Literature Report

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Abstract

Efficient Bailouts?

- American Economic Review---2016---Javier Bianchi

We develop a quantitative equilibrium model of financial crises to assess the interaction between ex post interventions in credit markets and the buildup of risk ex ante. During a systemic crisis, bailouts relax balance sheet constraints and mitigate the severity of the recession. Ex ante, the anticipation of such bailouts leads to an increase in risk-taking, making the economy more vulnerable to a financial crisis. We find that moral hazard effects are limited if bailouts are systemic and broad-based. If bailouts are idiosyncratic and targeted, however, this makes the economy significantly more exposed to financial crises.

Breakthroughs, Deadlines, and Self-Reported Progress: Contracting for Multistage Projects

- American Economic Review---2016---Brett Green,Curtis R. Taylor

We study the optimal incentive scheme for a multistage project in which the agent privately observes intermediate progress. The optimal contract involves a soft deadline wherein the principal guarantees funding up to a certain date--if the agent reports progress at that date, then the principal gives him a relatively short hard deadline to complete the project--if progress is not reported at that date, then a probationary phase begins in which the project is randomly terminated at a constant rate until progress is reported. We explore several variants of the model with implications for optimal project design. In particular, we show that the principal benefits by imposing a small cost on the agent for submitting a progress report or by making the first stage of the project somewhat "harder" than the second.

Are There Environmental Benefits from Driving Electric Vehicles? The Importance of Local Factors

- American Economic Review---2016---Stephen P. Holland,Erin Mansur,Nicholas Muller,Andrew Yates

We combine a theoretical discrete-choice model of vehicle purchases, an econometric analysis of electricity emissions, and the AP2 air pollution model to estimate the geographic variation in the environmental benefits from driving electric vehicles. The second-best electric vehicle purchase subsidy ranges from $2,785 in California to -$4,964 in North Dakota, with a mean of -$1,095. Ninety percent of local environmental exter-

nalities from driving electric vehicles in one state are exported to others, implying they may be subsidized locally, even when the environmental benefits are negative overall. Geographically differentiated subsidies can reduce deadweight loss, but only modestly.

The Determinants of Productivity in Medical Testing: Intensity and Allocation of Care

- American Economic Review---2016---Jason Abaluck,Leila Agha,Chris Kabrhel,Ali Raja,Arjun Venkatesh

A large body of research has investigated whether physicians overuse care. There is less evidence on whether, for a fixed level of spending, doctors allocate resources to patients with the highest expected returns. We assess both sources of inefficiency, exploiting variation in rates of negative imaging tests for pulmonary embolism. We document enormous across-doctor heterogeneity in testing conditional on patient population, which explains the negative relationship between physicians' testing rates and test yields. Furthermore, doctors do not target testing to the highest risk patients, reducing test yields by one-third. Our calibration suggests misallocation is more costly than overuse.

Quality and Accountability in Health Care Delivery: Audit-Study Evidence from Primary Care in India

- American Economic Review---2016---Jishnu Das,Alaka Holla,Aakash Mohpal,Karthik Muralidharan

We present unique audit-study evidence on health care quality in rural India, and find that most private providers lacked medical qualifications, but completed more checklist items than public providers and recommended correct treatments equally often. Among doctors with public and private practices, all quality metrics were higher in their private clinics. Market prices are positively correlated with checklist completion and correct treatment, but also with unnecessary treatments. However, public sector salaries are uncorrelated with quality. A simple model helps interpret our findings: Where public-sector effort is low, the benefits of higher diagnostic effort among private providers may outweigh costs of potential overtreatment.

Sticky Leverage

- American Economic Review---2016---João Gomes,Urban Jermann,Lukas Schmid

We develop a tractable general equilibrium model that captures the interplay between nominal long-term corporate debt, inflation, and real aggregates. We show that unanticipated inflation changes the real burden of debt and, more significantly, leads to a debt overhang that distorts future investment and production decisions. For these effects to be both large and very persistent, it is essential that debt maturity exceeds one period. We also show that interest rate rules can help stabilize our economy.

Understanding the Gains from Wage Flexibility: The Exchange Rate Connection

- American Economic Review---2016---Jordi Galí,Tommaso Monacelli

We study the gains from increased wage flexibility using a small open economy model with staggered price and wage setting. Two results stand out: (i) the effectiveness of labor cost reductions as a means to stimulate employment is much smaller in a currency union, and (ii) an increase in wage flexibility often reduces welfare, more likely so in an economy that is part of a currency union or with an exchange-rate-focused monetary policy. Our findings call into question the common view that wage flexibility is particularly desirable in a currency union.

Creative Destruction and Subjective Well-Being

- American Economic Review---2016---Philippe Aghion,Ufuk Akcigit,Angus Deaton,Alexandra Roulet

In this paper we analyze the relationship between turnover-driven growth and subjective well-being. Our model of innovation-led growth and unemployment predicts that: (i) the effect of creative destruction on expected individual welfare should be unambiguously positive if we control for unemployment, less so if we do not; (ii) job creation has a positive and job destruction has a negative impact on well-being; (iii) job destruction has a less negative impact in areas with more generous unemployment insurance policies; and (iv) job creation has a more positive effect on individuals that are more forward-looking. The empirical analysis using cross sectional MSA (metropolitan statistical area)-level and individual-level data provide empirical support to these predictions.

Income-Induced Expenditure Switching

- American Economic Review---2016---Rudolfs Bems,Julian di Giovanni

This paper shows that an income effect can drive expenditure switching between domestic and imported goods. We use a unique Latvian scanner-level dataset, covering the 2008-2009 crisis, to document several empirical findings. First, expenditure switching accounted for one-third of the fall in imports, and took place within narrowly defined product groups. Second, there was no corresponding within group change in relative prices. Third, consumers substituted from expensive imports to cheaper domestic alternatives. These findings motivate us to estimate a model of nonhomothetic consumer demand, which explains two-thirds of the observed expenditure switching. Estimated switching is driven by income, not changes in relative prices.

Choice Inconsistencies among the Elderly: Evidence from Plan Choice in the Medicare Part D Program: Comment

- American Economic Review---2016---Jonathan D. Ketcham,Nicolai Kuminoff,Christopher A. Powers

Consumers' enrollment decisions in Medicare Part D can be explained by Abaluck and Gruber's (2011) model of utility maximization with psychological biases or by a neoclassical version of their model that precludes such biases. We evaluate these competing hypotheses by applying nonparametric tests of utility maximization and model validation tests to administrative data. We find that 79 percent of enrollment decisions from 2006 to 2010 satisfied basic axioms of consumer theory under the assumption of full information. The validation tests provide evidence against widespread psychological biases. In particular, we find that precluding psychological biases improves the structural model's out-of-sample predictions for consumer behavior.

Choice Inconsistencies among the Elderly: Evidence from Plan Choice in the Medicare Part D Program: Reply

- American Economic Review---2016---Jason Abaluck,Jonathan Gruber

We explore the in- and out-of-sample robustness of tests for choice inconsistencies based on parameter restrictions in parametric models, focusing on tests proposed by Ketcham, Kuminoff, and Powers (2016). We argue that their nonparametric alternatives are inherently conservative with respect to detecting mistakes. We then show that our parametric model is robust to KKP's suggested specification checks, and that comprehensive goodness of fit measures perform better with our model than the expected utility model. Finally, we explore the robustness of our 2011 results to alternative normative assumptions highlighting the role of brand fixed effects and unobservable characteristics.

Dynamic Procurement under Uncertainty: Optimal Design and Implications for Incomplete Contracts

- American Economic Review---2016---Malin Arve,David Martimort

We characterize the optimal dynamic contract for a long-term basic service when an uncertain add-on is required later on. Introducing firm risk aversion has two impacts. Profits for the basic service can be back-loaded to induce cheaper information revelation for this service: an Income Effect which reduces output distortions. The firm must also bear some risk to induce information revelation for the add-on. This Risk Effect reduces the level of the add-on but hardens information revelation for the basic service. The interaction between these effects has important implications for the dynamics of distortions, contract renegotiation, and the value of incomplete contracts.

Intertemporal Price Discrimination: Dynamic Arrivals and Changing Values

- American Economic Review---2016---Daniel Garrett

We study the profit-maximizing price path of a monopolist selling a durable good to buyers who arrive over time and whose values for the good evolve stochastically. The setting is completely stationary with an infinite horizon. Contrary to the case with constant values, optimal prices fluctuate with time. We argue that consumers' randomly changing values offer an explanation for temporary price reductions that are often observed in practice.

Does Welfare Inhibit Success? The Long-Term Effects of Removing Low-Income Youth from the Disability Rolls

- American Economic Review---2016---Manasi Deshpande

I estimate the effects of removing low-income youth with disabilities from Supplemental Security Income (SSI) on their earnings and income in adulthood. Using a regression discontinuity design based on a 1996 policy change in age 18 medical reviews, I find that youth who are removed from SSI at age 18 recover one-third of the lost SSI cash income in earnings. SSI youth who are removed and stay off SSI earn on average $4,400 annually, and they lose $76,000 in present discounted observed income over the 16 years following removal relative to those who do not receive a review.

Taxing Top CEO Incomes

- American Economic Review---2016---Laurence Ales,Christopher Sleet

We use a firm-CEO assignment framework to model the market for CEO effective labor. In the model's equilibrium, more talented CEOs match with and supply more effort to larger firms. Taxation of CEO incomes affects the equilibrium pricing of CEO effective labor and, hence, spills over and affects firm profits. Absent the ability to tax profits or a direct concern for firm owners, a standard prescription for high marginal income taxes emerges. However, given such an ability or concern, the optimal marginal tax rates are much lower.

Leverage and Beliefs: Personal Experience and Risk-Taking in Margin Lending

- American Economic Review---2016---Peter Koudijs,Hans-Joachim Voth

What determines risk-bearing capacity and the amount of leverage in financial markets? Using unique archival data on collateralized lending, we show that personal experience can affect individual risk-taking and aggregate leverage. When an investor syndicate speculating in Amsterdam in 1772 went bankrupt, many lenders were exposed. In the end, none of them actually lost money. Nonetheless, only those at risk of losing money changed their behavior markedly; they lent with much higher haircuts. The rest continued largely as before. The differential change is remarkable since the distress was public knowledge. Overall leverage in the Amsterdam stock market declined as a result.

Trade and the Global Recession

- American Economic Review---2016---Jonathan Eaton,Samuel Kortum,Brent Neiman,John Romalis

We develop a dynamic multicountry general equilibrium model to investigate forces acting on the global economy during the Great Recession and ensuing recovery. Our multisector framework accounts completely for countries' trade, investment, production, and GDPs in terms of different sets of shocks. Applying the model to 21 countries, we investigate the 29 percent drop in world trade in manufactures during the period 2008-2009. A shift in final spending away from tradable sectors, largely caused by declines in durables investment efficiency, accounts for most of the collapse in trade relative to GDP. Shocks to trade frictions, productivity, and demand play minor roles.

Firm Size Distortions and the Productivity Distribution: Evidence from France

- American Economic Review---2016---Luis Garicano,Claire Lelarge,John van Reenen

We show how size-contingent laws can be used to identify the equilibrium and welfare effects of labor regulation. Our framework incorporates such regulations into the Lucas (1978) model and applies it to France where many labor laws start to bind on firms with 50 or more employees. Using population data on firms between 1995 and 2007, we structurally estimate the key parameters of our model to construct counterfactual size, productivity, and welfare distributions. We find that the cost of these regulations is equivalent to that of a 2.3 percent variable tax on labor. In our baseline case with French levels of partial real wage inflexibility, welfare costs of the regulations are 3.4 percent of GDP (falling to 1.3 percent if real wages were perfectly flexible downward). The main losers from the regulation are workers--and to a lesser extent, large firms--and the main winners are small firms.

Medicaid Insurance in Old Age

- American Economic Review---2016---Mariacristina De Nardi,Eric French,John Jones

The old age provisions of the Medicaid program were designed to insure retirees against medical expenses. We estimate a structural model of savings and medical spending and use it to compute the distribution of lifetime Medicaid transfers and Medicaid valuations across currently single retirees. Compensating variation calculations indicate that current retirees value Medicaid insurance at more than its actuarial cost, but that most would value an expansion of the current Medicaid program at less than its cost. These findings suggest that for current single retirees, the Medicaid program may be of the approximately right size.

Free to Choose? Reform, Choice, and Consideration Sets in the English National Health Service

- American Economic Review---2016---Martin Gaynor,Carol Propper,Stephan Seiler

Choice in public services is controversial. We exploit a reform in the English National Health Service to assess the effect of removing constraints on patient choice. We estimate a demand model that explicitly captures the removal of the choice constraints imposed on patients. We find that, post-removal, patients became more responsive to clinical quality. This led to a modest reduction in mortality and a substantial increase in patient welfare. The elasticity of demand faced by hospitals increased substantially post-reform and we find evidence that hospitals responded to the enhanced incentives by improving quality. This suggests greater choice can raise quality.

The Berlin Stock Exchange in Imperial Germany: A Market for New Technology?

- American Economic Review---2016---Sibylle Lehmann-Hasemeyer,Jochen Streb

Analyzing 474 cases of firms going public in the German capital between 1892 and 1913, we show that innovative firms could rely on the Berlin stock market as a source of financing. Our data also reveal that initial public offerings (IPO) of innovative firms were characterized by particularly low underpricing, comparatively high first trading prices, and no long-run underperformance. We interpret these empirical results as evidence for the surprising fact that in the period of the Second Industrial Revolution the Berlin stock exchange was already a well-functioning market for new technology.

Endogenous Entry to Security-Bid Auctions

- American Economic Review---2016---Takeharu Sogo,Dan Bernhardt,Tingjun Liu

We endogenize entry to a security-bid auction, where participation is costly and bidders must decide given their private valuations whether to participate. We first consider any minimum reserve security-bid of a fixed expected value that weakly exceeds the asset's value when retained by the seller. DeMarzo, Kremer, and Skrzypacz (2005) establish that with a fixed number of bidders, auctions with steeper securities yield the seller more revenues. Counterintuitively, we find that auctions with steeper securities also attract more entry, further enhancing the revenues from such auctions. We then establish that with optimal reserve securities, auctions with steeper securities always yield higher expected revenues.

Persuading Voters

- American Economic Review---2016---Ricardo Alonso,Odilon Câmara

In a symmetric information voting model, an individual (politician) can influence voters' choices by strategically designing a policy experiment (public signal). We characterize the politician's optimal experiment. With a nonunanimous voting rule, she exploits voters' heterogeneity by designing an experiment with realizations targeting different winning coalitions. Consequently, under a simple-majority rule, a majority of voters might be strictly worse off due to the politician's influence. We characterize voters' preferences over electoral rules and provide conditions for a majority of voters to prefer a supermajority (or unanimity) voting rule, in order to induce the politician to supply a more informative experiment.

Can Tracking Raise the Test Scores of High-Ability Minority Students?

- American Economic Review---2016---David Card,Laura Giuliano

We evaluate a tracking program in a large urban district where schools with at least one gifted fourth grader create a separate "gifted/high achiever" classroom. Most seats are filled by non-gifted high achievers, ranked by previous-year test scores. We study the program's effects on the high achievers using (i) a rank-based regression discontinuity design, and (ii) a between-school/cohort analysis. We find significant effects that are concentrated among black and Hispanic participants. Minorities gain 0.5 standard deviation units in fourth-grade reading and math scores, with persistent gains through sixth grade. We find no evidence of negative or positive spillovers on nonparticipants.

The Real Effects of Monetary Shocks in Sticky Price Models: A Sufficient Statistic Approach

- American Economic Review---2016---Fernando Alvarez,Hervé Le Bihan,Francesco Lippi

We prove that the ratio of kurtosis to the frequency of price changes is a sufficient statistic for the real effects of monetary shocks, measured by the cumulated output response following the shock. The sufficient statistic result holds in a large class of models which includes Taylor (1980); Calvo (1983); Reis (2006); Golosov and Lucas (2007); Nakamura and Steinsson (2010); Midrigan (2011); and Alvarez and Lippi (2014). Several models in this class are able to account for the positive excess kurtosis of the size distribution of price changes that appears in the data. We review empirical measures of kurtosis and frequency and conclude that a model that successfully matches the microevidence on kurtosis and frequency produces real effects that are about four times larger than in the Golosov-Lucas model, and about 30 percent below those of the Calvo model. We discuss the robustness of our results to changes in the setup, including small inflation and leptokurtic cost shocks.

Adverse Selection and Auction Design for Internet Display Advertising

- American Economic Review---2016---Nick Arnosti,Marissa Beck,Paul Milgrom

We model an online display advertising environment in which "performance" advertisers can measure the value of individual impressions, whereas "brand" advertisers cannot. If advertiser values for ad opportunities are positively correlated, second-price auctions for impressions can be inefficient and expose brand advertisers to adverse selection. Bayesian-optimal auctions have other drawbacks: they are complex, introduce incentives for false-name bidding, and do not resolve adverse selection. We introduce "modified second bid" auctions as the unique auctions that overcome these disadvantages. When advertiser match values are drawn independently from heavy-tailed distributions, a modified second bid auction captures at least 94.8 percent of the first-best expected value. In that setting and similar ones, the benefits of switching from an ordinary second-price auction to the modified second bid auction may be large, and the cost of defending against shill bidding and adverse selection may be low.

How Much Energy Do Building Energy Codes Save? Evidence from California Houses

- American Economic Review---2016---Arik Levinson

Regulations governing the energy efficiency of new buildings have become a cornerstone of US environmental policy. California enacted the first such codes in 1978 and has tightened them every few years since. I evaluate the resulting energy savings three ways: comparing energy used by houses constructed under different standards, controlling for building and occupant characteristics; examining how energy use varies with outdoor temperatures; and comparing energy used by houses of different vintages in California to that same difference in other states. All three approaches yield estimated energy savings significantly short of those projected when the regulations were enacted.

Building State Capacity: Evidence from Biometric Smartcards in India

- American Economic Review---2016---Karthik Muralidharan,Paul Niehaus,Sandip Sukhtankar

Antipoverty programs in developing countries are often difficult to implement; in particular, many governments lack the capacity to deliver payments securely to targeted beneficiaries. We evaluate the impact of biometrically authenticated payments infrastructure ("Smartcards") on beneficiaries of employment (NREGS) and pension (SSP) programs in the Indian state of Andhra Pradesh, using a large-scale experiment that randomized the rollout of Smartcards over 157 subdistricts and 19 million people. We find that, while incompletely implemented, the new system delivered a faster, more predictable, and less corrupt NREGS payments process without adversely affecting program access. For each of these outcomes, treatment group distributions first-order stochastically dominated those of the control group. The investment was cost-effective, as time savings to NREGS beneficiaries alone were equal to the cost of the intervention, and there was also a significant reduction in the "leakage" of funds between the government and beneficiaries in both NREGS and SSP programs. Beneficiaries overwhelmingly preferred the new system for both programs. Overall, our results suggest that investing in secure payments infrastructure can significantly enhance 'state capacity' to implement welfare programs in developing countries.

Taxation and the International Mobility of Inventors

- American Economic Review---2016---Ufuk Akcigit,Salome Baslandze,Stefanie Stantcheva

We study the effect of top tax rates on "superstar" inventors' international mobility since 1977, using panel data on inventors from the US and European Patent Offices. We exploit the differential impact of changes in top tax rates on inventors of different qualities. Superstar inventors' location choices are significantly affected by top tax rates. In our preferred specification, the elasticity to the net-of-tax rate of the number of domestic superstar inventors is around 0.03, while that of foreign superstar inventors is around 1. These elasticities are larger for inventors in multinational companies. An inventor is less sensitive to taxes in a country if his company performs a higher share of its research there.

Regional Redistribution through the US Mortgage Market

- American Economic Review---2016---Erik Hurst,Benjamin Keys,Amit Seru,Joseph Vavra

Regional shocks are an important feature of the US economy. Households' ability to self-insure against these shocks depends on how they affect local interest rates. In the United States, most borrowing occurs through the mortgage market and is influenced by the presence of government-sponsored enterprises (GSE). We establish that despite large regional variation in predictable default risk, GSE mortgage rates for otherwise identical loans do not vary spatially. In contrast, the private market does set interest rates which vary with local risk. We use a spatial model of collateralized borrowing to show that the national interest rate policy substantially affects welfare by redistributing resources across regions.

Corruption, Trade Costs, and Gains from Tariff Liberalization: Evidence from Southern Africa

- American Economic Review---2016---Sandra Sequeira

This paper exploits quasi-experimental variation in tariffs in southern Africa to estimate trade elasticities. Traded quantities respond only weakly to a 30 percent reduction in the average nominal tariff rate. Trade flow data combined with primary data on firm behavior and bribe payments suggest that corruption is a potential explanation for the observed low elasticities. In contexts of pervasive corruption, even small bribes can significantly reduce tariffs, making tariff liberalization schemes less likely to affect the extensive and the intensive margins of firms' import behavior. The tariff liberalization scheme is, however, still associated with improved incentives to accurately report quantities of imported goods, and with a significant reduction in bribe transfers from importers to public officials.

The Agricultural Origins of Time Preference

- American Economic Review---2016---Oded Galor,Ömer Özak

This research explores the origins of observed differences in time preference across countries and regions. Exploiting a natural experiment associated with the expansion of suitable crops for cultivation in the course of the Columbian Exchange, the research establishes that pre-industrial agro-climatic characteristics which were conducive to higher return to agricultural investment triggered selection, adaptation, and learning processes that generated a persistent positive effect on the prevalence of long-term orientation in the contemporary era. Furthermore, the research establishes that these agro-climatic characteristics have had a culturally embodied impact on economic behavior such as technological adoption, education, saving, and smoking.

Managerial Attention and Worker Performance

- American Economic Review---2016---Marina Halac,Andrea Prat

We present a novel theory of the employment relationship. A manager can invest in attention technology to recognize good worker performance. The technology may break and is costly to replace. We show that as time passes without recognition, the worker's belief about the manager's technology worsens and his effort declines. The manager responds by investing, but this investment is insufficient to stop the decline in effort and eventually becomes decreasing. The relationship therefore continues deteriorating, and a return to high performance becomes increasingly unlikely. These deteriorating dynamics do not arise when recognition is of bad performance or independent of effort.

The Power of Forward Guidance Revisited

- American Economic Review---2016---Alisdair McKay,Emi Nakamura,Jón Steinsson

In recent years, central banks have increasingly turned to forward guidance as a central tool of monetary policy. Standard monetary models imply that far future forward guidance has huge effects on current outcomes, and these effects grow with the horizon of the forward guidance. We present a model in which the power of forward guidance is highly sensitive to the assumption of complete markets. When agents face uninsurable income risk and borrowing constraints, a precautionary savings effect tempers their responses to changes in future interest rates. As a consequence, forward guidance has substantially less power to stimulate the economy.

Trade, Domestic Frictions, and Scale Effects

- American Economic Review---2016---Natalia Ramondo,Andres Rodriguez-Clare,Milagro Saborio-Rodriguez

Because of scale effects, idea-based growth models imply that larger countries should be much richer than smaller ones. New trade models share the same counterfactual feature. In fact, new trade models exhibit other counterfactual implications associated with scale effects: import shares decrease and relative income levels increase too steeply with country size. We argue that these implications are largely a result of the standard assumption that countries are fully integrated domestically. We depart from this assumption by treating countries as collections of regions that face positive costs to trade among themselves. The resulting model is largely consistent with the data.

On the Timing and Pricing of Dividends: Comment

- American Economic Review---2016---Florian Schulz

I present novel empirical evidence on the term structure of the equity risk premium. In contrast to previous research that documented high discount rates for the short-term component of the market portfolio, I show evidence for an unconditionally flat term structure of equity risk premia. The tension with previous literature arises largely as a result of differential treatments of heterogeneous investment taxes, manifested in micro evidence on abnormal equity returns on ex-dividend days, and liquidity. The results not only help resolve an important recent "puzzle" but provide further important insights on the role of investment taxes in asset pricing.

On the Timing and Pricing of Dividends: Reply

- American Economic Review---2016---Jules H. van Binsbergen,Ralph S. J. Koijen

Schulz (2016) replicates the findings of van Binsbergen, Brandt, and Koijen (2012)--henceforth, BBK--and agrees that the average pretax returns on short-term dividend strips are higher than those of the index, but argues that the after-tax returns are not. He thus provides a possible economic interpretation of the results in BBK: taxes. Schulz (2016) estimates the differential tax rates of dividends versus capital gains from ex-dividend day returns. We show that these estimated tax rates are suspect and imprecisely measured, peaking at over 100 percent in some periods. The results in BBK are robust to using tax rates from the literature (Sialm 2009). The arguments in Schulz (2016) thus crucially depend on implausibly large tax estimates. We further discuss two other financial market imperfections discussed in the literature and show that they are also unlikely to explain the results in BBK.

Robust Social Decisions

- American Economic Review---2016---Eric Danan,Thibault Gajdos,Brian Hill,Jean-Marc Tallon

We propose and operationalize normative principles to guide social decisions when individuals potentially have imprecise and heterogeneous beliefs, in addition to conflicting tastes or interests. To do so, we adapt the standard Pareto principle to those preference comparisons that are robust to belief imprecision and characterize social preferences that respect this robust principle. We also characterize a suitable restriction of this principle. The former principle provides stronger guidance when it can be satisfied; when it cannot, the latter always provides minimal guidance.

Beyond GDP? Welfare across Countries and Time

- American Economic Review---2016---Charles Jones,Pete Klenow

We propose a summary statistic for the economic well-being of people in a country. Our measure incorporates consumption, leisure, mortality, and inequality, first for a narrow set of countries using detailed micro data, and then more broadly using multi-country datasets. While welfare is highly correlated with GDP per capita, deviations are often large. Western Europe looks considerably closer to the United States, emerging Asia has not caught up as much, and many developing countries are further behind. Each component we introduce plays a significant role in accounting for these differences, with mortality being most important.

Bailouts, Time Inconsistency, and Optimal Regulation: A Macroeconomic View

- American Economic Review---2016---V. V. Chari,Patrick Kehoe

A common view is that bailouts of firms by governments are needed to cure inefficiencies in private markets. We propose an alternative view: even when private markets are efficient, costly bankruptcies will occur and benevolent governments without commitment will bail out firms to avoid bankruptcy costs. Bailouts then introduce inefficiencies where none had existed. Although granting the government orderly resolution powers which allow it to rewrite private contracts improves on bailout outcomes, regulating leverage and taxing size is needed to achieve the relevant constrained efficient outcome, the sustainably efficient outcome. This outcome respects governments' incentives to intervene when they lack commitment.

Long-Run Risk Is the Worst-Case Scenario

- American Economic Review---2016---Rhys Bidder,Ian Dew-Becker

We study an investor who is unsure of the dynamics of the economy. Not only are parameters unknown, but the investor does not even know what order model to estimate. She estimates her consumption process nonparametrically--allowing potentially infinite-order dynamics--and prices assets using a pessimistic model that minimizes lifetime utility subject to a constraint on statistical plausibility. The equilibrium is exactly solvable and the pricing model always includes long-run risks. With risk aversion of 4.7, the model matches major facts about asset prices, consumption, and dividends. The paper provides a novel link between ambiguity aversion and nonparametric estimation.

Properties of the Combinatorial Clock Auction

- American Economic Review---2016---Jonathan Levin,Andrzej Skrzypacz

The combinatorial clock auction has become popular for large-scale spectrum awards and other uses, replacing more traditional ascending or clock auctions. We describe some surprising properties of the auction, including a wide range of ex post equilibria with demand expansion, demand reduction, and predation. Our results obtain in a standard homogeneous good setting where bidders have well-behaved linear demand curves, and suggest some practical difficulties with dynamic implementations of the Vickrey auction.

Timing Decisions in Organizations: Communication and Authority in a Dynamic Environment

- American Economic Review---2016---Steven R. Grenadier,Andrey Malenko,Nadya Malenko

We consider a problem where an uninformed principal makes a timing decision interacting with an informed but biased agent. Because time is irreversible, the direction of the bias crucially affects the agent's ability to credibly communicate information. When the agent favors late decision making, full information revelation often occurs. In this case, centralized decision making, where the principal retains authority and communicates with the agent, implements the optimal decision-making rule. When the agent favors early decision making, communication is partial, and the optimal decision-making rule is not implemented. Delegation adds value when the bias is for early decision making, but not for late decision making.

Who Benefits from State Corporate Tax Cuts? A Local Labor Markets Approach with Heterogeneous Firms

- American Economic Review---2016---Juan Carlos Suárez Serrato,Owen Zidar

This paper estimates the incidence of state corporate taxes on the welfare of workers, landowners, and firm owners using variation in state corporate tax rates and apportionment rules. We develop a spatial equilibrium model with imperfectly mobile firms and workers. Firm owners may earn profits and be inframarginal in their location choices due to differences in location-specific productivities. We use the reduced-form effects of tax changes to identify and estimate incidence as well as the structural parameters governing these impacts. In contrast to standard open economy models, firm owners bear roughly 40 percent of the incidence, while workers and landowners bear 30-35 percent and 25-30 percent, respectively.

Runs on Money Market Mutual Funds

- American Economic Review---2016---Lawrence Schmidt,Allan Timmermann,Russ Wermers

We study daily money market mutual fund flows at the individual share class level during September 2008. This fine granularity of data allows new insights into investor and portfolio holding characteristics conducive to run risk in cash-like asset pools. We find that cross-sectional flow data observed during the week of the Lehman failure are consistent with key implications of a simple model of coordination with incomplete information and strategic complementarities. Similar conclusions follow from daily models fitted to capture dynamic interactions between investors with differing levels of sophistication within the same money fund, holding constant the underlying portfolio.

Skill Transferability, Migration, and Development: Evidence from Population Resettlement in Indonesia

- American Economic Review---2016---Samuel Bazzi,Arya Gaduh,Alexander D. Rothenberg,Maisy Wong

We use a natural experiment in Indonesia to provide causal evidence on the role of location-specific human capital and skill transferability in shaping the spatial distribution of productivity. From 1979-1988, the Transmigration Program relocated two million migrants from rural Java and Bali to new rural settlements in the Outer Islands. Villages assigned migrants from regions with more similar agroclimatic endowments exhibit higher rice productivity and nighttime light intensity one to two decades later. We find some evidence of migrants' adaptation to agroclimatic change. Overall, our results suggest that regional productivity differences may overstate the potential gains from migration.

Asymmetric Information and Intermediation Chains

- American Economic Review---2016---Vincent Glode,Christian Opp

We propose a parsimonious model of bilateral trade under asymmetric information to shed light on the prevalence of intermediation chains that stand between buyers and sellers in many decentralized markets. Our model features a classic problem in economics where an agent uses his market power to inefficiently screen a privately informed counterparty. Paradoxically, involving moderately informed intermediaries also endowed with market power can improve trade efficiency. Long intermediation chains in which each trader's information set is similar to those of his direct counterparties limit traders' incentives to post prices that reduce trade volume and jeopardize gains to trade.

How to Count Citations If You Must

- American Economic Review---2016---Motty Perry,Philip Reny

Citation indices are regularly used to inform critical decisions about promotion, tenure, and the allocation of billions of research dollars. Nevertheless, most indices (e.g., the h-index) are motivated by intuition and rules of thumb, resulting in undesirable conclusions. In contrast, five natural properties lead us to a unique new index, the Euclidean index, that avoids several shortcomings of the h-index and its successors. The Euclidean index is simply the Euclidean length of an individual's citation list. Two empirical tests suggest that the Euclidean index outperforms the h-index in practice.

The Allocation of Future Business: Dynamic Relational Contracts with Multiple Agents

- American Economic Review---2016---Isaiah Andrews,Daniel Barron

We consider how a firm dynamically allocates business among several suppliers to motivate them in a relational contract. The firm chooses one supplier who exerts private effort. Output is non-contractible, and each supplier observes only his own relationship with the principal. In this setting, allocation decisions constrain the transfers that can be promised to suppliers in equilibrium. Consequently, optimal allocation decisions condition on payoff-irrelevant past performance to make strong incentives credible. We construct a dynamic allocation rule that attains first-best whenever any allocation rule does. This allocation rule performs strictly better than any rule that depends only on payoff-relevant information.

A Behavioral Analysis of Stochastic Reference Dependence

- American Economic Review---2016---Yusufcan Masatlioglu,Collin Raymond

We examine the reference-dependent risk preferences of Koszegi and Rabin (2007), focusing on their choice-acclimating personal equilibria. Although their model has only a trivial intersection (expected utility) with other reference-dependent models, it has very strong connections with models that rely on different psychological intuitions. We prove that the intersection of rank-dependent utility and quadratic utility, two well-known generalizations of expected utility, is exactly monotone linear gain-loss choice-acclimating personal equilibria. We use these relationships to identify parameters of the model, discuss loss and risk aversion, and demonstrate new applications.

Dynamic Delegation of Experimentation

- American Economic Review---2016---Yingni Guo

I study a dynamic relationship where a principal delegates experimentation to an agent. Experimentation is modeled as a one-armed bandit that yields successes following a Poisson process. Its unknown intensity is high or low. The agent has private information, his type being his prior belief that the intensity is high. The agent values successes more than the principal does, so prefers more experimentation. The optimal mechanism is a cutoff rule in the belief space: the cutoff gives pessimistic types total freedom but curtails optimistic types' behavior. Pessimistic types over-experiment while the most optimistic ones under-experiment. This delegation rule is time consistent.

Marijuana on Main Street? Estimating Demand in Markets with Limited Access

- American Economic Review---2016---Liana Jacobi,Michelle Sovinsky

Marijuana is the most common illicit drug with vocal advocates for legalization. Among other things, legalization would increase access and remove the stigma of illegality. Our model disentangles the role of access from preferences and shows that selection into access is not random. We find that traditional demand estimates are biased resulting in incorrect policy conclusions. If marijuana were legalized, those under 30 would see modest increases in use of 28 percent, while on average use would increase by 48 percent (to 19.4 percent). Tax policies are effective at curbing use, where Australia could raise AU$1 billion (and the United States US$12 billion).

Endogenous Skill Acquisition and Export Manufacturing in Mexico

- American Economic Review---2016---David Atkin

This paper presents empirical evidence that the growth of export manufacturing in Mexico during a period of major trade reforms (the years 1986 to 2000) altered the distribution of education. I use variation in the timing of factory openings across commuting zones to show that school drop-out increased with local expansions in export-manufacturing industries. The magnitudes I find suggest that for every 25 jobs created, one student dropped out of school at grade 9 rather than continuing through to grade 12. These effects are driven by less-skilled export-manufacturing jobs which raised the opportunity cost of schooling for students at the margin.

The Realization Effect: Risk-Taking after Realized versus Paper Losses

- American Economic Review---2016---Alex Imas

Understanding how prior outcomes affect risk attitudes is critical for the study of choice under uncertainty. A large literature documents the significant influence of prior losses on risk attitudes. The findings appear contradictory: some studies find greater risk-taking after a loss, whereas others show the opposite—that people take on less risk. I reconcile these seemingly inconsistent findings by distinguishing between realized versus paper losses. Using new and existing data, I replicate prior findings and demonstrate that following a realized loss, individuals avoid risk; if the same loss is not realized, a paper loss, individuals take on greater risk.

Health Care Exceptionalism? Performance and Allocation in the US Health Care Sector

- American Economic Review---2016---Amitabh Chandra,Amy Finkelstein,Adam Sacarny,Chad Syverson

The conventional wisdom for the health care sector is that idiosyncratic features leave little scope for market forces to allocate consumers to higher performance producers. However, we find robust evidence across several different conditions and performance measures that higher quality hospitals have higher market shares and grow more over time. The relationship between performance and allocation is stronger among patients who have greater scope for hospital choice, suggesting that patient demand plays an important role in allocation. Our findings suggest that health care may have more in common with "traditional" sectors subject to market forces than often assumed.

Evolving Choice Inconsistencies in Choice of Prescription Drug Insurance

- American Economic Review---2016---Jason Abaluck,Jonathan Gruber

We study choice over prescription insurance plans by the elderly using government administrative data to evaluate how these choices evolve over time. We find large "foregone savings" from not choosing the lowest cost plan that has grown over time. We develop a structural framework to decompose the changes in "foregone welfare" from inconsistent choices into choice set changes and choice function changes from a fixed choice set. We find that foregone welfare increases over time due primarily to changes in plan characteristics such as premiums and out-of-pocket costs; we estimate little learning at either the individual or cohort level.

Effects of Deregulation and Consolidation of the Broadcast Television Industry

- American Economic Review---2016---Jessica Calfee Stahl

This paper exploits deregulation in the 1990s to estimate viewership and revenue effects of consolidation in broadcast television, then finds cost effects that explain the ownership structure given viewership and revenue effects. Results suggest that consolidation greatly increased profitability in an industry with otherwise declining profitability. Groups with broader national coverage attract more advertising per station. Joint ownership of two stations within a market and network ownership both allow for significant cost savings. There is some evidence that within-market consolidation allows stations to achieve local market power. However, both within-market and across-market consolidation appear to have boosted viewership, on net.

Macroeconomic Effects of Bankruptcy and Foreclosure Policies

- American Economic Review---2016---Kurt Mitman

I study the implications of two major debt-relief policies in the United States: the Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) and the Home Affordable Refinance Program (HARP). To do so, I develop a model of housing and default that includes relevant dimensions of credit-market policy and captures rich heterogeneity in household balance sheets. The model also explains the observed cross-state variation in consumer default rates. I find that BAPCPA significantly reduced bankruptcy rates, but increased foreclosure rates when house prices fell. HARP reduced foreclosures by 1 percentage point and provided substantial welfare gains to households with high loan-to-value mortgages.

Financial Intermediation, Investment Dynamics, and Business Cycle Fluctuations

- American Economic Review---2016---Andrea Ajello

I use micro data to quantify key features of US firm financing. In particular, I establish that a substantial 35 percent of firms' investment is funded using financial markets. I then construct a dynamic equilibrium model that matches these features and fit the model to business cycle data using Bayesian methods. In the model, financial intermediaries enable trades of financial assets, directing funds toward investment opportunities, and charge an intermediation spread to cover their costs. According to the model estimation, exogenous shocks to the intermediation spread explain 25 percent of GDP and 30 percent of investment volatility.

Capital Taxation under Political Constraints

- American Economic Review---2016---Florian Scheuer,Alexander Wolitzky

This paper studies optimal dynamic tax policy under the threat of political reform. A policy will be reformed ex post if a large enough coalition of citizens supports reform; thus, sustainable policies are those that will continue to attract enough political support in the future. We find that optimal marginal capital taxes are either progressive or U-shaped, so that savings are subsidized for the poor and/or the middle class but are taxed for the rich. U-shaped capital taxes always emerge when individuals' political behavior is purely determined by economic motives.

Ostracism and Forgiveness

- American Economic Review---2016---S. Nageeb Ali,David Miller

Many communities rely upon ostracism to enforce cooperation: if an individual shirks in one relationship, her innocent neighbors share information about her guilt in order to shun her, while continuing to cooperate among themselves. However, a strategic victim may herself prefer to shirk, rather than report her victimization truthfully. If guilty players are to be permanently ostracized, then such deviations are so tempting that cooperation in any relationship is bounded by what the partners could obtain through bilateral enforcement. Ostracism can improve upon bilateral enforcement if tempered by forgiveness, through which guilty players are eventually readmitted to cooperative society.

Moderating Political Extremism: Single Round versus Runoff Elections under Plurality Rule

- American Economic Review---2016---Massimo Bordignon,Tommaso Nannicini,Guido Tabellini

We compare single round versus runoff elections under plurality rule, allowing for partly endogenous party formation. Under runoff elections, the number of political candidates is larger, but the influence of extremist voters on equilibrium policy, and hence policy volatility, is smaller because the bargaining power of the political extremes is reduced compared to single round elections. The predictions on the number of candidates and on policy volatility are confirmed by evidence from a regression discontinuity design in Italy, where cities above 15,000 inhabitants elect the mayor with a runoff system, while those below hold single round elections.

Monitoring Corruptible Politicians

- American Economic Review---2016---Gustavo Bobonis,Luis R. Cámara Fuertes,Rainer Schwabe

Does monitoring corrupt activities induce a sustained reduction in corruption? Using longitudinal data on audits of municipal governments in Puerto Rico, we show corruption is considerably lower in municipalities with timely audits—before elections. However, these municipalities do not exhibit decreased levels of corruption in subsequent audits, even while mayors in these benefit from higher reelection rates. Our results suggest that audits enable voters to select responsive but corruptible politicians to office. Audit programs must disseminate results when they are most relevant for voters—shortly before an election—and ensure that these programs are sustained, long-term commitments.

Behavioral Economics: Past, Present, and Future

- American Economic Review---2016---Richard Thaler

Perceiving Prospects Properly

- American Economic Review---2016---Jakub Steiner,Colin Stewart

When an agent chooses between prospects, noise in information processing generates an effect akin to the winner's curse. Statistically unbiased perception systematically overvalues the chosen action because it fails to account for the possibility that noise is responsible for making the preferred action appear to be optimal. The optimal perception pattern exhibits a key feature of prospect theory, namely, overweighting of small probability events (and corresponding underweighting of high probability events). This bias arises to correct for the winner's curse effect.

The Surprisingly Swift Decline of US Manufacturing Employment

- American Economic Review---2016---Justin Pierce,Peter K. Schott

This paper links the sharp drop in US manufacturing employment after 2000 to a change in US trade policy that eliminated potential tariff increases on Chinese imports. Industries more exposed to the change experience greater employment loss, increased imports from China, and higher entry by US importers and foreign-owned Chinese exporters. At the plant level, shifts toward less labor-intensive production and exposure to the policy via input-output linkages also contribute to the decline in employment. Results are robust to other potential explanations of employment loss, and there is no similar reaction in the European Union, where policy did not change.

Network Structure and the Aggregation of Information: Theory and Evidence from Indonesia

- American Economic Review---2016---Vivi Alatas,Abhijit Banerjee,Arun G. Chandrasekhar,Rema Hanna,Benjamin A. Olken

We use unique data from over 600 Indonesian communities on what individuals know about the poverty status of others to study how network structure influences information aggregation. We develop a model of semi-Bayesian learning on networks, which we structurally estimate using within-village data. The model generates qualitative predictions about how cross-village patterns of learning relate to network structure, which we show are borne out in the data. We apply our findings to a community-based targeting program, where citizens chose households to receive aid, and show that the networks that the model predicts to be more diffusive differentially benefit from community targeting.

CoVaR

- American Economic Review---2016---Tobias Adrian,Markus Brunnermeier

CoVaR, defined as the change in the value at risk of the financial system conditional on an institution being under distress relative to its median state. Our estimates show that characteristics such as leverage, size, maturity mismatch, and asset price booms significantly predict CoVaR. We also provide out-of-sample forecasts of a countercyclical, forward-looking measure of systemic risk, and show that the 2006:IV value of this measure would have predicted more than one-third of realized CoVaR during the 2007-2009 financial crisis.

Interest Rates and Equity Extraction during the Housing Boom

- American Economic Review---2016---Neil Bhutta,Benjamin Keys

Credit record panel data from 1999-2010 indicates that the likelihood of home equity extraction (borrowing, on average, about $40,000 against one's home) peaked in 2003 when mortgage rates reached historic lows. We estimate a 27 percent rise in extraction in response to a 100 basis point rate decline, and that house price growth amplifies this relationship. Differential responses to interest rates and home price appreciation by borrower age and credit score provide new evidence of financial frictions. Finally, equity extractions are associated with higher default risk, consistent with the use of borrowed funds for consumption or illiquid investment.

Experiments on Decisions under Uncertainty: A Theoretical Framework

- American Economic Review---2016---Eran Shmaya,Leeat Yariv

The analysis of lab data entails a joint test of the underlying theory and of subjects' conjectures regarding the experimental design itself, how subjects frame the experiment. We provide a theoretical framework for analyzing such conjectures. We use experiments of decision making under uncertainty as a case study. Absent restrictions on subjects' framing of the experiment, we show that any behavior is consistent with standard updating ("anything goes"), including those suggestive of anomalies such as overconfidence, excess belief stickiness, etc. When the experimental protocol restricts subjects' conjectures (plausibly, by generating information during the experiment), standard updating has nontrivial testable implications.

The Long-Run Effects of the Scramble for Africa

- American Economic Review---2016---Stelios Michalopoulos,Elias Papaioannou

We explore the consequences of ethnic partitioning, a neglected aspect of the Scramble for Africa, and uncover the following. First, apart from the land mass and water bodies, split and non-split groups are similar across several dimensions. Second, the incidence, severity, and duration of political violence are all higher for partitioned homelands which also experience frequent military interventions from neighboring countries. Third, split groups are often entangled in a vicious circle of government-led discrimination and ethnic wars. Fourth, respondents from survey data identifying with split ethnicities are economically disadvantaged. The evidence highlights the detrimental repercussions of the colonial border design.

Discounts as a Barrier to Entry

- American Economic Review---2016---Enrique Ide,Juan-Pablo Montero,Nicola s Figueroa

To what extent can an incumbent manufacturer use discount contracts to foreclose efficient entry? We show that off-list-price rebates that do not commit buyers to unconditional transfers--like the rebates in EU Commission v. Michelin II, for instance--cannot be anticompetitive. This is true even in the presence of cost uncertainty, scale economies, or intense downstream competition, all three market settings where exclusion has been shown to emerge with exclusive dealing contracts. The difference stems from the fact that, unlike exclusive dealing provisions, rebates do not contractually commit retailers to exclusivity when signing the contract.

Charters without Lotteries: Testing Takeovers in New Orleans and Boston

- American Economic Review---2016---Atila Abdulkadiroğlu,Joshua Angrist,Peter Hull,Parag A. Pathak

Charter takeovers are traditional public schools restarted as charter schools. We develop a grandfathering instrument for takeover attendance that compares students at schools designated for takeover with a matched sample of students attending similar schools not yet taken over. Grandfathering estimates from New Orleans show substantial gains from takeover enrollment. In Boston, grandfathered students see achievement gains at least as large as the gains for students assigned charter seats in lotteries. A non-charter Boston turnaround intervention that had much in common with the takeover strategy generated gains as large as those seen for takeovers, while other more modest turnaround interventions yielded smaller effects.

Sequential Markets, Market Power, and Arbitrage

- American Economic Review---2016---Koichiro Ito,Mar Reguant

We develop a framework to characterize strategic behavior in sequential markets under imperfect competition and restricted entry in arbitrage. Our theory predicts that these two elements can generate a systematic price premium. We test the model predictions using microdata from the Iberian electricity market. We show that the observed price differences and firm behavior are consistent with the model. Finally, we quantify the welfare effects of arbitrage using a structural model. In the presence of market power, we show that full arbitrage is not necessarily welfare-enhancing, reducing consumer costs but increasing deadweight loss.

Tracing Value-Added and Double Counting in Gross Exports: Comment

- American Economic Review---2016---Bart Los,Marcel Timmer,Gaaitzen de Vries

In a recent contribution to the AER, Koopman, Wang, and Wei (2014) proposed a decomposition of a country's gross exports into value-added components and double-counted terms. It is motivated by complex manipulation of basic accounting identities. In this comment we provide an alternative framework based on "hypothetical extraction." This parsimonious approach provides a clear definition of domestic value added in exports and has a natural extension into decompositions of bilateral export flows.

Measuring and Understanding Behavior, Welfare, and Poverty

- American Economic Review---2016---Angus Deaton

Do Schools Matter for High Math Achievement? Evidence from the American Mathematics Competitions

- American Economic Review---2016---Glenn Ellison,Ashley Swanson

This paper uses data from the American Mathematics Competitions to examine the rates at which different high schools produce high-achieving math students. There are large differences in the frequency with which students from seemingly similar schools reach high achievement levels. The distribution of unexplained school effects includes a thick tail of schools that produce many more high-achieving students than is typical. Several additional analyses suggest that the differences are not primarily due to unobserved differences in student characteristics. The differences are persistent across time, suggesting that differences in the effectiveness of educational programs are not primarily due to direct peer effects.

Too-Systemic-to-Fail: What Option Markets Imply about Sector-Wide Government Guarantees

- American Economic Review---2016---Bryan Kelly,Hanno Lustig,Stijn Van Nieuwerburgh

We examine the pricing of financial crash insurance during the 2007-2009 financial crisis in US option markets, and we show that a large amount of aggregate tail risk is missing from the cost of financial sector crash insurance during the crisis. The difference in costs between out-of-the-money put options for individual banks and puts on the financial sector index increases four-fold from its precrisis 2003-2007 level. We provide evidence that a collective government guarantee for the financial sector lowers index put prices far more than those of individual banks and explains the increase in the basket-index put spread.

Agricultural Productivity and Structural Transformation: Evidence from Brazil

- American Economic Review---2016---Paula Bustos,Bruno Caprettini,Jacopo Ponticelli

We study the effects of the adoption of new agricultural technologies on structural transformation. To guide empirical work, we present a simple model where the effect of agricultural productivity on industrial development depends on the factor-bias of technical change. We test the predictions of the model by studying the introduction of genetically engineered soybean seeds in Brazil, which had heterogeneous effects on agricultural productivity across areas with different soil and weather characteristics. We find that technical change in soy production was strongly labor-saving and led to industrial growth, as predicted by the model.

The Demand for Energy-Using Assets among the World's Rising Middle Classes

- American Economic Review---2016---Paul Gertler,Orie Shelef,Catherine D. Wolfram,Alan Fuchs

We study household decisions to acquire energy-using assets in the presence of rising incomes. We develop a theoretical framework to characterize the effect of income growth on asset purchases when consumers face credit constraints. We use large and plausibly exogenous shocks to household income generated by the conditional-cash-transfer program in Mexico, Oportunidades, to show that asset acquisition is nonlinear, depends, as predicted in the presence of credit constraints, on the pace of income growth, and both effects are economically large among beneficiaries. Our results may help explain important worldwide trends in the relationship between energy use and income growth.

Domestic Value Added in Exports: Theory and Firm Evidence from China

- American Economic Review---2016---Hiau Looi Kee,Heiwai Tang

China has defied the declining trend in domestic content in exports in many countries. This paper studies China's rising domestic content in exports using firm- and customs transaction-level data. The approach embraces firm heterogeneity and hence reduces aggregation bias. The study finds that the substitution of domestic for imported materials by individual processing exporters caused China's domestic content in exports to increase from 65 to 70 percent in the period 2000-2007. Such substitution was induced by the country's trade and investment liberalization, which deepened its engagement in global value chains and led to a greater variety of domestic materials becoming available at lower prices.

