As a result, lower degree of risk aversion was developed as a cultural trait among them. We exploit the link between nomadic culture and more risk prone behaviour. This reasoning is supported by recent anthropological literature, which has shown that under the same circumstances, nomads manage risks more successfully than sedentary counterparts. Knowing the persistent nature of culture, this analysis explores the effect of ancestral culture on current individuals' outcomes aiming to partially explain the fraction of within-country group-level variation in risk attitudes and its persistence through generations.

Utilizing the data from World Value Surveys (hereafter, WVS) and Demographic Health Surveys (hereafter, DHS), this analysis covers almost 60000 individuals representing 104 ethnicities and nearly 500000 individuals from 332 ethnicities, correspondingly. In particular, we exploit logistic regression framework with fixed effects for 50 countries in WVS and 42 countries, 403 regions in DHS over time. The analysis also controls for historical ethnic characteristics, geographical covariates in addition to individual socio-demographic variables. The matching procedure involves direct manual match of the individual ethnicity with the ancestral one, described by Murdock's Ethnographic Atlas and complimented by World Ethnographic Sample, Standard Cross-Cultural Sample.

The results demonstrate that nomadic background is associated with higher willingness to take risks and with lower degree of loss aversion. In addition, nomadic background is associated with riskier health behaviour. The direction and magnitude of the effect is consistent across two datasets and migrants'/movers' subsamples.

Abstracts of Poster presentations

The Economics of Non-compete Clauses

22 Nov
4:00pm
R102

Adam Feher
University

Non-competition covenants (NCC) have been increasingly popular worldwide. A recent study documents (Prescott, Bishara, and Starr 2018) that nearly 20% of US employees are bounded by non-competes. According to US treasury, "non-compete agreements are contracts between workers and firms that delay employees' ability to work for competing firms." (Department of the Treasury 2016). The rationales behind non-compete clauses are twofold. First, the non-compete is categorized as one of the legal instruments (Pedrini 2017) that alleviates the hold-up problem, as defined by Williamson (1979), elaborated in terms of employment contracts by Malcomson (1997). The employee can hold up the firm when having the chance to leave to the competitor. The firm can alleviate this issue by adding non-compete to the contract. Second, it helps firms protect the source of organizational rent, as employees may try to steal it argued by Rajan and Zingales (1998, 2001). If the employee leaves with trade secrets, client lists, ideas, innovations developed within the firm boundaries, it can severely damage the firm's business interest and thus future profitability.

This paper investigates the optimal level of access and noncompete in the employment contract and how they influence the incentives of employees to invest in human capital in a theoretical model. The notion of access is defined similarly to Rajan and Zingales (1998), as the ability to use or work with a critical resource. It is crucial that the investment is noncontractable, thus similarly to Grossman and Hart (1986) and Hart and Moore (1990) the contract is incomplete, it has to be silent about investments. A further important driver of the model is that the human capital investment is made ex ante when the employee's fit is uncertain with the industry. The employee's investment may have a higher return at the competitor.

There are two important tradeoffs of the model. A higher level of non-compete leads to lower investment and thus lower production in the firm. However, it helps the firm to bargain ex post over the output, as the employee's outside option is worse while the firm's outside option is better with a higher level of non-compete. The second tradeoff is that higher access granted to the employee makes the employee more productive at the firm. At the same time, it increases the employee's outside option and decreases the firm's. From the social perspective, high level of access and low level of non-compete is optimal. However, maximum level of access and 0 noncompete is never equilibrium. The reason is that the above case leaves the firm with low profits when the quit of the employee is efficient. Comparing the socially optimal level to the decentralized decision making when the firm offers the contract, the contract provides lower level of access and sets higher level of non-compete in it. The difference is caused by the fact setting non-compete high and access relatively low is useful for the firm in the ex post bargaining. Moreover, part of the surplus is captured by the firm and therefore the incentives of the employee are lower to invest, exacerbating the previous effect.

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22 Nov
4:00pm
R102

The dynamic effects of debt and equity inflows: evidence from emerging and developing countries

Bezhov Alimov

Collegio Carlo Alberto, University of Turin

This paper shows that inflows of foreign debt and equity have different effects on consumption, investment, and GDP growth of emerging and developing economies. By using panel VAR analysis based on quarterly macroeconomic data from 1995Q1 to 2015Q4, our results indicate that debt inflows increase consumption, investment and GDP growth on impact, but decrease investment and GDP growth in later periods (i.e., after around a year) for several quarters. Equity inflows, on the other hand, do not have a significant impact on consumption, investment, and GDP growth of emerging and developing countries on average. We also account for cross-country heterogeneity among the emerging and developing countries by splitting our sample into two groups based on their (i) real GDP per capita and (ii) governance quality. When we do this, we find that countries with higher per capita income and lower governance quality benefit from debt inflows in terms of increased consumption in the short run, but are hurt in terms of decreased investment and GDP growth in the medium run. On the contrary, those with lower per capita income and higher governance quality are not significantly affected by debt inflows. However, interestingly, the effects of equity inflows do not differ significantly across different groups of countries. We find that equity inflows have a positive short-run impact on consumption both in countries with higher and lower quality of governance.