Attention Discrimination: Theory and Field Experiments with Monitoring Information Acquisition

- American Economic Review---2016---Vojtěch Bartoš,Michal Bauer,Julie Chytilová,Filip Matejka

We integrate tools to monitor information acquisition in field experiments on discrimination and examine whether gaps arise already when decision makers choose the effort level for reading an application. In both countries we study, negatively stereotyped minority names reduce employers' effort to inspect resumes. In contrast, minority names increase information acquisition in the rental housing market. Both results are consistent with a model of endogenous allocation of costly attention, which magnifies the role of prior beliefs and preferences beyond the one considered in standard models of discrimination. The findings have implications for magnitude of discrimination, returns to human capital and policy.

Measuring Discounting without Measuring Utility

- American Economic Review---2016---Arthur Attema,Han Bleichrodt,Yu Gao,Zhenxing Huang,Peter Wakker

We introduce a new method to measure the temporal discounting of money. Unlike preceding methods, our method requires neither knowledge nor measurement of utility. It is easier to implement, clearer to subjects, and requires fewer measurements than existing methods.

Does Affirmative Action Work? Caste, Gender, College Quality, and Academic Success in India

- American Economic Review---2016---Surendrakumar Bagde,Dennis Epple,Lowell Taylor

Public policy in modern India features affirmative action programs intended to reduce inequality that stems from a centuries-old caste structure and history of disparate treatment by gender. We study the effects of one such affirmative action program: an admissions policy that fixes percentage quotas, common across more than 200 engineering colleges, for disadvantaged castes and for women. We show that the program increases college attendance of targeted students, particularly at relatively higher-quality institutions. An important concern is that affirmative action might harm intended beneficiaries by placing them in academic programs for which they are ill-prepared. We find no evidence of such adverse impacts.

Rational Inattention and Organizational Focus

- American Economic Review---2016---Wouter Dessein,Andrea Galeotti,Tano Santos

This paper studies optimal communication flows in organizations. A production process can be coordinated ex ante, by letting agents stick to a prespecified plan of action. Alternatively, agents may adapt to task-specific shocks, in which case tasks must be coordinated ex post, using communication. When attention is scarce, an optimal organization coordinates only a few tasks ex post. Those tasks are higher performing, more adaptive to the environment, and influential. Hence, scarce attention requires setting priorities, not just local optimization. Our results provide microfoundations for a central idea in the management literature that firms should focus on a limited set of core competencies.

Technological Innovations, Downside Risk, and the Modernization of Agriculture

- American Economic Review---2016---Kyle Emerick,Alain de Janvry,Elisabeth Sadoulet,Manzoor H. Dar

We use a randomized experiment in India to show that improved technology enhances agricultural productivity by crowding in modern inputs and cultivation practices. Specifically, we show that a new rice variety that reduces downside risk by providing flood tolerance has positive effects on adoption of a more labor-intensive planting method, area cultivated, fertilizer usage, and credit utilization. We find that a large share of the expected gains from the technology comes from crowding in of other investments. Therefore, improved technologies that reduce risk by protecting production in bad years have the potential to increase agricultural productivity in normal years.

Optimal Expectations and Limited Medical Testing: Evidence from Huntington Disease: Corrigendum

- American Economic Review---2016---Emily Oster,Ira Shoulson,E. Ray Dorsey

Foreword

- American Economic Review---2016---Robert Shiller

Editors' Introduction

- American Economic Review---2016---William Johnson,Kelly Markel

Restoring Rational Choice: The Challenge of Consumer Financial Regulation

- American Economic Review---2016---John Campbell

This lecture considers the case for consumer financial regulation in an environment where many households lack the knowledge to manage their financial affairs effectively. The lecture argues that financial ignorance is pervasive and unsurprising given the complexity of modern financial products, and that it contributes meaningfully to the evolution of wealth inequality. The lecture uses a stylized model to discuss the welfare economics of paternalistic intervention in financial markets, and discusses several specific examples including asset allocation in retirement savings, fees for unsecured short-term borrowing, and reverse mortgages.

The Phillips Curve: Back to the '60s?

- American Economic Review---2016---Olivier Blanchard

This paper reexamines the behavior of inflation and unemployment and reaches four conclusions: 1) The U.S. Phillips curve is alive and well (at least as well as in the past). 2) Inflation expectations however have become steadily more anchored. 3) The slope of the curve has substantially declined. But the decline dates back to the 1980s rather than to the crisis. 4) The standard error of the residual in the relation is large, especially in comparison to the low level of inflation. Each of the four conclusions presents challenges for the conduct of monetary policy.

Dealing with Long-Term Deficits

- American Economic Review---2016---Martin Feldstein

The United States faces a rising future ratio of debt to GDP that, if allowed to continue, would have serious adverse consequences for the American economy. Fortunately, policy changes can increase the size of the future GDP and shrink the future budget deficits. Relatively small reductions in future annual deficits could reverse the increasing ratio of national debt to GDP. Those annual deficit reductions could be best achieved by slowing the growth of Social Security and Medicare and by raising revenue by limiting tax expenditures or increasing the tax on gasoline.

Monetary Policy, Financial Stability, and the Zero Lower Bound

- American Economic Review---2016---Stanley Fischer

Much has happened in the world of central banking in the past decade. In this paper, I focus on three issues associated with the zero lower bound (ZLB) on short-term nominal interest rates and the nexus between monetary policy and financial stability: 1) whether we are moving toward a permanently lower long-run equilibrium real interest rate; 2) what steps can be taken to mitigate the constraints imposed by the ZLB; and 3) whether and how financial stability considerations should be incorporated in the conduct of monetary policy. These important topics deserve the attention of both academic and government professionals.

How to Restore Equitable and Sustainable Economic Growth in the United States

- American Economic Review---2016---Joseph Stiglitz

Today's weakness in the US economy results from lack of aggregate demand, due to high and growing inequality, underinvestment in public infrastructure and technology that is complementary to private capital, continuing mild austerity, difficulties encountered in making the structural transformation from manufacturing to a service-based economy, and a financial sector failing to provide adequate funds to SMEs. An agenda to restore growth includes a carbon price, inducing climate investments; increased public investments in infrastructure and technology; fighting inequality through redistribution and rewriting the rules structuring the economy; and reforming the financial sector and the global reserve system.

Can We Restart the Recovery All Over Again?

- American Economic Review---2016---John Taylor

Many have argued that a deviation from good economic policy has been a cause of the poor U.S. economic performance of the past decade and that policy reforms are needed to restore strong growth. Yet others argue that the recent stagnation is secular or that the possibility of a rapid recovery is long gone without more fiscal stimulus. Here I show that unusual economic conditions leave plenty of room for a reform-induced rebound. Taking demographics and the growth of capital services into account, labor force participation and productivity growth are unusually low. Hence, policy reforms could generate a post-recession-like acceleration as well as sustained growth and stability.

A Century of Growth and Improvement

- American Economic Review---2016---Benjamin M. Friedman

The fact that actual economic advance over time normally means producing and consuming different things is usually left implicit in modern models of economic growth. By contrast, qualitative change--new goods and services, and better versions of what already existed--is central to Robert Gordon's history of the improvement of American living standards since 1870. A major contribution of his fine-grained account of this experience is to make clear what this improvement has meant, and why it has mattered to ordinary citizens.

The Rise and Fall of American Growth: Exploring the Numbers

- American Economic Review---2016---Nicholas Crafts

This paper reviews some of the major claims in Robert Gordon's Rise and Fall of American Growth. His argument that growth of conventional real GDP per person is well below that of real living standards is accepted. It is shown that adding an imputation to GDP for reductions in mortality raises growth substantially, especially between 1929 and 1950. Gordon is also right that total factor productivity growth peaked in the second and third quarters of the twentieth century but his claim that there was a "great leap forward" in the 1940s, stimulated by World War 2, is not persuasive.

State Capacity and American Technology: Evidence from the Nineteenth Century

- American Economic Review---2016---Daron Acemoglu,Jacob Moscona,James Robinson

Robert Gordon's The Rise and Fall of American Economic Growth compellingly shows how technical innovation, stimulated by the country's institutions, has radically improved the living standards of the citizens of the US. We conduct an empirical investigation of the impact of the capacity of the US state, as proxied by the presence of post offices, on innovation. We show that there is a strong association between the number of post offices in a county and patenting activity. Our evidence suggests that part of story of US innovation is the capacity and reach of the US state.

Winter Is Coming: Robert Gordon and the Future of Economic Growth

- American Economic Review---2016---Gregory Clark

This comment assesses the claim of The Rise and Fall of American Growth that for coming decades, growth in US TFP will continue the disappointing pace of the last decade. While predicting future technological advance is difficult, there are indications that Gordon may actually be too optimistic on future TFP growth. The share of output from manufacturing, which still generates the majority of R&D expenditures, and has historically more rapid TFP growth, will continue to fall. There are substantial obstacles to rapid TFP advance in much of the rest of the economy: construction, transport, health care and other services.

Perspectives on The Rise and Fall of American Growth

- American Economic Review---2016---Robert J. Gordon

This paper summarizes the book and assesses the reviews contained in the four contributed papers. Gregory Clark provides convincing arguments that extend the book's forecast that future technological change will be slower. Nicholas Crafts shows declining mortality and shorter work hours greatly increase welfare-augmented TFP growth during 1929-50. Benjamin Friedman points out that optimism about future technological change casts doubt on future employment growth, while technological pessimism implies employment optimism. Daron Acemoglu and co-authors emphasize the institutional environment that influences the timing and magnitude of innovation.

Infrastructure, Incentives, and Institutions

- American Economic Review---2016---Nava Ashraf,Edward L. Glaeser,Giacomo Ponzetto

Expensive infrastructure is ineffective if it doesn't travel the last mile. In nineteenth-century New York and modern Africa, disease has spread when urbanites chose not to use newly built sanitation infrastructure to save money. Either subsidies or Pigouvian fines can internalize the externalities that occur when people don't use sanitation infrastructure, but with weak institutions subsidies generate waste and fines lead to extortion. Our model illustrates the complementarity between infrastructure and institutions and shows how institutional weaknesses determine whether fines, subsidies, both or neither are optimal. Contrary to Becker (1968), the optimal fine is often mild to reduce extortion.

Guns, Latrines, and Land Reform: Dynamic Pigouvian Taxation

- American Economic Review---2016---Michael Kremer,Jack Willis

Dynamically and statically optimal Pigouvian subsidies and taxes on durables will differ in a growing economy. In a dynamic game, consumers may delay purchasing durables with positive externalities, such as latrines, anticipating greater future subsidies. Governments can most cheaply induce optimal purchasing by commiting to make subsidies temporary. Foreign donors may make commitment impossible, generating delays in private investment that more than fully offset the social benefits of transfers. Anticipated future taxes or regulation of durables with negative externalities, such as guns, may encourage current purchase, potentially causing policymakers who would otherwise prefer taxes or regulation to abandon such policies.

Appliance Ownership and Aspirations among Electric Grid and Home Solar Households in Rural Kenya

- American Economic Review---2016---Kenneth Lee,Edward Miguel,Catherine Wolfram

In Sub-Saharan Africa, there are active debates about whether increases in energy access should be driven by investments in electric grid infrastructure or small-scale "home solar" systems (e.g., solar lanterns and solar home systems). We summarize the results of a household electrical appliance survey and describe how households in rural Kenya differ in terms of appliance ownership and aspirations. Our data suggest that home solar is not a substitute for grid power. Furthermore, the environmental advantages of home solar are likely to be relatively small in countries like Kenya, where grid power is primarily derived from non-fossil fuel sources.

Firm-Level Dispersion in Productivity: Is the Devil in the Details?

- American Economic Review---2016---Lucia Foster,Cheryl Grim,John Haltiwanger,Zoltán Wolf

We explore current interpretations of firm-level dispersion in revenue-based productivity measures. Since revenue function estimates using proxy methods differ from factor elasticities, the residual emerging from this method remains a combination of demand and technical effciency shocks, and is not equal to the concept of revenue productivity that plays an important role in recent literature on misallocation. This has implications for applications where measured revenue productivity dispersion is used as an indicator of misallocation. Our empirical evidence suggests, under iso-elastic demand, measured dispersion may indicate either distortions or variation in demand shocks and technical effciency or all of the above.

Productivity Dispersion in Medicine and Manufacturing

- American Economic Review---2016---Amitabh Chandra,Amy Finkelstein,Adam Sacarny,Chad Syverson

The conventional wisdom in health economics is that large differences in average productivity across US hospitals are the result of idiosyncratic features of the healthcare sector which dull the role of market forces. Strikingly, however, we find that productivity dispersion in heart attack treatment across hospitals is, if anything, smaller than in narrowly defined manufacturing industries such as ready-mixed concrete. While this fact admits multiple interpretations, it suggests that healthcare may have more in common with "traditional" sectors than is often assumed, and relatedly, that insights from research on productivity and allocation in other sectors may enrich analysis of healthcare.

Market Regulations, Prices, and Productivity

- American Economic Review---2016---Gilbert Cette,Jimmy Lopez,Jacques Mairesse

This study is, to our knowledge, the first attempt to infer the consequences on productivity entailed by anticompetitive regulations in product and labor markets through their impacts on production prices and wages. Results show that changes in production prices and wages at country*industry levels are informative about the creation of rents impeding productivity in different ways and to different extents. A simulation based on OECD regulation indicators suggests that nearly all countries could expect sizeable gains in multifactor productivity from the implementation of large structural reform programs changing anticompetitive regulation practices on product and labor markets.

Regulation, Institutions, and Productivity: New Macroeconomic Evidence from OECD Countries

- American Economic Review---2016---Balázs Égert

This paper seeks to understand the drivers of country-level multi-factor productivity (MFP) with a special emphasis on product and labour market policies and the quality of institutions. For a panel of OECD countries, we find that anticompetitive product market regulations reduce MFP levels and that higher innovation intensity and greater openness result in higher MFP. We also find that the impact of product market regulations on MFP may depend on the level of labour market regulations. Better institutions, a more business friendly environment and lower barriers to trade and investment amplify the positive impact of R&D spending on MFP. Finally, we also show that cross-country MFP variations can be explained to a considerable extent by cross-country variation in labour market regulations, barriers to trade and investment and institutions.

Crowdsourcing City Government: Using Tournaments to Improve Inspection Accuracy

- American Economic Review---2016---Edward L. Glaeser,Andrew Hillis,Scott Kominers,Michael Luca

The proliferation of big data makes it possible to better target city services like hygiene inspections, but city governments rarely have the in-house talent needed for developing prediction algorithms. Cities could hire consultants, but a cheaper alternative is to crowdsource competence by making data public and offering a reward for the best algorithm. A simple model suggests that open tournaments dominate consulting contracts when cities can tolerate risk and when there is enough labor with low opportunity costs. We also report on an inexpensive Boston-based restaurant tournament, which yielded algorithms that proved reasonably accurate when tested "out-of-sample" on hygiene inspections.

Personalized Risk Assessments in the Criminal Justice System

- American Economic Review---2016---Sharad Goel,Justin M. Rao,Ravi Shroff

In an effort to bring greater efficiency, equity, and transparency to the criminal justice system, statistical risk assessment tools are increasingly used to inform bail, sentencing, and parole decisions. We examine New York City's stop-and-frisk program, and propose two new use cases for personalized risk assessments. First, we show that risk assessment tools can help police officers make considerably better real-time stop decisions. Second, we show that such tools can help audit past actions; in particular, we argue that a sizable fraction of police stops were conducted on the basis of little evidence, in possible violation of constitutional protections.

Productivity and Selection of Human Capital with Machine Learning

- American Economic Review---2016---Aaron Chalfin,Oren Danieli,Andrew Hillis,Zubin Jelveh,Michael Luca,Jens Ludwig,Sendhil Mullainathan

Economists have become increasingly interested in studying the nature of production functions in social policy applications, with the goal of improving productivity. Traditionally models have assumed workers are homogenous inputs. However, in practice, substantial variability in productivity means the marginal productivity of labor depends substantially on which new workers are hired--which requires not an estimate of a causal effect, but rather a prediction. We demonstrate that there can be large social welfare gains from using machine learning tools to predict worker productivity, using data from two important applications - police hiring and teacher tenure decisions.

Cities Are Physical Too: Using Computer Vision to Measure the Quality and Impact of Urban Appearance

- American Economic Review---2016---Nikhil Naik,Ramesh Raskar,Cesar Hidalgo

For social scientists, developing an empirical connection between the physical appearance of a city and the behavior and health of its inhabitants has proved challenging due to a lack of data on urban appearance. Can we use computers to quantify urban appearance from street-level imagery? We describe Streetscore: a computer vision algorithm that measures the perceived safety of streetscapes. Using Streetscore to evaluate 19 American cities, we find that the average perceived safety has a strong positive correlation with population density and household income; and the variation in perceived safety has a strong positive correlation with income inequality.

The Rapid Adoption of Data-Driven Decision-Making

- American Economic Review---2016---Erik Brynjolfsson,Kristina McElheran

We provide a systematic empirical study of the diffusion and adoption patterns of data-driven decision making (DDD) in the U.S. Using data collected by the Census Bureau for a large representative sample of manufacturing plants, we find that DDD rates nearly tripled (11%-30%) between 2005 and 2010. This rapid diffusion, along with results from a companion paper, are consistent with case-based evidence that DDD tends to be productivity-enhancing. Yet certain plants are significantly more likely to adopt than others. Key correlates of adoption are size, presence of potential complements such as information technology and educated workers, and firm learning.

Copyright Infringement in the Market for Digital Images

- American Economic Review---2016---Hong Luo,Julie Holland Mortimer

Digital technologies for sharing creative goods create new opportunities for copyright infringement and challenge established enforcement methods. We establish several important facts about the nature of copyright infringement and efforts to settle past infringing use in the market for digital images. Infringement in this, and many other markets, is often uninformed: users may be unaware that their use infringes, and may lack information about the price of a license. The uninformed nature of infringement implies that price may not be the primary factor in the decision to settle past use; in contrast, non-price factors may significantly affect settlement outcomes.

Agglomeration of Invention in the Bay Area: Not Just ICT

- American Economic Review---2016---Chris Forman,Avi Goldfarb,Shane Greenstein

We document that the Bay Area rose from 4% of all successful US patent applications in 1976 to 16% in 2008. This is partly driven by the increase in the prevalence of information and communication technology; however, even for patents unrelated to information and communication technology, we see a disproportionate increase in the share of US patents from the Bay Area. We interpret this growth as a trend to coagglomeration in invention across technologies, and explore different dimensions of this trend.

International Data on Measuring Management Practices

- American Economic Review---2016---Nicholas Bloom,Renata Lemos,Raffaella Sadun,Daniela Scur,John van Reenen

We examine methods used to survey firms on their management and organizational practices. We contrast the strengths and weaknesses of "open ended questions" (like the World Management Survey) with "closed questions" (like the MOPS). For this type of data, open ended questions give higher quality responses, but are more costly than closed question-based surveys.

Making Private Data Accessible in an Opaque Industry: The Experience of the Private Capital Research Institute

- American Economic Review---2016---Leslie Jeng,Josh Lerner

Private markets are becoming an increasingly important way of financing rapidly growing and mature firms, and private investors are reputed to have far-reaching economic impacts. These important markets, however, are uniquely difficult to study. This paper explores these challenges, as well as the ways they can be overcome, using the experiences of the Private Capital Research Institute as a case.

Modernizing Federal Economic Statistics

- American Economic Review---2016---William G. Bostic,Ron Jarmin,Brian Moyer

Official statistical data on the structure, evolution and performance of the U.S. economy are produced by a variety federal, state and local agencies. Much of the methodology, policy frameworks and infrastructure for U.S. economic measurement have been in place for decades. There are growing concerns that the economy is evolving more rapidly than are the economic statistics we use to monitor it. We discuss both the challenges and opportunities to modernizing federal economic statistics. We describe an incremental approach that federal statistics agencies can follow to build a 21st century economic measurement system.

Battling over Jobs: Occupational Licensing in Health Care

- American Economic Review---2016---Morris M. Kleiner

The goal of this paper is to outline the major tensions between the monopoly face of licensing versus potential consumer protection goals of occupational regulation in the health care industry. Historically, health care occupations limited supply as a method of raising earnings, but with the growth in the number of newly regulated occupations, many professions have come in conflict over who gets to do the work. Rather than having consumers decide, state legislatures and licensing boards determine the allocation of tasks. The paper outlines policies that may allow consumers rather than service providers determine the direct allocation of these jobs.

Should the US Eliminate Entry Barriers to the Practice of Law? Perspectives Shaped by Industry Deregulation

- American Economic Review---2016---Clifford Winston,Quentin Karpilow

States' requirements that lawyers obtain a license to practice law, as well as American Bar Association (ABA) regulations of legal practice, constitute barriers to entry to the legal profession. In this paper, we argue that eliminating entry barriers in legal services would generate benefits that are similar to those resulting from deregulating U.S. network industries (i.e., transportation, communications, and energy.) Specifically, prices would fall as competition from incumbent firms and new entrants intensifies; in the long run, competitive forces and operating freedom would incentivize firms to produce innovations that significantly benefit consumers and the broader economy.

Disruptive Change in the Taxi Business: The Case of Uber

- American Economic Review---2016---Judd Cramer,Alan Krueger

In most cities, the taxi industry is highly regulated and has restricted entry. Ride sharing services, such as Uber and Lyft, which use mobile internet technology to connect passengers and drivers, have begun to compete with traditional taxis. This paper examines the efficiency of ride sharing services vis-a-vis taxis. In most cities with data available, UberX drivers spend a significantly higher fraction of their time, and drive a substantially higher share of miles, with a passenger in their car than do taxi drivers. Reasons for this efficiency advantage are explored.

Patents and Research Investments: Assessing the Empirical Evidence

- American Economic Review---2016---Eric Budish,Benjamin N. Roin,Heidi Williams

A well-developed theoretical literature--dating back at least to Nordhaus (1969)--has analyzed optimal patent policy design. We re-present the core trade-off of the Nordhaus model and highlight an empirical question which emerges from the Nordhaus framework as a key input into optimal patent policy design: namely, what is the elasticity of R&D investment with respect to the patent term? We then review the--surprisingly small--body of empirical evidence that has been developed on this question over the nearly half century since the publication of Nordhaus's book.

Patent Licensing, Technology Transfer, and Innovation

- American Economic Review---2016---Mark A. Lemley,Robin Feldman

Traditional justifications for patents are based on direct or indirect contribution to product creation. Nonpracticing entities (NPEs) might provide such innovation, either directly, through working the patent or transfer of technology to others who do, or indirectly, when others copy. Available evidence suggests, however, that ex post licensing demands from NPEs do not normally involve these activities. Some have argued that patents are valuable without technology transfer because the ability to exclude may drive commercialization that would not otherwise occur. We demonstrate that even if commercialization theories sometimes justify patent protection, they cannot justify most NPE lawsuits or licensing demands.

Patent Quality and Examination in Europe

- American Economic Review---2016---Dietmar Harhoff

This paper reports on effects of recent administrative reforms at the European Patent Office (EPO). In EPO-granted patents, claims numbers started to decline in

2008 when new claims fees became effective, claims sections in patents became shorter, and independent claims longer and presumably more specific. The grant rate remained at relatively low levels, but the EPO was unable to stem the use of divisional filings. The developments at the EPO point to a high private value of delay options. Delay may be achieved either by making use of explicit statutory rules or by other means, such as filing divisional applications.

Patent Remedies

- American Economic Review---2016---Carl Shapiro

Since the Supreme Court's eBay decision in 2006, the U.S. has employed a hybrid patent remedy system that mixes property and liability rules. When the patent owner and the infringer are competitors, the courts typically issue a permanent injunction requiring the infringer to cease its infringing activities. In contrast, when the patent owner and the infringer are not competitors, the courts often allow the infringer to continue its infringing activities so long as it pays specified ongoing royalties to the patent holder. This article studies the incentives for invention and for new product development in such a hybrid system.

Declining Business Dynamism: What We Know and the Way Forward

- American Economic Review---2016---Ryan Decker,John Haltiwanger,Ron Jarmin,Javier Miranda

A growing body of evidence indicates that the U.S. economy has become less dynamic in recent years. This trend is evident in declining rates of gross job and worker flows as well as declining rates of entrepreneurship and young firm activity, and the trend is pervasive across industries, regions, and firm size classes. We describe the evidence on these changes in the U.S. economy by reviewing existing research. We then describe new empirical facts about the relationship between establishment-level productivity and employment growth, framing our results in terms of canonical models of firm dynamics and suggesting empirically testable potential explanations.

Wage Posting and Business Cycles

- American Economic Review---2016---Giuseppe Moscarini,Fabien Postel-Vinay

The canonical model of job search and wage posting (Burdett and Mortensen, 1998) establishes a natural connection between the average wage growth in the economy and the pace of Employer-to-Employer (EE) transitions, predicting wage growth to be positively related to the pace of EE reallocation for all workers, but especially for stayers. We verify this empirically both with aggregate time series and with longitudinal micro data from the Survey of Income and Program Participation (SIPP). We argue that monetary authorities concerned with inflationary wage pressure should pay more attention directly to EE reallocation and less to the unemployment rate.

Firm Entry and Macroeconomic Dynamics: A State-Level Analysis

- American Economic Review---2016---Francois Gourio,Todd Messer,Michael Siemer

Using an annual panel of US states over the period 1982-2014, we estimate the response of macroeconomic variables to a shock to the number of new firms (startups). We find that these shocks have significant effects that persist for many years on real GDP, productivity, and population. This is consistent with simple models of firm dynamics where a "missing generation" of firms affects productivity persistently.

The Role of Startups in Structural Transformation

- American Economic Review---2016---Robert C. Dent,Fatih Karahan,Benjamin Pugsley,Ayşegül Şahin

The U.S. economy has been going through a striking structural transformation--the secular reallocation of employment across sectors--over the past several decades. We propose a decomposition framework to assess the contributions of various margins of firm dynamics to this shift. Using firm-level data, we find that at least 50 percent of the adjustment has been taking place along the entry margin, due to sectors receiving different shares of startup employment than their employment shares. The rest is mostly due to life cycle differences across sectors. Declining overall entry has a small but growing effect of dampening structural transformation.

Popular Attitudes toward Markets and Democracy: Russia and United States Compared 25 Years Later

- American Economic Review---2016---Maxim Boycko,Robert Shiller

We repeat a survey we did in the waning days of the Soviet Union (Shiller, Boycko and Korobov, AER 1991) comparing attitudes towards free markets between Moscow and New York. Additional survey questions, from Gibson Duch and Tedin (J. Politics 1992) are added to compare attitudes towards democracy. Two comparisons are made: between countries, and through time, to explore the existence of international differences in allegiance to democratic free-market institutions, and the stability of these differences.

War, Inflation, and Social Capital

- American Economic Review---2016---Sergei Guriev,Nikita Melnikov

We use weekly data from 79 Russian regions to measure the impact of economic shocks and proximity to war in Ukraine on social capital in Russian regions. We proxy social capital by the relative intensity of internet searches for the most salient dimensions of pro-social behavior such as "donate blood", "charity", "adopt a child" etc. This measure of social capital is correlated with a survey-based measure of generalized social trust. Our search-based measure of social capital responds negatively to the spikes of inflation and positively to the intensity of the conflict in Ukraine (controlling for region and week fixed effects).

Russia's Billionaires

- American Economic Review---2016---Daniel Treisman

Using data collected by Forbes since the 1990s, I examine the emergence and survival of the super-wealthy in Russia over the past two decades and compare Russia's record to those of other countries. The major surge in the number of Russian billionaires came in the mid-2000s, mirroring the dynamic worldwide. While early billionaires were predominantly found in the oil, gas, metals, and banking sectors, the distribution has become more diverse, now including some in trade, real estate, chemicals, and information technology. Only a minority of today's Russian billionaires acquired significant assets in the privatization of the 1990s.

Paid Parental Leave Laws in the United States: Does Short-Duration Leave Affect Women's Labor-Force Attachment?

- American Economic Review---2016---Tanya S. Byker

I analyze the effects of short-duration paid parental leave on maternal labor supply. Using monthly longitudinal data from the Survey of Income and Program Participation, my event-study research design estimates impacts of paid leave laws in California and New Jersey on women's labor-force outcomes around childbirth. I find that paid leave laws are associated with a substantial increase in labor-force attachment in the months directly around birth. While US-style short-duration leave is unlikely to change prolonged exits from the labor force, my findings imply that paid leave laws induce some women stay more attached to jobs, particularly low-skill women.

Has the Increased Attachment of Women to the Labor Market Changed a Family's Ability to Smooth Income Shocks?

- American Economic Review---2016---Olga Gorbachev

An increase in a married woman's attachment to the labor market affected her family's ability to smooth unexpected income shocks. Between 1970 and 1990, the sharp rise in labor market attachment provided an increasingly important channel for smoothing shocks to spousal income. As the participation rate stabilized, this contribution to smoothing evened out. In the Great Recession, both spouses received negative income shocks, and access to transfer income became the main insurance mechanism. Volatility of consumption followed volatility of family income trends but at a lower magnitude. Families' ability to weather income shocks didn't change during the 1970-2010 period.

Evolution of the Marriage Earnings Gap for Women

- American Economic Review---2016---Chinhui Juhn,Kristin McCue

Using Survey of Income and Program Participation (SIPP) panels linked to Social Security earnings records, we examine the earnings gap associated with marriage for cohorts of women born between 1936 and 1975. We compare ordinary least squares and fixed-effect estimates. We find that among women who work, the marital earnings gap has all but disappeared in fixed-effects estimates for recent birth cohorts. In fact, among women without children, married women earn more than single women, implying a diminished role for specialization when children are not present. In contrast, the motherhood earnings gap remains large even for recent birth cohorts.

The Math Gender Gap: The Role of Culture

- American Economic Review---2016---Natalia Nollenberger,Núria Rodriguez-Planas,Almudena Sevilla

This paper investigates the effect of gender-related culture on the math gender gap by analysing math test scores of second-generation immigrants, who are all exposed to a common set of host country laws and institutions. We find that immigrant girls whose parents come from more gender-equal countries perform better (relative to similar boys) than immigrant girls whose parents come from less gender-equal countries, suggesting an important role of cultural beliefs on the role of women in society on the math gender gap. The transmission of cultural beliefs accounts for at least two thirds of the overall contribution of gender-related factors.

Does the Market Value CEO Styles?

- American Economic Review---2016---Antoinette Schoar,Luo Zuo

We study how investors perceive the skill set that different types of CEOs bring into their companies. We compare CEOs who started their careers during a recession with other CEOs. We show that the announcement return around the appointment of a recession CEO is very significant and positive, and this positive market reaction is driven by cases where a recession CEO replaces a non-recession CEO. Our results indicate that the market assigns a positive and economically meaningful value to a recession CEO, suggesting that there is a limited supply of these types of CEOs in the executive labor market.

Gender Diversity on Corporate Boards: Do Women Contribute Unique Skills?

- American Economic Review---2016---Daehyun Kim,Laura T. Starks

We show that gender diversity in corporate boards could improve firm value because of the contributions that women make to the board. Prior studies examine valuation effects of gender-diverse boards and reach mixed conclusions. To help resolve this conundrum, we consider how gender diversity could affect firm value, that is, what mechanisms could explain how female directors benefit corporate board performance. We hypothesize and provide evidence that women directors contribute to boards by offering specific functional expertise, often missing from corporate boards. The additional expertise increases board heterogeneity which Kim and Starks (2015) show can increase firm value.

Playing the Boys Game: Golf Buddies and Board Diversity

- American Economic Review---2016---Sumit Agarwal,Wenlan Qian,David M. Reeb,Tien Foo Sing

We study the participation of women in golf, a predominately male social activity, and its influence on their likelihood of serving on a board of directors. Exploiting a novel dataset of all golfers in Singapore, we find that woman golfers enjoy a 54% higher likelihood of serving on a board relative to male golfers. A woman's probability of serving on the board in a large firm or in a predominately male industry increases by 117% to 125% when she plays golf. Joining the boy's informal network appears to facilitate women's entrance or success in the executive labor market.

Women on Boards in Finance and STEM Industries

- American Economic Review---2016---Renee Adams,Tom Kirchmaier

We document that women are less represented on corporate boards in Finance and more traditional STEM industry sectors. Even after controlling for differences in firm and country characteristics, average diversity in these sectors is 24% lower than the mean. Our findings suggest that well-documented gender differences in STEM university enrolments and occupations have long-term consequences for female business leadership. The leadership gap in Finance and STEM may be difficult to eliminate using blanket boardroom diversity policies. Diversity policies are also likely to have a different impact on firms in these sectors than in non-STEM sectors.

Childhood Environment and Gender Gaps in Adulthood

- American Economic Review---2016---Raj Chetty,Nathaniel Hendren,Frina Lin,Jeremy Majerovitz,Benjamin Scuderi

We show that differences in childhood environments shape gender gaps in adulthood by documenting three facts using population tax records for children born in the 1980s. First, gender gaps in employment rates, earnings, and college attendance vary substantially across the parental income distribution. Notably, the traditional gender gap in employment rates is reversed for children growing up in poor families: boys in families in the bottom quintile of the income distribution are less likely to work than girls. Second, these gender gaps vary substantially across counties and commuting zones in which children grow up. The degree of variation in outcomes across places is largest for boys growing up in poor, single-parent families. Third, the spatial variation in gender gaps is highly correlated with proxies for neighborhood disadvantage. Low-income boys who grow up in high-poverty, high-minority areas work significantly less than girls. These areas also have higher rates of crime, suggesting that boys growing up in concentrated poverty substitute from formal employment to crime. Together, these findings demonstrate that gender gaps in adulthood have roots in childhood, perhaps because childhood disadvantage is especially harmful for boys.

School Quality and the Gender Gap in Educational Achievement

- American Economic Review---2016---David Autor,David Figlio,Krzysztof Karbownik,Jeffrey Roth,Melanie Wasserman

Recent evidence indicates that boys and girls are differently affected by the quantity and quality of family inputs received in childhood. We assess whether this is also true for schooling inputs. Using matched Florida birth and school administrative records, we estimate the causal effect of school quality on the gender gap in educational outcomes by contrasting opposite-sex siblings who attend the same sets of schools--thereby purging family heterogeneity--and leveraging within-family variation in school quality arising from family moves. Investigating middle school test scores, absences and suspensions, we find that boys benefit more than girls from cumulative exposure to higher quality schools.

What Explains the Gender Gap in College Track Dropout? Experimental and Administrative Evidence

- American Economic Review---2016---Ingvild Almås,Alexander Cappelen,Kjell G Salvanes,Erik Sørensen,Bertil Tungodden

We exploit a unique data set, combining rich experimental data with high-quality administrative data, to study dropout from the college track in Norway, and why boys are more likely to drop out. The paper provides three main findings. First, we show that family background and personal characteristics contribute to explain dropout. Second, we show that the gender difference in dropout rates appears both when the adolescents select into the college track and after they have started. Third, we show that different processes guide the choices of the boys and the girls of whether to drop out from the college track.

Experimental Age Discrimination Evidence and the Heckman Critique

- American Economic Review---2016---David Neumark,Ian Burn,Patrick Button

We design and implement a large-scale field experiment on age discrimination to address limitations of past research that may bias their results. One limitation is the practice of giving older and younger applicants similar experience in the job to which they are applying, to make them "otherwise comparable." The second limitation is ignoring the likelihood of greater variation in unobserved differences among older workers owing to human capital investment. Based on evidence from over 40,000 job applications, we find robust evidence of age discrimination in hiring against older women, but considerably less evidence of age discrimination against older men.

The Power of Eye Tracking in Economics Experiments

- American Economic Review---2016---Joanna Lahey,Douglas Oxley

Eye tracking is a technology that tracks eye activity including how long and where a participant is looking. As eye tracking technology has improved and become more affordable its use has expanded. We discuss how to design, implement, and analyze an experiment using this technology to study economic theory. Using our experience fielding an experiment to study hiring decisions we guide the reader through how to choose an eye tracker, concerns with participants and set-up, types of outputs, limitations of eye tracking, data management and data analysis. We conclude with suggestions for combining eye tracking with other measurements.

Determinants of Callbacks to Job Applications: An Audit Study

- American Economic Review---2016---Henry S. Farber,Dan Silverman,Till von Wachter

We summarize findings from an audit study investigating how unemployment duration, age, and holding a low-level "interim" job affect the likelihood that experienced college-educated females applying for administrative support jobs receive a callback from potential employers. The results show no relationship between callback rates and unemployment duration. In contrast, workers age 50 and older and workers with an "interim" job are significantly less likely to receive callbacks. We also summarize disparate findings in the growing literature of resume-based audit studies of career histories, and discuss avenues in which the literature could achieve results that are more comparable and externally valid.

Supply and Demand for Discrimination: Strategic Revelation of Own Characteristics in a Trust Game

- American Economic Review---2016---Anthony Heyes,John List

In strategic settings a player may be able to influence the behavior of an opponent by revealing information about their own characteristics. They may for example aim to exploit stereotypes held by others. We provide an experimental test of this. A substantial fraction of players in a trust game exhibit a positive willingness to pay to reveal a photograph of themselves to their randomly-assigned partner. This suggests that they perceive that they can use their own characteristics to influence the behavior of others. The demand for such self-revelation depends negatively on price.

Student Loan Information Provision and Academic Choices

- American Economic Review---2016---Maximilian Schmeiser,Christiana Stoddard,Carly Urban

We examine the effect of a student loan information intervention on changes in college major using administrative data from the Montana University System from 2002-2014. Our difference-in-difference-in-differences strategy exploits the relative trends for students at Montana State University above and below the cutoff for receiving a warning letter about their student debt, compared to their counterparts at the University of Montana. We find that students who receive information suggesting they may be unlikely to be able to repay their loans are more likely to switch to higher earning majors, with higher academic performers most likely to choose STEM fields.

Birth Timing and Neonatal Health

- American Economic Review---2016---Cristina Borra,Libertad Gonzalez,Almudena Sevilla

We take advantage of a new natural experiment to evaluate the health effects of scheduling birth early for non-medical reasons on infant health. In 2010, the cancellation of a generous child benefit in Spain led may families to schedule birth early in order to remain eligible for the subsidy. We document that the affected cohort of children did not suffer any increase in birth complications or medical conditions right at birth, but were significantly more likely to be admitted to hospital during their second and third weeks of life, suggesting potentially persistent negative health effects.

STEM Training and Early Career Outcomes of Female and Male Graduate Students: Evidence from UMETRICS Data Linked to the 2010 Census

- American Economic Review---2016---Catherine Buffington,Benjamin Cerf,Christina Jones,Bruce A. Weinberg

Women are underrepresented in science and engineering, with the underrepresentation increasing in career stage. We analyze gender differences at critical junctures in the STEM pathway--graduate training and the early career--using UMETRICS administrative data matched to the 2010 Census and W-2s. We find strong gender separation in teams, although the effects of this are ambiguous. While no clear disadvantages exist in training environments, women earn 10% less than men once we include a wide range of controls, most notably field of study. This gap disappears once we control for women's marital status and presence of children.

Medicare Part D and Portfolio Choice

- American Economic Review---2016---Padmaja Ayyagari,Daifeng He

Economic theory suggests that medical spending risk affects the extent to which households are willing to accept financial risk, and consequently their investment portfolios. In this study, we focus on the elderly for whom medical spending represents a substantial risk. We exploit the exogenous reduction in prescription drug spending risk due to the introduction of Medicare Part D in the U.S. in 2006 to identify the causal effect of medical spending risk on portfolio choice. Consistent with theory, we find that Medicare-eligible persons increased risky investment after the introduction of prescription drug coverage, relative to a younger, ineligible cohort.

Coordinated Admissions Program

- American Economic Review---2016---Rodney J. Andrews

In the wake of challenges to affirmative action, access to oversubscribed elite public universities remains a contentious issue. Much of the research on these issues focuses on freshman admissions. This paper examines the University of Texas at Austin's Coordinated Admissions Program which offers Texas residents that were not admitted to the University of Texas at Austin as freshman the option of transferring from a participating University of Texas System school. Using the regression discontinuity design, I show that this path to an elite public university has an impact on academic outcomes.

Can Admissions Percent Plans Lead to Better Collegiate Fit for Minority Students?

- American Economic Review---2016---Kalena E. Cortes,Jane Arnold Lincove

Why do so many students mismatch when choosing a college? A plausible hypothesis is a lack of information about the likelihood of admission. This study contributes to the literature on mismatch by testing whether public university automatic admissions policies mitigate academic undermatch and promote academic overmatch by providing some students with admissions certainty. Focusing on the interaction of admissions certainty and race/ethnicity, our results support the hypothesis that a priori admissions information can vastly improve minority access to college quality by encouraging eligible students to apply to, and more importantly, enroll in more challenging institutions.

Religious Workers' Density and the Racial Earnings Gap

- American Economic Review---2016---Fernando Lozano,Jessica Shiwen Cheng

We explore differences between Black and White Non-Hispanic workers in the relationship between childhood exposure to religious workers and a worker's labor market outcomes thirty years later. We identify this relationship by exploiting two sources of variation: we use changes in the number of religious workers within states, and we use states' differences by following workers who moved to a different state. Our results suggest that a one percent increase in the number of clergy increases the earnings of Black workers by a range from 0.027 to 0.082 percent relative to the increase in the earnings of White workers.

Does the EITC Buffer against Neighborhood Transition? Evidence from Washington, DC

- American Economic Review---2016---LaTanya Brown-Robertson,Marcus Casey,Bradley Hardy,Daniel Muhammad

Gentrification in major cities has led to concerns that poor and nonwhite residents are being displaced. This paper uses administrative data on tax filing households in Washington DC to examine the potential role that increases in the Earned Income Tax Credit (EITC) plays in the location choices of the working poor. Its principal findings suggest small effects of the EITC on move decisions. Married households with dependents who received increased EITC payments are slightly more likely to remain in gentrifying neighborhoods. By contrast, single parent filers receiving EITC payments are more likely to exit these neighborhoods.

Classroom Experiments: Is More More?

- American Economic Review---2016---Tisha L. N. Emerson,Linda English

Studies have demonstrated that classroom experiments have a positive effect on student achievement in economics courses. Questions remain regarding the appropriate number of experiments. In the current study we attempt to determine whether more intensive use of classroom experiments is associated with greater student achievement. Our data contains variation in the number of experiments administered in a principles of microeconomics course. We find that participation in classroom experiments has a positive, but diminishing, marginal benefit on students' final course scores. We also find that classroom experiments can bridge some achievement gaps (between older and younger students, between whites and minorities).

Measuring the Effect of Blended Learning: Evidence from a Selective Liberal Arts College

- American Economic Review---2016---Aaron Swoboda,Lauren Feiler

We compare introductory microeconomics courses that employ a blended learning approach to more traditional control courses at a selective liberal arts college. The blended learning courses required students to complete online homework and watch video lectures before problem-based class sessions, while the control courses used paper homework and primarily traditional lecturing. We use the Test of Understanding in College Economics to measure improvement and use the Student Opinion Survey to control for students' self-reported effort and amount of importance placed on the test. We find that students in the blended courses improve more than those in traditional courses.

The Impact of Challenge Quizzes on Student Knowledge

- American Economic Review---2016---KimMarie McGoldrick,Peter W. Schuhmann

We evaluate the efficacy of a blended formative/summative assessment tool developed to support mastery learning by students without placing undue burden on instructors. Our innovation provides students with an opportunity to take a more difficult "challenge" quiz to demonstrate their command of the material and improve their grade on regular in-class quizzes. The structure of these quizzes motivates students to modify study behaviors (formative component) and take responsibility for knowledge acquisition (summative component). This mastery-based testing approach serves to bring the student's objective of a quality grade in line with the instructor's objective of quality learning.

A Randomized Assessment of Online Learning

- American Economic Review---2016---William Alpert,Kenneth Couch,Oskar R. Harmon

A microeconomics principles course employing random assignment across three sections with different teaching models is used to explore learning outcomes as measured by a cumulative final exam for students who participate in traditional face-to-face classroom instruction, blended face-to-face and online instruction with reduced instructor contact time, and a purely online instructional format. Evidence indicates learning outcomes were reduced for students in the purely online section relative to those in the face-to-face format by 5 to 10 points on a cumulative final exam. No statistically significant differences in outcomes are observed for students in the blended relative to the face-to-face section.

Sources of Inefficiency in Healthcare and Education

- American Economic Review---2016---Amitabh Chandra,Doug Staiger

Healthcare and education exhibit wide variation in spending that is loosely associated with outcomes. We study supply-side explanations for such variation in in healthcare, and extend this discussion to how it might apply to education. In both sectors, variation in risk-adjusted rates could arise from some providers or educators doing too much (overuse) or others are using too little (underuse). Alternatively, the production function varies across providers and educators, so that hospitals and educators with higher returns to treatment deliver more because of comparative advantage. We discuss how a prototypical Roy model can separate these explanations.

Interpreting Tests of School VAM Validity

- American Economic Review---2016---Joshua Angrist,Peter Hull,Parag Pathak,Christopher Walters

We develop over-identification tests that use admissions lotteries to assess the predictive value of regression-based value-added models (VAMs). These tests have degrees of freedom equal to the number of quasi-experiments available to estimate school effects. By contrast, previously implemented VAM validation strategies look at a single restriction only, sometimes said to measure forecast bias. Tests of forecast bias may be misleading when the test statistic is constructed from many lotteries or quasi-experiments, some of which have weak first stage effects on school attendance. The theory developed here is applied to data from the Charlotte-Mecklenberg School district analyzed by Deming (2014).

Using Lagged Outcomes to Evaluate Bias in Value-Added Models

- American Economic Review---2016---Raj Chetty,John Friedman,Jonah Rockoff

Value-added (VA) models measure agents' productivity based on the outcomes they produce. The utility of VA models for performance evaluation depends on the extent to which VA estimates are biased by selection. One common method of evaluating bias in VA is to test for balance in lagged values of the outcome. We show that such balance tests do not yield robust information about bias in value-added models using Monte Carlo simulations. Even unbiased VA estimates can be correlated with lagged outcomes. More generally, tests using lagged outcomes are uninformative about the degree of bias in misspecified VA models. The source of these results is that VA is itself estimated using historical data, leading to non-transparent correlations between VA and lagged outcomes.

Fixed Effects, Invariance, and Spatial Variation in Intergenerational Mobility

- American Economic Review---2016---Gary Chamberlain

Chetty et al. (2014) document variation across commuting zones in intergenerational mobility. With over 700 commuting zones, the task of estimating place effects involves a high-dimension parameter space. I develop a fixed-effects model along with an oracle bound on the risk of invariant estimators. The oracle estimator uses an invariant prior, which I have incorporated into a random-effects model to obtain a feasible estimator. This estimator almost achieves the oracle bound over the relevant part of the (fixed-effects) parameter space in the empirical application. There is substantial reduction in risk compared with the least-squares estimator.

Identity Economics 2016: Where Do Social Distinctions and Norms Come From?

- American Economic Review---2016---Rachel E. Kranton

Identity economics provides a framework to analyze economic outcomes by establishing people's identities--not just pecuniary incentives--as primary motivations for choice. The heart of the framework is social difference and norms. This paper engages the emerging economic research into sources of divisions and norms: individuals, families, schools, governments, and social movements. The task at hand is to further to develop the micro-foundations of identity, in order to build a socially framed understandings of human motivation that will yield more robust accounts of behavior and institutions and yet better predictions of the implications of policy.

Identity-Based Organizations

- American Economic Review---2016---Jean-Paul Carvalho

A single club model describes the collective production of both personal and social identity. Personal identity, how one perceives oneself, is formed through a process of cultural transmission. Social identity, how one is perceived by others, takes the form of collective reputation. Our model of identity-based organizations incorporates into the economics of identity insights from the economics of religion and cultural transmission. The identities that develop tend to be oppositional. Organizations devoted to more extreme identities are able to support higher levels of participation and collective action.

"We Thinking" and Its Consequences

- American Economic Review---2016---Robert Akerlof

Increasingly, economists are drawing on concepts from outside economics--such as "norms," "esteem," and "identity"--to model agents' social natures. A key reason for studying such social motivation is to shed light on the conditions that facilitate--or deter--collective action. It has been widely observed, for instance, that groups are more able to engage in collective action when they have a common, group identity. This paper gives one explanation for such a link. The paper develops a new concept, "we thinking"; and it also provides a deeper understanding of the concepts of norms, identity, and esteem.

Identity-Driven Cooperation versus Competition

- American Economic Review---2016---Dennis J. Snower,Steven J. Bosworth

This paper seeks to extend the domain of identity economics by exploring motivational foundations of in-group cooperation and out-group competition. On this basis, we explore the reflexive interaction between individual economic decisions and social identities in response to technological change in market economies. Our analysis explores how technological change falling on marketable goods and services, rather than non-market caring relationships, leads to a restructuring of identities, which increases the scope of individualism and promotes positional competition at the expense of caring activities. Since positional competition generates negative externalities while caring activities create positive ones, these developments have important welfare implications.

Option Awareness: The Psychology of What We Consider

- American Economic Review---2016---Anuj K. Shah,Jens Ludwig

The standard economic view suggests that people will commit an action if its expected benefits outweigh its costs. But before people weigh the costs and benefits of an action, what affects whether they think of the action in the first place? We argue that actions are more likely to enter into consideration when they are cognitively accessible. We describe three psychological parameters that influence accessibility: automatic assumptions, identity, and perceptions of privacy. These parameters make it possible to identify new interventions for behavior change.

Beyond Beta-Delta: The Emerging Economics of Personal Plans

- American Economic Review---2016---John Beshears,Katherine L. Milkman,Joshua Schwartzstein

People make personal plans regarding whether, when, where, and how to undertake certain actions. We discuss three questions related to personal plans. First, what are the effects of plans on behavior? Second, when are plans formed? Third, how do plans deviate from optimality? For each of these questions, we (a) offer a brief overview of research that sheds light on the issue and (b) identify gaps in current knowledge. We emphasize connections to the growing theoretical literature that gives personal plans a substantive role, but we conclude that more research is needed, especially on the latter two questions we cover.

The Psychological Lives of the Poor

- American Economic Review---2016---Frank Schilbach,Heather Schofield,Sendhil Mullainathan

All individuals rely on a fundamental set of mental capacities and functions, or bandwidth, in their economic and non-economic lives. Yet, many factors associated with poverty, such as malnutrition, alcohol consumption, or sleep deprivation, may tax this capacity. Previous research has demonstrated that such taxes often significantly alter judgments, preferences, and decision-making. A more suggestive but growing body of evidence points toward potential effects on productivity and utility. Considering the lives of the poor through the lens of bandwidth may improve our understanding of potential causes and consequences of poverty.

Refugees, Asylum Seekers, and Policy in OECD Countries

- American Economic Review---2016---Timothy Hatton

Refugees and asylum seekers are only a small proportion of the 60 million forcibly displaced persons. But those seeking asylum in the developed world have received much of the attention as western governments have struggled to develop a policy response. An analysis of asylum applications by origin and destination indicates that these flows are largely driven by political terror and human rights abuses. Poor economic conditions in origin countries and tough asylum policies in destination countries matter too. In the light of the findings I suggest that greater coordination among OECD countries could improve the lot of those fleeing from persecution but even this would make only modest inroads into the sum of human misery that displaced people exemplify.

Rethinking Protection of Those Displaced by Humanitarian Crises

- American Economic Review---2016---Susan F. Martin

In June 2015, the UN High Commissioner for Refugees announced a landmark event in the history of his organization. UNHCR estimated that there were more refugees and displaced persons than it had counted since its establishment in 1950--almost 60 million who fled conflict and persecution. While certainly large in its own right, the number actually underestimates displacement in today's world. Many millions more are displaced each year and cumulatively from a much broader range of life-threatening humanitarian crises than captured by UNHCR's figures. An average of 26.4 million were displaced annually by acute natural hazards since 2008 and an unknown but sizeable number from gang and cartel violence, electoral and communal violence, nuclear and industrial accidents, and a range of other human made disasters. This paper argues for new legal, institutional and operational frameworks to more effectively address the situation of the totality of displaced persons.

Toward an International Migration Regime

- American Economic Review---2016---Jeffrey D. Sachs

Few if any issues in public policy are as muddled and contentious as international migration. There is no international regime that establishes standards and principles for national migration policies other than in the case of refugees (migrants escaping persecution). My aim here is to describe some economic and ethical principles that may underpin an international migration regime.

The Economic Impact of Syrian Refugees on Host Countries: Quasi-experimental Evidence from Turkey

- American Economic Review---2016---Semih Tumen

The Syrian Conflict generated forced immigration from northern Syria to southeastern Turkey. Arrival of refugees resembles a natural experiment, which offers good opportunities to study the economic impact of immigration. I study three main outcomes: labor markets, consumer prices, and housing rents. I document moderate employment losses among native informal workers, which suggests that they are partly substituted by refugees. Prices of the items produced in informal labor intensive sectors declined due to labor cost advantages generated by refugee inflows. Finally, refugee inflows increased the rents of higher quality housing units, while there is no effect on lower quality units.

Converging to American: Healthy Immigrant Effect in Children of Immigrants

- American Economic Review---2016---Mónica García-Pérez

We analyze children of immigrants' healthy immigrant effect using parental year of arrival and region of birth. Using data from Integrated National Health Interview Survey 2008-2014, we evaluate children of immigrants' health status by using obesity rates and the number of visits to the doctor versus their native counterparts. Consistent with their parents, children of immigrants' health status declines the longer their parents, remain in the United States. Meanwhile, there is an increase in the number of visits to the doctor the more years their parents, have resided in the country. The convergence rate differs by immigrant group.

Ethnic Attrition and the Observed Health of Later-Generation Mexican Americans

- American Economic Review---2016---Francisca Antman,Brian Duncan,Stephen Trejo

Numerous studies find that U.S.-born Hispanics differ significantly from non-Hispanic whites on important measures of human capital, including health. Nevertheless, almost all studies rely on subjective measures of ethnic self-identification to identify immigrants' U.S.-born descendants. This can lead to bias due to "ethnic attrition," which occurs whenever a U.S.-born descendant of a Hispanic immigrant fails to self-identify as Hispanic. This paper shows that Mexican American ethnic attritors are generally more likely to display health outcomes closer to those of non-Hispanic whites. This biases conventional estimates of Mexican American health away from suggesting patterns of assimilation and convergence with non-Hispanic whites.

HIV/AIDS and Development: A Reappraisal of the Productivity and Factor Accumulation Effects

- American Economic Review---2016---Théophile T. Azomahou,Raouf Boucekkine,Bity Diene

We build an economico-epidemiological Solow-Swan model. Mortality and morbidity effects on effective labor are taken into account. A Ben-Porath-like mechanism affects the dynamics of the saving rate and reduces labor productivity. Based on optimal projections of the demographic and economic South African series on the period 2000-2050, we identify a delayed effect of HIV/AIDS on economic growth: the growth rate gap between the AIDS and no-AIDS scenarios is rather stable between 2010 and 2020, but then it increases sharply between 2020 and 2030, keeps increasing at a much lower pace between 2030 and 2040, and finally stabilizes after 2040. The fall in active population is the main factor behind AIDS impact on economic growth during the decade 2020-2030 while the Ben-Porath mechanism on labor productivity is more relevant in the last decade. Physical capital accumulation plays a minor role.

LEP Language Disability, Immigration Reform, and English-Language Acquisition

- American Economic Review---2016---Alberto Dávila,Marie T. Mora

Policy might partly shape the English-language acquisition of Hispanics migrating to the U.S. mainland, particularly policies related to limited-English-language disability benefits and immigration reform. Using data from the American Community Survey, we find that island-born Puerto Ricans on the U.S. mainland, as U.S. citizens, may have lower incentives to learn English than Hispanic immigrants because of their higher participation in LEP disability programs. However, among Mexican immigrants, recent immigration reform aimed at interior enforcement might have increased incentives for Mexican immigrants to learn English to reduce their probability of detection, if speaking English proxies for undocumented status.

On the Optimal Inflation Rate

- American Economic Review---2016---Markus Brunnermeier,Yuliy Sannikov

In our incomplete markets economy households choose portfolios consisting of risky (uninsurable) capital and money. Money is a bubble, it has positive value even though it yields no payoff. The market outcome is constrained Pareto inefficient due to a pecuniary externality. Each individual agent takes the real interest rate as given, while in the aggregate it is driven by the economic growth rate, which in turn depends on individual portfolio decisions. Higher inflation due to higher money growth lowers the real interest rate on money and tilts the portfolio choice towards physical capital investment. Modest inflation boosts growth rate and welfare.

Sooner or Later: Timing of Monetary Policy with Heterogeneous Risk-Taking

- American Economic Review---2016---Dong Beom Choi,Thomas Eisenbach,Tanju Yorulmazer

We analyze the effects and interactions of monetary policy tools that differ in terms of their timing and their targeting. In a model with heterogeneous agents, more productive agents endogenously expose themselves to higher interim liquidity risk by borrowing and investing more. Two inefficiencies impair the transmission of monetary policy: an investment- and a hoarding inefficiency. Heterogeneous agents respond disparately to ex-ante, conventional and ex-post, unconventional monetary policy. However, we show that the two policies are equivalent due to the endogeneity of hoarding. In contrast, targeted interventions such as discount-window lending can alleviate both inefficiencies at the same time.

Money and Asset Liquidity in Frictional Capital Markets

- American Economic Review---2016---Wei Cui,Sören Radde

We endogenize asset liquidity and financing constraints in a dynamic general equilibrium model with search frictions on capital markets. Assets traded on frictional capital markets are only partially saleable. Liquid assets, such as fiat money, instead, are not subject to search frictions and can be used to insure idiosyncratic investment risks. Partially saleable assets thus carry a liquidity premium over fully liquid assets. We show that, in equilibrium, low asset saleability is typically associated with lower asset prices, tighter financing constraints, thus stronger demand for public liquidity. Lower asset liquidity feeds into real allocations, constraining real investment, consumption, and production.

Secular Stagnation in the Open Economy

- American Economic Review---2016---Gauti Eggertsson,Neil R. Mehrotra,Lawrence Summers

Conditions of secular stagnation--low interest rates, below target inflation, and sluggish output growth--now characterize much of the global economy. We consider a simple two-country textbook model to examine how capital markets transmit secular stagnation and to study policy externalities across countries. We find capital flows transmit recessions in a world with low interest rates and that policies that attempt to boost national saving are beggar-thy-neighbor. Monetary expansion cannot eliminate a secular stagnation and may have beggar-thy-neighbor effects, while sufficiently large fiscal interventions can eliminate a secular stagnation and carry positive externalities.

The Sovereign-Bank Diabolic Loop and ESBies

- American Economic Review---2016---Markus Brunnermeier,Luis Garicano,Philip R. Lane,Marco Pagano,Ricardo Reis,Tano Santos,David Thesmar,Stijn Van Nieuwerburgh,Dimitri Vayanos

We propose a simple model of the sovereign-bank diabolic loop, and establish four results. First, the diabolic loop can be avoided by restricting banks' domestic sovereign exposures relative to their equity. Second, equity requirements can be lowered if banks only hold senior domestic sovereign debt. Third, such requirements shrink even further if banks only hold the senior tranche of an internationally diversified sovereign portfolio--known as ESBies in the euro-area context. Finally, ESBies generate more safe assets than domestic debt tranching alone; and, insofar as the diabolic loop is defused, the junior tranche generated by the securitization is itself risk-free.

Safe Asset Scarcity and Aggregate Demand

- American Economic Review---2016---Ricardo Caballero,Emmanuel Farhi,Pierre-Olivier Gourinchas

We explore the consequences of safe asset scarcity on aggregate demand in a stylized IS-LM/Mundell Fleming style environment. Acute safe asset scarcity forces the economy into a "safety trap" recession. In the open economy, safe asset scarcity spreads from one country to the other via capital flows, equalizing interest rates. Acute global safe asset scarcity forces the economy into a global safety trap. The exchange rate becomes indeterminate but plays a crucial role in both the distribution and the magnitude of output adjustment across countries. Policies that increase the net supply of safe assets somewhere are output enhancing everywhere.

What Makes US Government Bonds Safe Assets?

- American Economic Review---2016---Zhiguo He,Arvind Krishnamurthy,Konstantin Milbradt

US government bonds are considered to be the world's safe store of value, especially during periods of economic turmoil such as the events of 2008. But what makes US government bonds "safe assets"? We highlight coordination among investors, and build a model in which two countries with heterogeneous sizes issue bonds that may be chosen as safe asset. Our model illustrates the benefit of a large absolute debt size as safe asset investors have "nowhere else to go" in equilibrium, and the large country's bonds are chosen as the safe asset. Moreover, the effect becomes stronger in crisis periods.

Crises and the Development of Economic Institutions: Some Microeconomic Evidence

- American Economic Review---2016---Raghuram Rajan,Rodney Ramcharan

This paper studies the long run effects of financial crises using new bank and town level data from around the Great Depression. We find evidence that banking markets became much more concentrated in areas that experienced a greater initial collapse in the local banking system. There is also evidence that financial regulation after the Great Depression, and in particular limits on bank branching, may have helped to render the effects of the initial collapse persistent. All of this suggests a reason why post-crisis financial regulation, while potentially reducing financial instability, might also have longer run real consequences.

Too Big to Fail before the Fed

- American Economic Review---2016---Gary Gorton,Ellis Tallman

"Too-big-to-fail" is consistent with policies followed by private bank clearing houses during financial crises in the U.S. National Banking Era prior to the existence of the Federal Reserve System. Private bank clearing houses provided emergency lending to member banks during financial crises. This behavior strongly suggests that "too-big-to-fail" is not the problem causing modern crises. Rather it is a reasonable response to the threat posed to large banks by the vulnerability of short-term debt to runs.

Interbank Markets and Banking Crises: New Evidence on the Establishment and Impact of the Federal Reserve

- American Economic Review---2016---Mark Carlson,David Wheelock

This paper examines the impact of the Federal Reserve's founding on seasonal pressures and contagion risk in the interbank system. Deposit flows among classes of banks were highly seasonal before 1914; amplitude and timing varied regionally. Panics interrupted normal flows as banks throughout the country sought funds from the central money markets simultaneously. Seasonal pressures and contagion risk in the system were lower by the 1920s, when the Fed provided seasonal liquidity and reserves. Panics returned in the 1930s, due in part to shocks from nonmember banks and because the Fed's decentralized structure hampered a vigorous response to national crises.

Bank Leverage and Regulatory Regimes: Evidence from the Great Depression and Great Recession

- American Economic Review---2016---Christoffer Koch,Gary Richardson,Patrick Van Horn

In the boom before the Great Depression, capital requirements for commercial banks were low and fixed. Bankers faced double liability. Failing banks were not bailed out. During the boom before the Great Recession, capital requirements were proportional to risk-weighted assets. Bankers faced limited liability. Banks deemed too big to fail received bailouts. During the 1920s, the largest banks increased capital levels as asset prices rose. During the boom from 2002 to 2007, the largest institutions kept capital levels near regulatory minimums. Our results suggest more market discipline would have induced the largest U.S. banks to hold greater capital buffers prior to the financial crisis of 2008.

A Simple Model of Subprime Borrowers and Credit Growth

- American Economic Review---2016---Alejandro Justiniano,Giorgio Primiceri,Andrea Tambalotti

The surge in credit and house prices that preceded the Great Recession was particularly pronounced in ZIP codes with a higher fraction of subprime borrowers (Mian and Sufi, 2009). We present a simple model with prime and subprime borrowers distributed across geographic locations, which can reproduce this stylized fact as a result of an expansion in the supply of credit. Due to their low income, subprime households are constrained in their ability to meet interest payments and hence sustain debt. As a result, when the supply of credit increases and interest rates fall, they take on disproportionately more debt than their prime counterparts, who are not subject to that constraint.

Debt Constraints and the Labor Wedge

- American Economic Review---2016---Patrick Kehoe,Virgiliu Midrigan,Elena Pastorino

Changes in household debt and employment across regions of the U.S. during the Great Recession are highly correlated: regions where the decrease in household debt was most pronounced were also regions where the decline in employment was most severe. We show that the drop in employment in the regions that have experienced the largest decrease in household debt is mostly accounted for by changes in the labor wedge (deviations from a static consumption-leisure choice) as opposed to changes in real wages. We argue that such a pattern is consistent with fluctuations in debt constraints in a standard Bewley-Aiyagari model.

Anticipated Banking Panics

- American Economic Review---2016---Mark Gertler,Nobuhiro Kiyotaki,Andrea Prestipino

We develop a macroeconomic model with banking instability. Sunspot runs can arise that are harmful to the economy. However, whether a run equilibrium exists depends on fundamentals. In contrast to earlier work, the probability of a sunspot run is the outcome of rational forecast based on fundamentals. The model captures the movement from slow to fast runs that was a feature of the Great Recession: A weakening of banks' balance sheets increases the probability of a run, leading depositors to withdraw funds from banks. These slow runs have harmful effects on the economy and set the stage for fast runs.

Bank Leverage and Social Welfare

- American Economic Review---2016---Lawrence Christiano,Daisuke Ikeda

We describe a general equilibrium model in which an agency problem arises because bankers must exert an unobserved and costly effort to perform their task. Suppose aggregate banker net worth is too low to insulate creditors from bad outcomes on their balance sheet. Then, banks borrow too much in equilibrium because there is a pecuniary externality associated with bank borrowing. Social welfare is increased by imposing a binding leverage restriction on banks. We formalize this argument and provide a numerical example.

Capital Flows: Expansionary or Contractionary?

- American Economic Review---2016---Olivier Blanchard,Jonathan Ostry,Atish Ghosh,Marcos Chamon

The workhorse open-economy macro model suggests that capital inflows are contractionary because they appreciate the currency and reduce net exports. Emerging market policy makers, however, believe that inflows lead to credit booms and rising output; the evidence appears to go their way. To reconcile theory and reality, we extend the set of assets in the Mundell-Fleming model to include both bonds and non-bonds. At a given policy rate, inflows may decrease the rate on non-bonds, stimulating financial intermediation and, potentially, output as well. We explore the implications, and find support for the key predictions in the data.

The Macroprudential Role of International Reserves

- American Economic Review---2016---Olivier Jeanne

There has been a lot of interest since the global financial crisis in policies allowing emerging market economies to smooth the effects of the global financial cycle. Although the literature has focused mostly on capital controls emerging market governments have relied mostly on international reserves management. This paper discusses the role of reserves in capital flow management based on a simple welfare-based model of capital flows with international banking frictions.

Global Cycles: Capital Flows, Commodities, and Sovereign Defaults, 1815-2015

- American Economic Review---2016---Carmen Reinhart,Vincent Reinhart,Christoph Trebesch

Capital flow and commodity cycles have long been connected with economic crises. Sparse historical data, however, has made it difficult to connect their timing. We date turning points in global capital flows and commodity prices across two centuries and provide estimates from alternative data sources. We then document a strong overlap between the ebb and flow of financial capital, the commodity price super-cycle, and sovereign defaults since 1815. The results have implications for today, as many emerging markets are facing a double bust in capital inflows and commodity prices, making them vulnerable to crises.

When Do Capital Inflow Surges End in Tears?

- American Economic Review---2016---Atish Ghosh,Jonathan Ostry,Mahvash Qureshi

We investigate in a sample of 53 emerging markets over 1980-2014 whether countries with open capital accounts are necessarily at the mercy of global events, or are able to take policy actions when receiving inflows to mitigate the impact of a subsequent reversal. Our analysis suggests that, while changes in global conditions have an important bearing on crisis susceptibility, countries that allow the buildup of macroeconomic and financial vulnerabilities during boom times, and which receive mostly debt flows, are significantly more likely to see capital inflow surge episodes end in a financial crisis.

Information Design, Bayesian Persuasion, and Bayes Correlated Equilibrium

- American Economic Review---2016---Dirk Bergemann,Stephen Morris

A set of players have preferences over a set of outcomes. We consider the problem of an "information designer" who can choose an information structure for the players to serve his ends, but has no ability to change the mechanism (or force the players to make particular action choices). We describe a unifying perspective for information design. We consider a simple example of Bayesian persuasion with both an uninformed and informed receiver. We extend information design to many player and relate it to the literature on incomplete information correlated equilibrium.

Bayesian Persuasion in Coordination Games

- American Economic Review---2016---Itay Goldstein,Chong Huang

We analyze a coordination game of regime change where the policy maker, who tries to increase the probability of the survival of the regime, commits ex ante to abandon the regime automatically when its fundamentals are below a certain threshold. This policy acts as an information transmission mechanism: agents, who decide whether to attack the regime or not, update positively about the fundamentals of the regime when they see that it has not been abandoned, and so they are less likely to attack. Using the commitment ability, the policy maker can thus increase the overall survival probability of the regime.

A Rothschild-Stiglitz Approach to Bayesian Persuasion

- American Economic Review---2016---Matthew Gentzkow,Emir Kamenica

Rothschild and Stiglitz (1970) represent random variables as convex functions (integrals of the cumulative distribution function). Combining this representation with Blackwell's Theorem (1953), we characterize distributions of posterior means that can be induced by a signal. This characterization provides a novel way to analyze a class of Bayesian persuasion problems.

Shutting Down the Thermohaline Circulation

- American Economic Review---2016---David Anthoff,Francisco Estrada,Richard Tol

Past climatic changes were caused by a slowdown of the thermohaline circulation. We use results from experiments with three climate models to show that the expected cooling due to a slowdown of the thermohaline circulation is less in magnitude than the expected warming due to increasing greenhouse gas concentrations. The integrated assessment model FUND and a meta-analysis of climate impacts are used to evaluate the change in human welfare. We find modest but by and large positive effects on human welfare since a slowdown of the thermohaline circulation implies decelerated warming.

A Potential Disintegration of the West Antarctic Ice Sheet: Implications for Economic Analyses of Climate Policy

- American Economic Review---2016---Delavane Diaz,Klaus Keller

The Earth system may react in a nonlinear threshold response to climate forcings. Incorporating threshold responses into integrated assessment models (IAMs) used for climate policy analysis poses nontrivial challenges, for example due to methodological limitations and pervasive deep uncertainties. Here we explore a specific threshold response, a potential disintegration of the West Antarctic Ice Sheet (WAIS). We review the current scientific understanding of WAIS, identify methodological and conceptual issues, and demonstrate avenues to address some of them through a stochastic hazard IAM framework combining emulation, expert knowledge, and learning. We conclude with a discussion of challenges and research needs.

The Ecosystem Impacts of Severe Warming

- American Economic Review---2016---Robert Mendelsohn,Iain C. Prentice,Oswald Schmitz,Benjamin Stocker,Robert Buchkowski,Benjamin Dawson

This paper uses a quantitative dynamic ecosystem vegetation model to explore the potential impact of warming up to 9-12 degrees C on global ecosystems. The paper does not find evidence of a global collapse in terrestrial ecosystems but there is evidence of substantial changes. Temperate and tropical forests expand and replace boreal forests and forests shift to woodlands and parkland at high temperatures. Net primary productivity and standing forest biomass per hectare rise. These changes will affect dependent animal species. Further research is needed to measure the resulting benefits and damages to market and nonmarket services.

Economic Effects of an Ocean Acidification Catastrophe

- American Economic Review---2016---Stephen G. Colt,Gunnar P. Knapp

We assess the potential magnitude of the economic effects of an ocean acidification (OA) catastrophe by focusing on marine ecosystem services most likely to be affected. It is scientifically plausible that by 2200 OA could cause a complete collapse of marine capture fisheries, complete destruction of coral reefs, and significant rearrangement of marine ecosystems. Upper-bound values for losses from the first two effects range from 97 to 301 billion 2014 dollars per year (0.09 - 0.28% of current world GDP). We argue that aquaculture output would not be reduced, due to the high potential for adaptation by this young industry.

How Mortgage Finance Reform Could Affect Housing

- American Economic Review---2016---John Duca,John Muellbauer,Anthony Murphy

Although major changes in mortgage finance have occurred since the subprime bust, several issues remain unresolved, centering on the roles of Fannie Mae, Freddie Mac, and the FHA. We analyze how some reforms might affect house prices in a framework rich enough to simulate the impact of several reforms which change mortgage interest rates and/or loan-to-value (LTV) ratios of first time home buyers, the key drivers of house prices in recent decades. Simulations suggest that ending the GSE interest rate subsidy would have small effects, while changes in capital requirements or maximum FHA loan size limits would have larger effects.

Borrowing Constraints and Homeownership

- American Economic Review---2016---Arthur Acolin,Jesse Bricker,Paul Calem,Susan Wachter

This paper identifies the impact of borrowing constraints on homeownership in the U.S. in the aftermath of the 2008 financial crisis. While homeownership declines and tightened credit are evident, the role the tightening of credit has had on the probability of individual households to become homeowners has not been previously identified. The homeownership rate in 2010-2013 is estimated to be 2.3 percentage points lower than if the constraints were set at the 2001 level.

A Lost Generation? Education Decisions and Employment Outcomes during the US Housing Boom-Bust Cycle of the 2000s

- American Economic Review---2016---Luc Laeven,Alexander Popov

We exploit regional variations in U.S. house price fluctuations during the boom-bust cycle of the 2000s to study the impact of the housing cycle on young Americans' choices related to education and employment. We find that in MSAs which experienced large increases in house prices between 2001 and 2006, young adults were substantially more likely to forego a higher education and join the workforce, lowering skill formation. During the bust years, the young, especially those without higher education, were more likely to be unemployed in areas which experienced higher declines in house prices.

To Buy or Not to Buy: Consumer Constraints in the Housing Market

- American Economic Review---2016---Andreas Fuster,Basit Zafar

We use a strategic household survey to study the sensitivity of intended homeownership decisions to financing constraints. We find that the average stated likelihood of buying a home is strongly sensitive to the size of the required down payment, which we vary exogenously across three scenarios. This sensitivity is particularly high for respondents that appear more liquidity constrained based on observable characteristics (including current renters, or owners with low savings or low home equity). For renters, expectations of future rent inflation and of improvements to their personal financial situation also predict intention to buy.

Estimating Top Income and Wealth Shares: Sensitivity to Data and Methods

- American Economic Review---2016---Jesse Bricker,Alice Henriques,Jacob Krimmel,John Sabelhaus

Administrative income tax data indicate that U.S. top income and wealth shares are both substantial and larger than shares observed in household surveys. However, these estimates are sensitive to the unit of analysis, the income concept measured in tax records, and, in the case of wealth, to assumptions about the correlation between income and wealth. We constrain a household survey--the Survey of Consumer Finances--to be conceptually comparable to tax records and are able to reconcile the much of the difference between the survey and administrative estimates. Wealth estimates from administrative income tax data are sensitive to model parameters.

Estimating the Top Tail of the Wealth Distribution

- American Economic Review---2016---Philip Vermeulen

This paper uses the Household Finance and Consumption Survey to construct new estimates of top wealth shares in Germany, France, Spain, Italy, Belgium, Austria, Finland and The Netherlands. It provides a methodology to address simultaneously non-response and underreporting in wealth surveys.

Heterogeneity in Returns to Wealth and the Measurement of Wealth Inequality

- American Economic Review---2016---Andreas Fagereng,Luigi Guiso,Davide Malacrino,Luigi Pistaferri

Lacking a long time series on the assets of the very wealthy, Saez and Zucman (2015) use US tax records to obtain estimates of wealth holdings by capitalizing asset income from tax returns. They document marked upward trends in wealth concentration. We use data on tax returns and actual wealth holdings from tax records for the whole Norwegian population to test the robustness of the methodology. We document that measures of wealth based on the capitalization approach can lead to misleading conclusions about the level and the dynamics of wealth inequality if returns are heterogeneous and even moderately correlated with wealth.

The Role of Bequests in Shaping Wealth Inequality: Evidence from Danish Wealth Records

- American Economic Review---2016---Simon Boserup,Wojciech Kopczuk,Claus T. Kreiner

Using Danish administrative data, we estimate the impact of bequests on the level and inequality of wealth. We compare the distributions of wealth over time of people whose parent died and those whose parent did not. Bequests account for 26 percent of the average post-bequest wealth 1-3 years after parental death and significantly affect wealth throughout the distribution. Bequests increase absolute wealth inequality (variance of the distribution censored at the top/bottom 1% increases by 33 percent), but reduce relative inequality (the top 1% share declines by 6 percentage points from the base of 31 percent).

Revenue and Incentive Effects of Basis Step-Up at Death: Lessons from the 2010 "Voluntary" Estate Tax Regime

- American Economic Review---2016---Robert Gordon,David Joulfaian,James Poterba

In 2010, the U.S. estate tax expired and executors of wealthy decedents were not required to file estate tax returns. In the absence of the estate tax, beneficiaries received assets with carryover rather than stepped-up basis. Unrealized capital gains accounted for 44 percent of the fair market value of non-cash assets in estates that chose the carryover basis regime, and an even higher percentage for some asset categories. Many of the largest gains were on assets that had been held for at least two decades.

Minutes of the Annual Business Meeting: San Francisco, CA, January 3, 2016

- American Economic Review---2016---Peter Rousseau

Report of the Secretary

- American Economic Review---2016---Peter Rousseau

Report of the Treasurer

- American Economic Review---2016---Peter Rousseau

American Economic Association Universal Academic Questionnaire Summary Statistics

- American Economic Review---2016---Charles E. Scott,John Siegfried

List of Online Reports

- American Economic Review---2016---Peter Rousseau

Minutes of the Meeting of the Executive Committee: Chicago, IL, April 24, 2015

- American Economic Review---2016---Peter Rousseau

Minutes of the Meeting of the Executive Committee: San Francisco, CA, January 2, 2016

- American Economic Review---2016---Peter Rousseau

Report of the Editor: American Economic Review

- American Economic Review---2016---Pinelopi Koujianou Goldberg

Report of the Editor: Journal of Economic Literature

- American Economic Review---2016---Steven Durlauf

Report of the Editor: Journal of Economic Perspectives

- American Economic Review---2016---Enrico Moretti

Report of the Editor: American Economic Journal: Applied Economics

- American Economic Review---2016---Esther Duflo

Report of the Editor: American Economic Journal: Economic Policy

- American Economic Review---2016---Matthew Shapiro

Report of the Editor: American Economic Journal: Macroeconomics

- American Economic Review---2016---Richard Rogerson

Report of the Editor: American Economic Journal: Microeconomics

- American Economic Review---2016---Andrew Postlewaite

Report of the Director: Job Openings for Economists

- American Economic Review---2016---John Siegfried

Report: Committee on Economic Education

- American Economic Review---2016---Sam Allgood

Report: Committee on the Status of Women in the Economics Profession (CSWEP)

- American Economic Review---2016---Marjorie B. McElroy

Report: Committee on the Status of Minority Groups in the Economics Profession (CSMGEP)

- American Economic Review---2016---Cecilia Rouse,Gary Hoover

Report: American Economic Association Committee on Statistics (AEAStat)

- American Economic Review---2016---Robert Moffitt

Report: Committee on Government Relations

- American Economic Review---2016---Jonathan Skinner

The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment

- American Economic Review---2016---Raj Chetty,Nathaniel Hendren,Lawrence Katz

The Moving to Opportunity (MTO) experiment offered randomly selected families housing vouchers to move from high-poverty housing projects to lower-poverty neighborhoods. We analyze MTO's impacts on children's long-term outcomes using tax data. We find that moving to a lower-poverty neighborhood when young (before age 13) increases college attendance and earnings and reduces single parenthood rates. Moving as an adolescent has slightly negative impacts, perhaps because of disruption effects. The decline in the gains from moving with the age when children move suggests that the duration of exposure to better environments during childhood is an important determinant of childrenâ€™s long-term outcomes. (JEL I31, I38, J13, R23, R38)

Long-Run Impacts of Childhood Access to the Safety Net

- American Economic Review---2016---Hilary Hoynes,Diane Whitmore Schanzenbach,Douglas Almond

We examine the impact of a positive and policy-driven change in economic resources available in utero and during childhood. We focus on the introduction of the Food Stamp Program, which was rolled out across counties between 1961 and 1975. We use the Panel Study of Income Dynamics to assemble unique data linking family background and county of residence in early childhood to adult health and economic outcomes. Our findings indicate access to food stamps in childhood leads to a significant reduction in the incidence of metabolic syndrome and, for women, an increase in economic self-sufficiency. (JEL I12, I38, J24)

The Long-Run Impact of Cash Transfers to Poor Families

- American Economic Review---2016---Anna Aizer,Shari Eli,Joseph Ferrie,Adriana Lleras-Muney

We estimate the long-run impact of cash transfers to poor families on children's longevity, educational attainment, nutritional status, and income in adulthood. To do so, we collected individual- level administrative records of applicants to the Mothers' Pension program -- the first government-sponsored welfare program in the United States (1911-1935) -- and matched them to census, WWII, and death records. Male children of accepted applicants lived one year longer than those of rejected mothers. They also obtained one-third more years of schooling, were less likely to be underweight, and had higher income in adulthood than children of rejected mothers. (JEL I12, I14, I18, I32, I38, J16, N32)

Bounding the Labor Supply Responses to a Randomized Welfare Experiment: A Revealed Preference Approach

- American Economic Review---2016---Patrick Kline,Melissa Tartari

We study the short-term impact of Connecticut's Jobs First welfare reform experiment on women's labor supply and welfare participation decisions. A nonparametric optimizing model is shown to restrict the set of counterfactual choices compatible with each woman's actual choice. These revealed preference restrictions yield informative bounds on the frequency of several intensive and extensive margin responses to the experiment. We find that welfare reform induced many women to work but led some others to reduce their earnings in order to receive assistance. The bounds on this latter "opt-in" effect imply that intensive margin labor supply responses are nontrivial. (JEL H23, H75, I38, J16, J22)

Presidents and the US Economy: An Econometric Exploration

- American Economic Review---2016---Alan Blinder,Mark W. Watson

The US economy has performed better when the president of the United States is a Democrat rather than a Republican, almost regardless of how one measures performance. For many measures, including real GDP growth (our focus), the performance gap is large and significant. This paper asks why. The answer is not found in technical time series matters nor in systematically more expansionary monetary or fiscal policy under Democrats. Rather, it appears that the Democratic edge stems mainly from more benign oil shocks, superior total factor productivity (TFP) performance, a more favorable international environment, and perhaps more optimistic consumer expectations about the near-term future. (JEL D72, E23, E32, E65, N12, N42)

The Evolution of Strategic Sophistication

- American Economic Review---2016---Nikolaus Robalino,Arthur Robson

This paper investigates the evolutionary foundation for our ability to attribute preferences to others, an ability that is central to conventional game theory. We argue here that learning others' preferences allows individuals to efficiently modify their behavior in strategic environments with a persistent element of novelty. Agents with the ability to learn have a sharp, unambiguous advantage over those who are less sophisticated because the former agents extrapolate to novel circumstances information about opponents' preferences that was learned previously. This advantage holds even with a suitably small cost to reflect the additional cognitive complexity involved. (JEL C73, D11, D83)

Group Strategy-Proofness in Private Good Economies

- American Economic Review---2016---Salvador Barberà,Dolors Berga,Bernardo Moreno

Many salient rules to allocate private goods are not only strategy-proof, but also group strategy-proof, in appropriate domains of definition, hence diminishing the traditional conflict between incentives and efficiency. That is so for solutions to matching, division, cost sharing, house allocation, and auctions, in spite of the substantive disparity between these cases. In a general framework encompassing all of them, we prove that the equivalence between the two forms of strategy-proofness is due to an underlying common structure that transcends the many differences between the contexts and the mechanisms for which it holds. (JEL C78, D44, D63, D71, D82)

Fiscal Policy and Economic Recovery: The Case of the 1936 Veterans' Bonus

- American Economic Review---2016---Joshua Hausman

Conventional wisdom has it that in the 1930s fiscal policy did not work because it was not tried. This paper shows that fiscal policy was tried in 1936. The veterans' bonus of 1936 paid 2 percent of GDP to 3.2 million veterans; the typical veteran received a payment equal to per capita income. Multiple sources, including a household consumption survey, show that veterans spent the majority of their bonus. Point estimates of the MPC are between 0.6 and 0.75. Spending was concentrated on cars and housing in particular. (JEL E21, E32, E62, N32, N42)

The Caloric Costs of Culture: Evidence from Indian Migrants

- American Economic Review---2016---David Atkin

Anthropologists have documented substantial and persistent differences in food preferences across social groups. My paper asks whether such food cultures can constrain caloric intake? I first document that interstate migrants within India consume fewer calories per rupee of food expenditure compared to their neighbors. Second, I show that migrants bring their origin-state food preferences with them. Third, I link these findings by showing that the gap in caloric intake between locals and migrants depends on the suitability and intensity of the migrants' origin-state preferences. The most affected migrants would consume seven percent more calories if they possessed their neighbors' preferences. (JEL D12, I12, O15, R23, Z12, Z13)

The Bidder's Curse: Comment

- American Economic Review---2016---Henry Schneider

The prices of auctions on eBay often exceed eBay's fixed-price "Buy- It-Now" prices. I investigate the causes of this overbidding, focusing on the interpretation in Malmendier and Lee (2011) that the observed overbidding cannot be explained "without allowing for nonstandard preferences or beliefs" and that the "strongest direct evidence points to limited attention." Using data from their study and new data from eBay, I provide evidence that a key condition for identifying nonstandard behavior may not have been met, and that the observed overbidding is not inconsistent with standard behavior once we allow for the likely presence of search costs. (JEL D12, D44, D83)

The Bidder's Curse: Reply

- American Economic Review---2016---Ulrike Malmendier

An important unresolved issue in the search literature is the question to what extent suboptimal search reflects "traditional search frictions," and to what extent it reflects behavioral biases. The distinction is important for assessing welfare, predicting firm behavior, and making policy choices. In order to make progress on this question, we need a precise theoretical distinction and micro data. I argue that Schneider's (2016) analysis and data confirm and complement the main findings in Malmendier and Lee (2011), but neither his nor our data permit us to quantitatively assess the relative importance of these determinants. I propose several feasible identification strategies. (JEL D12, D44)

Search, Liquidity, and the Dynamics of House Prices and Construction: Corrigendum

- American Economic Review---2016---Allen Head,Huw Lloyd-Ellis,Hongfei Sun

The Determinants and Welfare Implications of US Workers' Diverging Location Choices by Skill: 1980-2000

- American Economic Review---2016---Rebecca Diamond

From 1980 to 2000, the rise in the US college/high school graduate wage gap coincided with increased geographic sorting as college graduates concentrated in high wage, high rent cities. This paper estimates a structural spatial equilibrium model to determine causes and welfare consequences of this increased skill sorting. While local labor demand changes fundamentally caused the increased skill sorting, it was further fueled by endogenous increases in amenities within higher skill cities. Changes in cities' wages, rents, and endogenous amenities increased inequality between high school and college graduates by more than suggested by the increase in the college wage gap alone. (JEL D31, I26, J24, J31, J61, R23)

University Differences in the Graduation of Minorities in STEM Fields: Evidence from California

- American Economic Review---2016---Peter Arcidiacono,Esteban Aucejo,V. Joseph Hotz

We examine differences in minority science graduation rates among University of California campuses when racial preferences were in place. Less prepared minorities at higher ranked campuses had lower persistence rates in science and took longer to graduate. We estimate a model of students' college major choice where net returns of a science major differ across campuses and student preparation. We find less prepared minority students at top ranked campuses would have higher science graduation rates had they attended lower ranked campuses. Better matching of science students to universities by preparation and providing information about students' prospects in different major-university combinations could increase minority science graduation. (JEL D14, E23, E32, E43, E52, E61, E62)

Search Design and Broad Matching

- American Economic Review---2016---Kfir Eliaz,Ran Spiegler

We study decentralized mechanisms for allocating firms into search pools. The pools are created in response to noisy preference signals provided by consumers, who then browse the pools via costly random sequential search. Surplus-maximizing search pools are implementable in symmetric Nash equilibrium. Full extraction of the maximal surplus is implementable if and only if the distribution of consumer types satisfies a set of simple inequalities, which involve the relative fractions of consumers who like different products and the Bhattacharyya coefficient of similarity between their conditional signal distributions. The optimal mechanism can be simulated by a keyword auction with broad matching. (JEL C78, D44, D82)

How Do Electricity Shortages Affect Industry? Evidence from India

- American Economic Review---2016---Hunt Allcott,Allan Collard-Wexler,Stephen O'Connell

We estimate the effects of electricity shortages on Indian manufacturers, instrumenting with supply shifts from hydroelectric power availability. We estimate that India's average reported level of shortages reduces the average plant's revenues and producer surplus by 5 to 10 percent, but average productivity losses are significantly smaller because most inputs can be stored during outages. Shortages distort the plant size distribution, as there are significant economies of scale in generator costs and shortages more severely affect plants without generators. Simulations show that offering interruptible retail electricity contracts could substantially reduce the impacts of shortages. (JEL D24, L60, L94, O13, O14, Q41)

Firm Dynamics, Job Turnover, and Wage Distributions in an Open Economy

- American Economic Review---2016---A. Kerem Co?ar,Nezih Guner,James Tybout

This paper explores the combined effects of reductions in trade frictions, tariffs, and firing costs on firm dynamics, job turnover, and wage distributions. It uses establishment-level data from Colombia to estimate an open economy dynamic model that links trade to job flows and wages. Counterfactual experiments imply that Colombia's integration with global product markets increased its national income at the expense of higher unemployment, greater wage inequality, and increased firm-level volatility. In contrast, contemporaneous labor market reforms dampened the increase in unemployment and aggregate job turnover. The results speak more generally to the effects of globalization on labor markets. (JEL F13, F16, F66, J31, J63, O15, O19)

Parameter Learning in General Equilibrium: The Asset Pricing Implications

- American Economic Review---2016---Pierre Collin-Dufresne,Michael Johannes,Lars A. Lochstoer

Parameter learning strongly amplifies the impact of macroeconomic shocks on marginal utility when the representative agent has a preference for early resolution of uncertainty. This occurs as rational belief updating generates subjective long-run consumption risks. We consider general equilibrium models with unknown parameters governing either long-run economic growth, rare events, or model selection. Overall, parameter learning generates long-lasting, quantitatively significant additional macroeconomic risks that help explain standard asset pricing puzzles. (JEL C52, D83, E13, E32, G12)

Liquidity Trap and Excessive Leverage

- American Economic Review---2016---Anton Korinek,Alp Simsek

We investigate the role of macroprudential policies in mitigating liquidity traps. When constrained households engage in deleveraging, the interest rate needs to fall to induce unconstrained households to pick up the decline in aggregate demand. If the fall in the interest rate is limited by the zero lower bound, aggregate demand is insufficient and the economy enters a liquidity trap. In this environment, households' ex ante leverage and insurance decisions are associated with aggregate demand externalities. Welfare can be improved with macroprudential policies targeted toward reducing leverage. Interest rate policy is inferior to macroprudential policies in dealing with excessive leverage. (JEL D14, E23, E32, E43, E52, E61, E62)

The Effect of Unemployment Benefits and Nonemployment Durations on Wages

- American Economic Review---2016---Johannes Schmieder,Till von Wachter,Stefan Bender

We estimate that unemployment insurance (UI) extensions reduce reemployment wages using sharp age discontinuities in UI eligibility in Germany. We show this effect combines two key policy parameters: the effect of UI on reservation wages and the effect of nonemployment durations on wage offers. Our framework implies if UI extensions do not affect wages conditional on duration, then reservation wages do not bind. We derive resulting instrumental variable estimates for the effect of nonemployment durations on wage offers and bounds for reservation wage effects. The effect of UI on wages we find arises mainly from substantial negative nonemployment duration effects. (JEL J31, J64, J65)

The Value of Postsecondary Credentials in the Labor Market: An Experimental Study

- American Economic Review---2016---David Deming,Noam Yuchtman,Amira Abulafi,Claudia Goldin,Lawrence Katz

We study employers' perceptions of the value of postsecondary degrees using a field experiment. We randomly assign the sector and selectivity of institutions to fictitious resumes and apply to real vacancy postings for business and health jobs on a large online job board. We find that a business bachelor's degree from a for-profit online institution is 22 percent less likely to receive a callback than one from a nonselective public institution. In applications to health jobs, we find that for-profit credentials receive fewer callbacks unless the job requires an external quality indicator such as an occupational license. (JEL I23, I26, J24, J44, J63, M51)

Taxpayer Confusion: Evidence from the Child Tax Credit

- American Economic Review---2016---Naomi E. Feldman,Peter Katuš?ák,Laura Kawano

We develop an empirical test for whether households understand or misperceive their marginal tax rate. Our identifying variation comes from the loss of the Child Tax Credit when a child turns 17. Using this age discontinuity, we find that despite this tax liability increase being lump-sum and predictable, households reduce their reported wage income upon discovering they have lost the credit. This finding suggests that households misinterpret at least part of this tax liability change as an increase in their marginal tax rate. This evidence supports the hypothesis that tax complexity can cause confusion and leads to unintended behavioral responses. (JEL D12, D14, H24, H31)

Dictating the Risk: Experimental Evidence on Giving in Risky Environments: Comment

- American Economic Review---2016---Michal Krawczyk,Fabrice Le Lec

Based on experimental dictator games with probabilistic prospects, Brock, Lange, and Ozbay (2013) conclude that neither ex post nor ex ante comparisons can fully account for observed behavior. We argue that their conclusion that ex ante comparisons cannot explain the data is at best weakly supported by their results, and do so on three grounds: (i) the absence of significant differences between the most relevant treatments, (ii) the implicit assumption of subjects' risk neutrality, and (iii) the asymmetry of treatments regarding the disclosure of dictators' choice. (JEL C72, D63, D64, D81)

Dictating the Risk: Experimental Evidence on Giving in Risky Environments: Reply

- American Economic Review---2016---J. Michelle Brock,Andreas Lange,Erkut Ozbay

In Brock, Lange, and Ozbay (2013), we experimentally investigate social preferences under risk. One of our conclusions is that a social preference model incorporating both ex ante and ex post fairness concerns may best describe behavior. Krawczyk and Le Lec (2016) argue that ex ante comparisons alone may account for our data. We address their points in this reply. (JEL C72, D63, D64, D81)

A Balls-and-Bins Model of Trade: Comment

- American Economic Review---2016---Bernardo S. Blum,Sebastian Claro,Ignatius Horstmann

We show that the Armenter and Koren model's firm-product-country results rely on the assumption that export shipment size is independent of firm size, and this assumption is contradicted by the data. When actual shipment sizes are used in the balls-and-bins model, it cannot reproduce the data on single product/single country exporters. Beyond just showing that the shipment size assumption matters to balls-and-bins outcomes, our results highlight the important fact that shipment size is an economic decision, co-determined with other export choices. For this reason, we argue that a balls-and-bins model cannot be a purely statistical benchmark model. (JEL F11, F14, O13, O19, Q37)

A Balls-and-Bins Model of Trade: Reply

- American Economic Review---2016---Roc Armenter,Miklós Koren

Blum, Claro, and Horstmann (2016) make two statements about the balls-and-bins model of Armenter and Koren (2014). First, that using firm-level shipment data changes some of our results. Second, that the balls-and-bins model is not an appropriate statistical method. We respond to the first statement and argue that the second statement is unfounded and unrelated to the first. Indeed, the work of Blum, Claro, and Horstmann (2016) is a perfect example of how to use balls-and-bins in a rich dataset to spot interesting data patterns. (JEL F11, F14)

The Politics of Compromise

- American Economic Review---2016---Alessandro Bonatti,Heikki Rantakari

An organization must select among competing projects that differ in their payoff consequences for its members. Each agent chooses a project and exerts effort affecting its completion time. When one or more projects are complete, the agents select which one to adopt. The selection rule for multiple projects that maximizes ex post welfare leads to inefficiently high polarization; rules that favor later proposals improve upon ex post optimal selections. The optimal degree of favoritism increases in the cost of effort and discount rate. This trade-off informs the design of process rules in standard-setting organizations and helps explain their performance. (JEL C78, D23, D71, D72, D83, L15)

Poverty and Economic Decision-Making: Evidence from Changes in Financial Resources at Payday

- American Economic Review---2016---Leandro Carvalho,Stephan Meier,Stephanie Wang

We study the effect of financial resources on decision-making. Low-income US households are randomly assigned to receive an online survey before or after payday. The survey collects measures of cognitive function and administers risk and intertemporal choice tasks. The study design generates variation in cash, checking and savings balances, and expenditures. Before-payday participants behave as if they are more present-biased when making intertemporal choices about monetary rewards but not when making intertemporal choices about nonmonetary real-effort tasks. Nor do we find before-after differences in risk-taking, the quality of decision-making, the performance in cognitive function tasks, or in heuristic judgments. (JEL C83, D14, D81, D91, I32)

On Communication and Collusion

- American Economic Review---2016---Yu Awaya,Vijay Krishna

We study the role of communication within a cartel. Our analysis is carried out in Stigler's (1964) model of repeated oligopoly with secret price cuts. Firms observe neither the prices nor the sales of their rivals. For a fixed discount factor, we identify conditions under which there are equilibria with "cheap talk" that result in near-perfect collusion, whereas all equilibria without such communication are bounded away from this outcome. In our model, communication improves monitoring and leads to higher prices and profits. (JEL C73, D43, D83, L12, L13, L25)

Anatomy of a Contract Change

- American Economic Review---2016---Rajshri Jayaraman,Debraj Ray,Francis de Véricourt

We study a contract change for tea pluckers on an Indian plantation, with a higher government-stipulated baseline wage. Incentive piece rates were lowered or kept unchanged. Yet, in the following month, output increased by 20 to 80 percent. This response contradicts the standard model and several variants, is only partly explicable by greater supervision, and appears to be "behavioral." But in subsequent months, the increase is comprehensively reversed. Though not an unequivocal indictment of "behavioral" models, these findings suggest that nonstandard responses may be ephemeral, and should ideally be tracked over an extended period of time. (JEL D82, D86, J33, J41, J43, O13, Q12)

Redistribution and Social Insurance

- American Economic Review---2016---Mikhail Golosov,Maxim Troshkin,Aleh Tsyvinski

We study optimal redistribution and insurance in a life-cycle economy with private idiosyncratic shocks. We characterize Pareto optima, show the forces determining optimal labor distortions, and derive closed form expressions for their limiting behavior. The labor distortions for high-productivity shocks are determined by the labor elasticity and the higher moments of the shock process; the labor distortions for low-productivity shocks are determined by the autocorrelation of the shock process, redistributive objectives, and past distortions. In a model calibrated using newly available estimates of idiosyncratic shocks, the labor distortions are U-shaped and the savings distortions generally increase in current earnings. (JEL D82, D91, H21, H23, I38, J22, J24)

Consumption Inequality and Family Labor Supply

- American Economic Review---2016---Richard Blundell,Luigi Pistaferri,Itay Saporta-Eksten,Itay Saporta Eksten

We examine the link between wage and consumption inequality using a life-cycle model incorporating consumption and family labor supply decisions. We derive analytical expressions for the dynamics of consumption, hours, and earnings of two earners in the presence of correlated wage shocks, nonseparability, progressive taxation, and asset accumulation. The model is estimated using panel data for hours, earnings, assets, and consumption. We focus on family labor supply as an insurance mechanism and find strong evidence of smoothing of permanent wage shocks. Once family labor supply, assets, and taxes are properly accounted for there is little evidence of additional insurance. (JEL D12, D14, D91, J22, J31)

Exchange Rates, Interest Rates, and the Risk Premium

- American Economic Review---2016---Charles Engel

The uncovered interest parity puzzle concerns the empirical regularity that high interest rate countries tend to have high expected returns on short term deposits. A separate puzzle is that high real interest rate countries tend to have currencies that are stronger than can be accounted for by the path of expected real interest differentials under uncovered interest parity. These two findings have apparently contradictory implications for the relationship of the foreign-exchange risk premium and interest-rate differentials. We document these puzzles, and show that existing models appear unable to account for both. A model that might reconcile the findings is discussed. (JEL E43, F31, G15)

The Housing Market Impacts of Shale Gas Development: Corrigendum

- American Economic Review---2016---Lucija Muehlenbachs,Elisheba Spiller,Christopher Timmins

Just Luck: An Experimental Study of Risk-Taking and Fairness: Erratum

- American Economic Review---2016---Alexander Cappelen,James Konow,Erik Sørensen,Bertil Tungodden

Betting on Secession: Quantifying Political Events Surrounding Slavery and the Civil War

- American Economic Review---2016---Charles W. Calomiris,Jonathan Pritchett

Lincoln's election produced Southern secession, war, and abolition. Using a new dataset on slave sales, we examine connections between news and slave prices for the period 1856-1861. By August 1861, slave prices had declined by roughly one-third from their 1860 peak. That decline was similar for all age and sex cohorts and thus did not reflect expected emancipation without compensation. The decision to secede reflected beliefs that the North would not invade and that emancipation without compensation was unlikely. Both were encouraged by Lincoln's conciliatory tone before the attack on Fort Sumter, and subsequently dashed by Lincoln's willingness to wage all-out war. (JEL D72, D74, D83, G14, H77, N31, N41)