Government Debt and Fiscal Reform in the UK

22 Nov
4:00pm
R102

Lin Lang
University

Our research is motivated by the fact that the government debt relative to output in the UK has increased dramatically in the last decade. In addition, the debt to output ratio is projected to rise in the next few decades, primarily due to the population aging which gives upward pressures on related government expenditures and consequently leads to a further increase in the government debt. This paper explores the amount of additional tax revenues and tax rates needed in the UK to finance the future government expenditures and at the same time reduce the debt to output ratio to a specific level. We find that the required revenue to achieve the fiscal stability is in the range of 20-24% of consumption expenditures. Also, when a distorting tax (consumption tax or labor income tax) is used to achieve the goal, such tax rate needs to increase to a very high level, even though the government is allowed to broaden its tax base.

"Out of Sight, Out of Mind" The role of patients background on medical decisions

22 Nov
4:00pm
R102

Emilia Barili
University of Pavia, University of Milan

Worldwide we observe large geographic variations in health care utilization, which are only partially explained by objective conditions or specific patient's risk factors. The literature proposes several possible explanations for such variations, both on the supply-side (physicians) and the demand-side (patients). On the one hand, they can be summarized as the use of defensive medicine as protection against medical liability pressure, the presence of financial incentives given to health care providers and the variety of physicians' beliefs and skills; on the other hand, they focus on the role played by patients' preferences (Currie and MacLeod (2017)). While there is common recognition over the possible outcomes caused by supply-side elements, the literature is still puzzled regarding the effects driven by demand-side factors (Cutler et al. (2019), Bertoli and Grembi (2018), Molitor (2018), Kozhimannil et al. (2018), Finkelstein et al. (2016), Shurtz (2014), Kozhimannil et al. (2013), Currie and MacLeod (2008)). The issue has deep policy implications, possibly affecting both the patients' health and the sustainability of the health care services.

In this analysis we explore the role of patients background on medical decisions, estimating the effect played by their exposure to specific treatment habits in affecting the probability of opting for a specific medical choice. Our hypothesis is that the exposure to specific treatment habits may influence the individual perception over the potential appropriate treatment and that such perception actually affects the final medical decision. Following the literature (Currie and MacLeod (2017)), we focus on deliveries, studying the role of mothers' background in the choice between vaginal or cesarean procedures. The empirical analysis uses hospital discharge information at the individual level, covering all deliveries happened in the Italian public and private-accredited hospitals during the period 2005-2014. The individual exposure to specific habits is approximated by means of cesarean incidence measures computed in the geographic area of origin of the patient (region, LHA, municipality, most used hospital by mothers from her municipality). We restrict the analysis to deliveries happened in Lombardy. That choice aims at avoiding misleading results driven by differences between regional health care systems but guarantees large representativeness in terms of sample size and patient's origin. Our model controls for individual patient's characteristics and assumes fixed effects at the hospital and year level.

We found that the measures for individual exposure largely explain the probability of opting for a c-section. The effect is particularly strong considering the incidence at the municipality-level: one standard deviation increase in the measure reflects in a 16% increase in the probability of having a c-section. The magnitude of the effect follows a cubic relationship as the incidence increase: the higher the measure, the strongest the probability of receiving a cesarean intervention and vice-versa (saddle point at the median of the incidence distribution). The results are robust to alternative incidence specifications and to additional fixed-effect conditions at the geographic level (i.e. municipality of origin fixed effect). The results are not driven by exogenous hospital characteristics but are partially affected by patients' socioeconomic conditions (i.e. living in a municipality with a larger population, higher average income and education reduces the estimated effect of patient exposure).