Generalized Social Marginal Welfare Weights for Optimal Tax Theory

- American Economic Review---2016---Emmanuel Saez,Stefanie Stantcheva

This paper proposes to evaluate tax reforms by aggregating money metric losses and gains of different individuals using "generalized social marginal welfare weights." Optimum tax formulas take the same form as standard welfarist tax formulas by simply substituting standard marginal social welfare weights with those generalized weights. Weights directly capture society's concerns for fairness without being necessarily tied to individual utilities. Suitable weights can help reconcile discrepancies between the welfarist approach and actual tax practice, as well as unify in an operational way the most prominent alternatives to utilitarianism such as Libertarianism, equality of opportunity, or poverty alleviation. (JEL D60, D63, H21, H23, I38)

Networks and Misallocation: Insurance, Migration, and the Rural-Urban Wage Gap

- American Economic Review---2016---Kaivan Munshi,Mark Rosenzweig

We provide an explanation for the large spatial wage disparities and low male migration in India based on the trade-off between consumption smoothing, provided by caste-based rural insurance networks, and the income gains from migration. Our theory generates two key empirically verified predictions: (i) males in relatively wealthy households within a caste who benefit less from the redistributive (surplus-maximizing) network will be more likely to migrate, and (ii) males in households facing greater rural income risk (who benefit more from the insurance network) migrate less. Structural estimates show that small improvements in formal insurance decrease the spatial misallocation of labor by substantially increasing migration. (JEL G22, J31, J61, O15, O18, R23, Z13)

The Market Impacts of Pharmaceutical Product Patents in Developing Countries: Evidence from India

- American Economic Review---2016---Mark Duggan,Craig Garthwaite,Aparajita Goyal

In 2005, as the result of a World Trade Organization mandate, India implemented a patent reform for pharmaceuticals that was intended to comply with the 1995 Trade-Related Aspects of Intellectual Property Rights (TRIPS). Exploiting variation in the timing of patent decisions, we estimate that a molecule receiving a patent experienced an average price increase of just 3-6 percent, with larger increases for more recently developed molecules and for those produced by just one firm when the patent system began. Our results also show little impact on quantities sold or on the number of pharmaceutical firms operating in the market. (JEL K33, L11, L13, L65, O14, O34, O38)

Patents and the Global Diffusion of New Drugs

- American Economic Review---2016---Iain Cockburn,Jean Lanjouw,Mark Schankerman

Analysis of the timing of launches of 642 new drugs in 76 countries during 1983-2002 shows that patent and price regulation regimes strongly affect how quickly new drugs become commercially available in different countries. Price regulation delays launch, while longer and more extensive patent rights accelerate it. Health policy institutions and economic and demographic factors that make markets more profitable also speed up diffusion. The estimated effects are generally robust to controlling for endogeneity of policy regimes with country fixed effects and instrumental variables. The results highlight the important role of policy choices in driving the diffusion of new innovations. (JEL I18, L11, L51, L65, O31, O33, O34)

Are Sticky Prices Costly? Evidence from the Stock Market

- American Economic Review---2016---Yuriy Gorodnichenko,Michael Weber

We show that after monetary policy announcements, the conditional volatility of stock market returns rises more for firms with stickier prices than for firms with more flexible prices. This differential reaction is economically large and strikingly robust to a broad array of checks. These results suggest that menu costs—broadly defined to include physical costs of price adjustment, informational frictions, etc.—are an important factor for nominal price rigidity at the micro level. We also show that our empirical results are qualitatively and, under plausible calibrations, quantitatively consistent with New Keynesian macroeconomic models in which firms have heterogeneous price stickiness. (JEL E12, E31, E43, E44, E52, G12, L11)

Real Rigidity, Nominal Rigidity, and the Social Value of Information

- American Economic Review---2016---George-Marios Angeletos,Luigi Iovino,Jennifer La'O

Does welfare improve when firms are better informed about the state of the economy and can thus better coordinate their production and pricing decisions? We address this question in an elementary business-cycle model that highlights how the dispersion of information can impede both kinds of decisions and, in this sense, be the source of both real and nominal rigidity. Within this context we develop a taxonomy for how the social value of information depends on the two rigidities, on the sources of the business cycle, and on the conduct of monetary policy. (JEL D21, D82, D83, E32, E52)

Capital Tax Reform and the Real Economy: The Effects of the 2003 Dividend Tax Cut

- American Economic Review---2015---Danny Yagan

This paper tests whether the 2003 dividend tax cut—one of the largest reforms ever to a US capital tax rate—stimulated corporate investment and increased labor earnings, using a quasi-experimental design and US corporate tax returns from years 1996-2008. I estimate that the tax cut caused zero change in corporate investment and employee compensation. Economically, the statistical precision challenges leading estimates of the cost-of-capital elasticity of investment, or undermines models in which dividend tax reforms affect the cost of capital. Either way, it may be difficult to implement an alternative dividend tax cut that has substantially larger near-term effects. (JEL C72, C78, C91)

Market Externalities of Large Unemployment Insurance Extension Programs

- American Economic Review---2015---Rafael Lalive,Camille Landais,Josef Zweimüller

We provide evidence that unemployment insurance affects equilibrium conditions in the labor market, which creates significant "market externalities." We provide a framework for identification of such equilibrium effects and implement it using the Regional Extension Benefit Program (REBP) in Austria which extended the duration of UI benefits for a large group of eligible workers in selected regions of Austria. We show that non-eligible workers in REBP regions have higher job finding rates, lower unemployment durations, and a lower risk of long-term unemployment. We discuss the implications of our results for optimal UI policy. (JEL E24, J64, J65, R23)

Media Influences on Social Outcomes: The Impact of MTV's 16 and Pregnant on Teen Childbearing

- American Economic Review---2015---Melissa S. Kearney,Phillip Levine

This paper explores the impact of the introduction of the widely viewed MTV reality show 16 and Pregnant on teen childbearing. Our main analysis relates geographic variation in changes in teen childbearing rates to viewership of the show. We implement an instrumental variables (IV) strategy using local area MTV ratings data from a pre-period to predict local area 16 and Pregnant ratings. The results imply that this show led to a 4.3 percent reduction in teen births. An examination of Google Trends and Twitter data suggest that the show led to increased interest in contraceptive use and abortion. (JEL D12, J13, J16, L82, Z13)

The Housing Market Impacts of Shale Gas Development

- American Economic Review---2015---Lucija Muehlenbachs,Elisheba Spiller,Christopher Timmins

Using data from Pennsylvania and an array of empirical techniques to control for confounding factors, we recover hedonic estimates of property value impacts from nearby shale gas development that vary with water source, well productivity, and visibility. Results indicate large negative impacts on nearby groundwater-dependent homes, while piped-water-dependent homes exhibit smaller positive impacts, suggesting benefits from lease payments. Results have implications for the debate over regulation of shale gas development. (JEL L71, Q35, Q53, R31)

Imported Inputs and Productivity

- American Economic Review---2015---László Halpern,Miklós Koren,Adam Szeidl

We estimate a model of importers in Hungarian micro-data and conduct counterfactual analysis to investigate the effect of imported inputs on productivity. We find that importing all input varieties would increase a firm's revenue productivity by 22 percent, about one-half of which is due to imperfect substitution between foreign and domestic inputs. Foreign firms use imports more effectively and pay lower fixed import costs. We attribute one-quarter of Hungarian productivity growth during the 1993-2002 period to imported inputs. Simulations show that the productivity gain from a tariff cut is larger when the economy has many importers and many foreign firms. (JEL D24, F13, F14, L60)

R&D, International Sourcing, and the Joint Impact on Firm Performance

- American Economic Review---2015---Esther Ann Bøler,Andreas Moxnes,Karen Helene Ulltveit-Moe

This paper studies the impact of an R&D cost shock on R&D investments, imported inputs, and their joint impact on firm performance. We introduce imported inputs into a model of R&D and endogenous productivity, and show that R&D and international sourcing are complementary activities. Exploiting the introduction of an R&D tax credit in Norway in 2002, we find that cheaper R&D stimulated not only R&D investments but also imports of intermediates, quantitatively consistent with the model. An implication of our work is that improved access to imported inputs promotes R&D investments and, ultimately, technological change. (JEL D92, F14, G31, H25, L25, O32, O33)

A Seniority Arrangement for Sovereign Debt

- American Economic Review---2015---Satyajit Chatterjee,Burcu Eyigungor

A sovereign's inability to commit to a course of action regarding future borrowing and default behavior makes long-term debt costly (the problem of debt dilution). One mechanism to mitigate this problem is the inclusion of a seniority clause in debt contracts. In the event of default, creditors are to be paid off in the order in which they lent (the "absolute priority" or "first-in-time" rule). In this paper, we propose a modification of the absolute priority rule suited to sovereign debts contracts and analyze its positive and normative implications within a quantitatively realistic model of sovereign debt and default. (JEL E32, E44, F34, G15, H63, O16, O19)

Feedback Effects, Asymmetric Trading, and the Limits to Arbitrage

- American Economic Review---2015---Alex Edmans,Itay Goldstein,Wei Jiang

We analyze strategic speculators' incentives to trade on information in a model where firm value is endogenous to trading, due to feedback from the financial market to corporate decisions. Trading reveals private information to managers and improves their real decisions, enhancing fundamental value. This feedback effect has an asymmetric effect on trading behavior: it increases (reduces) the profitability of buying (selling) on good (bad) news. This gives rise to an endogenous limit to arbitrage, whereby investors may refrain from trading on negative information. Thus, bad news is incorporated more slowly into prices than good news, potentially leading to overinvestment. (JEL D83, G12, G14)

Human Capital Risk, Contract Enforcement, and the Macroeconomy

- American Economic Review---2015---Tom Krebs,Moritz Kuhn,Mark Wright

We use microdata to show that young households with children are underinsured against the risk that an adult member of the household dies. This empirical finding can be explained by a macroeconomic model with human capital risk, age-dependent returns to human capital investment, and endogenous borrowing constraints due to limited contract enforcement. When calibrated, the model quantitatively accounts for the observed life-cycle variation in life insurance holdings, financial wealth, earnings, and consumption inequality. The model also predicts that reforms making consumer bankruptcy more costly will substantially increase the volume of both credit and insurance. (JEL D14, D91, G22, J13, J24)

Optimal Annuitization with Stochastic Mortality and Correlated Medical Costs

- American Economic Review---2015---Felix Reichling,Kent Smetters

The conventional wisdom since Yaari (1965) is that households without a bequest motive should fully annuitize their investments. Numerous frictions do not break this sharp result. We modify the Yaari framework by allowing a household's mortality risk itself to be stochastic due to health shocks. A lifetime annuity still helps to hedge longevity risk. But the annuity's remaining present value is correlated with medical costs, such as those for nursing home care, thereby reducing annuity demand, even without ad-hoc liquidity constraints. We find that most households should not hold a positive level of annuities, and many should hold negative amounts. (JEL D14, D82, G23, I12, J14, J26)

Exclusive Contracts and Market Dominance

- American Economic Review---2015---Giacomo Calzolari,Vincenzo Denicolo'

We propose a new theory of exclusive dealing. The theory is based on the assumption that a dominant firm has a competitive advantage over its rivals, and that the buyers' willingness to pay for the product is private information. In this setting, the dominant firm can impose contractual restrictions on buyers without necessarily compensating them, implying that exclusive dealing contracts can be both profitable and anticompetitive. We discuss the general implications of the theory for competition policy and illustrate by examples its applicability to antitrust cases. (JEL D21, D43, D82, D86, K21, L13, L40)

Fiscal Volatility Shocks and Economic Activity

- American Economic Review---2015---Jesus Fernandez-Villaverde,Pablo Guerron,Keith Kuester,Juan F Rubio-Ramirez

We study how unexpected changes in uncertainty about fiscal policy affect economic activity. First, we estimate tax and spending processes for the United States with time-varying volatility to uncover evidence of time-varying volatility. Second, we estimate a VAR for the US economy using the time-varying volatility found in the previous step. Third, we feed the tax and spending processes into an otherwise standard New Keynesian model. Both in the VAR and in the model, we find that unexpected changes in fiscal volatility shocks can have a sizable adverse effect on economic activity. An endogenous increase in markups is a key mechanism. (JEL E12, E23, E32, E52, E62)

Estimating Neighborhood Choice Models: Lessons from a Housing Assistance Experiment

- American Economic Review---2015---Sebastian Galiani,Alvin Murphy,Juan Pantano

We use data from a housing-assistance experiment to estimate a model of neighborhood choice. The experimental variation effectively randomizes the rents which households face and helps identify a key structural parameter. Access to two randomly selected treatment groups and a control group allows for out-of-sample validation of the model. We simulate the effects of changing the subsidy-use constraints implemented in the actual experiment. We find that restricting subsidies to even lower poverty neighborhoods would substantially reduce take-up and actually increase average exposure to poverty. Furthermore, adding restrictions based on neighborhood racial composition would not change average exposure to either race or poverty. (JEL I32, I38, R23, R38)

Conveniently Upset: Avoiding Altruism by Distorting Beliefs about Others' Altruism

- American Economic Review---2015---Rafael Di Tella,Ricardo Perez-Truglia,Andres Babino,Mariano Sigman

We present results from a "corruption game" (a dictator game modified so that recipients can take a side payment in exchange for accepting a reduction in the overall size of the pie). Dictators (silently) treated to be able to take more of the recipient's tokens, took more of them. They were also more likely to believe that recipients had accepted side payments, even if there was a prize for accuracy. The results favor the hypothesis that people avoid altruistic actions by distorting beliefs about others' altruism. (JEL C72, D63, D64, D83)

Optimal Taxation and Debt with Uninsurable Risks to Human Capital Accumulation

- American Economic Review---2015---Piero Gottardi,Atsushi Kajii,Tomoyuki Nakajima

We consider an economy where individuals face uninsurable risks to their human capital accumulation and analyze the optimal level of linear taxes on capital and labor income together with the optimal path of government debt. We show that in the presence of such risks, it is beneficial to tax both labor and capital and to issue public debt. We also assess the quantitative importance of these findings, and show that the benefits of government debt and capital taxes both increase with the magnitude of idiosyncratic risks and the degree of relative risk aversion. (JEL D52, H21, H24, H25, H63, J24)

Reputation and School Competition

- American Economic Review---2015---W. Bentley Macleod,Miguel Urquiola

Stratification is a distinctive feature of competitive education markets that can be explained by a preference for good peers. Learning externalities can lead students to care about the ability of their peers, resulting in across-school sorting by ability. This paper shows that a preference for good peers, and therefore stratification, can also emerge endogenously from reputational concerns that arise when graduates use their college of origin to signal their ability. Reputational concerns can also explain puzzling observed trends including the increase in student investment into admissions exam preparation, and the decline in study time at college. (JEL I21, I23, I26, J24)

Psychological Frictions and the Incomplete Take-Up of Social Benefits: Evidence from an IRS Field Experiment

- American Economic Review---2015---Saurabh Bhargava,Dayanand Manoli

We address the role of "psychological frictions" in the incomplete take-up of EITC benefits with an IRS field experiment. We specifically assess the influence of program confusion, informational complexity, and stigma by evaluating response to experimental mailings distributed to 35,050 tax filers who failed to claim $26 million despite an initial notice. While the mere receipt of the mailing, simplification, and the heightened salience of benefits led to substantial additional claiming, attempts to reduce perceived costs of stigma, application, and audits did not. The study, and accompanying surveys, suggests that low program awareness/understanding and informational complexity contribute to the puzzle of low take-up. (JEL C93, D03, H24, M38)

Averting Catastrophes: The Strange Economics of Scylla and Charybdis

- American Economic Review---2015---Ian Martin,Robert Pindyck

Faced with numerous potential catastrophes—nuclear and bioterrorism, mega-viruses, climate change, and others—which should society attempt to avert? A policy to avert one catastrophe considered in isolation might be evaluated in cost-benefit terms. But because society faces multiple catastrophes, simple cost-benefit analysis fails: even if the benefit of averting each one exceeds the cost, we should not necessarily avert them all. We explore the policy interdependence of catastrophic events, and develop a rule for determining which catastrophes should be averted and which should not. (JEL D61, Q51, Q54)

Disability Insurance and the Dynamics of the Incentive Insurance Trade-Off

- American Economic Review---2015---Hamish Low,Luigi Pistaferri

We provide a life-cycle framework for comparing insurance and disincentive effects of disability benefits. The risks that individuals face and the parameters of the Disability Insurance (DI) program are estimated from consumption, health, disability insurance, and wage data. We characterize the effects of disability insurance and study how policy reforms impact behavior and welfare. DI features high rejection rates of disabled applicants and some acceptance of healthy applicants. Despite worse incentives, welfare increases as programs become less strict or generosity increases. Disability insurance interacts with welfare programs: making unconditional means-tested programs more generous improves disability insurance targeting and increases welfare. (JEL D14, J24, J65)

Efficient Firm Dynamics in a Frictional Labor Market

- American Economic Review---2015---Leo Kaas,Philipp Kircher

We develop and analyze a labor market model in which heterogeneous firms operate under decreasing returns and compete for labor by posting long-term contracts. Firms achieve faster growth by offering higher lifetime wages, which allows them to fill vacancies with higher probability, consistent with recent empirical findings. The model also captures several other regularities about firm size, job flows, and pay, and generates sluggish aggregate dynamics of labor market variables. In contrast to existing bargaining models with large firms, efficiency obtains and the model allows a tractable characterization over the business cycle. (JEL E24, J64, L11)

Technical Change, Wage Inequality, and Taxes

- American Economic Review---2015---Laurence Ales,Musab Kurnaz,Christopher Sleet

This paper considers the normative implications of technical change for tax policy design. A task-to-talent assignment model of the labor market is embedded into an optimal tax problem. Technical change modifies equilibrium wage growth across talents and the substitutability of talents across tasks. The overall optimal policy response is to reduce marginal income taxes on low to middle incomes, while raising those on middle to high incomes. The reform favors those in the middle of the income distribution, reducing their average taxes while lowering transfers to those at the bottom. (JEL D31, H21, H23, H24, J31, O33)

Non-optimal Mechanism Design

- American Economic Review---2015---Jason D. Hartline,Brendan Lucier

The optimal allocation of resources in complex environments—like allocation of dynamic wireless spectrum, cloud computing services, and Internet advertising—is computationally challenging even given the true preferences of the participants. In the theory and practice of optimization in complex environments, a wide variety of special and general purpose algorithms have been developed; these algorithms produce outcomes that are satisfactory but not generally optimal or incentive compatible. This paper develops a very simple approach for converting any, potentially non-optimal, algorithm for optimization given the true participant preferences, into a Bayesian incentive compatible mechanism that weakly improves social welfare and revenue. (JEL D82, H82, L82)

Delinking Land Rights from Land Use: Certification and Migration in Mexico

- American Economic Review---2015---Alain de Janvry,Kyle Emerick,Marco Gonzalez-Navarro,Elisabeth Sadoulet

In many developing countries property rights over rural land are maintained through continuous personal use instead of by land titles. We show that removing the link between land use and land rights through the issuance of ownership certificates can result in large-scale adjustments to labor and land allocations. Using the rollout of the Mexican land certification program from 1993 to 2006, we find that households obtaining certificates were subsequently 28 percent more likely to have a migrant member. We also show that even though land certification induced migration, it had little effect on cultivated area due to consolidation of farm units. (JEL O13, O17, P14, Q15, Q18, Q24, Q28)

The Next Generation of the Penn World Table

- American Economic Review---2015---Robert Feenstra,Robert Inklaar,Marcel Timmer

We describe the theory and practice of real GDP comparisons across countries and over time. Version 8 of the Penn World Table expands on previous versions in three respects. First, in addition to comparisons of living standards using components of real GDP on the expenditure side, we provide a measure of productive capacity, called real GDP on the output side. Second, growth rates are benchmarked to multiple years of cross-country price data so they are less sensitive to new benchmark data. Third, data on capital stocks and productivity are (re)introduced. Applications including the Balassa-Samuelson effect and development accounting are discussed. (JEL C43, C82, E01, E23, I31, O47)

Competition, Markups, and the Gains from International Trade

- American Economic Review---2015---Chris Edmond,Virgiliu Midrigan,Yi Xu

We study the procompetitive gains from international trade in a quantitative model with endogenously variable markups. We find that trade can significantly reduce markup distortions if two conditions are satisfied: (i) there is extensive misallocation, and (ii) opening to trade exposes hitherto dominant producers to greater competitive pressure. We measure the extent to which these two conditions are satisfied in Taiwanese producer-level data. Versions of our model consistent with the Taiwanese data predict that opening up to trade strongly increases competition and reduces markup distortions by up to one-half, thus significantly reducing productivity losses due to misallocation. (JEL D43, F12, F14, L13, L60, O47)

Has Consumption Inequality Mirrored Income Inequality?

- American Economic Review---2015---Mark Aguiar,Mark Bils

We revisit to what extent the increase in income inequality since 1980 was mirrored by consumption inequality. We do so by constructing an alternative measure of consumption expenditure using a demand system to correct for systematic measurement error in the Consumer Expenditure Survey. Our estimation exploits the relative expenditure of high- and low-income households on luxuries versus necessities. This double differencing corrects for measurement error that can vary over time by good and income. We find consumption inequality tracked income inequality much more closely than estimated by direct responses on expenditures. (JEL D31, D63, E21)

Education, HIV, and Early Fertility: Experimental Evidence from Kenya

- American Economic Review---2015---Esther Duflo,Pascaline Dupas,Michael Kremer

A seven-year randomized evaluation suggests education subsidies reduce adolescent girls' dropout, pregnancy, and marriage but not sexually transmitted infection (STI). The government's HIV curriculum, which stresses abstinence until marriage, does not reduce pregnancy or STI. Both programs combined reduce STI more, but cut dropout and pregnancy less, than education subsidies alone. These results are inconsistent with a model of schooling and sexual behavior in which both pregnancy and STI are determined by one factor (unprotected sex), but consistent with a two-factor model in which choices between committed and casual relationships also affect these outcomes. (JEL I12, I18, I21, J13, J16, O15)

The Welfare Economics of Default Options in 401(k) Plans

- American Economic Review---2015---B. Douglas Bernheim,Andrey Fradkin,Igor Popov

Default contribution rates for 401(k) pension plans powerfully influence choices. Potential causes include opt-out costs, procrastination, inattention, and psychological anchoring. Using realistically parameterized models, we show how the optimal default, the magnitude of the welfare effects, and the degree of normative ambiguity depend on the behavioral model, the scope of the choice domain deemed welfare-relevant, the use of penalties for passive choice, and other 401(k) plan features. While results are theory-specific, our analysis provides reasonably robust justifications for setting the default either at the highest contribution rate matched by the employer or—contrary to common wisdom—at zero. (JEL D14, D91, J26, J32)

Credit Constraints and Growth in a Global Economy

- American Economic Review---2015---Nicolas Coeurdacier,Stéphane Guibaud,Keyu Jin

We show that in an open-economy OLG model, the interaction between growth differentials and household credit constraints—more severe in fast-growing countries—can explain three prominent global trends: a divergence in private saving rates between advanced and emerging economies, large net capital outflows from the latter, and a sustained decline in the world interest rate. Micro-level evidence on the evolution of age-saving profiles in the US and China corroborates our mechanism. Quantitatively, our model explains about a third of the divergence in aggregate saving rates, and a significant portion of the variations in age-saving profiles across countries and over time. (JEL E21, E22, F21, F32, F41, O16, P24)

Cooperation, but No Reciprocity: Individual Strategies in the Repeated Prisoner's Dilemma

- American Economic Review---2015---Yves Breitmoser

In the repeated prisoner's dilemma, predictions are notoriously difficult. Recently, however, Blonski, Ockenfels, and Spagnolo (2011)—henceforth, BOS‐showed that experimental subjects predictably cooperate when the discount factor exceeds a particular threshold. I analyze individual strategies in four recent experiments to examine whether strategies are predictable, too. Behavior is well summarized by "Semi-Grim" strategies: cooperate after mutual cooperation, defect after mutual defection, randomize otherwise. This holds both in aggregate and individually, and it explains the BOS-threshold: Semi-Grim equilibria appear as the discount factor crosses this threshold, and then, subjects start cooperating in round 1 and switch to Semi-Grim in continuation play. (JEL C72, C73, C92, D12)

The Value of Relationships: Evidence from a Supply Shock to Kenyan Rose Exports

- American Economic Review---2015---Rocco Macchiavello,Ameet Morjaria

This paper provides evidence on the importance of reputation in the context of the Kenyan rose export sector. A model of reputation and relational contracting is developed and tested. A seller's reputation is defined by buyer's beliefs about seller's reliability. We show that (i) due to lack of enforcement, the volume of trade is constrained by the value of the relationship; (ii) the value of the relationship increases with the age of the relationship; and (iii) during an exogenous negative supply shock deliveries are an inverted-U shaped function of relationship's age. Models exclusively focusing on enforcement or insurance considerations cannot account for the evidence. (JEL D86, F14, L14, O13, O19, Q17)

Yours, Mine, and Ours: Do Divorce Laws Affect the Intertemporal Behavior of Married Couples?

- American Economic Review---2015---Alessandra Voena

This paper examines how divorce laws affect couples' intertemporal choices and well-being. Exploiting panel variation in US laws, I estimate the parameters of a model of household decision-making. Household survey data indicate that the introduction of unilateral divorce in states that imposed an equal division of property is associated with higher household savings and lower female employment, implying a distortion in household assets accumulation and a transfer toward wives whose share in household resources is smaller than the one of their husband. When spouses share consumption equally, separate property or prenuptial agreements can reduce distortions and increase equity. (JEL D13, D14, D91, J12, J16, K36)

Country Solidarity in Sovereign Crises

- American Economic Review---2015---Jean Tirole

When will solidarity, which emerges spontaneously from the fear of spillovers, be reinforced through contracting? The optimal pact between countries that differ substantially in their probability of distress is a simple debt contract with market financing, a borrowing cap, but no joint liability. While joint liability augments total surplus, the borrowing country cannot compensate the deep-pocket guarantor. By contrast, the optimal pact between two countries symmetrically exposed to shocks with an arbitrary correlation is a simple debt contract with joint liability, provided that shocks are sufficiently independent, spillovers sufficiently large, liquidity needs moderate, and available sanctions sufficiently tough. (JEL D86, F34, H63)

State Capacity and Economic Development: A Network Approach

- American Economic Review---2015---Daron Acemoglu,Camilo García-Jimeno,James Robinson

We study the direct and spillover effects of local state capacity in Colombia. We model the determination of state capacity as a network game between municipalities and the national government. We estimate this model exploiting the municipality network and the roots of local state capacity related to the presence of the colonial state and royal roads. Our estimates indicate that local state capacity decisions are strategic complements. Spillover effects are sizable, accounting for about 50 percent of the quantitative impact of an expansion in local state capacity, but network effects driven by equilibrium responses of other municipalities are much larger. (JEL D85, H41, H77, O17, O18)

Crossing Party Lines: The Effects of Information on Redistributive Politics

- American Economic Review---2015---Katherine Casey

Many lament that weak accountability and poor governance impede economic development in Africa. Politicians rely on ethnic allegiances that deliver the vote irrespective of performance, dampening electoral incentives. Giving voters information about candidate competence counters ethnic loyalty and strengthens accountability. I extend a canonical electoral model to show how information provision flows through voter behavior and ultimately impacts the distribution of political spending. I test the theory on data from Sierra Leone using decentralization and differential radio coverage to identify information's effects. Estimates suggest that information increases voting across ethnic-party lines and induces a more equitable allocation of campaign spending. (JEL D72, D83, J15, O17, Z13)

Health Insurance for "Humans": Information Frictions, Plan Choice, and Consumer Welfare

- American Economic Review---2015---Benjamin R. Handel,Jonathan T. Kolstad

Traditional models of insurance choice are predicated on fully informed and rational consumers protecting themselves from exposure to financial risk. In practice, choosing an insurance plan is a complicated decision often made without full information. In this paper we combine new administrative data on health plan choices and claims with unique survey data on consumer information to identify risk preferences, information frictions, and hassle costs. Our additional friction measures are important predictors of choices and meaningfully impact risk preference estimates. We study the implications of counterfactual insurance allocations to illustrate the importance of distinguishing between these micro-foundations for welfare analysis. (JEL D81, D8 3, G22, I13)

Evaluating Behaviorally Motivated Policy: Experimental Evidence from the Lightbulb Market

- American Economic Review---2015---Hunt Allcott,Dmitry Taubinsky

Imperfect information and inattention to energy costs are important potential motivations for energy efficiency standards and subsidies. We evaluate these motivations in the lightbulb market using a theoretical model and two randomized experiments. We derive welfare effects as functions of reduced-form sufficient statistics capturing economic and psychological parameters, which we estimate using a novel within-subject information disclosure experiment. The main results suggest that moderate subsidies for energy-efficient lightbulbs may increase welfare, but informational and attentional biases alone do not justify a ban on incandescent lightbulbs. Our results and techniques generate broader methodological insights into welfare analysis with misoptimizing consumers. (JEL D12, D83, H21, H31, L67, Q41, Q48)

No Taxation without Information: Deterrence and Self-Enforcement in the Value Added Tax

- American Economic Review---2015---Dina Pomeranz

Claims that the VAT facilitates tax enforcement by generating paper trails on transactions between firms contributed to widespread VAT adoption worldwide, but there is surprisingly little evidence. This paper analyzes the role of third-party information for VAT enforcement through two randomized experiments among over 400,000 Chilean firms. Announcing additional monitoring has less impact on transactions that are subject to a paper trail, indicating the paper trail's preventive deterrence effect. This leads to strong enforcement spillovers up the VAT chain. These findings confirm that when taking evasion into account, significant differences emerge between otherwise equivalent forms of taxation. (JEL D83, H25, H26, K34, O17)

Back to Fundamentals: Equilibrium in Abstract Economies

- American Economic Review---2015---Michael Richter,Ariel Rubinstein

We propose a new abstract definition of equilibrium in the spirit of competitive equilibrium: a profile of alternatives and a public ordering (expressing prestige, price, or a social norm) such that each agent prefers his assigned alternative to all lower-ranked ones. The equilibrium operates in an abstract setting built upon a concept of convexity borrowed from convex geometry. We apply the concept to a variety of convex economies and relate it to Pareto optimality. The "magic" of linear equilibrium prices is put into perspective by establishing an analogy between linear functions in the standard convexity and "primitive orderings" in the abstract convexity. (JEL I11, I18, J44, K13)

On Discrimination in Auctions with Endogenous Entry

- American Economic Review---2015---Philippe Jehiel,Laurent Lamy

When entry is exogenous, strong buyers should be discriminated against weak buyers to maximize revenues (Myerson 1981). When entry is endogenous so that entrants' expected payoffs do not depend on the proposed mechanism, optimal discrimination takes a completely different form. The revenue-maximizing equilibrium requires that there should be no discrimination with respect to entrants irrespective of their ex ante characteristics. Besides, those buyers who always participate should be discriminated against entrants independently of their strength. These predictions are independent of the equilibrium selection when the number of potential entrants grows large. The optimality of first-price auctions is also discussed. (JEL D44, H57)

Information Rigidity and the Expectations Formation Process: A Simple Framework and New Facts

- American Economic Review---2015---Olivier Coibion,Yuriy Gorodnichenko

We propose a new approach to test the full-information rational expectations hypothesis which can identify whether rejections of the null arise from information rigidities. This approach quantifies the economic significance of departures from the null and the underlying degree of information rigidity. Applying this approach to US and international data of professional forecasters and other agents yields pervasive evidence consistent with the presence of information rigidities. These results therefore provide a set of stylized facts which can be used to calibrate imperfect information models.

Finally, we document evidence of state-dependence in the expectations formation process. (JEL C53, D83, D84, E13, E31, E37)

How to Control Controlled School Choice

- American Economic Review---2015---Federico Echenique,M. Bumin Yenmez

We characterize choice rules for schools that regard students as substitutes while expressing preferences for a diverse student body. The stable (or fair) assignment of students to schools requires the latter to regard the former as substitutes. Such a requirement is in conflict with the reality of schools' preferences for diversity. We show that the conflict can be useful, in the sense that certain unique rules emerge from imposing both considerations. We also provide welfare comparisons for students when different choice rules are employed. (JEL D47, H75, I21, I28)

In the Name of the Son (and the Daughter): Intergenerational Mobility in the United States, 1850-1940

- American Economic Review---2015---Claudia Olivetti,M. Daniele Paserman

This paper estimates historical intergenerational elasticities between fathers and children of both sexes in the United States using a novel empirical strategy. The key insight of our approach is that the information about socioeconomic status conveyed by first names can be used to create pseudo-links across generations. We find that both father-son and father-daughter elasticities were flat during the nineteenth century, increased sharply between 1900 and 1920, and declined slightly thereafter. We discuss the role of regional disparities in economic development, trends in inequality and returns to human capital, and the marriage market in explaining these patterns. (JEL D63, J12, J16, J24, J62, N31, N32)

An Empirical Model of the Medical Match

- American Economic Review---2015---Nikhil Agarwal

This paper develops a framework for estimating preferences in a many-to-one matching market using only observed matches. I use pairwise stability and a vertical preference restriction on one side to identify preferences on both sides of the market. Counterfactual simulations are used to analyze the antitrust allegation that the centralized medical residency match is responsible for salary depression. Due to residents' willingness to pay for desirable programs and capacity constraints, salaries in any competitive equilibrium would remain, on average, at least $23,000 below the marginal product of labor. Therefore, the match is not the likely cause of low salaries. (JEL C78, I11, J31, J44, K21, L44)

Financial Entanglement: A Theory of Incomplete Integration, Leverage, Crashes, and Contagion

- American Economic Review---2015---Nicolae GÃ¢rleanu,Stavros Panageas,Jianfeng Yu

We propose a unified model of limited market integration, asset-price determination, leveraging, and contagion. Investors and firms are located on a circle, and access to markets involves participation costs that increase with distance. Due to a complementarity between participation and leverage decisions, the equilibrium may exhibit diverse leverage and participation choices across investors, although investors are ex ante identical. Small changes in market-access costs can cause a change in the type of equilibrium, leading to discontinuous price changes, deleveraging, and portfolio-flow reversals. Moreover, the market is subject to contagion—an adverse shock to investors in some locations affects prices everywhere. (JEL D83, G11, G12, G32, G35)

Banking, Liquidity, and Bank Runs in an Infinite Horizon Economy

- American Economic Review---2015---Mark Gertler,Nobuhiro Kiyotaki

We develop an infinite horizon macroeconomic model of banking that allows for liquidity mismatch and bank runs. Whether a bank run equilibrium exists depends on bank balance sheets and an endogenous liquidation price for bank assets. While in normal times a bank run equilibrium may not exist, the possibility can arise in recessions. A run leads to a significant contraction in intermediation and aggregate economic activity. Anticipations of a run have harmful effects on the economy even if the run does not occur. We illustrate how the model can shed light on some key aspects of the recent financial crisis. (JEL E23, E32, E44, G01, G21, G33)

Do Firms Underinvest in Long-Term Research? Evidence from Cancer Clinical Trials

- American Economic Review---2015---Eric Budish,Benjamin N. Roin,Heidi Williams

We investigate whether private research investments are distorted away from long-term projects. Our theoretical model highlights two potential sources of this distortion: short-termism and the fixed patent term. Our empirical context is cancer research, where clinical trials—and hence, project durations—are shorter for late-stage cancer treatments relative to early-stage treatments or cancer prevention. Using newly constructed data, we document several sources of evidence that together show private research investments are distorted away from long-term projects. The value of life-years at stake appears large. We analyze three potential policy responses: surrogate (non-mortality) clinical-trial endpoints, targeted R&D subsidies, and patent design. (JEL D92, G31, I11, L65, O31, O34)

Acquisitions, Productivity, and Profitability: Evidence from the Japanese Cotton Spinning Industry

- American Economic Review---2015---Serguey Braguinsky,Atsushi Ohyama,Tetsuji Okazaki,Chad Syverson

We explore how changes in ownership affect the productivity and profitability of producers. Using detailed data from the Japanese cotton spinning industry at the turn of the last century, we find that acquired firms' production facilities were not on average less physically productive than the plants of the acquiring firms before acquisition. They were much less profitable, however, due to higher inventory levels and lower capacity utilization—differences that reflected problems in managing the uncertainties of demand. After acquisitions, less profitable acquired plants saw drops in inventories and gains in capacity utilization that raised both their productivity and profitability levels. (JEL D24, G32, G34, L11, L25, L66, N65)

Team Contests with Multiple Pairwise Battles

- American Economic Review---2015---Qiang Fu,Jingfeng Lu,Yue Pan

We consider a multi-battle team contest in which players from two rival teams form pairwise matches to fight in distinct component battles, which are carried out sequentially or (partially) simultaneously. A team wins if and only if its players win a majority of battles. Each player benefits from his team's win, while he can also receive a private reward for winning his own battle. We find that the outcomes of past battles do not distort the outcomes of future battles. Neither the total expected effort nor the overall outcome of the contest depends on the contest's temporal structure or its feedback policy. (JEL C72, D72, D74, D82)

Vertical Contracting with Informational Opportunism

- American Economic Review---2015---Vianney Dequiedt,David Martimort

We consider vertical contracting arrangements between a manufacturer and a retailing network when retailers have private information and the organization is run through bilateral contracts. We highlight a new form of informational opportunism arising when the manufacturer manipulates information learned separately in each relationship. We characterize the set of allocations robust to such opportunism by means of simple ex post incentive compatibility constraints. Those constraints limit the manufacturer's ability to use yardstick competition among retailers. They simplify contracts and restore a rent/efficiency trade-off even with correlated information. We show that sell-out contracts are optimal under a wide range of circumstances. (JEL D21, D86, L14, L60, L81)

Revealed Preference, Rational Inattention, and Costly Information Acquisition

- American Economic Review---2015---Andrew Caplin,Mark Dean

Apparently mistaken decisions are ubiquitous. To what extent does this reflect irrationality, as opposed to a rational trade-off between the costs of information acquisition and the expected benefits of learning? We develop a revealed preference test that characterizes all patterns of choice "mistakes" consistent with a general model of optimal costly information acquisition and identify the extent to which information costs can be recovered from choice data. (JEL D11, D81, D83)

Estimating a War of Attrition: The Case of the US Movie Theater Industry

- American Economic Review---2015---Yuya Takahashi

This paper empirically studies firm's strategic exit decisions in an environment where demand is declining. Specifically, I quantify the extent to which the exit process generated by firms' strategic interactions deviates from the outcome that maximizes industry profits. I develop and estimate a dynamic exit game using data from the US movie theater industry in the 1950s, when the industry faced demand declines. Using the estimated model, I quantify the magnitude of strategic delays and find that strategic interactions cause an average delay of exit of 2.7 years. I calculate the relative importance of several components of these strategic delays. (JEL D92, L11, L82, N72)

Risk Preferences Are Not Time Preferences: On the Elicitation of Time Preference under Conditions of Risk: Comment

- American Economic Review---2015---Stephen Cheung

Andreoni and Sprenger (2012a, b) report evidence that distinct utility functions govern choices under certainty and risk. I investigate the robustness of this result to the experimental design. I find that the effect disappears completely when a multiple price list instrument is used instead of a convex time budget design. Alternatively, the effect is reduced by half when sooner and later payment risks are realized using a single lottery instead of two independent lotteries. The result is thus at least partially driven by intertemporal diversification, supporting an explanation in terms of concavity of the intertemporal, and not only atemporal, utility function. (JEL C91, D81, D91)

Risk Preferences Are Not Time Preferences: Balancing on a Budget Line: Comment

- American Economic Review---2015---Thomas Epper,Helga Fehr-Duda

In a recent experimental study of intertemporal risky decision making, Andreoni and Sprenger (2012) find that subjects exhibit a preference for intertemporal diversification, which is inconsistent with discounted expected utility theory. It was claimed that their results are also at odds with models involving probability weighting, such as rank-dependent utility and cumulative prospect theory. Here we demonstrate, however, that rank-dependent probability weighting explains intertemporal diversification if decision makers care about portfolio risk. Moreover, we provide a unified account of all of Andreoni and Sprenger's key findings. (JEL C91, D81, D91)

Risk Preferences Are Not Time Preferences: Separating Risk and Time Preference: Comment

- American Economic Review---2015---Bin Miao,Songfa Zhong

Andreoni and Sprenger (2012a,b) observe that utility functions are distinct for risk and time preferences, and show that their findings are consistent with a preference for certainty. We revisit this question in an enriched experimental setting in which subjects make intertemporal decisions under different risk conditions.

The observed choice behavior supports a separation between risk attitude and intertemporal substitution rather than a preference for certainty. We further show that several models, including Epstein and Zin (1989); Chew and Epstein (1990); and Halevy (2008) exhibit such a separation and can account for the overall experimental findings. (JEL C91, D81, D91)

Risk Preferences Are Not Time Preferences: Reply

- American Economic Review---2015---James Andreoni,Charles Sprenger

Can the well-known experimental phenomenon of present-bias in intertemporal choice be confounded with the risks associated with receiving payment? Can measurements of risk preferences be used to represent desires for smoothness in intertemporal payments? In our two 2012 papers in this journal we explored these two questions and found the answer to the first to be yes and the second to be no. We feel the three papers inspired by our work and published here underscore these arguments and point to interesting new possibilities for modeling and measuring risk over time. (JEL C91, D81, D91)

Market Failures and Public Policy

- American Economic Review---2015---Jean Tirole

Consumer Search and Double Marginalization

- American Economic Review---2015---Maarten Janssen,Sandro Shelegia

The well-known double marginalization problem understates the inefficiencies arising from vertical relations in consumer search markets where consumers are uninformed about the wholesale prices charged by manufacturers to retailers. Consumer search provides a monopoly manufacturer with an additional incentive to increase its price, worsening the double marginalization problem and lowering the manufacturer's profits. Nevertheless, manufacturers in more competitive wholesale markets may not have an incentive to reveal their prices to consumers. We show that retail prices decrease in search cost, and so both industry profits and consumer surplus increase in search cost. (JEL D11, D42, D83, L12, L25, L60, L81)

Government Policy with Time Inconsistent Voters

- American Economic Review---2015---Alberto Bisin,Alessandro Lizzeri,Leeat Yariv

Behavioral economics presents a "paternalistic" rationale for benevolent government intervention. This paper presents a model of public debt where voters have self-control problems and attempt to commit using illiquid assets. In equilibrium, government accumulates debt to respond to individuals' desire to undo their commitments, which leads individuals to rebalance their portfolio, in turn feeding into a demand for further debt accumulation. As a consequence, (i) large (and distortionary) government debt accumulation occurs, and (ii) banning illiquid assets could improve individuals' welfare. These results offer a new rationale for balanced budget rules in constitutions to restrain governments' responses to voters' self-control problems. (JEL D2, D72, D78, H62, H63)

Trafficking Networks and the Mexican Drug War

- American Economic Review---2015---Melissa Dell

Drug trade-related violence has escalated dramatically in Mexico since 2007, and recent years have also witnessed large-scale efforts to combat trafficking, spearheaded by Mexico's conservative PAN party. This study examines the direct and spillover effects of Mexican policy toward the drug trade. Regression discontinuity estimates show that drug-related violence increases substantially after close elections of PAN mayors. Empirical evidence suggests that the violence reflects rival traffickers' attempts to usurp territories after crackdowns have weakened incumbent criminals. Moreover, the study uses a network model of trafficking routes to show that PAN victories divert drug traffic, increasing violence along alternative drug routes. (JEL D72, D85, K42, O17, Z13)

Clientelism in Indian Villages

- American Economic Review---2015---Siwan Anderson,Patrick Francois,Ashok Kotwal

We study the operation of local governments (Panchayats) in rural Maharashtra, India, using a survey that we designed for this end. Elections are freely contested, fairly tallied, highly participatory, non-coerced, and lead to appointment of representative politicians. However, beneath this veneer of ideal democracy we find evidence of deeply ingrained clientelist vote-trading structures maintained through extra-political means. Elite minorities undermine policies that would redistribute income toward the majority poor. We explore the means by which elites use their dominance of land ownership and traditional social superiority to achieve political control in light of successful majoritarian institutional reforms. (JEL D72, H23, I38, J15, O15, O17, O18)

The Value of Democracy: Evidence from Road Building in Kenya

- American Economic Review---2015---Robin Burgess,Remi Jedwab,Edward Miguel,Ameet Morjaria,Gerard Padró i Miquel

Ethnic favoritism is seen as antithetical to development. This paper provides credible quantification of the extent of ethnic favoritism using data on road building in Kenyan districts across the 1963-2011 period. Guided by a model, it then examines whether the transition in and out of democracy under the same president constrains or exacerbates ethnic favoritism. Across the post-independence period, we find strong evidence of ethnic favoritism: districts that share the ethnicity of the president receive twice as much expenditure on roads and have five times the length of paved roads built. This favoritism disappears during periods of democracy. (JEL D72, H54, J15, O15, O17, O22, R42)

Fertility and Childlessness in the United States

- American Economic Review---2015---Thomas Baudin,David de la Croix,Paula Gobbi

We develop a theory of fertility, distinguishing its intensive margin from its extensive margin. The deep parameters are identified using facts from the 1990 US Census: (i) fertility of mothers decreases with education; (ii) childlessness exhibits a U-shaped relationship with education; (iii) the relationship between marriage rates and education is hump-shaped for women and increasing for men. We estimate that 2.5 percent of women were childless because of poverty and 8.1 percent because of high opportunity cost of childrearing. Over time, historical trends in total factor productivity and in education led to a U-shaped response in childlessness rates while fertility of mothers decreased. (JEL I20, J13, J16, N31, N32)

Endogenous Liquidity and the Business Cycle

- American Economic Review---2015---Saki Bigio

I study an economy where asymmetric information about the quality of capital endogenously determines liquidity. Liquid funds are key to relaxing financial constraints on investment and employment. These funds are obtained by selling capital or using it as collateral. Liquidity is determined by balancing the costs of obtaining liquidity under asymmetric information against the benefits of relaxing financial constraints. Aggregate fluctuations follow increases in the dispersion of capital quality, which raise the cost of obtaining liquidity. An estimated version of the model can generate patterns for quantities and credit conditions similar to the Great Recession. (JEL D82, E22, E24, E32, E44, G01)

Foreword

- American Economic Review---2015---Richard Thaler

Editors' Introduction

- American Economic Review---2015---William Johnson,Kelly Markel

Behavioral Economics and Public Policy: A Pragmatic Perspective

- American Economic Review---2015---Raj Chetty

The debate about behavioral economics—the incorporation of insights from psychology into economics—is often framed as a question about the foundational assumptions of economic models. This paper presents a more pragmatic perspective on behavioral economics that focuses on its value for improving empirical predictions and policy decisions. I discuss three ways in which behavioral economics can contribute to public policy: by offering new policy tools, improving predictions about the effects of existing policies, and generating new welfare implications. I illustrate these contributions using applications to retirement savings, labor supply, and neighborhood choice. Behavioral models provide new tools to change behaviors such as savings rates and new counterfactuals to estimate the effects of policies such as income taxation. Behavioral models also provide new prescriptions for optimal policy that can be characterized in a non-paternalistic manner using methods analogous to those in neoclassical models. Model uncertainty does not justify using the neoclassical model; instead, it can provide a new rationale for using behavioral nudges. I conclude that incorporating behavioral features to the extent they help answer core economic questions may be more productive than viewing behavioral economics as a separate subfield that challenges the assumptions of neoclassical models.

Capital and Wealth in the Twenty-First Century

- American Economic Review---2015---David Weil

In Capital in the Twenty-First Century, Thomas Piketty uses the market value of tradable assets to measure both productive capital and wealth. As a measure of wealth this is problematic because it ignores the value of human capital and transfer wealth, which have grown enormously over the last 300 years. Thus the constancy of the wealth/income ratio as portrayed in his data is an illusion. Further, the types of wealth that he does not measure are more equally distributed than tradable assets. The approach also incorrectly identifies capital gains due to reduced discount rates as increases in the capital stock.

Capital Taxation in the Twenty-First Century

- American Economic Review---2015---Alan Auerbach,Kevin Hassett

In his influential book, Capital in the Twenty-First Century, Thomas Piketty argues forcefully that rising wealth and wealth inequality is an inherent characteristic of capitalist economies and calls for strong policy responses, in particular a substantial wealth tax implemented globally. This paper takes issue with the facts, logic, and policy conclusions in Piketty's book, suggesting that the factors needed to support the inexorable rise in capital's share and concentration are lacking and that among tax policy reforms aimed at dealing with economic inequality a wealth tax finds little support either in Piketty's own work or elsewhere in the literature.

Yes, r ¿ g. So What?

- American Economic Review---2015---N. Gregory Mankiw

Piketty argues that r > g is the "the central contradiction of capitalism" and that it will lead to an "endless inegalitarian spiral." As a result, he argues for a new global tax on capital. In this brief essay, I explain why I am not persuaded by either his prediction or his prescription.

About Capital in the Twenty-First Century

- American Economic Review---2015---Thomas Piketty

In this article, I present three key facts about income and wealth inequality in the long run emerging from my book, Capital in the Twenty-First Century, and seek to sharpen and refocus the discussion about those trends. In particular, I clarify the role played by r > g in my analysis of wealth inequality. I also discuss some of the implications for optimal taxation, and the relation between capital-income ratios and capital shares.

Secular Stagnation: A Supply-Side View

- American Economic Review---2015---Robert J. Gordon

Secular stagnation on the supply side takes the form of a slow 1.6 percent annual growth rate of US potential real GDP, roughly half the 3.1 percent annual growth rate of actual real GDP realized from 1972 to 2004. This slowdown stems from a sharp decline in the growth rate of aggregate hours of work and of output per hour. This paper attributes the productivity growth decline to diminishing returns in the digital revolution that had its peak effect business hardware, software, and best practices in the late 1990s but has resulted in little change in those methods over the past decade.

Demand Side Secular Stagnation

- American Economic Review---2015---Lawrence Summers

The experience of first Japan and now Europe and the USA suggests that Hansen's concept of secular stagnation is highly relevant. Recovery has been anemic and follows a generation of financially unsustainable and often lackluster growth. Investment demand has declined while the supply of saving has increased, leaving the economy vulnerable to liquidity traps. Although some US indicators have improved, forward real rates have declined sharply, European prospects remain muddled, and the zero-bound will likely constrain again during the next recession. Infrastructure and private investment are the best ways to both minimize the risk of secular stagnation and raise demand.

Secular Stagnation: The Long View

- American Economic Review---2015---Barry Eichengreen

Four explanations for secular stagnation are distinguished: a rise in global saving, slow population growth that makes investment less attractive, adverse trends in technology and productivity growth, and a decline in the relative price of investment goods. A long view from economic history is most supportive of the last of these four views.

Gary Becker as Teacher

- American Economic Review---2015---Kevin M. Murphy

This paper looks at the work of Gary S. Becker, American economist, professor of sociology, friend, and colleague of Kevin M. Murphy. Murphy discusses the traditional approach of Becker's teaching and ideas as they were expressed through his wealth of content and style in course design; his discussions on the role of preferences, technology, and constraints as they influence household production; and his emphasis on the importance of markets and desire for more. Murphy recognizes Becker's teaching style as groundbreaking, unapologetic, and pure economics.

Gary Becker: Model Economic Scientist

- American Economic Review---2015---James Heckman

This paper presents Gary Becker's approach to conducting creative, empirically fruitful economic research. It describes the traits and methodology that made him such a productive and influential scholar.

Gary Becker's Impact on Economics and Policy

- American Economic Review---2015---Edward P. Lazear

Gary Becker was one of the greatest thinkers of the 20th century. He advanced social science by introducing economic thinking into areas that were thought to be off limits. Because his theory was motivated by his desire to explain the world, his analyses were highly policy relevant. His work on discrimination, deterrence of crime, fertility, human capital, and the family all produced implications that were testable and verified by his and others' empirical research. Equally important, each research area provided policy guidance and many of his ideas have been implemented by government and non-government organizations.

Human Capital and Growth

- American Economic Review---2015---Robert Lucas

This paper describes a growth model with the property that human capital accumulation can account for all observed growth. The model is shown to be consistent with evidence on individual productivities as measured by census earnings data. The central hypothesis is that we learn more when we interact with more productive people.

Mathiness in the Theory of Economic Growth

- American Economic Review---2015---Paul Romer

Mathiness lets academic politics masquerade as science. Like mathematical theory, mathiness uses a mixture of words and symbols, but instead of making tight links, it leaves ample room for slippage between statements in the languages of words as opposed to symbols, and between statements with theoretical as opposed to empirical content. Because it is difficult to distinguish machines from mathematical theory, the market for lemons tells us that the market for mathematical theory might collapse, leaving only machines as entertainment that is worth little but cheap to produce.

Lessons from Schumpeterian Growth Theory

- American Economic Review---2015---Philippe Aghion,Ufuk Akcigit,Peter Howitt

By operationalizing the notion of creative destruction, Schumpeterian growth theory generates distinctive predictions on important microeconomic aspects of the growth process (competition, firm dynamics, firm size distribution, cross-firm and cross-sector reallocation) which can be confronted using rich micro data. In this process the theory helps reconcile growth with industrial organization and development economics.

Globalization and Growth

- American Economic Review---2015---Gene M. Grossman,Elhanan Helpman

How does globalization affect economic growth? We discuss mechanisms that link international integration to the incentives for knowledge accumulation and the efficacy of that process. First, integration facilitates the flow of knowledge across national borders. Second, integration affords innovators a larger potential market even as it subjects them to additional competition from foreign rivals. Third, integration encourages specialization according to comparative advantage. Finally, integration affects the incentives for technological diffusion. Taken together, the literature offers many theoretical insights. Some progress has also been made on the empirical side, although data and methodological impediments have left assessment and measurement lagging behind.

Messaging and the Mandate: The Impact of Consumer Experience on Health Insurance Enrollment through Exchanges

- American Economic Review---2015---Natalie Cox,Benjamin Handel,Jonathan Kolstad,Neale Mahoney

The ability of web-based retailers to learn about and provide targeted consumer experiences is touted as an important distinction from traditional retailers. In principal, web-based insurance exchanges could benefit from these advantages. Using data from a large-scale experiment by a private sector health insurance exchange we estimate the returns to experimentation and targeted messaging. We find significant improvements in conversions in one treatment tested. Underlying the average impact were both inter temporal and demographic heterogeneity. We estimate that learning and targeted messaging could increase insurance applications by approximately 13 percent of the baseline conversion rate.

Narrow Networks on the Health Insurance Exchanges: What Do They Look Like and How Do They Affect Pricing? A Case Study of Texas

- American Economic Review---2015---Leemore Dafny,Igal Hendel,Nathan Wilson

The Affordable Care Act has engendered significant changes in the design of health insurance products. We examine the "narrowness" of hospital networks affiliated with plans offered in the first year of the marketplaces. Using data from Texas, we find limited evidence of a tight link between pricing and a simple measure of network breadth, or a more complex measure of network value derived from a logit model of hospital choice. The state's largest insurer priced its narrow networks at a fairly constant discount relative to its broad networks, notwithstanding significant variation in its broad-narrow gap across geographic markets in Texas.

Measuring Consumer Valuation of Limited Provider Networks

- American Economic Review---2015---Keith Ericson,Amanda Starc

We measure the breadth of insurance networks in the Massachusetts health insurance exchange. Using our measures, we estimate consumer willingness-to-pay for broad and narrow networks. We find that consumers have a wide range of plans available with dramatically different networks. While consumers value broader networks, their willingness-to-pay is smaller than the brand premium, indicating an additional role for brand preferences. Consumers place additional value on star hospitals, which may affect upstream negotiations. Finally, we find significant geographic heterogeneity in the value of broad networks.

The Impact of Market Size and Composition on Health Insurance Premiums: Evidence from the First Year of the Affordable Care Act

- American Economic Review---2015---Michael J. Dickstein,Mark Duggan,Joe Orsini,Pietro Tebaldi

Under the Affordable Care Act, individual states have discretion in how they define coverage regions, within which insurers must charge the same premium to buyers of the same age, family structure, and smoking status. We exploit variation in these definitions to investigate whether the size of the coverage region affects outcomes in the ACA marketplaces. We find large consequences for small and rural markets. When states combine small counties with neighboring urban areas into a single region, the included rural markets see 0.6 to 0.8 more active insurers, on average, and savings in annual premiums of between $200 and $300.

The Effect of Unemployment Benefits on the Duration of Unemployment Insurance Receipt: New Evidence from a Regression Kink Design in Missouri, 2003-2013

- American Economic Review---2015---David Card,Andrew Johnston,Pauline Leung,Alexandre Mas,Zhuan Pei

We provide new evidence on the effect of the unemployment insurance (UI) weekly benefit amount on unemployment insurance spells based on administrative data from the state of Missouri covering the period 2003-2013. Identification comes from a regression kink design that exploits the quasi-experimental variation around the kink in the UI benefit schedule. We find that UI durations are more responsive to benefit levels during the recession and its aftermath, with an elasticity between 0.65 and 0.9 as compared to about 0.35 pre-recession.

Veterans' Labor Force Participation: What Role Does the VA's Disability Compensation Program Play?

- American Economic Review---2015---Courtney Coile,Mark Duggan,Audrey Guo

We explore time trends in the labor force participation of veterans and non-veterans and investigate whether they are consistent with a rising role for the Department of Veterans Affairs' Disability Compensation (DC) program, which pays benefits to veterans with service-connected disabilities and has grown rapidly since 2000. Using 35 years of March CPS data, we find that veterans' labor force participation declined over time in a way that coincides closely with DC growth and that veterans have become more sensitive to economic shocks. Our findings suggest that DC program growth has contributed to recent declines in veterans' labor force participation.

Earnings, Disposable Income, and Consumption of Allowed and Rejected Disability Insurance Applicants

- American Economic Review---2015---Andreas Kostøl,Magne Mogstad

Two key questions in thinking about the size and growth of the disability insurance program are to what extent it discourages work, and how valuable the insurance is to individuals and families. These questions motivate our paper. We begin by describing the earnings, disposable income, and consumption of awarded and rejected DI applicants, before and after the disability onset and the allowance decision. Next, we discuss how these descriptive results can be interpreted through the lens of alternative empirical approaches. Our analysis uses a Norwegian population panel data set with detailed information about every individual and household.

Recall Expectations and Duration Dependence

- American Economic Review---2015---Arash Nekoei,Andrea Weber

Using novel administrative data from Austria, we investigate the nature of temporary layoffs and recalls. We find that on average jobs ending in temporary layoffs lasted shorter but paid higher wages. The majority of temporarily laid-off workers return to their previous employer, but also one-fifth of those permanently laid-off are recalled. Compared to job switchers, recalls have shorter unemployment spells and do not experience wage losses. Negative duration dependence of unemployment only appears once recall exits are excluded for temporary and permanent layoffs. However, for temporary layoffs, the aggregate pattern masks significant heterogeneity by pre-unemployment tenure. Additional survey evidence suggests a lower average search level for temporary layoffs.

The Great Recession and Credit Trends across Income Groups

- American Economic Review---2015---Gene Amromin,Leslie McGranahan

In this paper, we document trends in credit use across income groups in the period surrounding the Great Recession. We investigate trends in access to different credit markets, including mortgages, home equity, automobiles, and student loans. We disentangle growth rates of new market entrants from the aggregates and analyze overall as well as within-county growth rate differentials across income strata. Our findings may provide insight into the financial well-being of different income groups in the context of the Great Recession.

Heterogeneity in the Impact of Economic Cycles and the Great Recession: Effects within and across the Income Distribution

- American Economic Review---2015---Marianne Bitler,Hilary Hoynes

In this paper, we examine the effects of economic cycles on low- to moderate-income families. We use variation across states and over time to estimate the effects of cycles on the distribution of income, using fine gradations of the household income-to-poverty ratio. We also explore how the effects of cycles affect the risk of falling into poverty across demographic groups, focusing on age, race/ethnicity, and family type. We conclude by testing to see whether these relationships have changed in the Great Recession. We discuss the results in light of the changes in the social safety net in recent decades.

Changes in Safety Net Use during the Great Recession

- American Economic Review---2015---Patricia Anderson,Kristin Butcher,Diane Whitmore Schanzenbach

We examine how participation in social safety net programs differs by income-to-poverty levels, and how that relationship changed after the Great Recession. We define income-to-poverty based on the average of 2 years of merged CPS data, and investigate program participation among households with income less than 300 percent of poverty. We find changes in both the level and distribution of safety-net program participation during the Great Recession, with SNAP expanding most at the bottom, the EITC expanding most in the middle, and UI expanding most at the top of the income ranges that we investigate; TANF did not expand.

Living Arrangements, Doubling Up, and the Great Recession: Was This Time Different?

- American Economic Review---2015---Marianne Bitler,Hilary Hoynes

The Great Recession marks the worst downturn since those of the early 1980s. A large literature considers how the public safety net responded to this shock. We instead consider the responsiveness of one dimension of the private safety net. Families can react to negative shocks by moving in with relatives or downsizing. We use across-state over-time variation to estimate the effects of cycles on living arrangements, paying particular attention to young adults. We find living arrangements are cyclical, but effects are small. Surprisingly given the press attention, we find no evidence that things are different in the Great Recession.

The Effect of Extended Unemployment Insurance Benefits: Evidence from the 2012-2013 Phase-Out

- American Economic Review---2015---Henry S. Farber,Jesse Rothstein,Robert Valletta

Unemployment Insurance benefit durations were extended during the Great Recession, reaching 99 weeks for most recipients. The extensions were rolled back and eventually terminated by the end of 2013. Using matched CPS data from 2008-2014, we estimate the effect of extended benefits on unemployment exits separately during the earlier period of benefit expansion and the later period of rollback. In both periods, we find little or no effect on job-finding but a reduction in labor force exits due to benefit availability. We estimate that the rollbacks reduced the labor force participation rate by about 0.1 percentage point in early 2014.

Disability Insurance and the Great Recession

- American Economic Review---2015---Nicole Maestas,Kathleen J. Mullen,Alexander Strand

The US Social Security Disability Insurance (SSDI) program is designed to provide income support to workers who become unable to work because of a severe, long-lasting disability. In this study, we use administrative data to estimate the effect of labor market conditions, as measured by the unemployment rate, on the number of SSDI applications, the number and composition of initial allowances and denials, and the timing of applications relative to disability onset. We analyze the period of the Great Recession, and compare this period with business cycle effects over the past two decades, from 1992 through 2012.

Deconstructing the Energy-Efficiency Gap: Conceptual Frameworks and Evidence

- American Economic Review---2015---Todd Gerarden,Richard Newell,Robert Stavins

Energy-efficient technologies offer considerable promise for reducing the financial costs and environmental damages associated with energy use, but these technologies appear not to be adopted to the degree that appears justified, even on a purely private basis. We present two complementary frameworks for understanding this so-called "energy paradox" or "energy efficiency gap." First, we build upon previous literature by dividing potential explanations for the energy efficiency gap into three categories: market failures, behavioral anomalies, and model and measurement errors. Second, we examine the elements of cost-minimizing energy efficiency decisions, the typical benchmark used in assessing the gap's magnitude.

Tagging and Targeting of Energy Efficiency Subsidies

- American Economic Review---2015---Hunt Allcott,Christopher Knittel,Dmitry Taubinsky

A corrective tax or subsidy is "well-targeted" if it primarily affects choices that are more distorted by market failures. Energy efficiency subsidies are designed to correct multiple distortions: externalities, credit constraints, "landlord-tenant" information asymmetries, imperfect information, and inattention. We show that three important energy efficiency subsidies are primarily taken up by consumers who are wealthier, own their own homes, and are more informed about and attentive to energy costs. This suggests that these subsidies are poorly targeted at the market failures they were designed to address. However, we show that "tagging" can lead to large efficiency gains.

Limited Attention and the Residential Energy Efficiency Gap

- American Economic Review---2015---Karen Palmer,Margaret Walls

Inattention may be an important contributor to the energy efficiency gap and may be particularly acute in residential buildings where many different features will determine a home's energy use. Energy audits can provide information on how to reduce energy loss in a home, but the use of audits is rare. We use data from a national survey of 1700 homeowners to study the factors affecting a home owner's choice to have an audit. We create an index of energy inattention for our survey respondents. This index and two additional behavioral factors prove to be important determinants of the audit choice.

Individual Time Preferences and Energy Efficiency

- American Economic Review---2015---Richard Newell,Juha Siikamäki

We examine the role of individual discount rates in energy efficiency decisions using evidence from an extensive survey of US homeowners to elicit preferences for energy efficiency and cash flows over time. We find considerable heterogeneity in individual discount rates. We also find that individual time preferences systematically influence willingness to invest in energy efficiency, as measured through product choices, required payback periods, and energy efficiency tax credit claims. Education is a key driver of individual discount rates. Our findings highlight the importance of individual discount rates to understanding energy efficiency investments, the energy-efficiency gap, and policy evaluation.

Are the Non-monetary Costs of Energy Efficiency Investments Large? Understanding Low Take-Up of a Free Energy Efficiency Program

- American Economic Review---2015---Meredith Fowlie,Michael Greenstone,Catherine Wolfram

We document very low take-up of an energy efficiency program that is widely believed to be privately beneficial. Program participants receive a substantial home "weatherization" retrofit; all installation and equipment costs are covered by the program. Less than 1 percent of presumptively eligible households take up the program in the control group. This rate increased only modestly after we took extraordinary efforts to inform households—via multiple channels—about the sizable benefits and zero monetary costs. These findings are consistent with high non-monetary costs associated with program participation and/or energy efficiency investments.

Immigration Enforcement and Crime

- American Economic Review---2015---Paolo Pinotti

Immigration enforcement has ambiguous implications for the crime rate of undocumented immigrants. On the one hand, expulsions reduce the pool of immigrants at risk of committing crimes, on the other they lower the opportunity cost of crime for those who are not expelled. We estimate the effect of expulsions on the crime rate of undocumented immigrants in Italy exploiting variation in enforcement toward immigrants of different nationality, due to the existence of bilateral agreements for the control of illegal migration. We find that stricter enforcement of migration policy reduces the crime rate of undocumented immigrants.

Effects of Immigrant Legalization on Crime

- American Economic Review---2015---Scott Baker

I examine the effects that the 1986 Immigration Reform and Control Act (IRCA), which legalized almost 3 million immigrants, had on crime in the United States. I exploit the IRCA's quasi-random timing as well as geographic variation in the intensity of treatment to isolate causal impacts. I find decreases in crime of 3-5 percent, primarily due to decline in property crimes, equivalent to 120,000-180,000 fewer violent and property crimes committed each year due to legalization. I calibrate a labor market model of crime, finding that much of the drop in crime can be explained by greater labor market opportunities among applicants.

The Criminal Justice Response to Policy Interventions: Evidence from Immigration Reform

- American Economic Review---2015---Sarah Bohn,Matthew Freedman,Emily Owens

Changes in the treatment of individuals by the criminal justice system following a policy intervention may bias estimates of the effects of the intervention on underlying criminal activity. We explore the importance of such changes in the context of the Immigration Reform and Control Act of 1986 (IRCA). Using administrative data from San Antonio, Texas, we examine variation across neighborhoods and ethnicities in police arrests and in the rate at which those arrests are prosecuted. We find that changes in police behavior around IRCA confound estimates of the effects of the policy and its restrictions on employment on criminal activity.

The Long-Run Effect of Mexican Immigration on Crime in US Cities: Evidence from Variation in Mexican Fertility Rates

- American Economic Review---2015---Aaron Chalfin

Using historical data on the size of state-specific Mexican birth cohorts and geographic migration networks between Mexican states and US metropolitan areas, I construct an instrumental variable that predicts decadal migration from Mexico to the United States. The intuition behind this identification strategy is that larger historical birth cohorts in Mexico yield more potential migrants once each birth cohort reaches prime migration age. I report evidence that Mexican immigration is associated with a decline in property crimes and an increase in aggravated assaults. The available evidence suggests that this is not an artifact of reduced crime reporting among immigrants.

Growth, Pollution, and Life Expectancy: China from 1991-2012

- American Economic Review---2015---Avraham Ebenstein,Maoyong Fan,Michael Greenstone,Guojun He,Peng Yin,Maigeng Zhou

This paper examines the relationship between income, pollution, and mortality in China from 1991-2012. Using first-difference models, we document a robust positive association between city-level GDP and life expectancy. We also find a negative association between city-level particulate air pollution exposure and life expectancy that is driven by elevated cardiorespiratory mortality rates. The results suggest that while China's unprecedented economic growth over the last two decades is associated with health improvements, pollution has served as a countervailing force.

Satellites, Self-Reports, and Submersion: Exposure to Floods in Bangladesh

- American Economic Review---2015---Raymond Guiteras,Amir Jina,Ahmed Mobarak

A burgeoning "Climate-Economy" literature has uncovered many effects of changes in temperature and precipitation on economic activity, but has made considerably less progress in modeling the effects of other associated phenomena, like natural disasters. We develop new, objective data on floods, focusing on Bangladesh. We show that rainfall and self-reported exposure are weak proxies for true flood exposure. These data allow us to study adaptation, giving accurate measures of both long-term averages and short term variation in exposure. This is important in studying climate change impacts, as people will not only experience new exposures, but also experience them differently.

Pay as You Go: Prepaid Metering and Electricity Expenditures in South Africa

- American Economic Review---2015---B. Kelsey Jack,Grant Smith

High rates of customer default on utility bills present a barrier to the expansion of electricity access in the developing world. Pre-paid electricity metering offers a technological solution to ensuring timely payment. Using an eleven-year panel of pre-paid electricity customers in Cape Town, South Africa, we describe patterns of purchase behavior across property values, our measure of socioeconomic status. Poorer households buy electricity more often, in smaller increments, and are most likely to buy on payday. These patterns suggest difficulties smoothing income, and reveal a preference for small, frequent purchases that is incompatible with a standard monthly electricity billing cycle.

Moving Up the Energy Ladder: The Effect of an Increase in Economic Well-Being on the Fuel Consumption Choices of the Poor in India

- American Economic Review---2015---Rema Hanna,Paulina Oliva

Rising household wealth may potentially impact both total fuel consumption and fuel-type composition, resulting in significant health and environmental implications. Using data from a field experiment in India, we explore the effects of a transfer program that provided poor, rural households with greater levels of assets and cash. Total fuel consumption rose as a result of the transfers. Households shifted from using electricity rather than kerosene as their primary form of light, but total kerosene consumption also rose. In contrast, we did not observe a shift to cleaner cooking fuels.

Convergence in Adaptation to Climate Change: Evidence from High Temperatures and Mortality, 1900-2004

- American Economic Review---2015---Alan Barreca,Karen Clay,Olivier Deschenes,Michael Greenstone,Joseph S. Shapiro

This paper combines panel data on monthly mortality rates of US states and daily temperature variables for over a century (1900-2004) to explore the regional evolution of the temperature-mortality relationship and documents two key findings. First, the impact of extreme heat on mortality is notably smaller in states that more frequently experience extreme heat. Second, the difference in the heat-mortality relationship between hot and cold states declined over 1900-2004, though it persisted through 2004. Continuing differences in the mortality consequences of hot days suggests that health motivated adaptation to climate change may be slow and costly around the world.

Geography, Depreciation, and Growth

- American Economic Review---2015---Solomon M. Hsiang,Amir S. Jina

It has been proposed that geography influences economic growth for many reasons. Previous analyses of comparative development seem to have sidestepped the question of location-dependent depreciation. However the construction of new measures of tropical cyclone exposure enables us to consider the potential impact of this single source of capital depreciation. Using an estimate of asset destruction due to tropical cyclones, we identify the "sandcastle depreciation" rate, and find support for location-dependent depreciation by looking at average growth rates. This leads us to propose that heterogeneous and geographically-dependent depreciation rates may play an important role in global patterns of economic development.

Tropical Economics

- American Economic Review---2015---Solomon M. Hsiang,Kyle C. Meng

Why wealth is systematically lower in the tropics remains a puzzle. We point out that latitude may have fundamental economic consequence because it plays a key role in how countries experience geophysical processes that have economic implications. We demonstrate that annual fluctuations in the El Nino Southern Oscillation (ENSO) leads to hotter and dryer local weather across tropical countries and subsequently to substantial losses in agricultural yields, output, and value-added. If volatility in agricultural production impedes economic growth, the relatively stronger influence of ENSO on the tropics may offer yet another partial explanation for slower historical growth in the tropics.

Federal Crop Insurance and the Disincentive to Adapt to Extreme Heat

- American Economic Review---2015---Francis Annan,Wolfram Schlenker

Despite significant progress in average yields, the sensitivity of corn and soybean yields to extreme heat has remained relatively constant over time. We combine county-level corn and soybeans yields in the United States from 1989-2013 with the fraction of the planting area that is insured under the federal crop insurance program, which expanded greatly over this time period as premium subsidies increased from 20 percent to 60 percent. Insured corn and soybeans are significantly more sensitive to extreme heat that uninsured crops. Insured farmers do not have the incentive to engage in costly adaptation as insurance compensates them for potential losses.

Why Don't Present-Biased Agents Make Commitments?

- American Economic Review---2015---David Laibson

Present-biased preferences engender a demand for commitment. Commitment is a problematic prediction, since we see so little of it. I quantitatively explore the reasons for the "missing" commitment. Extending the procrastination model in Carroll et al. (2009), I show how equilibrium commitment is related to (i) the standard deviation of the opportunity cost of time, (ii) the cost of delay, (iii) the degree of partial naivete, and (iv) the direct cost of commitment. The calibrated model demonstrates that the perceived benefits of commitment are often overwhelmed by the costs of commitment. Demand for commitment is a special case rather than the general case.

Present Bias: Lessons Learned and to Be Learned

- American Economic Review---2015---Ted O'Donoghue,Matthew Rabin

While present bias is an old idea, it only took hold in economics following David Laibson's (1994) dissertation. Over the past 20 years, research has led to a much better theoretical understanding of present bias, when and how to apply it, and which ancillary assumptions are appropriate in different contexts. Empirical analyses have demonstrated how present bias can improve our understanding of behavior in various economic field contexts. Nonetheless, there is still much to learn. In this paper, we give our assessment of some lessons learned, and to be learned.

Judging Experimental Evidence on Dynamic Inconsistency

- American Economic Review---2015---Charles Sprenger

This article briefly summarizes and judges recent experimental developments exploring the predictions of dynamically inconsistent models. An opinion is provided as to how the literature may evolve given these recent advances.

Loyalty, Exit, and Enforcement: Evidence from a Kenya Dairy Cooperative

- American Economic Review---2015---Lorenzo Casaburi,Rocco Macchiavello

Organizations depend on members' "loyalty" for their success. Studying a cooperative's attempt to increase deliveries by members, we show that the threat of sanctions leads to highly heterogeneous response among members. Despite the cooperative not actually enforcing the threatened sanctions, positive effects for some members persist for several months. Other members "exit," stopping delivering altogether. Among noncompliant members we document substantial heterogeneity in beliefs about the legitimacy of the sanctions. This lack of common understanding highlights the role played by managers in organizations and provides a candidate explanation for lack of sanctions enforcement documented by Ostrom (1990) and other studies.

Ex Post (In) Efficient Negotiation and Breakdown of Trade

- American Economic Review---2015---Rajkamal Iyer,Antoinette Schoar

This paper examines frictions in contract renegotiation and its implications for allocative efficiency of contracts. Using a novel audit study methodology, we find that contracting parties in general are reluctant to engage in hold up. However, many efficient renegotiations of contracts also do not happen for the fear of being seen as extracting surplus. We also find that ex ante contracts are structured to mitigate losses arising from breach risk rather than hold up. The results also highlight that role of norms of fairness and reputation concerns in sustaining transactions in settings where contracts are primarily incomplete.

The Catch-22 of External Validity in the Context of Constraints to Firm Growth

- American Economic Review---2015---Greg Fischer,Dean Karlan

We document the presence of multiple and varied constraints to small and medium firm growth. This presents both a practical problem for business training programs and a challenge to academic economists trying to identify mechanisms though which these programs may affect outcomes. External validity needs theory. This pushes researchers to narrowly defined and highly selected sample frames, which limits the potential for clear, generalizable policy prescriptions. Ultimately, larger samples, multi-arm evaluations, process documentation, and narrowly-focused, theory-supported empirical work are all needed, but the complexity of the problem limits what we learn from any single study.

The Market for Training Services: A Demand Experiment with Bangladeshi Garment Factories

- American Economic Review---2015---Rocco Macchiavello,Atonu Rabbani,Christopher Woodruff

We marketed a training program for lower level managers (line supervisors) to large factories in the Bangladeshi ready-made garment industry. Take-up of the program (even for a free slot) was low, due to intense production pressures, fire-fighting and concerns over retention of trained workers. Take-up is quite insensitive to pricing. There was higher interest and demand in training modules aimed at improving production processes and quality, rather than human resources and social compliance. Since the program was priced close to a commercially viable rate, it might be possible to develop a market provided they could be proved to be effective.

Lending Booms, Smart Bankers, and Financial Crises

- American Economic Review---2015---Anjan Thakor

This paper develops a theory that explains why financial crises follow profitable lending booms. When agents exhibit the "availability heuristic" and there is a long period of banking profitability, all agents—banks, their investors, and regulators—end up in an "availability cascade," overestimating bankers' risk-management skills and underestimating the probability that observed outcomes are due to good luck. Consequently, banks profitably invest in riskier assets. Subsequently, if a public signal reveals that outcomes are luck-driven, investors withdraw funds, liquidity evaporates, and a crisis ensues. A loan resale market improves liquidity but increases the probability of a crisis.

Neglected Risks: The Psychology of Financial Crises

- American Economic Review---2015---Nicola Gennaioli,Andrei Shleifer,Robert Vishny

We model a financial market in which investor beliefs are shaped by representativeness. Investors overreact to a series of good news, because such a series is representative of a good state. A few bad news do not change investor minds because the good state is still representative, but enough bad news leads to a radical change in beliefs and a financial crisis. The model generates debt over-issuance, "this time is different" beliefs, neglect of tail risks, under- and over-reaction to information, boom-bust cycles, and excess volatility of prices in a unified psychological model of expectations.

Do Strict Capital Requirements Raise the Cost of Capital? Bank Regulation, Capital Structure, and the Low-Risk Anomaly

- American Economic Review---2015---Malcolm Baker,Jeffrey Wurgler

Traditional capital structure theory predicts that reducing banks' leverage reduces the risk and cost of equity but does not change the weighted average cost of capital, and thus the rates for borrowers. We confirm that the equity of better-capitalized banks has lower beta and idiosyncratic risk. However, over the last 40 years, lower risk banks have not had lower costs of equity (lower stock returns), consistent with a stock market anomaly previously documented in other samples. A calibration suggests that a binding ten percentage point increase in Tier 1 capital to risk-weighted assets could double banks' risk premia over Treasury bills.

Does a Bank's History Affect Its Risk-Taking?

- American Economic Review---2015---Christa H. S. Bouwman,Ulrike Malmendier

We ask whether past macro-economic and bank-specific shocks experienced and survived by a bank affect its current capitalization and risk-taking. Using Call Report data from 1984 to 2010, we find that a bank's experience shapes its capital structure and risk appetite. Banks that have survived periods of undercapitalization tend to implement higher equity ratios and take less risk in the periods following such crises, as measured by net charge-offs, non-performing loans, or earnings volatility 10-25 years later. However, observing high rates of failure among other banks stirs banks in the opposite direction. The evidence is suggestive of institutional memory affecting banks' capital and risk-taking.

Why Do Firms Have "Purpose"? The Firm's Role as a Carrier of Identity and Reputation

- American Economic Review---2015---Rebecca Henderson,Eric Van den Steen

This article develops a theory in which a firm's adoption of a prosocial purpose can increase profitability by strengthening employees' reputation and identity—leading to higher effort and lower wages—as long as implementing purpose is costly with respect to direct monetary payoffs. Employees who value prosocial action will select into firms with a social purpose, which then become a visible carrier for these employees' identity and reputation.

Organizational Culture and Performance

- American Economic Review---2015---Elizabeth A. Martinez,Nancy Beaulieu,Robert Gibbons,Peter Pronovost,Thomas Wang

Organizations are all around us. Culture is trickier—to analyze and even to see. We consider both the effect of management on culture and the effect of culture on performance. We begin by describing an intervention that dramatically improved outcomes and conspicuously included a culture-change component. We then use details from this intervention to describe potential empirical analyses of the association between organizational culture and performance in this and similar settings. Finally, we describe opportunities for theoretical models to explore how and why organizational culture might influence organizational performance.

Corporate Culture, Societal Culture, and Institutions

- American Economic Review---2015---Luigi Guiso,Paola Sapienza,Luigi Zingales

While both cultural and legal norms (institutions) help foster cooperation, culture is the more primitive of the two and itself sustains formal institutions. Cultural changes are rarer and slower than changes in legal institutions, which makes it difficult to identify the role played by culture. Cultural changes and their effects are easier to identify in simpler, more controlled, environments, such as corporations. Corporate culture, thus, is not only interesting per se, but also as a laboratory to study the role of societal culture and the way it can be changed.

Understanding Ethnic Identity in Africa: Evidence from the Implicit Association Test (IAT)

- American Economic Review---2015---Sara Lowes,Nathan Nunn,James Robinson,Jonathan Weigel

We use a variant of the Implicit Association Test (IAT) to examine individuals' implicit attitudes towards various ethnic groups. Using a population from the Democratic Republic of Congo, we find that the IAT measures show evidence of an implicit bias in favor of one's own ethnicity. Individuals have implicit views of their own ethnic group that are more positive than their implicit views of other ethnic groups. We find this implicit bias to be quantitatively smaller than the (explicit) bias one finds when using self-reported attitudes about different ethnic groups.

Religion and Innovation

- American Economic Review---2015---Roland Benabou,Davide Ticchi,Andrea Vindigni

In earlier work we identified a robust negative association between religiosity and patents per capita, holding across countries as well as US states. In this paper we relate 11 indicators of individual openness to innovation (e.g., attitudes toward science and technology, new versus old ideas, change, risk taking, agency, imagination, and independence in children) to 5 measures of religiosity, including beliefs and attendance. We use five waves of the World Values Survey and control for sociodemographics, country and year fixed effects. Across the 52 regressions, greater religiosity is almost uniformly associated to less favorable views of innovation, with high significance.

Measuring Vote-Selling: Field Evidence from the Philippines

- American Economic Review---2015---Allen Hicken,Stephen Leider,Nico Ravanilla,Dean Yang

Using data from an anti-vote-buying field experiment we conducted in the Philippines, we report and validate a proxy measure for vote-selling. We demonstrate that our proxy measure, vote-switching, changes as expected with voter preferences and monetary offers from candidates. Voters are less likely to vote for someone different than their initial preference the larger the favorability rating difference between the preferred and alternative candidates. Similarly, vote-switching increases the more money the alternative candidate offers compared to the preferred candidates. We also describe the effects of the promise-based interventions on vote-switching, reported in full in a companion paper.

More Money, More Problems? Can High Pay Be Coercive and Repugnant?

- American Economic Review---2015---Sandro Ambuehl,Muriel Niederle,Alvin Roth

IRBs can disallow high incentives they deem coercive. A vignette study on MTurk concerning participation in medical trials shows that a substantial minority of subjects concurs. They think high incentives cause more regret, and that more people would be better off without the opportunity to participate. We model observers as judging the ethicality of incentives by partially using their own utility. The model predicts that payments are repugnant only to the extent that they affect the participation decision, and more so for larger transactions. Incentivizing poorer participants is more repugnant, and in-kind incentives are less repugnant than monetary incentives.

Sacred Values? The Effect of Information on Attitudes toward Payments for Human Organs

- American Economic Review---2015---Julio Elias,Nicola Lacetera,Mario Macis

Are attitudes about morally controversial (and often prohibited) market transactions affected by information about their costs and benefits? We address this question for the case of payments for human organs. We find in a survey experiment with US residents (N=3,417) that providing information on the potential efficiency benefits of a regulated price mechanism for organs significantly increased support for payments from a baseline of 52 percent to 71 percent. The survey was devised to minimize social desirability biases in responses, and additional analyses validate the interpretation that subjects were reflecting on the case-specific details provided, rather than just reacting to any information.

Deciding When to Quit: Reference-Dependence over Slot Machine Outcomes

- American Economic Review---2015---Jaimie W. Lien,Jie Zheng

We conduct tests for reference dependent loss aversion using slot machine gamblers' decisions on when to quit playing for a visit to a casino. Evidence for a lagged status-quo reference point is found in the aggregate, while endogenously determined reference points are found when conditioning on betting intensity choices. Significant deviations from the distributions implied by random quitting support the loss aversion and diminishing sensitivity hypotheses.

Testing for the Disposition Effect on Optimal Stopping Decisions

- American Economic Review---2015---Jacopo Magnani

This paper develops a new laboratory test of the hypothesis that individual investors sell winners too early and ride losers too long. In the experiment, subjects invest in a risky asset, whose price evolves in near-continuous time, and they are provided with the option to liquidate it at a fixed salvage value. Optimal behavior is characterized by an upper and a lower stopping thresholds in the asset price space, thus producing a clear rational benchmark and eliminating known confounds. This design allows me to detect and quantify the disposition effect in a sample of 108 subjects.

Loss Aversion in Post-Sale Purchases of Consumer Products and Their Substitutes

- American Economic Review---2015---Debajyoti Ray,Matthew Shum,Colin F. Camerer

This paper considers the measurement of consumer loss aversion in product markets. We introduce a test based on a "substitution effect," focusing on how the end of a sale affects sales not of the good itself, but a substitute good. Such an effect cannot be easily confounded with consumer stockpiling. Using a unique dataset from an online hardware retailer, we find evidence consistent with consumer loss aversion. Moreover, we find that less experienced consumers suffer a more prominent loss aversion bias compared to more experienced consumers.

Bankruptcy Rates among NFL Players with Short-Lived Income Spikes

- American Economic Review---2015---Kyle Carlson,Joshua Kim,Annamaria Lusardi,Colin F. Camerer

We test for consumption smoothing using bankruptcy data on players in the National Football League (NFL), who typically earn several million dollars during an income spike that lasts a few years. The life-cycle hypothesis predicts that players should save substantially while playing and then have little risk of bankruptcy post-NFL. However, players in our sample begin to file for bankruptcy soon after they stop playing and continue filing at a high rate through at least the first 12 years of retirement. Players' total earnings and career lengths have surprisingly little effect on the risk of bankruptcy.

Principles of (Behavioral) Economics

- American Economic Review---2015---David Laibson,John List

Behavioral economics has become an important and integrated component of modern economics. Behavioral economists embrace the core principles of economics—optimization and equilibrium—and seek to develop and extend those ideas to make them more empirically accurate. Behavioral models assume that economic actors try to pick the best feasible option and those actors sometimes make mistakes. Behavioral ideas should be incorporated throughout the first-year undergraduate course. Instructors should also considering allocating a lecture (or more) to a focused discussion of behavioral concepts. We describe our approach to such a lecture, highlighting six modular principles and empirical examples that support them.

Teaching a Behavioral Economics Elective: Highlighting the Science of Economics

- American Economic Review---2015---Ted O'Donoghue

In this paper, I provide an overview of how one might teach an advanced undergraduate elective on Behavioral Economics. While I focus on the structure and themes from my own course, I also attempt to highlight ways in which instructors might choose an alternative structure. Throughout, I emphasize how a Behavioral Economics elective is a great vehicle in which to highlight to undergraduates the science of Economics.

Behavioral Economics and Public Policy 102: Beyond Nudging

- American Economic Review---2015---Saurabh Bhargava,George Loewenstein

Policymakers have recently embraced Behavioral Economics as an alternative approach which recognizes the limits and consequences of human decision-making. Early applications of BE ("nudges") produced notable successes and helped to set the stage for more aggressive applications aimed at the deeper causes of policy problems. We contend that policies that aspire to simplify products and incentives, rather than choice environments, aggressively protect consumers from behavioral exploitation, and leverage BE to enhance the design and implementation of traditional policy instruments offer solutions commensurate with contemporary challenges. Case studies in health insurance, privacy, and climate change illustrate the application of these ideas.

Standing United or Falling Divided? High Stakes Bargaining in a TV Game Show

- American Economic Review---2015---Dennie van Dolder,Martijn J. van den Assem,Colin F. Camerer,Richard Thaler

We examine high stakes three-person bargaining in a game show where contestants bargain over a large money amount that is split into three unequal shares. We find that individual behavior and outcomes are strongly influenced by equity concerns: those who contributed more to the jackpot claim larger shares, are less likely to make concessions, and take home larger amounts. Contestants who announce that they will not back down do well relative to others, but they do not secure larger absolute amounts and they harm others. There is no evidence of a first-mover advantage and little evidence that demographic characteristics matter.

Cooperation in a Dynamic Fishing Game: A Framed Field Experiment

- American Economic Review---2015---Charles Noussair,Daan van Soest,Jan Stoop

We derive a dynamic theoretical model of renewable resource extraction. In the social optimum, maximum extraction occurs in the last period only, while in the unique subgame perfect Nash equilibrium, the resource is depleted immediately. The predictions are tested in a field experiment conducted at a recreational fishing pond. The subjects, experienced recreational fishermen, face a dynamic social dilemma, in which they risk depletion of the resource by overfishing. We find strong support for the Nash equilibrium. Fishermen exert as much effort in the last period as in preceding periods, and effort is independent of the stock of fish.

I Take Care of My Own: A Field Study on How Leadership Handles Conflict between Individual and Collective Incentives

- American Economic Review---2015---Romain Gauriot,Lionel Page

In most collective actions, individuals' incentives are not perfectly aligned with the goals of the group/team they are part of. We investigate how individual specific incentives affect both individuals and team leaders' strategies in a natural setting. We use a discontinuity in individual rewards in batsmen scoring in cricket to identify the causal effect of such incentives on behavior. We find that batsmen react to the presence of individual-specific incentives by adopting strategies that may be suboptimal at the team level. More surprisingly, we also find that team captains react to these individual incentives by adopting suboptimal strategies at the team level, which may bring large benefits to the individual players. These results suggest a complex interplay of individual and team incentives which we conjecture may arise in repeated team interactions.

Liquidity in Retirement Savings Systems: An International Comparison

- American Economic Review---2015---John Beshears,James Choi,Joshua Hurwitz,David Laibson,Brigitte Madrian

We compare the liquidity that six developed countries have built into their employer-based defined contribution (DC) retirement schemes. In Germany, Singapore, and the UK, withdrawals are essentially banned no matter what kind of transitory income shock the household realizes. By contrast, in Canada and Australia, liquidity is state-contingent. For a middle-income household, DC accounts are completely illiquid unless annual income falls substantially, in which case DC assets become highly liquid. The US stands alone in the universally high liquidity of its DC system: whether or not income falls, the penalties for early withdrawal are low or non-existent.

The Composition Effect of Consumption around Retirement: Evidence from Singapore

- American Economic Review---2015---Sumit Agarwal,Jessica Pan,Wenlan Qian

It is well established that consumption is "hump" shaped over an individual's lifecycle, peaking in middle age and then declining in the years that follow. Prior research has documented that consumption declines at retirement, which is inconsistent with the standard lifecycle model with consumption smoothing. Using a unique dataset with detailed administrative records of credit and debit card transactions, we show the hump shaped lifecycle consumption pattern as documented in the literature. Additionally, we show compositional changes in consumption expenditures across individuals in the years surrounding retirement confirming the results of Aguiar and Hurst (2005, 2013).

Defined Contribution Pension Plans: Mutual Fund Asset Allocation Changes

- American Economic Review---2015---Clemens Sialm,Laura Starks,Hanjiang Zhang

In this paper we compare changes in asset allocations between mutual funds held in defined contribution pension plans and funds held by other investors. We investigate how flows into equity and fixed income mutual funds depend on macroeconomic conditions. We find that defined contribution plans react more sensitively to these conditions, suggesting effects on mutual fund managers and other investors.

The Retirement Consumption Puzzle in China

- American Economic Review---2015---Hongbin Li,Xinzheng Shi,Binzhen Wu

Using data from China's Urban Household Survey and exploiting China's mandatory retirement policy, we use the regression discontinuity approach to estimate the impact of retirement on household expenditures. Retirement reduces total non-durable expenditures by 20 percent. Among the categories of non-durable expenditures, retirement reduces work-related expenditures and expenditures on food consumed at home but has an insignificant effect on entertainment expenditures. After excluding these three components, retirement does not have an effect on the remaining non-durable expenditures. It suggests that the retirement consumption puzzle might not be a puzzle if a life-cycle model with home production is considered.

Do Private Equity Owned Firms Have Better Management Practices?

- American Economic Review---2015---Nicholas Bloom,Raffaella Sadun,John van Reenen

Using an innovative survey measure of management practices on over 15,000 firms, we find private equity firms are better managed than government, family, and privately owned firms, and have similar management to publicly listed firms. This is true both in developed and developing countries. Looking at management practices in detail we find that private equity owned firms have strong people management practices (hiring, firing, pay, and promotions), but even stronger monitoring management practices (lean manufacturing, continuous improvement, and monitoring). Plant managers working in private equity owned firms also report greater autonomy from headquarters over sales, marketing, and new product introduction.

Formal Measures in Informal Management: Can a Balanced Scorecard Change a Culture?

- American Economic Review---2015---Robert Gibbons,Robert S. Kaplan

We extend traditional agency theory by exploring the roles for formal measures when managerial behavior is not governed by rules, formulas, or contracts. Part I describes relational incentive contracts with informal weights on formal performance measures. More importantly, it also explores how formal measures could be used in models of informal management, such as adaptation and coordination, politics and influence, leadership, and informal authority. Part II considers the benefits from allowing key stakeholders to develop their own, potentially inferior, performance measures. The collaboration to create a "balanced scorecard" of performance measures can help change an organization's culture.

The Real Effects of Relational Contracts

- American Economic Review---2015---Steven Blader,Claudine Gartenberg,Rebecca Henderson,Andrea Prat

Does the "soft side" of management matter? Many managers assert that "firm culture" is strongly correlated with productivity, but there are few robust tests of this assertion. In a set of field experiments, we study driver productivity within a large US logistics company that is arguably transitioning from one relational contract to another, while leaving formal practices and incentives unchanged. We find that sites under the new contract are associated with 1/8 percent higher productivity. Our findings suggest that relational contracts have a first-order effect on productivity and that they can be altered over time.

The Impact of Ethnic Diversity in Bureaucracies: Evidence from the Nigerian Civil Service

- American Economic Review---2015---Imran Rasul,Daniel Rogger

We document the correlation between the workplace diversity in bureaucratic organizations and public service delivery. We do so in the context of Nigeria, where ethnicity is a salient form of self-identity. We thus expand the empirical management literature highlighting beneficial effects of workplace diversity, that has focused on private sector firms operating in high-income settings. Our analysis combines two data sources: (i) a survey to over 4,000 bureaucrats eliciting their ethnic identities; (ii) independent engineering assessments of completion rates for 4,700 public sector projects. The ethnic diversity of bureaucracies matters positively: a one standard deviation increase in the ethnic diversity of bureaucrats corresponds to 9 percent higher completion rates. In line with the management literature from private sector firms in high-income countries, this evidence highlights a potentially positive side of ethnic diversity in public sector organizations, in the context of Sub-Saharan Africa.

Do Natural Field Experiments Afford Researchers More or Less Control Than Laboratory Experiments?

- American Economic Review---2015---Omar Al-Ubaydli,John List

A commonly held view is that laboratory experiments provide researchers with more "control" than natural field experiments. This paper explores how natural field experiments can provide researchers with more control than laboratory experiments. While laboratory experiments provide researchers with a high degree of control in the environment which participants agree to be experimental subjects, when participants systematically opt out of laboratory experiments, the researcher's ability to manipulate certain variables is limited. In contrast, natural field experiments bypass the participation decision altogether due to their covertness, and they allow for a potentially more diverse participant pool within the market of interest.

Heterogeneous Treatment Effects in Impact Evaluation

- American Economic Review---2015---Eva Vivalt

It is very important to know how much we can extrapolate from a study's results. This paper examines the issue using data from impact evaluations in development.

Learning from Experiments When Context Matters

- American Economic Review---2015---Lant Pritchett,Justin Sandefur

Suppose a policymaker is interested in the impact of an existing social program. Impact estimates using observational data suffer potential bias, while unbiased experimental estimates are often limited to other contexts. This creates a practical trade-off between internal and external validity for evidence-based policymaking. We explore this trade-off empirically for several common policies analyzed in development economics, including microcredit, migration, and education interventions. Based on mean-squared error, non-experimental evidence within context outperforms experimental evidence from another context. This advantage declines, but may not reverse, with experimental replication. We offer four reasons these findings are of general relevance to policy evaluation.

A Measure of Robustness to Misspecification

- American Economic Review---2015---Susan Athey,Guido Imbens

Researchers often report estimates and standard errors for the object of interest (such as a treatment effect) based on a single specification of a statistical model. We propose a systematic approach to assessing sensitivity to specification. We construct estimates of the object of interest for each of a large set of models. Our proposed robustness measure is the standard deviation of the point estimates over the set of models. Each member of the set is generated by splitting the sample into two subsamples based on covariate values, constructing separate parameter estimates for each subsample, and then combining the results.

Machine Learning Methods for Demand Estimation

- American Economic Review---2015---Patrick Bajari,Denis Nekipelov,Stephen Ryan,Miaoyu Yang

We survey and apply several techniques from the statistical and computer science literature to the problem of demand estimation. To improve out-of-sample prediction accuracy, we propose a method of combining the underlying models via linear regression. Our method is robust to a large number of regressors; scales easily to very large data sets; combines model selection and estimation; and can flexibly approximate arbitrary non-linear functions. We illustrate our method using a standard scanner panel data set and find that our estimates are considerably more accurate in out-of-sample predictions of demand than some commonly used alternatives.

Post-Selection and Post-Regularization Inference in Linear Models with Many Controls and Instruments

- American Economic Review---2015---Victor Chernozhukov,Christian Hansen,Martin Spindler

We consider estimation of and inference about coefficients on endogenous variables in a linear instrumental variables model where the number of instruments and exogenous control variables are each allowed to be larger than the sample size. We work within an approximately sparse framework that maintains that the signal available in the instruments and control variables may be effectively captured by a small number of the available variables. We provide a LASSO-based method for this setting which provides uniformly valid inference about the coefficients on endogenous variables. We illustrate the method through an application to demand estimation.

Prediction Policy Problems

- American Economic Review---2015---Jon Kleinberg,Jens Ludwig,Sendhil Mullainathan,Ziad Obermeyer

Most empirical policy work focuses on causal inference. We argue an important class of policy problems does not require causal inference but instead requires predictive inference. Solving these "prediction policy problems" requires more than simple regression techniques, since these are tuned to generating unbiased estimates of coefficients rather than minimizing prediction error. We argue that new developments in the field of "machine learning" are particularly useful for addressing these prediction problems. We use an example from health policy to illustrate the large potential social welfare gains from improved prediction.

Can Online Learning Bend the Higher Education Cost Curve?

- American Economic Review---2015---David Deming,Claudia Goldin,Lawrence Katz,Noam Yuchtman

We examine whether online learning technologies have led to lower prices in higher education. Using data from the Integrated Postsecondary Education Data System, we show that online education is concentrated in large for-profit chains and less-selective public institutions. We find that colleges with a higher share of online students charge lower tuition prices. We present evidence of declining real and relative prices for full-time undergraduate online education from 2006 to 2013. Although the pattern of results suggests some hope that online technology can "bend the cost curve" in higher education, the impact of online learning on education quality remains uncertain.

Evaluating Econometric Evaluations of Post-Secondary Aid

- American Economic Review---2015---Joshua Angrist,David Autor,Sally Hudson,Amanda Pallais

In an ongoing evaluation of post-secondary financial aid, we use random assignment to assess the causal effects of large privately-funded aid awards. Here, we compare the unbiased causal effect estimates from our RCT with two types of non-experimental econometric estimates. The first applies a selection-on-observables assumption in data from an earlier, nonrandomized cohort; the second uses a regression discontinuity design. Selection-on-observables methods generate estimates well below the experimental benchmark. Regression discontinuity estimates are similar to experimental estimates for students near the cutoff, but sensitive to controlling for the running variable, which is unusually coarse.

Connecting Student Loans to Labor Market Outcomes: Policy Lessons from Chile

- American Economic Review---2015---Harald Beyer,Justine Hastings,Christopher Neilson,Seth Zimmerman

Rising student loan default rates and protests over debt suggest that many students make college enrollment and financing choices they regret. Policymakers have considered tying the availability of federally subsidized loans at degree programs to financial outcomes for past students. This paper considers the implementation of such a policy in Chile. We describe how loan repayment varied by degree type at baseline, the design of the loan reform, and how earnings-based loan caps change availability of loans and incentives for students and higher education institutions. We discuss the challenges facing policymakers seeking to link loan availability to earnings outcomes.