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22 Nov
4:00pm
R102

The Complex Nature of Consumption

Giovanna Scarchilli
University

Traditionally the observation of individuals' income has been the main driver of the evaluation of the individual's well-being. One of the messages of the "Commission on the Measurement of Economic Performance and Social Progress" held by Stiglitz et al. (2009), was that well-being is defined as a multidimensional phenomenon. The evaluation of well-being requires to consider a variety of aspects that range from the material living standards, to education, health, personal activities, environment and political context. In the light of a growing literature on well-being measurement, we believe that the observation of a flourishing composition of goods and activities in lifestyle may be a good proxy of a good well-being status. For this reason, the analysis proposed in this study is to rank individuals based on a multidimensional basket of consumption. To do so, we introduce an alternative way to solve the problem of the weights in the evaluation of each element considered in the ranking. In order to evaluate the components of consumption, we take into account the information provided by the diversity and the intrinsic characteristics of the goods and services that each household consume.

The field of study of Economic Complexity provides an original methodology to address the study of household well-being from the perspective of consumption. The Economic Complexity Index proposed by Hausmann and Hidalgo (2014) is an algorithm adopted in macroeconomic studies on growth and development. It is considered strong both from the theoretical and empirical point of view. The ranking provided by the ECI shows that very complex countries are those appearing both very specialized and diverse in exports. The ECI is highly correlated with the countries' GDP, such empirical finding has opened to the researchers an alternative way to study growth. Translating such concept into a household level study on consumption is not straightforward. While the main theoretical interpretation of complexity by HH is the knowledge endowment and technical capabilities of a country; we define the complexity of the consumption set of the households as multiplicity of capabilities, flourishing opportunities, quality of leisure time.

The present study has been done using data on Italian Household Consumption Survey provided by the Italian National Statistical Institute every year. This cross-sectional database has been converted into a household-commodity network. This network connects a household with a good or activity that is consumed in a higher portion than the "fair share". In other words, we observe a connection between the household and the good only if such good is consumed for a higher proportion than its average consumption. We notice that poorly widespread goods/activities are placed at high positions in the Complexity Index ranking. An interesting finding is that, the more complex a household is, the lower is the proportion of its consumption of non-complex goods (confirming the Engel's Law of consumption). Furthermore, we find out that there is a positive correlation between the average regional disposable income and the average regional Household Complexity Index.

Bank Concentration and Monetary Policy Pass-Through

22 Nov
4:00pm
R102

Isabel Hanisch

University of Notre Dame

This paper explores how the structure of the banking system affects the transmission of monetary policy for stabilization and the credit cycle. Given that both local and national bank concentration have increased in the last two decades in the US, it is important for policy makers to identify whether this development impairs the monetary policy pass-through to the economy. Recent research has found that banks exploit their market power on the deposit side by widening spreads in response to a monetary tightening, thereby causing an out ow of deposits and contraction in lending (Drechsler et al., 2017). This research, however, neglects that banks operate also along another margin - the loan side - to generate income. Mora (2014) points out that standardized loan rates are not only dispersed in the cross-section of banks but also depend on the implemented policy rate. This evidence suggests that banks tend not to pass on rate decreases one-to-one, supporting the hypothesis of a monopolistic behavior of banks. To my knowledge, the interaction between banks' strategic interest setting on loans and monetary policy in this context has not been explored.

The contribution of this paper is to analyze thoroughly the implications of bank concentration on monetary policy pass-through to the aggregate economy and to gain novel insights on distributional effects of monetary policy. This paper consists of two interconnected parts. On the empirical side, I explore a unique, confidential branch-level pricing data set from RateWatch for the US. Studying banks' strategic interest setting behavior across time and geographical region allows me to break down monetary policy transmission at a granular level. First, I analyze how banks' individual characteristics such as size, capitalization, and market power affect their response to policy changes. Second, I quantify the real effects examining local unemployment and wages. Third, the richness of the data allows me to distinguish between types of loans, borrower riskiness and collateral requirements. Preliminary findings suggest that branches in more concentrated regions under-react to a monetary easing, i.e., transmit a decline less than one-to-one, but over-react to a tightening, though the pass-through varies across loan products. In addition, I take into account that the pass-through may differ at the zero lower bound and for unconventional measures following evidence of a weakening pass-through from Mora (2014). On the methodological side, I augment a New Keynesian model with an imperfectly competitive banking sector to better understand the transmission, explain the stylized facts that emerged after examining the pricing data, and to perform policy counterfactuals. Building upon seminal work by Gertler and Karadi (2011) modeling the relationship of monetary policy, financial intermediaries, and the real economy, I extend the model setup to heterogeneous, imperfectly competitive banks that differ both in terms of capital and market share, while keeping firms and households standard. Likewise, more recent work by Brunnermeier and Koby (2019) discusses the concept of a reversal interest rate, wherein accommodative monetary policy reverses and becomes contractionary for lending, within a New Keynesian model with banking sector frictions. While their paper considers heterogeneous banks, it does not explore the heterogeneity in market power across local banking markets and focuses primarily on the deposit market in the dynamic model setup. In a next step, I augment these existing models with the loan market insights gained from the empirical part to perform policy analysis. The range of potential policy counterfactuals includes both macroprudential policies affecting the bank's capital structure as well as anti-trust policies changing the local market structure. I analyze quantitatively how such policies affect the effectiveness of monetary policy and influence the transmission of monetary policy through the banking sector, and thereby providing important guidelines for the conduct of central bank policies.