What High-Achieving Low-Income Students Know about College

- American Economic Review---2015---Caroline Hoxby,Sarah Turner

Previous work demonstrates that low-income higher achievers fail to apply to selective colleges despite their being admitted at high rates and receiving financial aid so generous that they pay less than at non-selective schools. The Expanding College Opportunities project, a randomized controlled trial, provides individualized information about colleges' net prices, resources, curricula, students, and outcomes. Our prior study shows that the intervention raises students' applications to, admissions at, enrollment, and progress at selective colleges. Here we use survey data to show that it actually changes students' knowledge and decision-making. We highlight topics on which they are misinformed.

Factoryless Goods Producing Firms

- American Economic Review---2015---Andrew Bernard,Teresa Fort

This paper documents the existence and characteristics of US firms that do not manufacture themselves, but nonetheless are heavily involved in the production of goods. These factoryless goods producing firms (FGPFs) are formally in the wholesale sector but, unlike traditional wholesale firms, FGPFs design the goods they sell and coordinate production activities. FGPFs in the wholesale sector are larger and younger, pay higher wages, span more sectors and had more manufacturing employment in previous years compared to traditional wholesalers. FGPFs are more likely to import than typical wholesalers, though their imports constitute a smaller share of their total domestic activity.

How Well Is US Intrafirm Trade Measured?

- American Economic Review---2015---Kim Ruhl

Using two independent data sources—the intrafirm trade data from the US Bureau of Economic Analysis and the related party trade data from the US Census Bureau—I construct and compare measures of US intrafirm exports and imports. I find that, in general, the two datasets provide similar measures of US intrafirm trade, particularly for exports. Understanding the differences that do exist in measurement will likely require study of the confidential micro data at both the Bureau of Economic Analysis and the Census Bureau.

Multinational Production: Data and Stylized Facts

- American Economic Review---2015---Natalia Ramondo,Andres Rodriguez-Clare,Felix Tintelnot

We present a comprehensive data set on the bilateral activity of multinational firms, with focus on two variables: affiliate revenues and the number of affiliates across country pairs. Our basic data are from UNCTAD and include 59 countries, an average over 1996-2001. We implement an extrapolation procedure that fills in missing values using, alternately, FDI stocks and the bilateral number of M&A transactions. Our dataset allows for the analysis of new patterns of multinational production activities across countries, by taking into account firm rather than balance of payment variables, and both the intensive and extensive margins of multinational activities.

Markup and Cost Dispersion across Firms: Direct Evidence from Producer Surveys in Pakistan

- American Economic Review---2015---David Atkin,Azam Chaudhry,Shamyla Chaudhry,Amit K. Khandelwal,Eric Verhoogen

Researchers typically invoke theoretical assumptions to estimate mark-ups. Instead, we directly obtain mark-ups by surveying Pakistani soccer-ball producers. We document six facts: (i) Mark-ups are more dispersed than costs; (ii) Mark-ups and costs increase with firm size; (iii) The mark-up elasticity with respect to size exceeds the cost elasticity; (iv) Costs increase with size because larger firms use higher-quality inputs; (v) Larger firms charge higher mark-ups because they have higher production shares of high-quality balls that carry higher mark-ups, and because they charge higher mark-ups conditional on ball type; (vi) Correlations suggest marketing efforts are important for generating higher mark-ups.

Informal Employment in a Growing and Globalizing Low-Income Country

- American Economic Review---2015---Brian McCaig,Nina Pavcnik

We document several facts about workforce transitions from the informal to the formal sector in Vietnam, a fast growing, industrializing, and low-income country. First, younger workers, particularly migrants, are more likely to work in the formal sector and stay there permanently. Second, the decline in the aggregate share of informal employment occurs through changes between and within birth cohorts. Third, younger, educated, male, and urban workers are more likely to switch to the formal sector than other workers initially in the informal sector. Poorly educated, older, female, rural workers face little prospect of formalization. Fourth, formalization coincides with occupational upgrading.

Trade Liberalization and the Skill Premium: A Local Labor Markets Approach

- American Economic Review---2015---Rafael Dix-Carneiro,Brian K. Kovak

We develop a specific-factors model of regional economies that includes two types of workers, skilled and unskilled. The model delivers a simple equation relating trade-induced local shocks to changes in local skill premia. We apply the methodology to Brazil's early 1990s trade liberalization and find statistically significant but modest effects of liberalization on the evolution of the skill premium between 1991 and 2010. The methodology uses widely available household survey data and can easily be applied to other countries and liberalization episodes.

History and the Sizes of Cities

- American Economic Review---2015---Hoyt Bleakley,Jeffrey Lin

We contrast evidence of urban path dependence with efforts to analyze calibrated models of city sizes. Recent evidence of persistent city sizes following the obsolescence of historical advantages suggests that path dependence cannot be understood as the medium-run effect of legacy capital but instead as the long-run effect of equilibrium selection. In contrast, a different, recent literature uses stylized models in which fundamentals uniquely determine city size. We show that a commonly used model is inconsistent with evidence of long run persistence in city sizes and propose several modifications that might allow for multiplicity and thus historical path dependence.

Declining Mortality Inequality within Cities during the Health Transition

- American Economic Review---2015---Dora Costa,Matthew Kahn

In the United States in the late 19th and early 20th century, large cities had extremely high death rates from infectious disease. Within major cities such as New York City and Philadelphia, there was significant variation at any point in time in the mortality rate across neighborhoods. Between 1900 and 1930 neighborhood mortality convergence took place in New York City and Philadelphia. We document these trends and discuss their consequences for neighborhood quality of life dynamics and the economic incidence of who gains from effective public health interventions.

Killer Cities: Past and Present

- American Economic Review---2015---W Hanlon,Yuan Tian

The industrial cities of the 19th century were incredibly unhealthy places to live. How much progress has been made in reducing these negative health effects over the past 150 years? To help answer this question, we compare mortality patterns in 19th century England to those in Chinese urban areas in 2000. We document that substantial improvements have been made in improving health in cities over this period. Unlike historical English cities, large cities in China have lower mortality than less populated areas. However, we also provide evidence that in China a substantial relationship between industrial pollution and mortality remains.

The Impact of Temporary Protected Status on Immigrants' Labor Market Outcomes

- American Economic Review---2015---Pia Orrenius,Madeline Zavodny

The United States currently provides Temporary Protected Status (TPS) to more than 300,000 immigrants. TPS is typically granted if dangerous conditions prevail in migrants' home countries. Individuals with TPS are allowed to stay and work in the United States temporarily. Little is known about how TPS affects beneficiaries, most of whom are unauthorized prior to receiving TPS. Our results suggest that TPS eligibility leads to higher employment rates among women and higher earnings among men. The results have implications for recent programs that allow millions of unauthorized immigrants to receive temporary permission to remain and work in the United States.

The Labor Market Impacts of Forced Migration

- American Economic Review---2015---Isabel Ruiz,Carlos Vargas-Silva

During the 1990s the Kagera region of Tanzania experienced a forced migration shock. A series of geographical barriers led to a higher concentration of forced migrants in some parts of the region relative to others, resulting in a natural experiment. Using panel data (pre and post forced migration shock), we find that greater exposure to the refugee shock resulted in Tanzanians having a lower likelihood of working outside the household as employees. However, employees more affected by the shock had a higher probability of being in professional occupations and being part of a pensions program.

The Impact of Economic Freedom on the Black/White Income Gap

- American Economic Review---2015---Gary Hoover,Ryan Compton,Daniel Giedeman

Using state-level data from 1980-2010 we examine whether economic freedom, as measured by the Economic Freedom of North America Index, has had any impact in increasing or decreasing the ratio of median income for black households to the median income of white households. To our knowledge, there has been no research on racial income disparities and the role that economic freedom might have in alleviating or exacerbating the problem. We find evidence that economic freedom is associated with an increase in the racial income gap.

Income Inequality, Capitalism, and Ethno-linguistic Fractionalization

- American Economic Review---2015---Jan-Egbert Sturm,Jakob de Haan

We examine the relationship between capitalism and income inequality for a large sample of countries using an adjusted economic freedom index as proxy for capitalism. Our results suggest that there is no robust relationship between economic freedom and Gini coefficients based on gross income. Subsequently, we analyze the relationship between income redistribution and ethno-linguistic fractionalization. We find that the impact of ethno-linguistic fractionalization on income redistribution is conditional on the level of economic freedom: countries that have a high degree of fractionalization redistribute income less, while capitalist countries that have a low degree of fractionalization redistribute income more.

Falling through the Cracks? Grade Retention and School Dropout among Children of Likely Unauthorized Immigrants

- American Economic Review---2015---Catalina Amuedo-Dorantes,Mary J. Lopez

We evaluate how intensified interior immigration enforcement impacts the likelihood that children of unauthorized immigrants will repeat a grade or drop out of school. Using a weighted index of the intensity of interior immigration enforcement at the MSA level, we find that increased enforcement has the largest impact on younger children ages 6 to 13. The estimates, which account for the non-random residential location of children and their families, reveal that increased enforcement raises young children's probability of repeating a grade by 6 percent and their likelihood of dropping out of school by 25.2 percent.

Academic Undermatching of High-Achieving Minority Students: Evidence from Race-Neutral and Holistic Admissions Policies

- American Economic Review---2015---Sandra Black,Kalena E. Cortes,Jane Arnold Lincove

College is a pathway to social mobility in the United States. Yet too often high-achieving students from low-income and minorities families fail to apply to selective postsecondary institutions. Our study examines the extent to which academic undermatching occurs among high-achieving minority students by analyzing the application choices of students who undergo two distinct admissions policies. We find that minority students eligible for automatic admissions and those who undergo holistic admissions are both less likely to apply to elite flagship universities than white students, despite being equally qualified based on high school performance. Instead, minorities often opt for lower tier universities.

Household Asset Allocation, Offspring Education, and the Sandwich Generation

- American Economic Review---2015---Vicki L. Bogan

This paper finds households with children and elderly dependents, the "Sandwich Generation," significantly reduce both college savings and stockholding. Having any elderly dependents decreases the probability of both stockholding and college savings by twice as much as poor personal health. Hence, these results have critical implications as they demonstrate the importance and magnitude of links between the pension system, college financial aid, and wealth accumulation. Elderly dependents limiting parental funds for offspring education can decrease offspring long-term earnings potential via decreased human capital accumulation. Furthermore, decreased stock holdings can decrease long-term wealth accumulation and thus intergenerational wealth transfers.

An A for Effort

- American Economic Review---2015---Omari Swinton

This paper uses a unique and rich administrative data set to analyze the impact of the introduction of a new grading policy on graduations rates at Benedict College, a Historically Black College in Columbia, South Carolina. According to the new grading policy, grades for underclassmen are determined in part by performance on tests and in part by measures of "effort" such as attendance and class participation. This paper finds that while graduates graduate at a faster rate under the policy, there is no significant difference between graduation rates before and after the policy was implemented.

Trust and Reciprocity between Spouses in India

- American Economic Review---2015---Carolina Castilla

I present results from the first trust game conducted among married couples. The experiment consisted of a one-shot trust game where spouses were taken into separate rooms, not allowed to communicate, given a significant endowment, and both strategies and payoffs were common knowledge. Results indicate that only 3 percent of spouses in the sender role transfer the entire amount; the average proportion sent is 57 percent of the endowment. The limited sending is costly because the household on average is walking away with half of the potential earnings. The results provide further evidence of the lack of Pareto Efficiency within the household.

Can Alcohol Prohibition Reduce Violence against Women?

- American Economic Review---2015---Dara Lee Luca,Emily Owens,Gunjan Sharma

Violence against women is a critical problem across the world. In this paper, we exploit state and temporal variation in alcohol control in India to examine the impact of prohibition on alcohol consumption and violent crimes against women. We first use detailed household survey data to show that prohibition policies are associated with substantially lower rates of drinking among men and domestic violence. Next, we provide evidence that alcohol prohibition reduces aggregate violence against women in officially reported crime data. The results suggest that policies that restrict access to alcohol may help reduce gender violence.

The Labor Supply Effects of Delayed First Birth

- American Economic Review---2015---Jane Leber Herr

In this paper I compare the relationship between first-birth timing and post-birth labor supply for high school and college graduate mothers. Given that pre-birth wages are increasing in fertility delay, the rising opportunity cost of time would suggest that among both groups, later mothers work more. Yet I only find this pattern for high school graduates. For college graduates, I instead find that there is a strong U-shaped pattern between hours worked within motherhood, and the career timing of first birth.

Child Gender and Parental Inputs: No More Son Preference in Korea?

- American Economic Review---2015---Eleanor Jawon Choi,Jisoo Hwang

Sex ratio at birth remains highly skewed in Asian countries due to son preference. In South Korea, however, it has declined to the natural ratio. In this paper, we investigate whether son preference has disappeared in Korea by analyzing parents' time and monetary inputs by the sex of their child. We exploit randomness of the first child's sex to overcome potential bias from endogenous fertility decisions. Our findings show that mothers are more likely to work after having a girl, girls spend twice as much time as boys in housework activities, and parents spend more on private education for boys.

Demand Shocks and Open Economy Puzzles

- American Economic Review---2015---Yan Bai,José-Víctor Ríos-Rull

We pose good markets frictions on top of an otherwise standard two-country international real business cycle (IRBC) model. Shopping for goods takes effort, which prevents perfect matching between customers and producers. An increase in search effort implies increased measured productivity. Demand shocks increase expenditures and search effort simultaneously increasing output, consumption, productivity, and the trade deficit and appreciating the real exchange rate. Thus we solve the Backus-Smith puzzle and we show that the cross country correlation of consumption is higher than that of output. Standard IRBC models cannot account for these puzzles along with movements in TFP.

Macroeconomic Uncertainty Indices Based on Nowcast and Forecast Error Distributions

- American Economic Review---2015---Barbara Rossi,Tatevik Sekhposyan

We propose new indices to measure macroeconomic uncertainty. The indices measure how unexpected a realization of a representative macroeconomic variable is relative to the unconditional forecast error distribution. We use forecast error distributions based on the nowcasts and forecasts of the Survey of Professional Forecasters. We further compare the new indices with those proposed in the literature and assess their macroeconomic impact.

FOMC Forward Guidance and Investor Beliefs

- American Economic Review---2015---Arunima Sinha

This paper considers the effect of different dimensions of the FOMC's forward guidance on ex ante investor expectations about future changes in US Treasury yields. Options and Futures data for 2- and 10-year Treasuries is used to extract State-Price Densities of investor beliefs, and the corresponding standard deviation, skewness, and excess kurtosis of these densities are computed. Announcements about extension of the zero-lower bound in 2012-13 are found to reduce the expectations about crash risk, but increase the uncertainty about future yields for the 10-year. Policies about long-security purchases lead investors to place greater weight on no change in future yields.

(Indirect) Input Linkages

- American Economic Review---2015---Marcela Eslava,Ana Cecília Fieler,Yi Xu

Relative to backward firms, technologically-advanced firms source inputs from other advanced firms. These sourcing patterns lead to a magnification effect of technology adoption. A firm that adopts higher-technology increases the relative supply and demand for higher-technology inputs. As a result, it positively influences the technology of other firms in its production chain. Using data from a Colombian manufacturing survey, we provide evidence that advanced firms disproportionately value advanced inputs. More novel, we provide suggestive evidence that technological advancements in some firms increase the technology of other firms indirectly linked to them through a common input market.

Minutes of the Annual Business Meeting: Boston, MA, January 3, 2015

- American Economic Review---2015---Peter Rousseau

Report of the Secretary

- American Economic Review---2015---Peter Rousseau

Report of the Treasurer

- American Economic Review---2015---Peter Rousseau

American Economic Association Universal Academic Questionnaire Summary Statistics

- American Economic Review---2015---Charles E. Scott,John Siegfried

Climate Clubs: Overcoming Free-Riding in International Climate Policy

- American Economic Review---2015---William Nordhaus

Notwithstanding great progress in scientific and economic understanding of climate change, it has proven difficult to forge international agreements because of free-riding, as seen in the defunct Kyoto Protocol. This study examines the club as a model for international climate policy. Based on economic theory and empirical modeling, it finds that without sanctions against non-participants there are no stable coalitions other than those with minimal abatement. By contrast, a regime with small trade penalties on non-participants, a Climate Club, can induce a large stable coalition with high levels of abatement. (JEL Q54, Q58, K32, K33)

The Housing Market(s) of San Diego

- American Economic Review---2015---Tim Landvoigt,Monika Piazzesi,Martin Schneider

This paper uses an assignment model to understand the cross section of house prices within a metro area. Movers' demand for housing is derived from a life-cycle problem with credit market frictions. Equilibrium house prices adjust to assign houses that differ by quality to movers who differ by age, income, and wealth. To quantify the model, we measure distributions of house prices, house qualities, and mover characteristics from micro-data on San Diego County during the 2000s boom. The main result is that cheaper credit for poor households was a major driver of prices, especially at the low end of the market. (JEL D14, D91, R21, R31)

Has the US Finance Industry Become Less Efficient? On the Theory and Measurement of Financial Intermediation

- American Economic Review---2015---Thomas Philippon

A quantitative investigation of financial intermediation in the United States over the past 130 years yields the following results: (i) the finance industry's share of gross domestic product (GDP) is high in the 1920s, low in the 1960s, and high again after 1980; (ii) most of these variations can be explained by corresponding changes in the quantity of intermediated assets (equity, household and corporate debt, liquidity); (iii) intermediation has constant returns to scale and an annual cost of 1.5-2 percent of intermediated assets; (iv) secular changes in the characteristics of firms and households are quantitatively important. (JEL D24, E44, G21, G32, N22)

The Anatomy of a Credit Crisis: The Boom and Bust in Farm Land Prices in the United States in the 1920s

- American Economic Review---2015---Raghuram Rajan,Rodney Ramcharan

Does credit availability exacerbate asset price inflation? Are there long run consequences? During the farm land price boom and bust before the Great Depression, we find that credit availability directly inflated land prices. Credit also amplified the relationship between positive fundamentals and land prices, leading to greater indebtedness. When fundamentals soured, areas with higher credit availability suffered a greater fall in land prices and had more bank failures. Land prices and credit availability also remained disproportionately low for decades in these areas, suggesting that leverage might render temporary credit induced booms and busts persistent. We draw lessons for regulatory policy. (JEL E31, G21, G28, N22, N52, Q12, Q14)

How Elastic Are Preferences for Redistribution? Evidence from Randomized Survey Experiments

- American Economic Review---2015---Ilyana Kuziemko,Michael I. Norton,Emmanuel Saez,Stefanie Stantcheva

We analyze randomized online survey experiments providing interactive, customized information on US income inequality, the link between top income tax rates and economic growth, and the estate tax. The treatment has large effects on views about inequality but only slightly moves tax and transfer policy preferences. An exception is the estate tax—informing respondents of the small share of decedents who pay it doubles support for it. The small effects for all other policies can be partially explained by respondents' low trust in government and a disconnect between concerns about social issues and the public policies meant to address them. (JEL D31, D72, H23, H24)

Wages and Informality in Developing Countries

- American Economic Review---2015---Costas Meghir,Renata Narita,Jean-Marc Robin

We develop an equilibrium wage-posting model with heterogeneous firms that decide to locate in the formal or the informal sector and workers who search randomly on and off the job. We estimate the model on Brazilian labor force survey data. In equilibrium, firms of equal productivity locate in different sectors, a fact observed in the data. Wages are characterized by compensating differentials. We show that tightening enforcement does not increase unemployment and increases wages, total output, and welfare by enabling better allocation of workers to higher productivity jobs and improving competition in the formal labor market. (JEL E26, J24, J31, J46, O15, O17)

Medicare Part D: Are Insurers Gaming the Low Income Subsidy Design?

- American Economic Review---2015---Francesco Decarolis

This paper shows how in Medicare Part D insurers' gaming of the subsidy paid to low-income enrollees distorts premiums and raises the program cost. Using plan-level data from the first five years of the program, I find multiple instances of pricing strategy distortions for the largest insurers. Instrumental variable estimates indicate that the changes in a concentration index measuring the manipulability of the subsidy can explain a large share of the premium growth observed between 2006 and 2011. Removing this distortion could reduce the cost of the program without worsening consumer welfare. (JEL G22, H51, I13, I18)

Punishment and Deterrence: Evidence from Drunk Driving

- American Economic Review---2015---Benjamin Hansen

I test the effect of harsher punishments and sanctions on driving under the influence (DUI). In this setting, punishments are determined by strict rules on blood alcohol content (BAC) and previous offenses. Regression discontinuity derived estimates suggest that having a BAC above the DUI threshold reduces recidivism by up to 2 percentage points (17 percent). Likewise having a BAC over the aggravated DUI threshold reduces recidivism by an additional percentage point (9 percent). The results suggest that the additional sanctions experienced by drunk drivers at BAC thresholds are effective in reducing repeat drunk driving. (JEL I12, K42, R41)

Until the Bitter End: On Prospect Theory in a Dynamic Context

- American Economic Review---2015---Sebastian Ebert,Philipp Strack

We provide a result on prospect theory decision makers who are naïve about the time inconsistency induced by probability weighting. If a market offers a sufficiently rich set of investment strategies, investors postpone their trading decisions indefinitely due to a strong preference for skewness. We conclude that probability weighting in combination with naïveté leads to unrealistic predictions for a wide range of dynamic setups. (JEL D81, G02, G11)

Correlation Neglect, Voting Behavior, and Information Aggregation

- American Economic Review---2015---Gilat Levy,Ronny Razin

In this paper we analyze elections when voters underestimate the correlation between their information sources ("correlation neglect"). We find that this cognitive bias can improve political outcomes. We show that the extreme beliefs which result from correlation neglect induce some voters to base their vote on information rather than on political preferences. We characterize conditions on the distribution of preferences under which this induces higher vote shares for the optimal policies and better information aggregation. (JEL D72, D83)

Competitive Policy Development

- American Economic Review---2015---Alexander V. Hirsch,Kenneth W. Shotts

We present a model of policy development in which competing factions have different ideologies, yet agree on certain common objectives. Policy developers can appeal to a decision maker by making productive investments to improve the quality of their proposals. These investments are specific to a given proposal, which means that policy developers can potentially obtain informal agenda power. Competition undermines this agenda power, forcing policy developers to craft policies that are better for the decision maker. This beneficial effect is strongest if policy developers have divergent ideological preferences, because their intense desire to affect policy motivates them to develop higher quality proposals. (JEL D72, D73, D78, E61)

The Limits of Price Discrimination

- American Economic Review---2015---Dirk Bergemann,Benjamin Brooks,Stephen Morris

We analyze the welfare consequences of a monopolist having additional information about consumers' tastes, beyond the prior distribution; the additional information can be used to charge different prices to different segments of the market, i.e., carry out "third degree price discrimination." We show that the segmentation and pricing induced by the additional information can achieve every combination of consumer and producer surplus such that: (i) consumer surplus is nonnegative, (ii) producer surplus is at least as high as profits under the uniform monopoly price, and (iii) total surplus does not exceed the surplus generated by efficient trade. (JEL D42, D83, L12)

Credit Supply and the Price of Housing

- American Economic Review---2015---Giovanni Favara,Jean Imbs

An exogenous expansion in mortgage credit has significant effects on house prices. This finding is established using US branching deregulations between 1994 and 2005 as instruments for credit. Credit increases for deregulated banks, but not in placebo samples. Such differential responses rule out demand-based explanations, and identify an exogenous credit supply shock. Because of geographic diversification, treated banks expand credit: housing demand increases, house prices rise, but to a lesser extent in areas with elastic housing supply, where the housing stock increases instead. In an instrumental variable sense, house prices are well explained by the credit expansion induced by deregulation. (JEL G21, G28, R21, R31)

The Cyclicality of Sales, Regular and Effective Prices: Business Cycle and Policy Implications

- American Economic Review---2015---Olivier Coibion,Yuriy Gorodnichenko,Gee Hee Hong

We study the cyclical properties of sales, regular price changes, and average prices paid by consumers ("effective" prices) using data on prices and quantities sold for numerous retailers across many US metropolitan areas. Inflation in the effective prices paid by consumers declines significantly with higher unemployment while little change occurs in the inflation rate of prices posted by retailers. This difference reflects the reallocation of household expenditures across retailers, a feature of the data which we document and quantify, rather than sales. We propose a simple model with household store-switching and assess its implications for business cycles and policymakers. (JEL D12, E31, E32, L25, L81)

Adverse Selection and an Individual Mandate: When Theory Meets Practice

- American Economic Review---2015---Martin Hackmann,Jonathan T. Kolstad,Amanda Kowalski

We develop a model of selection that incorporates a key element of recent health reforms: an individual mandate. Using data from Massachusetts, we estimate the parameters of the model. In the individual market for health insurance, we find that premiums and average costs decreased significantly in response to the individual mandate. We find an annual welfare gain of 4.1 percent per person or $51.1 million annually in Massachusetts as a result of the reduction in adverse selection. We also find smaller post-reform markups. (JEL D82, G22, H75, I13)

The War on Poverty's Experiment in Public Medicine: Community Health Centers and the Mortality of Older Americans

- American Economic Review---2015---Martha Bailey,Andrew Goodman-Bacon

This paper uses the rollout of the first Community Health Centers (CHCs) to study the longer-term health effects of increasing access to primary care. Within ten years, CHCs are associated with a reduction in age-adjusted mortality rates of 2 percent among those 50 and older. The implied 7 to 13 percent decrease in one-year mortality risk among beneficiaries amounts to 20 to 40 percent of the 1966 poor/non-poor mortality gap for this age group. Large effects for those 65 and older suggest that increased access to primary care has longer-term benefits, even for populations with near universal health insurance. (JEL H75, I12, I13, I18, I32, I38, J14)

New Trade Models, New Welfare Implications

- American Economic Review---2015---Marc Melitz,Stephen Redding

We show that endogenous firm selection provides a new welfare margin for heterogeneous firm models of trade (relative to homogeneous firm models). Under some parameter restrictions, the trade elasticity is constant and is a sufficient statistic for welfare, along with the domestic trade share. However, even small deviations from these restrictions imply that trade elasticities are variable and differ across markets and levels of trade costs. In this more general setting, the domestic trade share and endogenous trade elasticity are no longer sufficient statistics for welfare. Additional empirically observable moments of the micro structure also matter for welfare. (JEL F12, F13, F41)

The Virtues of Hesitation: Optimal Timing in a Non-stationary World

- American Economic Review---2015---Urmee Khan,Maxwell B. Stinchcombe

In many economic, political, and social situations, circumstances change at random points in time, reacting is costly, and reactions appropriate to present circumstances may become inappropriate upon future changes, requiring further costly reaction. Waiting is informative if arrival of the next change has non-constant hazard rate. We identify two classes of situations: in the first, delayed reaction is optimal only when the hazard rate of further changes is decreasing; in the second, it is optimal only when the hazard rate of further changes is increasing. These results in semi-Markovian decision theory provide motivations for building delay into decision systems. (JEL C61, D72, D82, D83, K10, M11)

Measuring Uncertainty

- American Economic Review---2015---Kyle Jurado,Sydney Ludvigson,Serena Ng

This paper exploits a data rich environment to provide direct econometric estimates of time-varying macroeconomic uncertainty. Our estimates display significant independent variations from popular uncertainty proxies, suggesting that much of the variation in the proxies is not driven by uncertainty. Quantitatively important uncertainty episodes appear far more infrequently than indicated by popular uncertainty proxies, but when they do occur, they are larger, more persistent, and are more correlated with real activity. Our estimates provide a benchmark to evaluate theories for which uncertainty shocks play a role in business cycles. (JEL C53, D81, E32, G12, G35, L25)

Inequality, Leverage, and Crises

- American Economic Review---2015---Michael Kumhof,Romain Rancière,Pablo Winant

The paper studies how high household leverage and crises can be caused by changes in the income distribution. Empirically, the periods 1920-1929 and 1983-2008 both exhibited a large increase in the income share of high-income households, a large increase in debt leverage of low- and middle-income households, and an eventual financial and real crisis. The paper presents a theoretical model where higher leverage and crises are the endogenous result of a growing income share of high-income households. The model matches the profiles of the income distribution, the debt-to-income ratio and crisis risk for the three decades preceding the Great Recession. (JEL D14, D31, D33, E32, E44, G01, N22)

Preferences for Flexibility and Randomization under Uncertainty

- American Economic Review---2015---Kota Saito

An uncertainty-averse agent prefers betting on an event whose probability is known, to betting on an event whose probability is unknown. Such an agent may randomize his choices to eliminate the effects of uncertainty. For what sort of preferences does a randomization eliminate the effects of uncertainty? To answer this question, we investigate an agent's preferences over sets of acts. We axiomatize a utility function, through which we can identify the agent's subjective belief that a randomization eliminates the effects of uncertainty. (JEL D11, D81)

Debt Relief and Debtor Outcomes: Measuring the Effects of Consumer Bankruptcy Protection

- American Economic Review---2015---Will Dobbie,Jae Song

Consumer bankruptcy is one of the largest social insurance programs in the United States, but little is known about its impact on debtors. We use 500,000 bankruptcy filings matched to administrative tax and foreclosure data to estimate the impact of Chapter 13 bankruptcy protection on subsequent outcomes. Exploiting the random assignment of bankruptcy filings to judges, we find that Chapter 13 protection increases annual earnings by $5,562, decreases five-year mortality by 1.2 percentage points, and decreases five-year foreclosure rates by 19.1 percentage points. These results come primarily from the deterioration of outcomes among dismissed filers, not gains by granted filers. (JEL D14, I12, J22, J31, K35)

Vehicle Scrappage and Gasoline Policy

- American Economic Review---2015---Mark R. Jacobsen,Arthur A. van Benthem

We estimate the sensitivity of scrap decisions to changes in used car values and show how this "scrap elasticity" produces emissions leakage under fuel efficiency standards, a process known as the Gruenspecht effect. We first estimate the effect of gasoline prices on used vehicle values and scrappage of vehicles with different fuel economies. We then estimate the scrap elasticity itself, which we find to be -0.7. When applied in a model of fuel economy standards, 13-16 percent of the expected fuel savings leak away through the used vehicle market. This effect rivals or exceeds the importance of the often-cited mileage rebound effect. (JEL H23, L62, L78, Q35, Q38, Q48, Q58)

The Impact of the Great Migration on Mortality of African Americans: Evidence from the Deep South

- American Economic Review---2015---Dan Black,Seth G. Sanders,Evan J. Taylor,Lowell J. Taylor

The Great Migration–the massive migration of African Americans out of the rural South to largely urban locations in the North, Midwest, and West–was a landmark event in US history. Our paper shows that this migration increased mortality of African Americans born in the early twentieth century South. This inference comes from an analysis that uses proximity of birthplace to railroad lines as an instrument for migration. (JEL I12, J15, N31, N32, N91, N92, R23)

Overconfidence in Political Behavior

- American Economic Review---2015---Pietro Ortoleva,Erik Snowberg

This paper studies, theoretically and empirically, the role of overconfidence in political behavior. Our model of overconfidence in beliefs predicts that overconfidence leads to ideological extremeness, increased voter turnout, and stronger partisan identification. The model also makes nuanced predictions about the patterns of ideology in society. These predictions are tested using unique data that measure the overconfidence and standard political characteristics of a nationwide sample of over 3,000 adults. Our numerous predictions find strong support in these data. In particular, we document that overconfidence is a substantively and statistically important predictor of ideological extremeness, voter turnout, and partisan identification. (JEL C83, D03, D72, D83)

Robustness and Linear Contracts

- American Economic Review---2015---Gabriel Carroll

We consider a moral hazard problem where the principal is uncertain as to what the agent can and cannot do: she knows some actions available to the agent, but other, unknown actions may also exist. The principal demands robustness, evaluating possible contracts by their worst-case performance, over unknown actions the agent might potentially take. The model assumes risk-neutrality and limited liability, and no other functional form assumptions. Very generally, the optimal contract is linear. The model thus offers a new explanation for linear contracts in practice. It also introduces a flexible modeling approach for moral hazard under nonquantifiable uncertainty. (JEL D81, D82, D86)

Systemic Risk and Stability in Financial Networks

- American Economic Review---2015---Daron Acemoglu,Asuman Ozdaglar,Alireza Tahbaz-Salehi

This paper argues that the extent of financial contagion exhibits a form of phase transition: as long as the magnitude of negative shocks affecting financial institutions are sufficiently small, a more densely connected financial network (corresponding to a more diversified pattern of interbank liabilities) enhances financial stability. However, beyond a certain point, dense interconnections serve as a mechanism for the propagation of shocks, leading to a more fragile financial system. Our results thus highlight that the same factors that contribute to resilience under certain conditions may function as significant sources of systemic risk under others. (JEL D85, E44, G21, G28, L14)

Price Subsidies, Diagnostic Tests, and Targeting of Malaria Treatment: Evidence from a Randomized Controlled Trial

- American Economic Review---2015---Jessica Cohen,Pascaline Dupas,Simone Schaner

Both under- and over-treatment of communicable diseases are public bads. But efforts to decrease one run the risk of increasing the other. Using rich experimental data on household treatment- seeking behavior in Kenya, we study the implications of this trade-off for subsidizing life-saving antimalarials sold over-the-counter at retail drug outlets. We show that a very high subsidy (such as the one under consideration by the international community) dramatically increases access, but nearly one-half of subsidized pills go to patients without malaria. We study two ways to better target subsidized drugs: reducing the subsidy level, and introducing rapid malaria tests over-the-counter. (JEL D12, D82, I12, O12, O15)

Self-Confirming Equilibrium and Model Uncertainty

- American Economic Review---2015---Pierpaolo Battigalli,Simone Cerreia-Vioglio,Fabio Maccheroni,Massimo Marinacci

We analyze a notion of self-confirming equilibrium with non-neutral ambiguity attitudes that generalizes the traditional concept. We show that the set of equilibria expands as ambiguity aversion increases. The intuition is quite simple: by playing the same strategy in a stationary environment, an agent learns the implied distribution of payoffs, but alternative strategies yield payoffs with unknown distributions; increased aversion to ambiguity makes such strategies less appealing. In sum, a kind of "status quo bias" emerges; in the long run, the uncertainty related to tested strategies disappears, but the uncertainty implied by the untested ones does not. (JEL C72, C73, D81, D83)

Environmental Health Risks and Housing Values: Evidence from 1,600 Toxic Plant Openings and Closings

- American Economic Review---2015---Janet Currie,Lucas Davis,Michael Greenstone,Reed Walker

Regulatory oversight of toxic emissions from industrial plants and understanding about these emissions' impacts are in their infancy. Applying a research design based on the openings and closings of 1,600 industrial plants to rich data on housing markets and infant health, we find that: toxic air emissions affect air quality only within 1 mile of the plant; plant openings lead to 11 percent declines in housing values within 0.5 mile or a loss of about \$4.25 million for these households; and a plant's operation is associated with a roughly 3 percent increase in the probability of low birthweight within 1 mile. (JEL I12, L60, Q52, Q53, Q58, R23, R31)

Bankruptcy as Implicit Health Insurance

- American Economic Review---2015---Neale Mahoney

This paper examines the implicit health insurance that households receive from the ability to declare bankruptcy. Exploiting multiple sources of variation in asset exemption law, I show that uninsured households with a greater financial cost of bankruptcy make higher out-of-pocket medical payments, conditional on the amount of care received. In turn, I find that households with greater wealth at risk are more likely to hold health insurance. The implicit insurance from bankruptcy distorts the insurance coverage decision. Using a microsimulation model, I calculate that the optimal Pigovian penalties are three-quarters as large as the average penalties under the Affordable Care Act. (JEL D14, H51, I13, K35)

Leader Punishment and Cooperation in Groups: Experimental Field Evidence from Commons Management in Ethiopia

- American Economic Review---2015---Michael Kosfeld,Devesh Rustagi

We conduct a social dilemma experiment in which real-world leaders can punish group members as a third party. Despite facing an identical environment, leaders are found to take remarkably different punishment approaches. The different leader types revealed experimentally explain the relative success of groups in managing their forest commons. Leaders who emphasize equality and efficiency see positive forest outcomes. Antisocial leaders, who punish indiscriminately, see relatively negative forest outcomes. Our results highlight the importance of leaders in collective action, and more generally the idiosyncratic but powerful roles that leaders may play, leading to substantial variation in group cooperation outcomes. (JEL C93, D03, O13, Q23)

The Price of Experience

- American Economic Review---2015---Hyeok Jeong,Yong Kim,Iourii Manovskii

We identify a key role of factor supply, driven by demographic changes, in shaping several empirical regularities that are a focus of active research in macro and labor economics. In particular, demographic changes alone can account for the large movements of the return to experience over the last four decades, for the differential dynamics of the age premium across education groups emphasized by Katz and Murphy (1992), for the differential dynamics of the college premium across age groups emphasized by Card and Lemieux (2001), and for the changes in cross-sectional and cohort-based life-cycle profiles emphasized by Kambourov and Manovskii (2005). (JEL D91, E24, I23, J11, J24, J31)

Optimal Life Cycle Unemployment Insurance

- American Economic Review---2015---Claudio Michelacci,Hernán Ruffo

We argue that US welfare would rise if unemployment insurance were increased for younger and decreased for older workers. This is because the young tend to lack the means to smooth consumption during unemployment and want jobs to accumulate high-return human capital. So unemployment insurance is most valuable to them, while moral hazard is mild. By calibrating a life cycle model with unemployment risk and endogenous search effort, we find that allowing unemployment replacement rates to decline with age yields sizeable welfare gains to US workers. (JEL D91, E24, J13, J64, J65)

Evidence for Countercyclical Risk Aversion: An Experiment with Financial Professionals

- American Economic Review---2015---Alain Cohn,Jan Engelmann,Ernst Fehr,Michel Maréchal

Countercyclical risk aversion can explain major puzzles such as the high volatility of asset prices. Evidence for its existence is, however, scarce because of the host of factors that simultaneously change during financial cycles. We circumvent these problems by priming financial professionals with either a boom or a bust scenario. Subjects primed with a financial bust were substantially more fearful and risk averse than those primed with a boom, suggesting that fear may play an important role in countercyclical risk aversion. The mechanism described here is relevant for theory and may explain self-reinforcing processes that amplify market dynamics. (JEL E32, E44, G01, G11, G12)

Information Disclosure as a Matching Mechanism: Theory and Evidence from a Field Experiment

- American Economic Review---2015---Steven Tadelis,Florian Zettelmeyer

Market outcomes depend on the quality of information available to its participants. We measure the effect of information disclosure on market outcomes using a large-scale field experiment that randomly discloses quality information in wholesale automobile auctions. We argue that buyers in this market are horizontally differentiated across cars that are vertically ranked by quality. This implies that information disclosure helps match heterogeneous buyers to cars of varying quality, causing both good and bad news to increase competition and revenues. The data confirm these hypotheses. These findings have implications for the design of other markets, including e-commerce, procurement auctions, and labor markets. (JEL C93, D44, D82, L15)

Thar SHE Blows? Gender, Competition, and Bubbles in Experimental Asset Markets

- American Economic Review---2015---Catherine Eckel,Sascha Füllbrunn

Do women and men behave differently in financial asset markets? Our results from an asset market experiment show a marked gender difference in producing speculative price bubbles. Mixed markets show intermediate values, and a meta-analysis of 35 markets from different studies confirms the inverse relationship between the magnitude of price bubbles and the frequency of female traders in the market. Women's price forecasts also are significantly lower, even in the first period. Implications for financial markets and experimental methodology are discussed. (JEL D14, D81, G01, G11, J16)

Price Reaction to Information with Heterogeneous Beliefs and Wealth Effects: Underreaction, Momentum, and Reversal

- American Economic Review---2015---Marco Ottaviani,Peter Sørensen

This paper analyzes how asset prices in a binary market react to information when traders have heterogeneous prior beliefs. We show that the competitive equilibrium price underreacts to information when there is a bound to the amount of money traders are allowed to invest. Underreaction is more pronounced when prior beliefs are more heterogeneous. Even in the absence of exogenous bounds on the amount that traders can invest, prices underreact to information provided that traders become less risk averse as their wealth increases. In a dynamic setting, underreaction results in initial momentum and then reversal in the long run. (JEL D83, D84, G11, G12, G14)

Infrastructure Quality and the Subsidy Trap

- American Economic Review---2015---Shaun McRae

Electricity and water are often subsidized in developing countries to increase their affordability for low-income households. Ideally, such subsidies would create sufficient demand in poor neighborhoods to encourage private investment in their infrastructure. Instead, many regions receiving large subsidies have precarious distribution networks supplying users who never pay. Using a structural model of household electricity demand in Colombia, I predict the change in consumption and profits from upgrading low-quality electricity connections. I show that the existing subsidies, which provide greater transfers to areas with unreliable supply, deter investment to modernize infrastructure. Finally, I analyze alternative programs with stronger investment incentives. (JEL H23, H54, L94, L98, O12, O13)

Efficient Matching under Distributional Constraints: Theory and Applications

- American Economic Review---2015---Yuichiro Kamada,Fuhito Kojima

Many real matching markets are subject to distributional constraints. These constraints often take the form of restrictions on the numbers of agents on one side of the market matched to certain subsets on the other side. Real-life examples include restrictions on regions in medical matching, academic master's programs in graduate admission, and state-financed seats for college admission. Motivated by these markets, we study design of matching mechanisms under distributional constraints. We show that existing matching mechanisms suffer from inefficiency and instability, and propose a mechanism that is better in terms of efficiency, stability, and incentives while respecting the distributional constraints. (JEL C70, D61, D63)

Teacher Quality Policy When Supply Matters

- American Economic Review---2015---Jesse Rothstein

Teacher contracts that condition pay and retention on demonstrated performance can improve selection into and out of teaching. I study alternative contracts in a simulated teacher labor market that incorporates dynamic self-selection and Bayesian learning. Bonus policies create only modest incentives and thus have small effects on selection. Reductions in tenure rates can have larger effects, but must be accompanied by substantial salary increases; elimination of tenure confers little additional benefit unless firing rates are extremely high. Benefits of both bonus and tenure policies exceed costs, though optimal policies are sensitive to labor market parameters about which little is known. (JEL I21, J22, J23, J24, J31, J41, J45)

Reallocation and Technology: Evidence from the US Steel Industry

- American Economic Review---2015---Allan Collard-Wexler,Jan De Loecker

We measure the impact of a drastic new technology for producing steel--the minimill--on industry-wide productivity in the US steel industry, using unique plant-level data between 1963 and 2002. The sharp increase in the industry's productivity is linked to this new technology through two distinct mechanisms: (i) the mere displacement of the older technology (vertically integrated producers) was responsible for a third of the increase in the industry's productivity, and (ii) increased competition, due the minimill expansion, drove a productivity resurgence at the surviving vertical integrated producers and, consequently, the productivity of the industry as a whole. (JEL D24, L13, L23, L61, M11, O31, O33)

Mergers When Prices Are Negotiated: Evidence from the Hospital Industry

- American Economic Review---2015---Gautam Gowrisankaran,Aviv Nevo,Robert Town

We estimate a bargaining model of competition between hospitals and managed care organizations (MCOs) and use the estimates to evaluate the effects of hospital mergers. We find that MCO bargaining restrains hospital prices significantly. The model demonstrates the potential impact of coinsurance rates, which allow MCOs to partly steer patients toward cheaper hospitals. We show that increasing patient coinsurance tenfold would reduce prices by 16 percent. We find that a proposed hospital acquisition in Northern Virginia that was challenged by the Federal Trade Commission would have significantly raised hospital prices. Remedies based on separate bargaining do not alleviate the price increases. (JEL C78, G34, I11, I13, L13)

Paying Attention or Paying Too Much in Medicare Part D

- American Economic Review---2015---Jonathan D. Ketcham,Claudio Lucarelli,Christopher A. Powers

We study whether people became less likely to switch Medicare prescription drug plans (PDPs) due to more options and more time in Part D. Panel data for a random 20 percent sample of enrollees from 2006-2010 show that 50 percent were not in their original PDPs by 2010. Individuals switched PDPs in response to higher costs of their status quo plans, saving them money. Contrary to choice overload, larger choice sets increased switching unless the additional plans were relatively expensive. Neither switching overall nor responsiveness to costs declined over time, and above-minimum spending in 2010 remained below the 2006 and 2007 levels. (JEL H51, I13, I18)

Cellular Service Demand: Biased Beliefs, Learning, and Bill Shock

- American Economic Review---2015---Michael Grubb,Matthew Osborne

Following FCC pressure to end bill shock, cellular carriers now alert customers when they exceed usage allowances. We estimate a model of plan choice, usage, and learning using a 2002-2004 panel of cellular bills. Accounting for firm price adjustment, we predict that implementing alerts in 2002-2004 would have lowered average annual consumer welfare by $33. We show that consumers are inattentive to past usage, meaning that bill-shock alerts are informative. Additionally, our estimates imply that consumers are overconfident, underestimating the variance of future calling. Overconfidence costs consumers $76 annually at 2002-2004 prices. Absent overconfidence, alerts would have little to no effect. (JEL D12, D18, L11, L96, L98)

Rational Inattention to Discrete Choices: A New Foundation for the Multinomial Logit Model

- American Economic Review---2015---Filip Matejka,Alisdair McKay

Individuals must often choose among discrete actions with imperfect information about their payoffs. Before choosing, they have an opportunity to study the payoffs, but doing so is costly. This creates new choices such as the number of and types of questions to ask. We model these situations using the rational inattention approach to information frictions. We find that the decision maker's optimal strategy results in choosing probabilistically in line with a generalized multinomial logit model, which depends both on the actions' true payoffs as well as on prior beliefs. (JEL D11, D81, D83)

Revealed (P)Reference Theory

- American Economic Review---2015---Efe Ok,Pietro Ortoleva,Gil Riella

This paper develops axiomatically a revealed preference theory of reference-dependent choice behavior. Instead of taking the reference for an agent as exogenously given in the description of a choice problem, we suitably relax the Weak Axiom of Revealed Preference to obtain, endogenously, the existence of reference alternatives as well as the structure of choice behavior conditional on those alternatives. We show how this model captures some well-known choice patterns such as the attraction effect. (JEL D11, D81)

How Do Voters Respond to Information? Evidence from a Randomized Campaign

- American Economic Review---2015---Chad Kendall,Tommaso Nannicini,Francesco Trebbi

In a large-scale controlled trial in collaboration with the reelection campaign of an Italian incumbent mayor, we administered (randomized) messages about the candidate's valence or ideology. Informational treatments affected both actual votes in the precincts and individual vote declarations. Campaigning on valence brought more votes to the incumbent, but both messages affected voters' beliefs. Cross-learning occurred, as voters who received information about the incumbent also updated their beliefs on the opponent. With a novel protocol of beliefs elicitation and structural estimation, we assess the weights voters place upon politicians' valence and ideology, and simulate counterfactual campaigns. (JEL D12, D72, D83)

Institutional Corruption and Election Fraud: Evidence from a Field Experiment in Afghanistan

- American Economic Review---2015---Michael Callen,James D. Long

We investigate the relationship between political networks, weak institutions, and election fraud during the 2010 parliamentary election in Afghanistan combining: (i) data on political connections between candidates and election officials; (ii) a nationwide controlled evaluation of a novel monitoring technology; and (iii) direct measurements of aggregation fraud. We find considerable evidence of aggregation fraud in favor of connected candidates and that the announcement of a new monitoring technology reduced theft of election materials by about 60 percent and vote counts for connected candidates by about 25 percent. The results have implications for electoral competition and are potentially actionable for policymakers. (JEL C93, D02, D72, K42, O17)

The Effect of the TseTse Fly on African Development

- American Economic Review---2015---Marcella Alsan

The TseTse fly is unique to Africa and transmits a parasite harmful to humans and lethal to livestock. This paper tests the hypothesis that the TseTse reduced the ability of Africans to generate an agricultural surplus historically. Ethnic groups inhabiting TseTse-suitable areas were less likely to use domesticated animals and the plow, less likely to be politically centralized, and had a lower population density. These correlations are not found in the tropics outside of Africa, where the fly does not exist. The evidence suggests current economic performance is affected by the TseTse through the channel of precolonial political centralization. (JEL I12, N57, O13, O17, Q12, Q16, Q18)

When Does Regulation Distort Costs? Lessons from Fuel Procurement in US Electricity Generation

- American Economic Review---2015---Steve Cicala

This paper evaluates changes in fuel procurement practices by coal and gas-fired power plants in the United States following state-level legislation that ended cost-of-service regulation of electricity generation. I find that deregulated plants substantially reduce the price paid for coal (but not gas) and tend to employ less capital-intensive sulfur abatement techniques relative to matched plants that were not subject to any regulatory change. Deregulation also led to a shift toward more productive coal mines. I show how these results lend support to theories of asymmetric information, capital bias, and regulatory capture as important sources of regulatory distortion. (JEL L51, L71, L94, L98, Q35, Q41, Q48)

The Cost of Financial Frictions for Life Insurers

- American Economic Review---2015---Ralph S. J. Koijen,Motohiro Yogo

During the financial crisis, life insurers sold long-term policies at deep discounts relative to actuarial value. The average markup was as low as -19 percent for annuities and -57 percent for life insurance. This extraordinary pricing behavior was due to financial and product market frictions, interacting with statutory reserve regulation that allowed life insurers to record far less than a dollar of reserve per dollar of future insurance liability. We identify the shadow cost of capital through exogenous variation in required reserves across different types of policies. The shadow cost was $0.96 per dollar of statutory capital for the average company in November 2008. (JEL G01, G22, G28, G32)

Optimal Allocation with Costly Verification

- American Economic Review---2014---Elchanan Ben-Porath,Eddie Dekel,Barton Lipman

A principal allocates an object to one of I agents. Each agent values receiving the object and has private information regarding the value to the principal of giving it to him. There are no monetary transfers, but the principal can check an agent's information at a cost. A favored-agent mechanism specifies a value v* and an agent i*. If all agents other than i* report values below v*, then i* receives the good and no one is checked. Otherwise, whoever reports the highest value is checked and receives the good if and only if her report is confirmed. All optimal mechanisms are essentially randomizations over optimal favored-agent mechanisms. (JEL D82)

Ambiguity Aversion with Three or More Outcomes

- American Economic Review---2014---Mark J. Machina

Ambiguous choice problems which involve three or more outcome values can reveal aspects of ambiguity and ambiguity aversion which cannot be displayed in the classic two-outcome Ellsberg urn problems, and hence are not always captured by models designed to accommodate them. These aspects include Allais-type preferences over purely subjective acts, attitudes toward different sources involving different amounts of ambiguity, and attitudes toward ambiguity at different outcome levels. This paper presents a few such examples, and examines the standard models' predictions and performance in such cases. (JEL D81)

Hospital Choices, Hospital Prices, and Financial Incentives to Physicians

- American Economic Review---2014---Kate Ho,Ariel Pakes

We estimate an insurer-specific preference function which rationalizes hospital referrals for privately insured births in California. The function is additively separable in: a hospital price paid by the insurer, the distance traveled, and plan- and severity-specific hospital fixed effects (capturing hospital quality). We use an inequality estimator that allows for errors in price and detailed hospital-severity interactions and obtain markedly different results than those from a logit. The estimates indicate that insurers with more capitated physicians are more responsive to price. Capitated plans send patients further to utilize similar quality, lower-priced hospitals; but the cost-quality trade-off does not vary with capitation rates. (JEL G22, H51, I11, I13, I18, J44)

Is It Whom You Know or What You Know? An Empirical Assessment of the Lobbying Process

- American Economic Review---2014---Marianne Bertrand,Matilde Bombardini,Francesco Trebbi

Do lobbyists provide issue-specific information to members of Congress? Or do they provide special interests access to politicians? We present evidence to assess the role of issue expertise versus connections in the US Federal lobbying process and illustrate how both are at work. In support of the connections view, we show that lobbyists follow politicians they were initially connected to when those politicians switch to new committee assignments. In support of the expertise view, we show that there is a group of experts that even politicians of opposite political affiliation listen to. However, we find a more consistent monetary premium for connections than expertise. (JEL D72, D82)

The Effects of Poor Neonatal Health on Children's Cognitive Development

- American Economic Review---2014---David Figlio,Jonathan Guryan,Krzysztof Karbownik,Jeffrey Roth

We make use of a new data resource -- merged birth and school records for all children born in Florida from 1992 to 2002 -- to study the relationship between birth weight and cognitive development. Using singletons as well as twin and sibling fixed effects models, we find that the effects of early health on cognitive development are essentially constant through the school career; that these effects are similar across a wide range of family backgrounds; and that they are invariant to measures of school quality. We conclude that the effects of early health on adult outcomes are therefore set very early. (JEL I12, J13, J24)

Private Equity, Jobs, and Productivity

- American Economic Review---2014---Steven Davis,John Haltiwanger,Kyle Handley,Ron Jarmin,Josh Lerner,Javier Miranda

Private equity critics claim that leveraged buyouts bring huge job losses and few gains in operating performance. To evaluate these claims, we construct and analyze a new dataset that covers US buyouts from 1980 to 2005. We track 3,200 target firms and their 150,000 establishments before and after acquisition, comparing to controls defined by industry, size, age, and prior growth. Buyouts lead to modest net job losses but large increases in gross job creation and destruction. Buyouts also bring TFP gains at target firms, mainly through accelerated exit of less productive establishments and greater entry of highly productive ones. (JEL D24, G24, G32, G34, J23, J63, L25)

Hot and Cold Seasons in the Housing Market

- American Economic Review---2014---L. Rachel Ngai,Silvana Tenreyro

Every year housing markets in the United Kingdom and the United States experience systematic above-trend increases in prices and transactions during the spring and summer ("hot season") and below-trend falls during the autumn and winter ("cold season"). House price seasonality poses a challenge to existing housing models. We propose a search-and-matching model with thick-market effects. In thick markets, the quality of matches increases, rising buyers' willingness to pay and sellers' desire to transact. A small, deterministic driver of seasonality can be amplified and revealed as deterministic seasonality in transactions and prices, quantitatively mimicking seasonal fluctuations in UK and US markets. (JEL C78, R21, R31)

Reputation and Persistence of Adverse Selection in Secondary Loan Markets

- American Economic Review---2014---V. V. Chari,Ali Shourideh,Ariel Zetlin-Jones

The volume of new issuances in secondary loan markets fluctuates over time and falls when collateral values fall. We develop a model with adverse selection and reputation that is consistent with such fluctuations. Adverse selection ensures that the volume of trade falls when collateral values fall. Without reputation, the equilibrium has separation, adverse selection is quickly resolved, and trade volume is independent of collateral value. With reputation, the equilibrium has pooling and adverse selection persists over time. The equilibrium is efficient unless collateral values are low and originators' reputational levels are low. We describe policies that can implement efficient outcomes. (JEL D82, G11, G21, G28)

The Dynamic Efficiency Costs of Common-Pool Resource Exploitation

- American Economic Review---2014---Ling Huang,Martin D. Smith

We conduct the first empirical investigation of common-pool resource users' dynamic and strategic behavior at the micro level using real-world data. Fishermen's strategies in a fully dynamic game account for latent resource dynamics and other players' actions, revealing the profit structure of the fishery. We compare the fishermen's actual and socially optimal exploitation paths under a time-specific vessel allocation policy and find a sizable dynamic externality. Individual fishermen respond to other users by exerting effort above the optimal level early in the season. Congestion is costly instantaneously but is beneficial in the long run because it partially offsets dynamic inefficiencies. (JEL D24, Q21, Q22)

Trade Wars and Trade Talks with Data

- American Economic Review---2014---Ralph Ossa

How large are optimal tariffs? What tariffs would prevail in a worldwide trade war? How costly would a breakdown of international trade policy cooperation be? And what is the scope for future multilateral trade negotiations? I address these and other questions using a unified framework which nests traditional, new trade, and political economy motives for protection. I find that optimal tariffs average 62 percent, world trade war tariffs average 63 percent, the government welfare losses from a breakdown of international trade policy cooperation average 2.9 percent, and the possible government welfare gains from future multilateral trade negotiations average 0.5 percent. (JEL F12, F13, O19)

Consume Now or Later? Time Inconsistency, Collective Choice, and Revealed Preference

- American Economic Review---2014---Abi Adams,Laurens Cherchye,Bram De Rock,Ewout Verriest

We develop a revealed preference methodology that allows us to explore whether time inconsistencies in household choice are the product of individual preference nonstationarities or the result of individual heterogeneity and renegotiation within the household. An empirical application to household-level microdata highlights that an explicit recognition of the collective nature of household choice enables the observed behavior to be rationalized by a theory that assumes preference stationarity at the individual level. The methodology created in this paper also facilitates the recovery of theory-consistent discount rates for each individual within particular household under study. (JEL E24, F13, F16)

Present Bias and Collective Dynamic Choice in the Lab

- American Economic Review---2014---Matthew Jackson,Leeat Yariv

We study collective decisions by time-discounting individuals choosing a common consumption stream. We show that with any heterogeneity in time preferences, utilitarian aggregation necessitates a present bias. In lab experiments three quarters of "social planners" exhibited present biases, and less than two percent were time consistent. Roughly a third of subjects acted as if they were pure utilitarians, and the rest chose as if they also had varying degrees of distributional concerns. (JEL C91, D12, D71, D72)

Consumption and Debt Response to Unanticipated Income Shocks: Evidence from a Natural Experiment in Singapore

- American Economic Review---2014---Sumit Agarwal,Wenlan Qian

This paper uses a unique panel dataset of consumer financial transactions to study how consumers respond to an exogenous unanticipated income shock. Consumption rose significantly after the fiscal policy announcement: during the ten subsequent months, for each $1 received, consumers on average spent $0.80. We find a strong announcement effect -- 19 percent of the response occurs during the first two-month announcement period via credit cards. Subsequently, consumers switched to debit cards after disbursement before finally increasing spending on credit cards in the later months. Consumers with low liquid assets or with low credit card limit experienced stronger consumption responses. (JEL D12, D14, E21)

Risk Matters: The Real Effects of Volatility Shocks: Comment

- American Economic Review---2014---Benjamin Born,Johannes Pfeifer

We show that the risk-shock business cycle model of Fernández-Villaverde et al. (2011) must be recalibrated because it underpredicts the targeted business cycle moments by a factor of three once a time aggregation error is corrected. Recalibrating the corrected model for the benchmark case of Argentina, the peak response and the contribution of interest rate risk shocks to business cycle volatility increase. However, the recalibrated model does worse in capturing the business cycle properties of net exports once an additional error in the computation of net exports is corrected.

A Test of Racial Bias in Capital Sentencing

- American Economic Review---2014---Alberto Alesina,Eliana La Ferrara

We collect a new dataset on capital punishment in the US and we propose a test of racial bias based upon patterns of sentence reversals. We model the courts as minimizing type I and II errors. If trial courts were unbiased, conditional on defendants race the error rate should be independent of the victims race. Instead we uncover 3 and 9 percentage points higher reversal rates in Direct Appeal and Habeas Corpus cases, respectively, against minority defendants who killed whites. The pattern for white defendants is opposite but not statistically significant. This bias is confined to Southern States.

On the Selection of Arbitrators

- American Economic Review---2014---Geoffroy de Clippel,Kfir Eliaz,Brian Knight

A key feature of arbitration is the possibility for con icting parties to participate in the selection of the arbitrator, the individual who will rule the case. We analyze this problem of the selection of arbitrators from the perspective of implementation theory. In particular, theoretical analyses document problems with veto-rank, a simultaneous procedure that is commonly used in practice, and develop a new sequential procedure, shortlisting, with better properties. Experimental results are consistent with the theoretical predictions, highlighting both the disadvantages associated with the veto-rank procedure and the advantages associated with the short-lising procedure.

Asset Demand Based Tests of Expected Utility Maximization

- American Economic Review---2014---Felix Kubler,Larry Selden,Xiao Wei

We provide conditions under which contingent claim and asset demands are consistent with state independent Expected Utility maximization. The paper focuses on the case of a single commodity and demands are allowed to be functions of probabilities and not just prices and income. We extend prior analyses by deriving three distinct tests for demands to be rationalized by Expected Utility: (i) a contingent claim analogue to the certainty strong axiom of revealed preference, (ii) a characterization of the functional form for demand

and (iii) necessary and sufficient conditions based on the Slutsky matrix.

A Biological Theory of Social Discounting

- American Economic Review---2014---Arthur Robson,Balázs Szentes

We consider a growth model in which intergenerational transfers are made via stocks of private and public capital. Private capital is the outcome of individuals' private savings while decisions regarding public capital are made collectively. We hypothesize that private saving choices evolve through individual selection while public saving decisions are the result of group selection. The main result of the paper is that the equilibrium rate of return to private capital is at least 2-3% more than the rate of return to public capital. In other words, social choices involving intertemporal trade-offs exhibit much more patience than individual choices do.

Can Marginal Rates of Substitution Be Inferred from Happiness Data? Evidence from Residency Choices

- American Economic Review---2014---Daniel Benjamin,Ori Heffetz,Miles Kimball,Alex Rees-Jones

We survey 561 students from U.S. medical schools shortly after they submit choice rankings over residencies to the National Resident Matching Program. We elicit (a) these choice rankings, (b) anticipated subjective well-being (SWB) rankings, and (c) expected features of the residencies (such as prestige). We find substantial differences between choice and anticipated-SWB rankings in the implied tradeoffs between residency features. In our data, evaluative SWB measures (life satisfaction and Cantril's ladder) imply tradeoffs closer to choice than does affective happiness (even time-integrated), and as close as do multi-measure SWB indices. We discuss implications for using SWB data in applied work.

Mismatch Unemployment

- American Economic Review---2014---Ay?egül ?ahin,Joseph Song,Giorgio Topa,Giovanni L. Violante

We develop a framework where mismatch between vacancies and job seekers across sectors translates into higher unemployment by lowering the aggregate job-finding rate. We use this framework to measure the contribution of mismatch to the recent rise in U.S. unemployment by exploiting two sources of cross-sectional data on vacancies, JOLTS and HWOL. Our calculations indicate that mismatch, across industries and 3-digit occupations, explains at most 1/3 of the total observed increase in the unemployment rate. Occupational mismatch has become especially more severe for college graduates, and in the West of the United States. Geographical mismatch unemployment plays no apparent role.

Inefficient Hiring in Entry-Level Labor Markets

- American Economic Review---2014---Amanda Pallais

Hiring inexperienced workers generates information about their abilities. If this information is public, workers obtain its benefits. If workers cannot compensate firms for hiring them, firms will hire too few inexperienced workers. I determine the effects of hiring workers and revealing more information about their abilities through a field experiment in an online marketplace. I hired 952 randomly-selected workers, giving them either detailed or coarse public evaluations. Both hiring workers and providing more detailed evaluations substantially improved workers' subsequent employment outcomes. Under plausible assumptions, the experiment's market-level benefits exceeded its cost, suggesting that some experimental workers had been inefficiently unemployed.

The Network Structure of International Trade

- American Economic Review---2014---Thomas Chaney

Motivated by empirical evidence I uncover on the dynamics of French firms exports, I offer a novel theory of trade frictions. Firms only export into markets where they have a contact. They directly search for new trading partners, but also use their existing network of contacts to remotely search for new partners. I characterize the dynamic formation of an international network of exporters in this model. I structurally estimate this model on French data and confirm its predictions regarding the distribution of the number of foreign markets accessed by exporters and the geographic distribution of exports.

Structural Transformation, the Mismeasurement of Productivity Growth, and the Cost Disease of Services

- American Economic Review---2014---Alwyn Young

If workers self-select into industries based upon their relative productivity in different tasks, and comparative advantage is aligned with absolute advantage, then the average efficacy of a sector's workforce will be negatively correlated with its employment share. This might explain the difference in the reported productivity growth of contracting goods and expanding services. Instrumenting with defense expenditures, I find the elasticity of worker efficacy with respect to employment shares is substantially negative, albeit imprecisely estimated. The estimates suggest that the view that goods and services have similar productivity growth rates is a plausible alternative characterization of growth in developed economies.

A Quantitative Analysis of the Used-Car Market

- American Economic Review---2014---Alessandro Gavazza,Alessandro Lizzeri,Nikita Roketskiy

We quantitatively investigate the allocative and welfare effects of secondary markets for cars. An important source of gains from trade in these markets is the heterogeneity in the willingness to pay for higher-quality (newer) goods, but transaction costs are an impediment to instantaneous trade. Calibration of the model successfully matches several aggregate features of the U.S. and French used-car markets. Counterfactual analyses show that transaction costs have a large effect on volume of trade, allocations, and the primary market. Aggregate effects on consumer surplus and welfare are relatively small, but the effect on lower-valuation households can be large.

Fertility Transitions along the Extensive and Intensive Margins

- American Economic Review---2014---Daniel Aaronson,Fabian Lange,Bhashkar Mazumder

By allowing for an extensive margin in the standard quantity-quality model, we generate new insights into fertility transitions. We test the model on Southern black women a ected by a large-scale school construction program. Consistent with our model, women facing improved schooling opportunities for their children were more likely to have at least one child but chose to have smaller families overall. By contrast, women who themselves obtained more schooling due to the program delayed childbearing along both the extensive and intensive margins and entered higher quality occupations, consistent with education raising opportunity costs of child rearing.

Claim Validation

- American Economic Review---2014---Nabil Al-Najjar,Luciano Pomatto,Alvaro Sandroni

Hume (1748) challenged the idea that a general claim (e.g. "all swans are white") can be validated by empirical evidence, no matter how compelling. We examine this issue from the perspective of a tester who must accept or reject the forecasts of a potential expert. If experts can be skeptical about the validity of claims then they can strategically evade rejection. In contrast, if experts are required to conclude that claims backed by sucient evidence are likely to be true, then they can be tested and rejected. These results provide an economic rationale for claim validation based on incentive problems.

The Power of Communication

- American Economic Review---2014---David Rahman

In this paper, I offer two ways in which firms can collude: secret monitoring and infrequent coordination. Such collusion is enforceable with intuitive communication protocols. I make my case in the context of a repeated Cournotoligopoly with flexible production, prices that follow a Brownian motion and no monetary side payments, an environment where it has previously been argued that any collusion is impossible. Trade associations can easily facilitate collusion by mediating communication amongst firms.

The Human Capital Stock: A Generalized Approach

- American Economic Review---2014---Benjamin F. Jones

This paper reconsiders the traditional approach to human capital measurement in the study of cross-country income differences. Within a broader class of neoclassical human capital aggregators, traditional accounting is found to be a theoretical lower bound on human capital difference across economies. Implementing a generalized accounting empirically illustrates the possibility that capital variation may now account (even fully) for the large income variation between rich and poor countries. These findings reject the constraints on human capital variation that traditional accounting has imposed.

Mandatory versus Discretionary Spending: The Status Quo Effect

- American Economic Review---2014---T. Renee Bowen,Ying Chen,Hülya Eraslan

Do mandatory spending programs such as Medicare improve efficiency? We analyze a model with two parties allocating a fixed budget to a public good and private transfers each period over an infinite horizon. We compare two institutions that differ in whether public good spending is discretionary or mandatory. We model mandatory spending as an endogenous status quo since it is enacted by law and remains in effect until changed. Mandatory programs result in higher public good spending; furthermore, they ex ante Pareto dominate discretionary programs when parties are patient, persistence of power is low, and polarization is low.

Behavioral Implementation

- American Economic Review---2014---Geoffroy de Clippel

Implementation theory assumes that participants' choices are rational, in the sense of being consistent with the maximization of a context- independent preference. The paper investigates implementation under complete information when individuals' choices need not be rational.

The Short-Run and Long-Run Effects of Behavioral Interventions: Experimental Evidence from Energy Conservation

- American Economic Review---2014---Hunt Allcott,Todd Rogers

We document three remarkable features of the Opower program, in which social comparison-based home energy reports are repeatedly mailed to more than six million households nationwide. First, initial reports cause high-frequency "action and backsliding," but these cycles attenuate over time. Second, if reports are discontinued after two years, effects are relatively persistent, decaying at 10-20 percent per year. Third, consumers are slow to habituate: they continue to respond to repeated treatment even after two years. We show that the previous conservative assumptions about post-intervention persistence had dramatically understated cost effectiveness and illustrate how empirical estimates can optimize program design.

Environmental Regulations, Air and Water Pollution, and Infant Mortality in India

- American Economic Review---2014---Michael Greenstone,Rema Hanna

Using the most comprehensive developing country dataset ever compiled on air and water pollution and environmental regulations, the paper assesses India's environmental regulations with a difference-in-differences design. The air pollution regulations are associated with substantial improvements in air quality. The most successful air regulation resulted in a modest but statistically insignificant decline in infant mortality. In contrast, the water regulations had no measurable benefits. The available evidence leads us to cautiously conclude that higher demand for air quality prompted the effective enforcement of air pollution regulations, indicating that strong public support allows environmental regulations to succeed in weak institutional settings.

Competition and Ideological Diversity: Historical Evidence from US Newspapers

- American Economic Review---2014---Matthew Gentzkow,Jesse Shapiro,Michael Sinkinson

We study the competitive forces which shaped ideological diversity in the US press in the early twentieth century. We find that households preferred like-minded news and that newspapers used their political orientation to differentiate from competitors. We formulate a model of newspaper demand, entry, and political affiliation choice in which newspapers compete for both readers and advertisers. We use a combination of estimation and calibration to identify the model's parameters from novel data on newspaper circulation, costs, and revenues. The estimated model implies that competition enhances ideological diversity, that the market undersupplies diversity, and that optimal competition policy requires accounting for the two-sidedness of the news market.

Financial Networks and Contagion

- American Economic Review---2014---Matthew Elliott,Benjamin Golub,Matthew Jackson

We study cascades of failures in a network of interdependent financial organizations: how discontinuous changes in asset values (e.g., defaults and shutdowns) trigger further failures, and how this depends on network structure. Integration (greater dependence on counterparties) and diversification (more counterparties per organization) have different, nonmonotonic effects on the extent of cascades. Diversification connects the network initially, permitting cascades to travel; but as it increases further, organizations are better insured against one another's failures. Integration also faces trade-offs: increased dependence on other organizations versus less sensitivity to own investments. Finally, we illustrate the model with data on European debt cross-holdings.

Measuring the Effect of the Zero Lower Bound on Medium- and Longer-Term Interest Rates

- American Economic Review---2014---Eric Swanson,John Williams

According to standard macroeconomic models, the zero lower bound greatly reduces the effectiveness of monetary policy and increases the efficacy of fiscal policy. However, private-sector decisions depend on the entire path of expected future short-term interest rates, not just the current short-term rate. Put differently, longer-term yields matter. We show how to measure the zero bound's effects on yields of any maturity. Indeed, 1- and 2-year Treasury yields were surprisingly unconstrained throughout 2008 to 2010, suggesting that monetary and fiscal policy were about as effective as usual during this period. Only beginning in late 2011 did these yields become more constrained.

Productivity Losses from Financial Frictions: Can Self-Financing Undo Capital Misallocation?

- American Economic Review---2014---Benjamin Moll

I develop a highly tractable general equilibrium model in which heterogeneous producers face collateral constraints, and study the effect of financial frictions on capital misallocation and aggregate productivity. My economy is isomorphic to a Solow model but with time-varying TFP. I argue that the persistence of idiosyncratic productivity shocks determines both the size of steady-state productivity losses and the speed of transitions: if shocks are persistent, steady-state losses are small but transitions are slow. Even if financial frictions are unimportant in the long run, they tend to matter in the short run and analyzing steady states only can be misleading.

German Jewish ?migr?s and US Invention

- American Economic Review---2014---Petra Moser,Alessandra Voena,Fabian Waldinger

Historical accounts suggest that Jewish ?migr?s from Nazi Germany revolutionized US science. To analyze the ?migr?s' effects on chemical innovation in the United States, we compare changes in patenting by US inventors in research fields of ?migr?s with fields of other German chemists. Patenting by US inventors increased by 31 percent in ?migr? fields. Regressions which instrument for ?migr? fields with pre-1933 fields of dismissed German chemists confirm a substantial increase in US invention. Inventor-level data indicate that ?migr?s encouraged innovation by attracting new researchers to their fields, rather than by increasing the productivity of incumbent inventors.

Efficiency, Equality, and Labeling: An Experimental Investigation of Focal Points in Explicit Bargaining

- American Economic Review---2014---Andrea Isoni,Anders Poulsen,Robert Sugden,Kei Tsutsui

We investigate Schelling's hypothesis that payoff-irrelevant labels ("cues") can influence the outcomes of bargaining games with communication. In our experimental games, players negotiate over the division of a surplus by claiming valuable objects that have payoff-irrelevant spatial locations. Negotiation occurs in continuous time, constrained by a deadline. In some games, spatial cues are opposed to principles of equality or efficiency. We find a strong tendency for players to agree on efficient and minimally unequal payoff divisions, even if spatial cues suggest otherwise. But if there are two such divisions, cues are often used to select between them, inducing distributional effects.

Efficient Entry in Competing Auctions

- American Economic Review---2014---James Albrecht,Pieter Gautier,Susan Vroman

In this paper, we demonstrate the efficiency of seller entry in a model of competing auctions in which we allow for both buyer and seller heterogeneity. This generalizes existing efficiency results in the competitive search literature by simultaneously allowing for nonrival (many-on-one) meetings and private information.

Private Equity Premium Puzzle Revisited

- American Economic Review---2014---Katya Kartashova

This paper revisits the results of Moskowitz and Vissing-J?gensen (2002) on returns to entrepreneurial investments in the United States. Following the authors' methodology and new data from the Survey of Consumer Finances, I find that the "private equity premium puzzle" does not survive the period of high public equity returns in the 1990s. The difference between private and public equity returns is positive and large period-by-period between 1999 and 2007. Whereas in the 2008-2010 period, overlapping with the Great Recession, public and private equities performances are substantially closer. I validate these results in the aggregate data going back to the 1960s.

How Does Risk Selection Respond to Risk Adjustment? New Evidence from the Medicare Advantage Program

- American Economic Review---2014---Jason Brown,Mark Duggan,Ilyana Kuziemko,William Woolston

To combat adverse selection, governments increasingly base payments to health plans and providers on enrollees' scores from risk-adjustment formulae. In 2004, Medicare began to risk-adjust capitation payments to private Medicare Advantage (MA) plans to reduce selection-driven overpayments. But because the variance of medical costs increases with the predicted mean, incentivizing enrollment of individuals with higher scores can increase the scope for enrolling "overpriced" individuals with costs significantly below the formula's prediction. Indeed, after risk adjustment, MA plans enrolled individuals with higher scores but lower costs conditional on their score. We find no evidence that overpayments were on net reduced.

The Effect of Mergers in Search Markets: Evidence from the Canadian Mortgage Industry

- American Economic Review---2014---Jason Allen,Robert Clark,Jean-Fran?ois Houde

We examine the relationship between concentration and price dispersion using variation induced by a merger in the Canadian mortgage market. Since interest rates are determined through a search and negotiation process, consolidation weakens consumers' bargaining positions. We use reduced-form techniques to estimate the mergers' distributional impact, and show that competition benefits only consumers at the bottom and middle of the transaction price distribution, and that mergers reduce the dispersion of prices. We illustrate that these effects can be explained by the presence of search frictions, and that the average effect of mergers on rates underestimates the increase in market power.

Measuring the Impacts of Teachers I: Evaluating Bias in Teacher Value-Added Estimates

- American Economic Review---2014---Raj Chetty,John Friedman,Jonah E. Rockoff

Are teachers' impacts on students' test scores ("value-added") a good measure of their quality? One reason this question has sparked debate is disagreement about whether value-added (VA) measures provide unbiased estimates of teachers' causal impacts on student achievement. We test for bias in VA using previously unobserved parent characteristics and a quasi-experimental design based on changes in teaching staff. Using school district and tax records for more than one million children, we find that VA models which control for a student's prior test scores exhibit little bias in forecasting teachers' impacts on student achievement.

Measuring the Impacts of Teachers II: Teacher Value-Added and Student Outcomes in Adulthood

- American Economic Review---2014---Raj Chetty,John Friedman,Jonah E. Rockoff

Are teachers' impacts on students' test scores ("value-added") a good measure of their quality? This question has sparked debate partly because of a lack of evidence on whether high value-added (VA) teachers improve students' long-term outcomes. Using school district and tax records for more than one million children, we find that students assigned to high-VA teachers are more likely to attend college, earn higher salaries, and are less likely to have children as teenagers. Replacing a teacher whose VA is in the bottom 5% with an average teacher would increase the present value of students' lifetime income by approximately $250,000 per classroom.

How Much Would You Pay to Resolve Long-Run Risk?

- American Economic Review---2014---Larry Epstein,Emmanuel Farhi,Tomasz Strzalecki

Though risk aversion and the elasticity of intertemporal substitution have been the subjects of careful scrutiny, the long-run risks literature as well as the broader literature using recursive utility to address asset pricing puzzles have ignored the full implications of their parameter specifications. Recursive utility implies that the temporal resolution of risk matters and a quantitative assessment thereof should be part of the calibration process. This paper gives a sense of the magnitudes of implied timing premia. Its objective is to inject temporal resolution of risk into the discussion of the quantitative properties of long-run risks and related models.

Beyond Happiness and Satisfaction: Toward Well-Being Indices Based on Stated Preference

- American Economic Review---2014---Daniel Benjamin,Ori Heffetz,Miles Kimball,Nichole Szembrot

This paper proposes foundations and a methodology for survey-based tracking of well-being. First, we develop a theory in which utility depends on "fundamental aspects" of well-being, measurable with surveys. Second, drawing from psychologists, philosophers, and economists, we compile a comprehensive list of such aspects. Third, we demonstrate our proposed method for estimating the aspects' relative marginal utilities—a necessary input for constructing an individual-level well-being index—by asking ~4,600 U.S. survey respondents to state their preference between pairs of aspect bundles. We estimate high relative marginal utilities for aspects related to family, health, security, values, freedom, happiness, and life satisfaction.

Human Capital and the Wealth of Nations

- American Economic Review---2014---Rodolfo E. Manuelli,Ananth Seshadri

We reevaluate the role of human capital in determining the wealth of nations. We use standard human capital theory to estimate stocks of human capital and allow the quality of human capital to vary across countries. Our model can explain differences in schooling and earnings profiles and consequently estimates of Mincerian rates of return across countries. We find that effective human capital per worker varies substantially across countries. Cross-country differences in Total Factor Productivity (TFP) are significantly smaller than found in previous studies. Our model implies that output per worker is highly responsive to changes in TFP and demographic variables.

Subways, Strikes, and Slowdowns: The Impacts of Public Transit on Traffic Congestion

- American Economic Review---2014---Michael Anderson

Public transit accounts for 1 percent of U.S. passenger miles traveled but attracts strong public support. Using a simple choice model, we predict that transit riders are likely to be individuals who commute along routes with severe roadway delays. These individuals' choices thus have high marginal impacts on congestion. We test this prediction with data from a strike in 2003 by Los Angeles transit workers. Estimating a regression discontinuity design, we find that average highway delay increases 47 percent when transit service ceases. We find that the net benefits of transit systems appear to be much larger than previously believed.

Wall Street and the Housing Bubble

- American Economic Review---2014---Ing-Haw Cheng,Sahil Raina,Wei Xiong

We analyze whether mid-level managers in securitized finance were aware of a large-scale housing bubble and a looming crisis in 2004-2006 using their personal home transaction data. We find that the average person in our sample neither timed the market nor were cautious in their home transactions, and did not exhibit awareness of problems in overall housing markets. Certain groups of securitization agents were particularly aggressive in increasing their exposure to housing during this period, suggesting the need to expand the incentives-based view of the crisis to incorporate a role for beliefs.

Mortgage Modification and Strategic Behavior: Evidence from a Legal Settlement with Countrywide

- American Economic Review---2014---Christopher Mayer,Edward Morrison,Tomasz Piskorski,Arpit Gupta

We investigate whether homeowners respond strategically to news of mortgage modification programs. We exploit plausibly exogenous variation in modification policy induced by settlement of U.S. state government lawsuits against Countrywide Financial Corporation, which agreed to offer modifications to seriously delinquent borrowers. Using a difference-in-difference framework, we find that Countrywide's monthly delinquency rate increased more than 0.54 percentage points—a ten percent relative increase—immediately after the settlement's announcement. The estimated increase in default rates is largest among borrowers least likely to default otherwise. These results suggest that strategic behavior should be an important consideration in designing mortgage modification programs. (JEL D10, G21, G33, K00)

Dynamic Free Riding with Irreversible Investments

- American Economic Review---2014---Marco Battaglini,Salvatore Nunnari,Thomas Palfrey

We study the Markov equilibria of a model of free riding in which n infinitely lived agents choose between private consumption and irreversible contributions to a durable public good. We show that the set of equilibrium steady states converges to a unique point as depreciation converges to zero. For any level of depreciation, moreover, the highest steady state converges to the efficient level as agents become increasingly patient. These results are in contrast to the case with reversible investments, where a continuum of inefficient equilibrium steady states exists for any level of depreciation, discount factor and size of population.

Pass-Through of Emissions Costs in Electricity Markets

- American Economic Review---2014---Natalia Fabra,Mar Reguant

We measure the pass-through of emissions costs to electricity prices. We perform both reduced-form and structural estimations based on optimal bidding in this market. Using rich micro-level data, we estimate the channels affecting pass-through in a flexible manner, with minimal functional form assumptions. Contrary to many studies in the general pass-through literature, we find that emissions costs are almost fully passed-through to electricity prices. Since electricity is traded through high-frequency auctions for highly inelastic demand, firms have weak incentives to adjust markups after the cost shock. Furthermore, the costs of price adjustment are small.

Fraudulent Claims and Nitpicky Insurers

- American Economic Review---2014---Jean-Marc Bourgeon,Pierre Picard

Insurers have the reputation of being bad payers who nitpick when- ever an opportunity arises. However, this nitpicking activity has a positive impact on their auditing strategy since auditing may prove profitable when claims are not fraudulent. We show that reducing the indemnity payments of audited claims induces a lower fraud rate at equilibrium and that some degree of nitpicking is socially optimal when insurance fraud is a concern. Its remains optimal even if it induces adverse effects on policyholders' moral standards.

Multiproduct Search and the Joint Search Effect

- American Economic Review---2014---Jidong Zhou

This paper presents a sequential search model where consumers look for several products from multiproduct firms. Multiproduct search can significantly influence firms' pricing decisions. For example, it can make market prices decrease with search costs. Possible applications of the model are also discussed.

Financial Globalization, Inequality, and the Rising Public Debt

- American Economic Review---2014---Marina Azzimonti,Eva de Francisco,Vincenzo Quadrini

During the last three decades government debt has increased in most developed countries. During the same period we have also observed a significant liberalization of international financial markets. We propose a multicountry model with incomplete markets and show that governments may choose higher levels of debt when financial markets become internationally integrated. We also show that public debt increases with the volatility of uninsurable income (idiosyncratic risk). To the extent that the increase in income inequality observed in some industrialized countries has been associated with higher idiosyncratic risk, the paper suggests another potential mechanism for the rise in public debt.

The Axiomatic Structure of Empirical Content

- American Economic Review---2014---Christopher Chambers,Federico Echenique,Eran Shmaya

We define the empirical content of an economic theory as the least restrictive observationally equivalent theory. We show that the empirical content of a theory is captured by a certain kind of axiomatization, with axioms that are universal negations of conjunctions of atomic formulae.

Man-Bites-Dog Business Cycles

- American Economic Review---2014---Kristoffer Nimark

The newsworthiness of an event is partly determined by how unusual it is and this paper investigates the business cycle implications of this fact. Signals that are more likely to be observed after unusual events may increase both uncertainty and disagreement among agents. In a simple business cycle model, such signals can explain why we observe (i) occasional large changes in macro economic aggregate variables without a correspondingly large change in underlying fundamentals (ii) persistent periods of high macroeconomic volatility and (iii) a positive correlation between absolute changes in macro variables and the cross-sectional dispersion of survey expectations.

Ambiguous Business Cycles

- American Economic Review---2014---Cosmin Ilut,Martin Schneider

This paper studies a New Keynesian business cycle model with agents who are averse to ambiguity (Knightian uncertainty). Shocks to confidence about future TFP are modeled as changes in ambiguity. To assess the size of those shocks, our estimation uses not only data on standard macro variables, but also incorporates the dispersion of survey forecasts about growth as a measure of confidence. Our main result is that TFP and confidence shocks together can explain roughly two thirds of business cycle frequency movements in the major macro aggregates. Confidence shocks account for about 70% of this variation.

Not Only What but Also When: A Theory of Dynamic Voluntary Disclosure

- American Economic Review---2014---Ilan Guttman,Ilan Kremer,Andrzej Skrzypacz

We examine a dynamic model of voluntary disclosure of multiple pieces of private information. In our model, a manager of a firm who may learn multiple signals over time interacts with a competitive capital market and maximizes payoffs that increase in both period prices. We show (perhaps surprisingly) that in equilibrium later disclosures are interpreted more favorably even though the time the manager obtains the signals is independent of the value of the firm. We also provide sufficient conditions for the equilibrium to be in threshold strategies.

Promotional Reviews: An Empirical Investigation of Online Review Manipulation

- American Economic Review---2014---Dina Mayzlin,Yaniv Dover,Judith Chevalier

Firms' incentives to manufacture biased user reviews impede review usefulness. We examine the differences in reviews for a given hotel between two sites: Expedia.com (only a customer can post a review) and TripAdvisor.com (anyone can post). We argue that the net gains from promotional reviewing are highest for independent hotels with single-unit owners and lowest for branded chain hotels with multi-unit owners. We demonstrate that the hotel neighbors of hotels with a high incentive to fake have more negative reviews on TripAdvisor relative to Expedia; hotels with a high incentive to fake have more positive reviews on TripAdvisor relative to Expedia.

Isolated Capital Cities, Accountability, and Corruption: Evidence from US States

- American Economic Review---2014---Filipe Campante,Quoc-Anh Do

We show that isolated capital cities are robustly associated with greater levels of corruption across US states, in line with the view that this isolation reduces accountability. We then provide direct evidence that the spatial distribution of population relative to the capital affects different accountability mechanisms: newspapers cover state politics more when readers are closer to the capital, voters who live far from the capital are less knowledgeable and interested in state politics, and they turn out less in state elections. We also find that isolated capitals are associated with more money in state-level campaigns, and worse public good provision.

Industry Compensation under Relocation Risk: A Firm-Level Analysis of the EU Emissions Trading Scheme

- American Economic Review---2014---Ralf Martin,Mirabelle Mu?ls,Laure de Preux,Ulrich Wagner

When regulated firms are offered compensation to prevent them from relocating, efficiency requires that payments be distributed across firms so as to equalize marginal relocation probabilities, weighted by the damage caused by relocation. We formalize this fundamental economic logic and apply it to analyzing compensation rules proposed under the EU Emissions Trading Scheme, where emission permits are allocated free of charge to carbon intensive and trade exposed industries. We show that this practice results in substantial overcompensation for given carbon leakage risk. Efficient permit allocation reduces the aggregate risk of job loss by more than half without increasing aggregate compensation.

Explaining Job Polarization: Routine-Biased Technological Change and Offshoring

- American Economic Review---2014---Maarten Goos,Alan Manning,Anna Salomons

This paper documents the pervasiveness of job polarization in 16 Western European countries over the period 1993-2010. It then develops and estimates a framework to explain job polarization using routine-biased technological change and offshoring. This model can explain much of both total job polarization and the split into within-industry and between-industry components.

Estimates of the Size and Source of Price Declines Due to Nearby Foreclosures

- American Economic Review---2014---Elliot Anenberg,Edward Kung

Using new data on real estate listings, we provide new evidence that foreclosures have a causal effect on nearby house prices and disentangle the effect into two sources: competition and disamenities. We identify the causal effect by showing that sellers respond to new REO listings in the exact week of listing, not a week before and not a week after. We disentangle competition and disamenity effects by examining the spillover effect across various stages of the foreclosure process. We find that competition effects are important in all areas, but only find evidence for disamenity effects in high density, low price neighborhoods.

The Effect of Third-Party Funding of Plaintiffs on Settlement

- American Economic Review---2014---Andrew Daughety,Jennifer Reinganum

A significant policy concern about the emerging plaintiff legal funding industry is that loans will undermine settlement. When the plaintiff has private information about damages, we find that the optimal (plaintiff-funder) loan induces all plaintiff types to make the same demand, resulting in full settlement; implementation may entail a very high repayment amount. Plaintiffs' attorneys with contingent-fee compensation benefit from such financing, as it eliminates trial costs. When the defendant has private information about his likelihood of being found liable, we find that the likelihood of settlement is unaffected. In both settings the defendant's incentive for care-taking is unaffected.

A Community College Instructor Like Me: Race and Ethnicity Interactions in the Classroom

- American Economic Review---2014---Robert Fairlie,Florian Hoffmann,Philip Oreopoulos

Administrative data from a large and diverse community college are used to examine if underrepresented minority students benefit from taking courses with underrepresented minority instructors. To identify racial interactions we estimate models that include both student and classroom fixed effects and focus on students with limited choice in courses. We find that the performance gap in terms of class dropout rates and grade performance between white and underrepresented minority students falls by 20 to 50 percent when taught by an underrepresented minority instructor. We also find these interactions affect longer term outcomes such as subsequent course selection, retention, and degree completion.

Dynamic Adverse Selection: A Theory of Illiquidity, Fire Sales, and Flight to Quality

- American Economic Review---2014---Veronica Guerrieri,Robert Shimer

We develop a dynamic equilibrium model of asset markets with adverse selection. There exists a unique equilibrium in which better quality assets trade at higher prices but with a lower price-dividend ratio in less liquid markets. Sellers of high-quality assets signal quality by accepting a lower trading probability. We show how the distribution of sellers' private information affects an asset's price and liquidity, how a change in that distribution can cause a fire sale and a flight to quality, and how asset purchase and subsidy programs may raise prices and liquidity and reverse the flight to quality.

Micro-loans, Insecticide-Treated Bednets, and Malaria: Evidence from a Randomized Controlled Trial in Orissa, India

- American Economic Review---2014---Alessandro Tarozzi,Aprajit Mahajan,Brian Blackburn,Dan Kopf,Lakshmi Krishnan,Joanne Yoong

We describe findings from the first large-scale cluster randomized controlled trial in a developing country that evaluates the uptake of a health-protecting technology, insecticide-treated bednets (ITNs), through micro-consumer loans, as compared to free distribution and control conditions. Despite a relatively high price, 52 percent of sample households purchased ITNs, highlighting the role of liquidity constraints in explaining earlier low adoption rates. We find mixed evidence of improvements in malaria indices. We interpret the results and their implications within the debate about cost sharing, sustainability and liquidity constraints in public health initiatives in developing countries.

Importers, Exporters, and Exchange Rate Disconnect

- American Economic Review---2014---Mary Amiti,Oleg Itskhoki,Jozef Konings

Large exporters are simultaneously large importers. We show that this pattern is key to understanding low aggregate exchange rate pass-through as well as the variation in pass-through across exporters. We develop a theoretical framework with variable markups and imported inputs, which predicts that firms with high import shares and high market shares have low exchange rate pass-through. We test and quantify the theoretical mechanism using Belgian firm-product-level data on imports and exports. Small nonimporting firms have nearly complete pass-through, while large import-intensive exporters have pass-through around 50 percent, with the marginal cost and markup channels contributing roughly equally.

Patent Laws, Product Life-Cycle Lengths, and Multinational Activity

- American Economic Review---2014---L. Kamran Bilir

Do intellectual property rights influence multinationals' manufacturing location decisions? My theoretical model indicates that countries with strong patent laws attract multinational activity, but only in sectors with relatively long product life cycles. By contrast, firms with short life-cycle technologies are insensitive, because offshore imitation is less likely to succeed before obsolescence. I document strong empirical regularities consistent with the model using a panel dataset on the global operations of US-based multinational firms and a new measure of product obsolescence. Moreover, my identification strategy allows me to isolate the causal effect of patent laws on multinational activity.

Auctions, Actions, and the Failure of Information Aggregation

- American Economic Review---2014---Alp Atakan,Mehmet Ekmekci

We study a uniform-price auction where k identical common-value objects are allocated amongst z > k bidders who have imperfect signals about the state of the world. The common valuation is determined jointly by the state and an action that is chosen after winning an object. In large auctions, there are symmetric equilibria where the auction price aggregates no information. Moreover, market statistics other than price (e.g., the amount of rationing or the bid distribution) contain extra information about the state. In contrast, in standard large auctions without actions, the price aggregates all relevant information.

Peer Effects in Program Participation

- American Economic Review---2014---Gordon Dahl,Katrine V. L?ken,Magne Mogstad,Katrine Vellesen Løken

We estimate peer effects in paid paternity leave in Norway using a regression discontinuity design. Coworkers and brothers are 11 and 15 percentage points, respectively, more likely to take paternity leave if their peer was exogenously induced to take up leave. The most likely mechanism is information transmission, including increased knowledge of how an employer will react. The estimated peer effect snowballs over time, as the first peer interacts with a second peer, the second peer with a third, and so on. This leads to long-run participation rates which are substantially higher than would otherwise be expected.

Consumption and Labor Supply with Partial Insurance: An Analytical Framework

- American Economic Review---2014---Jonathan Heathcote,Kjetil Storesletten,Giovanni L. Violante

We develop a model with partial insurance against idiosyncratic wage shocks to quantify risk sharing. Closed-form solutions are obtained for equilibrium allocations and for moments of the joint distribution of consumption, hours, and wages. We prove identification and demonstrate how labor supply data are informative about risk sharing. The model, estimated with US data over the period 1967–2006, implies that (i) 39 percent of permanent wage shocks pass through to consumption; (ii) the share of wage risk insured increased until the early 1980s; and (iii) preference heterogeneity is important in accounting for observed dispersion in consumption and hours.

A Balls-and-Bins Model of Trade

- American Economic Review---2014---Roc Armenter,Miklós Koren

Many of the facts about the extensive margin of trade —which firms export, and how many products are sent to how many destinations—are consistent with a surprisingly large class of trade models because of the sparse nature of trade data. We propose a statistical model to account for sparsity, formalizing the assignment of trade shipments to country, product, and firm categories as balls falling into bins. The balls-and-bins model quantitatively reproduces the pattern of zero product- and firm-level trade flows across export destinations, and the frequency of multiproduct, multidestination exporters. In contrast, balls-and-bins overpredicts the fraction of exporting firms.

The Effect of Patient Cost Sharing on Utilization, Health, and Risk Protection

- American Economic Review---2014---Hitoshi Shigeoka

This paper exploits a sharp reduction in patient cost sharing at age 70 in Japan, using a regression discontinuity design to examine its effect on utilization, health, and financial risk arising from out-of-pocket expenditures. Due to the national policy, cost sharing is 60–80 percent lower at age 70 than at age 69. I find that both outpatient and inpatient care are price sensitive among the elderly. While I find little impact on mortality and other health outcomes, the results show that reduced cost sharing is associated with lower out-of-pocket expenditures, especially at the right tail of the distribution.

Mafia and Public Spending: Evidence on the Fiscal Multiplier from a Quasi-experiment

- American Economic Review---2014---Antonio Acconcia,Giancarlo Corsetti,Saverio Simonelli

A law issued to combat political corruption and Mafia infiltration of city councils in Italy has resulted in episodes of large, unanticipated, temporary contractions in local public spending. Using these episodes as instruments, we estimate the output multiplier of spending cuts at provincial level—controlling for national monetary and fiscal policy, and holding the tax burden of local residents constant—to be 1.5. Assuming that lagged spending is exogenous to current output brings the estimate of the overall multiplier up to 1.9. These results suggest that local spending adjustment may be quite consequential for local activity.

Household Bargaining and Excess Fertility: An Experimental Study in Zambia

- American Economic Review---2014---Nava Ashraf,Erica Field,Jean Lee

We posit that household decision-making over fertility is characterized by moral hazard since most contraception can only be perfectly observed by the woman. Using an experiment in Zambia that varied whether women were given access to contraceptives alone or with their husbands, we find that women given access with their husbands were 19 percent less likely to seek family planning services, 25 percent less likely to use concealable contraception, and 27 percent more likely to give birth. However, women given access to contraception alone report a lower subjective well-being, suggesting a psycho-social cost of making contraceptives more concealable.

E-lections: Voting Behavior and the Internet

- American Economic Review---2014---Oliver Falck,Robert Gold,Stephan Heblich

This paper analyzes the effects on voting behavior of information disseminated over the Internet. We address endogeneity in Internet availability by exploiting regional and technological peculiarities of the preexisting voice telephony network that hindered the roll-out of fixed-line infrastructure for high-speed Internet. We find negative effects of Internet availability on voter turnout, which we relate to a crowding-out of TV consumption and increased entertainment consumption. We find no evidence that the Internet systematically benefits specific parties, suggesting ideological self-segregation in online information consumption. Robustness tests, including placebo estimations from the pre-Internet period, support a causal interpretation of our results.

Two Pillars of Asset Pricing

- American Economic Review---2014---Eugene F. Fama

Speculative Asset Prices

- American Economic Review---2014---Robert Shiller

Who Is (More) Rational?

- American Economic Review---2014---Syngjoo Choi,Shachar Kariv,Wieland M?ller,Dan Silverman

Revealed preference theory offers a criterion for decision-making quality: if decisions are high quality then there exists a utility function the choices maximize. We conduct a large-scale experiment to test for consistency with utility maximization. Consistency scores vary markedly within and across socioeconomic groups. In particular, consistency is strongly related to wealth: a standard deviation increase in consistency is associated with 15-19 percent more household wealth. This association is quantitatively robust to conditioning on correlates of unobserved constraints, preferences, and beliefs. Consistency with utility maximization under laboratory conditions thus captures decision-making ability that applies across domains and influences important real-world outcomes.

Tenure, Experience, Human Capital, and Wages: A Tractable Equilibrium Search Model of Wage Dynamics

- American Economic Review---2014---Jesper Bagger,Francois Fontaine,Fabien Postel-Vinay,Jean-Marc Robin

We develop and estimate an equilibrium job search model of worker careers, allowing for human capital accumulation, employer heterogeneity and individual-level shocks. Wage growth is decomposed into contributions of human capital and job search, within and between jobs. Human capital accumulation is largest for highly educated workers. The contribution from job search to wage growth, both within- and between-job, declines over the fi rst ten years of a career – the ‘job-shopping’ phase of a working life – after which workers settle into high-quality jobs using outside o ffers to generate gradual wage increases, thus reaping the bene fits from competition between employers.

The Wage Effects of Offshoring: Evidence from Danish Matched Worker-Firm Data

- American Economic Review---2014---David Hummels,Rasmus J?rgensen,Jakob Munch,Chong Xiang

We employ data that match the population of Danish workers to the universe of private-sector Danish firms, with product-level trade flows by origin- and destination-countries. We document new stylized facts about offshoring and instrument for offshoring and exporting. Within job spells, offshoring increases (decreases) the high-skilled (low-skilled) wage; exporting increases the wages of all skill-types; the net wage-effect of trade varies substantially within the same skill-type; conditional on skill, the wage-effect of offshoring varies across task characteristics. We estimate the overall effects of offshoring on workers' present and future income streams by constructing pre-offshoring-shock worker-cohorts and tracking them over time.

US Food Aid and Civil Conflict

- American Economic Review---2014---Nathan Nunn,Nancy Qian

We study the effect of U.S. food aid on conflict in recipient countries. Our analysis exploits time variation in food aid shipments due to changes in U.S. wheat production and cross-sectional variation in a country's tendency to receive any U.S. food aid. According to our estimates, an increase in U.S. food aid increases the incidence and duration of civil conflicts, but has no robust effect on inter-state conflicts or the onset of civil conflicts. We also provide suggestive evidence that the effects are most pronounced in countries with a recent history of civil conflict.

The Size Distribution of Farms and International Productivity Differences

- American Economic Review---2014---Tasso Adamopoulos,Diego Restuccia

We study the determinants of di fferences in farm-size across countries and their impact on agricultural and aggregate productivity using a quantitative sectoral model featuring a distribution of farms. Measured aggregate factors (capital, land, economy-wide productivity) account for ? of the observed differences in farm size and productivity. Policies and institutions that misallocate resources across farms have the potential to account for the remaining diff erences. Exploiting within-country variation in crop-specifi c price distortions and their correlation with farm size, we construct a cross-country measure of farm-size distortions which together with aggregate factors accounts for ? of the cross-country diff erences in size and productivity.

The Effect of Uncertainty on Investment: Evidence from Texas Oil Drilling

- American Economic Review---2014---Ryan Kellogg

This paper estimates the response of investment to changes in uncertainty using data on oil drilling in Texas and the expected volatility of the future price of oil. Using a dynamic model of firms' investment problem, I find that: (1) the response of drilling activity to changes in price volatility has a magnitude consistent with the optimal response prescribed by theory, (2) the cost of failing to respond to volatility shocks is economically significant, and (3) implied volatility data derived from futures options prices yields a better fit to firms' investment behavior than backward-looking volatility measures such as GARCH.

Gift Exchange versus Monetary Exchange: Theory and Evidence

- American Economic Review---2014---John Duffy,Daniela Puzzello

We study the Lagos and Wright (2005) model of monetary exchange in the laboratory. With a finite population of sufficiently patient agents, this model has a unique monetary equilibrium and a continuum of non-monetary gift exchange equilibria, some of which Pareto dominate the monetary equilibrium. We find that subjects avoid the gift-exchange equilibria in favor of the monetary equilibrium. We also study versions of the model without money where all equilibria involve non-monetary gift-exchange. We find that welfare is higher in the model with money than without money, suggesting that money plays a role as an efficiency enhancing coordination device.