Impact of Violent Conflict on Labour Market Outcomes: Evidence from Nigeria

22 Nov
4:00pm
R102

Ridwan Bello

University of Pavia, University of Milan

What are the economic consequences of armed and violent conflicts? This basic question, having previously been on the periphery of economics research for many years, has recently become a central theme in the Development Economics literature. Over the last two decades, dozens of studies have examined the impacts of violent conflicts on various macro-level and micro-level economic outcomes including household welfare, educational outcomes, child and maternal health, labour market outcomes, agricultural production, and aggregate economic output.

The current literature on the labour market impacts of armed conflicts has widely documented adverse impacts of conflicts on labour market participation and employment. However, there are arguments that given the informality and peculiarities of labour markets in conflict-affected low income countries, these findings may be oversimplifying the reality. Specifically, the concern is that formal definitions of employment do not often apply in low-income countries, thus analysis of links between conflict and employment based on formal labour statistics may misrepresent the reality.

This study takes motivation from this debate to provide the first analysis of the impact of violent conflict on labour market outcomes in Nigeria. The research context is the Boko Haram insurgency in Northern Nigeria that has attracted considerable global attention. Disaggregated conflict data used in the study was extracted from the Armed Conflict and Location Event Database (ACLED), while individual and household information was obtained from the Nigerian General Household Survey (GHS) panel data. Outcomes of interest include labour market participation, employment status, number of hours worked, employment diversification, and choice between formal and informal employment. Buffer (or proximity) analysis techniques was used to measure household conflict exposure. This approach helps to capture spatial variation in conflict exposure within the smallest administrative unit in Nigeria. Panel data model with individual- and time-fixed effects as well as location-specific time trends was used to estimate the causal impact of conflict exposure on the labour market outcomes of interest.

Contrary to earlier results in the literature, this study finds no indication that the conflict had a causal effect on either employment status or labour market participation. However, there were some evidence that the conflict caused a structural change in labour choices, as individuals moved away from formal, non-household employment into informal, household-oriented farm work. These effects are moderated by religion but not age, gender, or sector of residence (whether rural or urban). Results are robust to possible migration and attrition biases.

The conclusion from these results is relevant for policy and humanitarian reasons. Given the absence of reliable safety nets (such as unemployment insurance) in low-income countries like Nigeria, employment is essential for livelihood. Thus, the livelihood cost of dropping out of employment or the labour force during violent conflicts, as one might expect, is prohibitively high for individuals. The unresponsiveness of labour market participation and employment status to the violence but the reallocation of labour from formal to informal employment is indicative of attempts to strike a balance between staying safe and maintaining livelihoods in the face of the Boko Haram conflicts.

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22 Nov
4:00pm
R102

Risk and Ambiguity Attitudes: Are They Connected?

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This research program builds on the experimental pilot study that provides a systematic parameter-free assessment of risk and ambiguity attitudes across three types of event likelihoods in the gain and in the loss domains. The advantage of this study is that the full pattern of risk and ambiguity attitudes is elicited in a unified experimental design in a within-subject fashion. The elicitation method is efficient and uses only certainty equivalents and matching probabilities. The results reveal the fourfold pattern of risk attitudes consistent with Prospect Theory, and the fourfold pattern of ambiguity attitudes. The comparison shows that the majority of participants simultaneously exhibits the same type of attitude towards risk and ambiguity in certain circumstances of events. The findings on the correlation between risk and ambiguity attitudes across considered events are not consistent, as positive and significant correlation is found only for the very unlikely winning events. The presented evidence on the non-existence of universal ambiguity aversion and on the corresponding pattern of risk and ambiguity attitudes suggests an interesting avenue for future work.

As an extension, we propose to conduct the extended parametric replication of the pilot study with a larger sample and a wider range of stakes in order to test the results for their significance and robustness. The parametric analysis would also allow us to test for the comprehensive correlation between risk and ambiguity attitudes. Our experimental design allows us to control for beliefs, as a natural source of uncertainty is considered for ambiguous bets. This addresses the ongoing discussion about the use of artificial uncertainty in experiments, and is a first step to pertaining our findings to the situations of strategic uncertainty.

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