Compulsory Education and the Benefits of Schooling

- American Economic Review---2014---Melvin Stephens,Dou-Yan Yang

Causal estimates of the benefits of increased schooling using U.S. state schooling laws as instruments typically rely on specifications which assume common trends across states in the factors affecting different birth cohorts. Differential changes across states during this period, such as relative school quality improvements, suggest that this assumption may fail to hold. Across a number of outcomes including wages, unemployment, and divorce, we find that statistically significant causal estimates become insignificant and, in many instances, wrong-signed when allowing year of birth effects to vary across regions.

Evolutionary Origins of the Endowment Effect: Evidence from Hunter-Gatherers

- American Economic Review---2014---Coren L. Apicella,Eduardo Azevedo,Nicholas A. Christakis,James H. Fowler

The endowment effect, the tendency to value possessions more than non-possessions, is a well known departure from rational choice and has been replicated in numerous settings. We investigate the universality of the endowment effect, its evolutionary significance, and its dependence on environmental factors. We experimentally test for the endowment effect in an isolated and evolutionarily relevant population of hunter-gatherers, the Hadza Bushmen of Northern Tanzania. We find that Hadza living in isolated regions do not display the endowment effect, while Hadza living in a geographic region with increased exposure to modern society and markets do display the endowment effect.

Does Growing Up in a High Crime Neighborhood Affect Youth Criminal Behavior?

- American Economic Review---2014---Anna Damm,Christian Dustmann

This paper investigates the effect of early exposure to neighborhood crime on subsequent criminal behavior of youth exploiting a unique natural experiment between 1986 and 1998 when refugee immigrants to Denmark were assigned to neighborhoods quasi-randomly. We find strong evidence that the share of young people convicted for crimes, in particular violent crimes, in the neighborhood increases convictions of male assignees later in life. No such effects are found for other measures of neighborhood crime including the rate of committed crimes. Our findings suggest social interaction as a key channel through which neighborhood crime is linked to individual criminal behavior.

Aid under Fire: Development Projects and Civil Conflict

- American Economic Review---2014---Benjamin Crost,Joseph Felter,Patrick Johnston

We estimate the causal effect of a large development program on conflict in the Philippines through a regression discontinuity design that exploits an arbitrary poverty threshold used to assign eligibility for the program. We find that barely eligible municipalities experienced a large increase in conflict casualties compared to barely ineligible ones. This increase is mostly due to insurgent-initiated incidents in the early stages of program preparation. Our results are consistent with the hypothesis that insurgents try to sabotage the program because its success would weaken their support in the population.

Language, Meaning, and Games: A Model of Communication, Coordination, and Evolution: Comment

- American Economic Review---2014---Yuval Heller

Demichelis & Weibull (AER 2008) show that adding lexicographic lying costs to coordination games with cheap talk yields a sharp prediction: only the efficient outcome is evolutionarily stable. I show that this result is caused by the discontinuity of preferences rather than by small lying costs per se. Finally, I discuss why discontinuity may not be an appealing assumption in evolutionary models.

President's Foreword

- American Economic Review---2014---William D. Nordhaus

Editor's Introduction

- American Economic Review---2014---William Johnson

Retirement Security in an Aging Population

- American Economic Review---2014---James M. Poterba

Elderly individuals exhibit wide disparities in their sources of income. For those in the bottom half of the income distribution, Social Security is the most important source of support; program changes would directly affect their well-being. Income from private pensions, assets, and earnings are relatively more important for higher-income elderly individuals, who have more diverse income sources. The trend from private sector defined benefit to defined contribution pension plans has shifted responsibility for retirement security to individuals. A significant subset of the population is unlikely to be able to sustain their standard of living in retirement without higher pre-retirement saving.

Inflation Persistence, the NAIRU, and the Great Recession

- American Economic Review---2014---Mark Watson

The rate of inflation fell far less over the period 2007-2013 than in the period 1979-1985 despite similar large increases in the unemployment rate. This paper asks why. Possible explanations include a change in the persistence of inflation, changes in NAIRU, and other shocks. A change in the persistence of inflation, with inflation more anchored in the period 2007-2013 than in the period 1979-1985, is found to be important. The level and change in the NAIRU cannot be precisely estimated, but the data suggest an increase of nearly 1 percentage point since 2007.

The Natural Rate of Interest and Its Usefulness for Monetary Policy

- American Economic Review---2014---Robert Barsky,Alejandro Justiniano,Leonardo Melosi

We estimate a state-of-the-art DSGE model to study the natural rate of interest in the United States over the last 20 years. The natural rate is highly procyclical, and fell substantially below zero in each of the last three recessions. Although the drop was of comparable magnitude across the three recessions, the decline was considerably more persistent in the Great Recession. We discuss the usefulness and limitations, particularly due to the zero lower bound, of the natural rate for the conduct of monetary policy.

The Future of US Economic Growth

- American Economic Review---2014---John Fernald,Charles Jones

Modern growth theory suggests that more than three-quarters of growth since 1950 reflects rising educational attainment and research intensity. As these transition dynamics fade, US economic growth is likely to slow at some point. However, the rise of China, India, and other emerging economies may allow another few decades of rapid growth in world researchers. Finally, and more speculatively, the shape of the idea production function introduces a fundamental uncertainty into the future of growth. For example, the possibility that artificial intelligence will allow machines to replace workers to some extent could lead to higher growth in the future.

Recovery from Financial Crises: Evidence from 100 Episodes

- American Economic Review---2014---Carmen Reinhart,Kenneth Rogoff

We examine the evolution of real per capita GDP around 100 systemic banking crises. Part of the costs of these crises owes to the protracted nature of recovery. On average, it takes about 8 years to reach the pre-crisis level of income; the median is about 6.5 years. Five to six years after the onset of crisis, only Germany and the United States (out of 12 systemic cases) have reached their 2007-2008 peaks in real income. Forty-five percent of the episodes recorded double dips. Post-war business cycles are not the relevant comparator for the recent crises in advanced economies.

Why Has US Policy Uncertainty Risen since 1960?

- American Economic Review---2014---Scott Baker,Nicholas Bloom,Brandice Canes-Wrone,Steven Davis,Jonathan Rodden

We consider two classes of explanations for the rise in policy-related economic uncertainty in the United States since 1960. The first stresses growth in government spending, taxes, and regulation. A second stresses increased political polarization and its implications for the policymaking process and policy choices.

The Role of Policy in the Great Recession and the Weak Recovery

- American Economic Review---2014---John Taylor

This paper reports on recent research showing that the severe recession of 2007-2009 and the weak recovery have been due to poor economic policies and the failure to implement good policies during the past decade. Monetary policy, fiscal policy, and regulatory policy became more discretionary, more interventionist, and less predictable in comparison with the previous two decades of better economic performance. At best these policies led to growth spurts, but were followed by retrenchments, averaging to poor performance. The paper also considers alternative views-that the equilibrium interest rate declined during the decade and that the seriousness of financial crisis caused the slow recovery.

Housing Assignment with Restrictions: Theory and Evidence from Stanford University's Campus

- American Economic Review---2014---Tim Landvoigt,Monika Piazzesi,Martin Schneider

This paper studies housing markets where a subset of houses in a restricted area is available exclusively to a subset of "eligible" buyers. An empirical part shows that houses on Stanford campus (available only to faculty) trade at substantial discounts to comparable houses off campus. The theoretical part describes an assignment model with heterogeneous houses and buyers which predicts such discounts if the matchup of quality and buyer pools is sufficiently different inside versus outside the restricted area. The restriction can distort allocations by making eligible buyers choose either higher or lower qualities than ineligible buyers with the same characteristics.

Why Is Housing Finance Still Stuck in Such a Primitive Stage?

- American Economic Review---2014---Robert Shiller

The institutions for financing owner-occupied housing have not progressed as they should, and the financial innovation that has followed the financial crisis of 2007-2009 has not been focused on improving the risk management of individual homeowners. This paper lists a number of barriers to housing finance innovation, and in light of these barriers, the problems of some major innovations of the past and future: self-amortizing mortgages, price-level adjusted mortgages (PLAMs), shared appreciation mortgages (SAMs), housing partnerships, and continuous workout mortgages (CWMs).

The Mortgage Mess, the Press, and the Politics of Inattention

- American Economic Review---2014---Andrew Caplin,Roy Lowrance

In reviewing the Challenger tragedy, Richard Feynman identified a flawed O-Ring as the proximate cause and NASA's flawed safety culture as a deeper cause. There has been no similar investigation of the mortgage mess, which has been baptized rather than understood. In part, this is due to committed ideological views in the public and press that eliminate the call for expert analysis and reform. Broader and deeper policy problems are identified and illustrated using NASA's past behavior and FHA's ongoing behavior. The Columbia tragedy sounds an ominous warning on the future stability of housing finance markets.

Mandated Risk Retention in Mortgage Securitization: An Economist's View

- American Economic Review---2014---Paul Willen

I evaluate the empirical premise and the economic logic of the Dodd-Frank Act's requirement that issuers of asset-backed securities retain credit risk.

Is It Too Late to Bail Out the Troubled Countries in the Eurozone?

- American Economic Review---2014---Juan Carlos Conesa,Timothy Kehoe

In January 1995, US President Bill Clinton organized a bailout for Mexico that imposed penalty interest rates and induced the Mexican government to reduce its debt, ending the debt crisis. Can the Troika (European Commission, European Central Bank, and International Monetary Fund) organize similar bailouts for the troubled countries in the eurozone? Our analysis suggests that debt levels are so high that bailouts with penalty interest rates could induce the eurozone governments to default rather than reduce their debt. A resumption of economic growth is one of the few ways that the eurozone crises can end.

Renegotiation Policies in Sovereign Defaults

- American Economic Review---2014---Cristina Arellano,Yan Bai

This paper studies an optimal renegotiation protocol designed by a benevolent planner when two countries renegotiate with the same lender. The solution calls for recoveries that induce each country to default or repay, trading off the deadweight costs and the redistribution benefits of default independently of the other country. This outcome contrasts with a decentralized bargaining solution where default in one country increases the likelihood of default in the second country because recoveries are lower when both countries renegotiate. The paper suggests that policies geared at designing renegotiation processes that treat countries in isolation can prevent contagion of debt crises.

Sovereign Debt Booms in Monetary Unions

- American Economic Review---2014---Mark Aguiar,Manuel Amador,Emmanuel Farhi,Gita Gopinath

We propose a continuous time model to investigate the impact of inflation credibility on sovereign debt dynamics. At every point in time, an impatient government decides fiscal surplus and inflation, without commitment. Inflation is costly, but reduces the real value of outstanding nominal debt. In equilibrium, debt dynamics is the result of two opposing forces: (i) impatience and (ii) the desire to conquer low inflation. A large increase in inflation credibility can trigger a process of debt accumulation. This rationalizes the sovereign debt booms that are often experienced by low inflation credibility countries upon joining a currency union.

The Distribution of Wealth and the MPC: Implications of New European Data

- American Economic Review---2014---Christopher Carroll,Jiri Slacalek,Kiichi Tokuoka

Using a standard, realistically calibrated model of buffer-stock saving with transitory and permanent income shocks, we study how cross-country differences in the wealth distribution and household income dynamics affect the marginal propensity to consume out of transitory shocks (MPC). Across the 15 countries in our sample, we find that the aggregate consumption response ranges between 0.1 and 0.4 and is stronger (i) in economies with large wealth inequality, where a larger proportion of households has little wealth, (ii) under larger transitory income shocks, and (iii) when we consider households only use liquid assets (rather than net wealth) to smooth consumption.

Measuring How Fiscal Shocks Affect Durable Spending in Recessions and Expansions

- American Economic Review---2014---David Berger,Joseph Vavra

We estimate how durable expenditures respond to government spending shocks at different points in the business cycle using a nonlinear VAR approach that allows for the durable multiplier to vary smoothly with the state of the economy. We find strong evidence that the aggregate durable spending response to fiscal shocks is substantially larger during expansions than during recessions, in contrast to what has been has been observed for the aggregate multiplier. We argue that these results are consistent with the theoretical predictions of the fixed cost model of durable demand in Berger and Vavra (2012).

A Tale of Two Stimulus Payments: 2001 versus 2008

- American Economic Review---2014---Greg Kaplan,Giovanni L. Violante

Fiscal stimulus payments (i.e., direct lump-sum payments from the government to households) were used in the recessions of 2001 and 2008 in an attempt to simultaneously alleviate households' economic hardship and stimulate aggregate demand. Despite the similarities between the two stimulus policies, there were important differences in both their design and the prevailing economic conditions. We use the model of Kaplan and Violante (2013) to compare the consumption response to these policies. Consistent with empirical evidence from microdata, we find that the consumption response was around one-third lower in 2008, primarily due to the larger size of the payments.

Consumption Inequality over the Last Half Century: Some Evidence Using the New PSID Consumption Measure

- American Economic Review---2014---Orazio Attanasio,Luigi Pistaferri

This paper contributes to the debate regarding trends in consumption inequality in the United States. We present a new measure of consumption inequality based on the redesigned 1999–2011 PSID. We impute consumption to the families observed before 1999 using the more comprehensive consumption data available from 1999 onward. One advantage of this procedure is in sample verification of the quality of the imputation procedure; another is that it yields a long time series (1967–2010). Consumption inequality was stable in the 1970s, as was income inequality. It increased significantly after 1980. The Great Recession was associated with a decline in consumption inequality.

Health, Human Capital, and Life Cycle Labor Supply

- American Economic Review---2014---Charles Hokayem,James Ziliak

We use new PSID data on consumption and health, along with information on annual sick time, to estimate a structural labor supply model that incorporates a health capital stock with the traditional human capital learning-by-doing model. The estimates show strong evidence of learning by doing as well as strong persistence in health. However, the estimates reveal that time and money seem to have little effect on health consistent with "flat of the curve" medicine. We find strong evidence that consumption and leisure are direct substitutes in preferences, and consumption and leisure are each utility complements with good health.

Estimates of Annual Consumption Expenditures and Its Major Components in the PSID in Comparison to the CE

- American Economic Review---2014---Patricia Andreski,Geng Li,Mehmet Zahid Samancioglu,Robert Schoeni

Comprehensive data on consumption expenditures have historically not been collected in US longitudinal household surveys. The Panel Study of Income Dynamics (PSID) expanded its expenditure data collection in 1999 and 2005. We examine these new expenditure data, highlighting several unique features of the PSID data. We then compare the PSID expenditure data with those in the Consumer Expenditure Survey (CE). We document that the PSID data cover nearly the entire scope of the CE data, and the mean statistics of total expenditures compare favorably between the two surveys. However, significant differences remain for certain expenditure categories.

The Intergenerational Correlation of Consumption Expenditures

- American Economic Review---2014---Kerwin Kofi Charles,Sheldon Danziger,Geng Li,Robert Schoeni

Using data recently collected by the Panel Study of Income Dynamics, we find that the intergenerational correlation in expenditures is no larger than that in income, suggesting limited intra-family risk-sharing. On the other hand, even after controlling for the intergenerational correlation in income, the expenditures correlation remains significant. This suggests that other factors such as preferences, access to credit, and non-pecuniary inter vivos transfers potentially played a role in consumption smoothing across generations within a family. We also find that the correlation coefficients estimated using food and imputed total expenditures are smaller than that estimated using the measured total expenditures.

Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility

- American Economic Review---2014---Raj Chetty,Nathaniel Hendren,Patrick Kline,Emmanuel Saez,Nicholas Turner

We present new evidence on trends in intergenerational mobility in the United States using administrative earnings records. We find that percentile rank-based measures of intergenerational mobility have remained extremely stable for the 1971–1993 birth cohorts. For children born between 1971 and 1986, we measure intergenerational mobility based on the correlation between parent and child income percentile ranks. For more recent cohorts, we measure mobility as the correlation between a child's probability of attending college and her parents' income rank. We also calculate transition probabilities, such as a child's chances of reaching the top quintile of the income distribution starting from the bottom quintile. Based on all of these measures, we find that children entering the labor market today have the same chances of moving up in the income distribution (relative to their parents) as children born in the 1970s. However, because inequality has risen, the consequences of the “birth lottery” –the parents to whom a child is born– are larger today than in the past.

How Risky Are Recessions for Top Earners?

- American Economic Review---2014---Fatih Guvenen,Greg Kaplan,Jae Song

How sensitive to business cycles are the earnings of top earners? And, how does the business cycle sensitivity of top earners vary by industry? We use a confidential dataset on earnings histories of US males from the Social Security Administration. On average, individuals in the top 1 percent of the earnings distribution are slightly more cyclical than the population average. But there are large differences across sectors; top earners in Finance, Insurance, and Real Estate (FIRE) and Construction face substantial business cycle volatility, whereas those in Services (who make up 40 percent of individuals in the top 1 percent) have earnings that are less cyclical than the average worker.

Year-End Tax Planning of Top Management: Evidence from High-Frequency Payroll Data

- American Economic Review---2014---Claus Kreiner,Søren Leth-Petersen,Peer Skov

Using Danish high-frequency payroll data and tax reform variation, we detect year-end tax avoidance among top managers. Five to seven percent of top managers exploit year-end tax planning strategies to save taxes. Around 30 percent of the top managers engaging in year-end tax avoidance do so by retiming bonus payments while the rest shift regular wage income. However, bonus timing is most tax-sensitive. When considering all of the top managers receiving a December bonus, we find that more than one-quarter retime the bonus payment, whereas only 5 percent of those not receiving a bonus shift regular wage income.

Macro-perspective on Asset Grants Programs: Occupational and Wealth Mobility

- American Economic Review---2014---Francisco Buera,Joseph Kaboski,Yongseok Shin

We provide a simple quantitative general equilibrium model of occupational choice with credit market frictions to analyze the aggregate and distributional effects of asset transfer programs. Asset transfer programs have a positive but transient effect on aggregate productivity, and a negative impact on the aggregate capital stock. On net they have a negative but small effect on per capita income. The effects are very heterogeneous across treated individuals. We compare the results in our model to those from recent randomized control trials and historical natural experiments.

Agricultural Productivity Differences across Countries

- American Economic Review---2014---Douglas Gollin,David Lagakos,Michael Waugh

Recent studies argue that cross-country labor productivity differences are much larger in agriculture than in the aggregate. We reexamine the agricultural productivity data underlying this conclusion using new evidence from disaggregate sources. We find that for the world’s staple grains—maize, rice, and wheat—cross-country differences in the quantity of grain produced per worker are enormous according to both micro- and macrosources. Our findings validate the idea that understanding agricultural productivity is at the heart of understanding world income inequality.

The Aggregate Impact of Household Saving and Borrowing Constraints: Designing a Field Experiment in Uganda

- American Economic Review---2014---Joseph Kaboski,Molly Lipscomb,Virgiliu Midrigan

We develop a model of households with multiple needs (smoothing shocks, financing investment) and constraints (limited credit, self-control issues) in order to examine the nature of household's financing constraints in a developing country, and the impact of relaxing them. We show that increased access to credit has very different implications for the aggregate model economy depending on its form: asset-financed or cash. We then illustrate how a short-term increase in access to loans leads to very distinct behavior in the short run. The relevance of the model can be evaluated using a field experiment, which we are currently implementing in Uganda.

A Reassessment of Real Business Cycle Theory

- American Economic Review---2014---Ellen McGrattan,Edward Prescott

During the downturn of 2008–2009, output and hours fell significantly, but labor productivity rose. These facts have led many to conclude that there is a significant deviation between observations and current macrotheories that assume business cycles are driven, at least in part, by fluctuations in total factor productivities of firms. We show that once investment in intangible capital is included in the analysis, there is no inconsistency. Measured labor productivity rises if the fall in output is underestimated; this occurs when there are large unmeasured intangible investments. Microevidence suggests that these investments are large and cyclically important.

Can Intangible Capital Explain Cyclical Movements in the Labor Wedge?

- American Economic Review---2014---Francois Gourio,Leena Rudanko

Intangible capital is an important factor of production in modern economies that is generally neglected in business cycle analyses. We demonstrate that intangible capital can have a substantial impact on business cycle dynamics, especially if the intangible is complementary with production capacity. We focus on customer capital: the capital embodied in the relationships a firm has with its customers. Introducing customer capital into a standard real business cycle model generates a volatile and countercyclical labor wedge, due to a mismeasured marginal product of labor. We also provide new evidence on cyclical variation in selling effort to discipline the exercise.

The Value and Ownership of Intangible Capital

- American Economic Review---2014---Andrea Eisfeldt,Dimitris Papanikolaou

Intangible capital which relies on essential human inputs, or "organization capital," presents a unique challenge for measurement. Organization capital cannot be fully owned by firms' financiers, because it is partly embodied in key labor inputs. Instead, cash flows must be shared with key talent and thus neither book nor market values will fully capture its value. Measurement of organization capital requires a model featuring these unique property rights. We use accounting data along with a simple example of such a model to measure the fraction of the US capital stock which is missing from book and market values.

Weak Identification in Maximum Likelihood: A Question of Information

- American Economic Review---2014---Isaiah Andrews,Anna Mikusheva

In this paper we connect the discrepancy between two estimates of Fisher information, one based on the quadratic variation of the score and the other based on the negative Hessian of the log-likelihood, to weak identification. Classical asymptotic approximations assume that these two estimates are asymptotically equivalent, but we show that this equivalence fails in many weakly identified models, which can distort the behavior of the MLE. Using a stylized DSGE model we show that the discrepancy between information estimates is large when identification is weak.

Physician Payment Reform and Hospital Referrals

- American Economic Review---2014---Kate Ho,Ariel Pakes

Commercial health insurers in California use provider capitation payments to different extents. These are similar to arrangements introduced by the recent health reforms to give physicians incentives to control costs. In a previous paper we showed that patients whose insurers used capitation incentives traveled further to access lower-priced, similar-quality hospitals than other same-severity patients. This paper predicts the implied effects of a move to widespread capitation. We show that, if the introduction of capitation prompted low-capitation insurers to act like high-capitation insurers, this would generate a 4–5 percent cost saving with some reduction in patient convenience but no reduction in quality.

Estimation of an Education Production Function under Random Assignment with Selection

- American Economic Review---2014---Eleanor Jawon Choi,Hyungsik Moon,Geert Ridder

This paper estimates an education production function using data on the College Scholastic Ability Test score and high school characteristics from Seoul, Korea, where, on entering high school, students are randomly assigned to schools within each school district. We derive a school production function by aggregating the individuals' potential outcomes under the random assignment and no cohort effect assumption. We find that the school production function coefficients differ between districts and that the single-sex school effect estimate is much larger than that found in previous studies.

Treatment Effects and Informative Missingness with an Application to Bank Recapitalization Programs

- American Economic Review---2014---Angela Vossmeyer

This article develops a Bayesian framework for estimating multivariate treatment effect models in the presence of sample selection. The methodology is applied to a banking study that evaluates the effectiveness of lender of last resort (LOLR) policies and their ability to resuscitate the financial system. This paper employs a novel bank-level dataset from the Reconstruction Finance Corporation, and jointly models a bank's decision to apply for a loan, the LOLR's decision to approve the loan, and the bank's performance a few years after the disbursements. This framework offers practical estimation tools to unveil new answers to important regulatory questions.

The Determinants of the Macroeconomic Implications of Aging

- American Economic Review---2014---Louise Sheiner

The aging of the US population undoubtedly will be associated with macroeconomic changes. In particular, some combination of lower consumption growth and increased labor input will ultimately be required. But, the timing of these changes can have important effects on variables like the rate of return to capital and wages. If the adjustment to consumption is slow, which would be the case if budget deficits were allowed to rise significantly as the population ages, then aging is likely to be associated with an increase in the return to capital and a reduction in wages.

Aging in Europe: Reforms, International Diversification, and Behavioral Reactions

- American Economic Review---2014---Axel B?rsch-Supan,Klaus H?rtl,Alexander Ludwig

The extent of demographic changes in Europe is much more drastic than in the United States. This paper studies the effects of population aging on the interactions between economic growth and living standards in Europe with labor market and pension reform, behavioral adaptations, and international capital flows. Our analysis is based on an overlapping generations model with behavioral reactions to reform which is extended to the multi-country situation typical for Europe. While the negative effects of population aging on growth in Europe can in principle be compensated by reforms and economic adaptation mechanisms, they may be partially offset by behavioral reactions.

The Growing Gap in Life Expectancy: Using the Future Elderly Model to Estimate Implications for Social Security and Medicare

- American Economic Review---2014---Dana Goldman,Peter Orszag

Mortality gradients by education and income have been rising in the United States and elsewhere. However, their impact on Social Security progressivity has received relatively little attention, and the impact on Medicare has received effectively none. This paper uses the Future Elderly Model to estimate the effects of increased mortality gaps on the progressivity of Social Security and Medicare for those born between 1928 and 1990. It finds significant reductions in progressivity of both programs if current mortality trends persist and noticeable effects on total program costs. The effects are large enough to warrant more attention from both policy-makers and researchers.

Macroeconomic Consequences of Population Aging in the United States: Overview of a National Academy Report

- American Economic Review---2014---Ronald Lee

The US population will age rapidly for several decades and then more slowly, with less aging than most rich nations. Health of the elderly has greatly improved, but disability stagnated after 2000. Retirement age reversed its decline in the mid-1990s and health status leaves ample room for increased elder labor supply. Many older people have inadequate retirement savings and face additional risks including uncertainty about both public and private pensions and health insurance. Population aging may cause a small decline in rates of return. The main problem is the impact of population aging on public programs for the elderly.

Disparities in Wealth Accumulation and Loss from the Great Recession and Beyond

- American Economic Review---2014---Signe-Mary McKernan,Caroline Ratcliffe,Eugene Steuerle,Sisi Zhang

Using over two decades of Survey of Consumer Finances data and a pseudo-panel technique, we measure the impact of the Great Recession on US family wealth relative to the counterfactual of what wealth would have been given wealth accumulation trajectories. Our synthetic cohort-level models find that the Great Recession reduced average family wealth by 28.5 percent–nearly double the magnitude of previous pre-post mean descriptive estimates and double the magnitude of any previous recession since the 1980s. The housing market was only part of the story; all major wealth components fell as a result of the Great Recession.

Gender and Business Outcomes of Black and Hispanic New Entrepreneurs in the United States

- American Economic Review---2014---Marie T. Mora,Alberto D?vila

In light of the growing numbers of women of color in the entrepreneurial sector in the United States, employing public-use microdata from the 2007 Survey of Business Owners, this study finds that new firms owned by black and Hispanic women were more likely to cease operations than those owned by their male counterparts or by non-Hispanic whites, even when controlling for other owner- and firm-level characteristics and labor market conditions. These differences occurred despite the existence of public programs designed to help female and minority entrepreneurs, raising the question of efficiency of the current policy infrastructure in the United States.

Does the US Labor Market Reward International Experience?

- American Economic Review---2014---Susan Pozo

A typical strategy for measuring the returns to international experience—comparing the earnings of returning migrants to comparable non-migrants—has been criticized for not adequately accounting for self-selection. I suggest an alternative, testing whether individuals born beyond US borders, but into US citizenship, earn more in US labor markets relative to counterparts born on US soil. Those born abroad to US citizens did not self-select an international experience. Using the ACS, I find that the US market rewards international experience, especially in occupations that value creativity and innovation. Women, in particular, are handsomely rewarded for international human capital.

Entrepreneurial Innovation: Killer Apps in the iPhone Ecosystem

- American Economic Review---2014---Pai-Ling Yin,Jason P. Davis,Yulia Muzyrya

The mobile applications (apps) industry has exhibited rapid entry and growth in the midst of a recession. Using unique data from the iPhone application ecosystem, we examine how the development of "killer apps" (apps appearing in the top grossing rank) varies by market and app characteristics. We find that previous app experience and no updating increase the likelihood of becoming a killer game app, while more updates increase the likelihood of becoming a non-game killer app. Development opportunities, level of competition, and demand preferences are possible drivers of the opposing innovation process results in game and non-game markets.

Learning from the Doers: Developing Country Lessons for Advanced Economy Growth

- American Economic Review---2014---Anusha Chari,Peter Blair Henry

From 1980 to 1992, emerging and developing countries grew by 3.4 percent per year. Their annual rate of growth increased to 5.4 percent between 1993 and 2012. No such increase occurred for advanced nations, whose average growth from 1980 to 2012 was roughly constant (excluding the impact of the 2008–2009 Recession). Developing nations turned themselves around by embracing discipline-sustained commitment to a pragmatic and flexible growth strategy. Three illustrations of discipline through the lens of trade, fiscal, and debt reforms in the developing world offer relevant, practical lessons for recovery in advanced economies and continued catch-up growth in developing nations.

Forty Years of Leverage: What Have We Learned about Sovereign Debt?

- American Economic Review---2014---Peter Boone,Simon Johnson

Financial crises frequently increase public sector borrowing and threaten some form of sovereign debt crisis. Until recently, high income countries were thought to have become less vulnerable to severe banking crises that have lasting negative effects on growth. Since 2007, crises and attempted reforms in the United States and Europe indicate that advanced countries remain acutely vulnerable. Best practice from developing country experience suggests that regulatory constraints on the financial sector should be strengthened, but this is hard to do in countries where finance has a great deal of political power and cultural prestige, and where leverage is already high.

Demand and Defective Growth Patterns: The Role of the Tradable and Non-tradable Sectors in an Open Economy

- American Economic Review---2014---Sandile Hlatshwayo,A. Spence

This paper examines the underlying structural elements of US growth patterns, pre- and post-crisis. Prior to the recession, the US economy exhibited a defective growth pattern driven by outsized domestic demand. As domestic aggregate demand retreats to more sustainable levels relative to total income, the tradable side of the economy is a catalyst for restoring strong growth. A structural rebalancing is already underway; although it is only a third of the economy, the tradable sector generated more than half of gross gains in value-added since the start of the recovery. However, distributional issues loom on the horizon.

Rainfall Forecasts, Weather, and Wages over the Agricultural Production Cycle

- American Economic Review---2014---Mark Rosenzweig,Christopher Udry

We look at the effects of rainfall forecasts and realized rainfall on equilibrium agricultural wages over the course of the agricultural production cycle. We show theoretically that a forecast of good weather can lower wages in the planting stage, by lowering ex ante out-migration, and can exacerbate the negative impact of adverse weather on harvest-stage wages. Using Indian household panel data describing early-season migration and district-level planting- and harvest-stage wages over the period 2005–2010, we find results consistent with the model, indicating that rainfall forecasts improve labor allocations on average but exacerbate wage volatility because they are imperfect.

Dynamics of Demand for Index Insurance: Evidence from a Long-Run Field Experiment

- American Economic Review---2014---Shawn Cole,Daniel Stein,Jeremy Tobacman

This paper estimates how experimentally-manipulated experiences with a novel financial product, rainfall index insurance, affect subsequent insurance demand. Using a seven-year panel, we develop three main findings. First, recent experience matters for demand, consistent with overinference from small samples. Second, spillovers also matter, in the sense that the recent payout experience of village co-residents affects insurance demand about as much as one's own recent payout experience. Third, the spillover effect decays as time passes while the effect of one's own experience does not. We discuss implications of this analysis for commercial sustainability of this complicated but promising risk management technology.

Bundling Health Insurance and Microfinance in India: There Cannot Be Adverse Selection If There Is No Demand

- American Economic Review---2014---Abhijit Banerjee,Esther Duflo,Richard Hornbeck

Microfinance institutions have started to bundle their basic loans with other financial services, such as health insurance. Using a randomized control trial in Karnataka, India, we evaluate the impact on loan renewal from mandating the purchase of actuarially-fair health insurance covering hospitalization and maternity expenses. Bundling loans with insurance led to a 16 percentage points (23 percent) increase in drop-out from microfinance, as many clients preferred to give up microfinance than pay higher interest rates and receive insurance. In a Pyrrhic victory, the total absence of demand for health insurance led to there being no adverse selection in insurance enrollment.

Together at Last: Trade Costs, Demand Structure, and Welfare

- American Economic Review---2014---Monika Mr?zov?,J. Peter Neary

We show that relaxing the assumption of CES preferences in monopolistic competition has surprising implications when trade is restricted. Integrated and segmented markets behave differently, the latter typically exhibiting reciprocal dumping. Globalization and lower trade costs have different effects. The former reduces spending on all existing varieties, the latter switches spending from home to imported varieties; when demands are less convex than CES, globalization raises whereas lower trade costs reduce firm output. Finally, calibrating gains from trade is harder. Many more parameters are needed, while import demand elasticities typically overestimate the true elasticities, and so underestimate the gains from trade.

Monopolistic Competition and Optimum Product Selection

- American Economic Review---2014---Antonella Nocco,Gianmarco Ottaviano,Matteo Salto

We provide novel insights on the decentralization of optimal outcomes under monopolistic competition with nonseparable utility, variable demand elasticity, and endogenous firm heterogeneity. Relative to the unconstrained optimum, equilibrium firm selection is too weak, average firm size is too small, low-cost firms are too small, and high-cost firms are too large. The unconstrained optimum can be decentralized through differentiated production subsidies to producers financed through lump-sum taxes on entrants and consumers. When differentiated subsidies and transfers from entrants are not viable, the constrained optimum can be decentralized through a common production subsidy financed by a lump-sum tax on consumers.

Welfare and Trade without Pareto

- American Economic Review---2014---Keith Head,Thierry Mayer,Mathias Thoenig

Quantifications of gains from trade in heterogeneous firm models assume that productivity is Pareto distributed. Replacing this assumption with log-normal heterogeneity retains some useful Pareto features, while providing a substantially better fit to sales distributions-especially in the left tail. The cost of log-normal is that gains from trade depend on the method of calibrating the fixed cost and productivity distribution parameters. When set to match the size distribution of firm sales in a given market, the log-normal assumption delivers gains from trade in a symmetric two-country model that can be twice as large as under the Pareto assumption.

Missing Gains from Trade?

- American Economic Review---2014---Marc Melitz,Stephen Redding

In a class of trade models which satisfy a constant elasticity gravity equation, the welfare gains from trade can be computed using the open economy domestic trade share and a constant trade elasticity. The measured welfare gains from trade from this quantitative approach are typically relatively modest. In this paper, we suggest a channel for welfare gains that this quantitative approach typically abstracts from: trade-induced changes in domestic productivity. Using a model of sequential production, in which trade induces a reorganization of production that raises domestic productivity, we show that the welfare gains from trade can become arbitrarily large.

The Impact of Medicaid on Labor Market Activity and Program Participation: Evidence from the Oregon Health Insurance Experiment

- American Economic Review---2014---Katherine Baicker,Amy Finkelstein,Jae Song,Sarah Taubman

In 2008, a group of uninsured low-income adults in Oregon was selected by lottery for the chance to apply for Medicaid. Using this randomized design and 2009 administrative data, we find no significant effect of Medicaid on employment or earnings. Our 95 percent confidence intervals allow us to reject that Medicaid causes a decline in employment of more than 4.4 percentage points, or an increase of more than 1.2 percentage points. Medicaid increases food stamps receipt, but has little, if any, impact on receipt of other measured government benefits, including SSDI.

Disability Insurance and Health Insurance Reform: Evidence from Massachusetts

- American Economic Review---2014---Nicole Maestas,Kathleen Mullen,Alexander Strand

As health insurance becomes available outside of the employment relationship as a result of the Affordable Care Act (ACA), the cost of applying for Social Security Disability Insurance (SSDI)–potentially going without health insurance coverage during a waiting period totaling 29 months from disability onset–will decline for many people with employer-sponsored health insurance. At the same time, the value of SSDI and Supplemental Security Income (SSI) participation will decline for individuals who otherwise lacked access to health insurance. We study the 2006 Massachusetts health insurance reform to estimate the potential effects of the ACA on SSDI and SSI applications.

The Accelerated Benefits Demonstration: Impacts on the Employment of Disability Insurance Beneficiaries

- American Economic Review---2014---Michelle Stegman Baily,Robert R. Weathers

We use data from the Accelerated Benefits demonstration to estimate the impacts of providing newly entitled disability insurance (DI) beneficiaries with health insurance and additional services during the DI program's 24-month Medicare waiting period. While health insurance alone did not increase employment, the additional employment services appeared to have positive short-term impacts on labor market activity. We find a statistically significant increase in employment and earnings in the second calendar year after random assignment; although these findings disappear in the third calendar year. Our results may have implications for disability reform proposals and provisions within the Affordable Care Act.

Unilateral Divorce, the Decreasing Gender Gap, and Married Women's Labor Force Participation

- American Economic Review---2014---Raquel Fern?ndez,Joyce Wong

Married women's labor force participation (LFP) increased dramatically in the United States between the 1940 and 1960 cohort. The two cohorts lived under different divorce regimes (unilateral divorce rather than mutual consent). The 1960 cohort also had a lower gender wage gap. We use a quantitative dynamic life-cycle model of endogenous marital status, calibrated to key statistics for the 1940 cohort, to study the effects of these two changes. We find that both drivers combined are able to account for over 50 percent of the increase in married women's LFP and also generate large movements in marriage and divorce rates.

Marry Your Like: Assortative Mating and Income Inequality

- American Economic Review---2014---Jeremy Greenwood,Nezih Guner,Georgi Kocharkov,Cezar Santos

Has there been an increase in positive assortative mating? Does assortative mating contribute to household income inequality? Data from the United States Census Bureau suggests there has been a rise in assortative mating. Additionally, assortative mating affects household income inequality. In particular, if matching in 2005 between husbands and wives had been random, instead of the pattern observed in the data, then the Gini coefficient would have fallen from the observed 0.43 to 0.34, so that income inequality would be smaller. Thus, assortative mating is important for income inequality. The high level of married female labor-force participation in 2005 is important for this result.

Labor Supply and Household Dynamics

- American Economic Review---2014---Maurizio Mazzocco,Claudia Ruiz Ortega,Shintaro Yamaguchi

Using the Panel Study of Income Dynamics, we provide evidence that to understand household decisions and evaluate policies designed to affect individual welfare, it is important to add an intertemporal dimension to the by-now standard static collective models of the household. Specifically, we document that the observed differences in labor supply by gender and marital status do not arise suddenly at the time of marriage, but rather emerge gradually over time. We then propose an intertemporal collective model that has the potential of explaining the observed patterns.

The Myth of Immigrant Women as Secondary Workers: Evidence from Canada

- American Economic Review---2014---Al?cia Adser?,Ana Ferrer,Alicia Adsera

We use the confidential files of the Canadian Census 1991–2006, combined with information from O*NET on the skill requirements of jobs, to show that the labor market patterns of female immigrants do not fit the profile of secondary workers, but rather conform to the recent experience of married native women with rising participation (and wage assimilation). At best, only relatively uneducated immigrant women in unskilled occupations may fit the profile of secondary workers. Educated immigrant women experience skill assimilation over time: a reduction in physical strength and a gradual increase in analytical skills required in their jobs relative to natives.

All for One? Family Size and Children's Educational Distribution under Credit Constraints

- American Economic Review---2014---Jeanne Lafortune,Soohyung Lee

This paper examines the possibility that a child's years of schooling could increase in the number of siblings, instead of being diminished by competition for parents' resources: if unable to finance the education of their younger children, parents may do so through their older children's labor income. We examine this possibility in a model combining convex returns to education and credit constraints. Our model predicts correlations among family size, years of schooling and birth order, which would not exist when either of these two elements is absent. Empirical patterns shown in the United States, Mexico, and South Korea support the model predictions.

Are Female Supervisors More Female-Friendly?

- American Economic Review---2014---Steven Bednar,Dora Gicheva

We introduce the idea that easily inferable demographic characteristics such as gender may not be sufficient to define type in the supervisor-employee mentoring relationship. We use longitudinal data on athletic directors at NCAA Division I programs to identify through observed mobility the propensity of top-level administrators to hire and retain female head coaches, above and beyond an organization's culture. We show that supervisor gender appears to be unrelated to female friendliness in this setting. Overall, our findings indicate that more focus should be placed on the more complex manager type defined by attitudes in addition to attributes.

Race and Marriage in the Labor Market: A Discrimination Correspondence Study in a Developing Country

- American Economic Review---2014---Eva Arceo-Gomez,Raymundo Campos-Vazquez

In Mexico, as in most Latin American countries with indigenous populations, it is commonly believed that European phenotypes are preferred to mestizo or indigenous phenotypes. However, it is hard to test for such racial biases in the labor market using official statistics since race can only be inferred from native language. The experiment consisted on sending fictitious curriculums responding to job advertisements with randomized information of the applicants. The resumes included photographs representing three distinct phenotypes: Caucasian, mestizo, and indigenous. We find that indigenous looking females are discriminated against, but the effect is not present for males.

The Declining Fortunes of the Young since 2000

- American Economic Review---2014---Paul Beaudry,David Green,Benjamin Sand

We document that successive cohorts of college and post-college degree graduates experienced an increase in the probability of obtaining cognitive jobs both at the start of their careers and with time in the labor market in the 1990s. However, this pattern reversed for cohorts entering after 2000; profiles of the proportion of a cohort in cognitive occupations since school completion fall and become flatter with successive cohorts. Since cohort-wage profiles display a similar pattern, these findings appear to fit with a strong increase in demand for cognitive tasks in the 1990s followed by a decline in the 2000s.

Trends in Earnings Differentials across College Majors and the Changing Task Composition of Jobs

- American Economic Review---2014---Joseph Altonji,Lisa Kahn,Jamin Speer

We show that, among college graduates, earnings differentials across field of study have increased substantially since the early 1990s. We study the degree to which this increase can be accounted for by changes in the labor market return to skills associated with a major. To do so, we define major-specific measures of the relative importance of abstract, routine, and manual tasks on the job, by linking majors to the occupations they typically lead to. Changes in the relationship between earnings and these measures can account for about two-thirds of the rise in inequality.

Return of the Solow Paradox? IT, Productivity, and Employment in US Manufacturing

- American Economic Review---2014---Daron Acemoglu,David Autor,David Dorn,Gordon Hanson,Brendan Price

An increasingly influential "technological-discontinuity" paradigm suggests that IT-induced technological changes are rapidly raising productivity while making workers redundant. This paper explores the evidence for this view among the IT-using US manufacturing industries. There is some limited support for more rapid productivity growth in IT-intensive industries depending on the exact measures, though not since the late 1990s. Most challenging to this paradigm, and to our expectations, is that output contracts in IT-intensive industries relative to the rest of manufacturing. Productivity increases, when detectable, result from the even faster declines in employment.

Ability-Tracking, Instructional Time, and Better Pedagogy: The Effect of Double-Dose Algebra on Student Achievement

- American Economic Review---2014---Kalena E. Cortes,Joshua Goodman

This paper provides new evidence on tracking by studying an innovative curriculum implemented by Chicago Public Schools (CPS). In 2003, CPS enacted a double-dose algebra policy requiring 9th grade students with 8th grade math scores below the national median to take two periods of algebra instead of one. This policy led schools to sort students into algebra classes by math ability, so that tracking increased in all algebra classes. We show that double-dosed students are exposed to a much lower-skilled group of peers in their algebra classes but nonetheless benefit substantially from the additional instructional time and improved pedagogy.

Using School Choice Lotteries to Test Measures of School Effectiveness

- American Economic Review---2014---David Deming

Value-added models (VAMs) are increasingly used to measure school effectiveness. Yet, random variation in school attendance is necessary to test the validity of VAMs and to guide the selection of models for measuring causal effects of schools. In this paper, I use random assignment from a public school choice lottery to test the predictive power of VAM specifications. In VAMs with minimal controls and two or more years of prior data, I fail to reject the hypothesis that school effects are unbiased. Overall, many commonly used VAMs are accurate predictors of student achievement gains.

Gender and Race Heterogeneity: The Impact of Students with Limited English on Native Students' Performance

- American Economic Review---2014---Timothy Diette,Ruth Uwaifo Oyelere

Recent evidence suggests that exposure to a larger share of Limited English (LE) students is associated with a slight decline in performance for students at the top of the achievement distribution. In this paper we explore whether LE peer effects differ by gender and race. Utilizing school-by-year fixed effect methods that allow us to address possible endogeneity with respect to the schools students attend, we find evidence of heterogeneous peer effects of LE students on natives. Specifically, we find no LE student peer effects on females' achievement in math and reading but significant negative effects on males and black students.

Implementation Details for Frequent Batch Auctions: Slowing Down Markets to the Blink of an Eye

- American Economic Review---2014---Eric Budish,Peter Cramton,John Shim

Our recent research (Budish, Cramton, and Shim 2013) proposes frequent batch auctions—uniform-price sealed-bid double auctions conducted at frequent but discrete time intervals—as a market design alternative to continuous-time trading in financial markets. This short paper discusses the implementation details of frequent batch auctions. We outline the process flow for frequent batch auctions, discuss a modification to the market design that accommodates market fragmentation and Reg NMS, and discuss the engineering and economic considerations relevant for determining the batch interval. Open questions are discussed throughout.

Getting More Organs for Transplantation

- American Economic Review---2014---Judd B. Kessler,Alvin Roth

Organs for transplantation are a scarce resource. Paying to increase the supply of organs is illegal in much of the world. We review efforts to increase transplantation by increasing the supply of available organs from living and deceased donors. Progress has been made in increasing the availability of living donor kidneys through kidney exchange. Recent legislation in Israel aims at encouraging deceased donation by awarding priority for receiving organs to registered donors. We also explore the manner in which organ donation is solicited and present evidence to suggest that some recent movement towards "mandated choice" may be counterproductive.

Mechanism Design in Large Games: Incentives and Privacy

- American Economic Review---2014---Michael Kearns,Mallesh M. Pai,Aaron Roth,Jonathan Ullman

We study the design of mechanisms satisfying a novel desideratum: privacy. This requires the mechanism not reveal "much" about any agent's type to other agents. We propose the notion of joint differential privacy: a variant of differential privacy used in the privacy literature. We show by construction that mechanisms satisfying our desiderata exist when there are a large number of players, and any player's action affects any other's payoff by at most a small amount. Our results imply that in large economies, privacy concerns of agents can be accommodated at no additional "cost" to standard incentive concerns.

Investment Incentives in Labor Market Matching

- American Economic Review---2014---John William Hatfield,Fuhito Kojima,Scott Kominers

We provide an illustration of how the design of labor market clearing mechanisms can affect incentives for human capital acquisition. Specifically, we extend the labor market matching model (with discrete transfers) of Kelso and Crawford (1982) to incorporate the possibility that agents may invest in human capital before matching. We show that in this setting, the worker-optimal stable matching mechanism incentivizes workers to make (nearly) efficient human capital investments. En route to our main result, we show that so long as the space of salaries is sufficiently rich, every stable outcome in the Kelso and Crawford (1982) setting is approximately efficient.

The VCG Auction in Theory and Practice

- American Economic Review---2014---Hal R. Varian,Christopher Harris

We describe two auction forms for search engine advertising and present two simple theoretical results concerning i) the estimation of click-through rates and ii) how to adjust the auctions for broad match search. We also describe some of the practical issues involved in implementing a VCG auction.

Market Design and the Evolution of the Combinatorial Clock Auction

- American Economic Review---2014---Lawrence M. Ausubel,Oleg Baranov

The Combinatorial Clock Auction (CCA) is an important recent innovation in auction design which has been adopted for many spectrum auctions worldwide. Since its inception, the CCA has been in almost continual evolution. We begin by reviewing some important changes which have already occurred. Despite these enhancements, we observe that the performance of the CCA is still limited by weak activity rules, suboptimal price feedback, and a missing-bid problem. We then describe further evolutionary changes, including new activity rules, new approaches to pricing, and an integration of non-mutually-exclusive bids, which will help to address these issues.

The Continuous Combinatorial Auction Architecture

- American Economic Review---2014---Charles Plott,Hsing-Yang Lee,Travis Maron

The paper reports the architecture of a continuous combinatorial auction. Preferences are based on sets of items and feasibility requires the nonintersection of sets. Countdown clocks replace eligibility and activity requirements typical of rounds-based auctions. Bids remain in the system to be combined with new bids to form winning collections. Increment requirements dictate improvements over appropriate collections of existing bids. The auction evolved from experimental methods and operates at high levels of efficiency. Field applications are reported and result in natural equilibration in a few hours as opposed to days or weeks required by round-based architectures.

Costly Persuasion

- American Economic Review---2014---Matthew Gentzkow,Emir Kamenica

We study the design of informational environments in settings where generating information is costly. We assume that the cost of a signal is proportional to the expected reduction in uncertainty. We show that Kamenica & Gentzkow's (2011) concavification approach to characterizing optimal signals extends to these settings.

How Sharing Information Can Garble Experts' Advice

- American Economic Review---2014---Matthew Elliott,Benjamin Golub,Andrei Kirilenko

We model the strategic provision of advice in environments where a principal's optimal action depends on an unobserved, binary state of interest. Experts receive signals about the state and each recommends an action. The principal and all experts dislike making errors in their decision and recommendations, respectively, but may have different costs of different errors. Is it in the principal's interest to let experts share information? Although sharing improves experts' ability to avoid errors, we identify a simple environment in which any principal, regardless of how he trades off the different errors, is worse off if he permits information sharing.

Interim Bayesian Persuasion: First Steps

- American Economic Review---2014---Eduardo Perez

This paper makes a first attempt at building a theory of interim Bayesian persuasion. I work in a minimalist model where a low or high type sender seeks validation from a receiver who is willing to validate high types exclusively. After learning her type, the sender chooses a complete conditional information structure for the receiver from a possibly restricted feasible set. I suggest a solution to this game that takes into account the signaling potential of the sender's choice.

Mobile Computing: The Next Platform Rivalry

- American Economic Review---2014---Timothy Bresnahan,Shane Greenstein

Competition to become one of several dominant mobile platforms is intense. Platforms compete for developers, who create applications which make the platform valuable for users. Why doesn't one form of platform governance emerge as superior? This essay will stress the reasons for differentiation and proposes a new argument linked to a platform's "hierarchy." Hierarchical governance features can help at one moment but then get in the way at a later time. These arguments are illustrated by different approaches to platform governance taken by the major mobile platform sponsors of recent years.

Trading Dollars for Dollars: The Price of Attention Online and Offline

- American Economic Review---2014---Matthew Gentzkow

Popular accounts suggest that advertising revenue per unit of consumer attention is lower online than offline, and has fallen in traditional media as the Internet has made advertising markets more competitive. I assess these claims theoretically and empirically, and compare the patterns we observe for the Internet to trends in advertising around the introduction of television and radio. The evidence suggests that the price of attention for similar consumers is actually higher online than offline, and that the growth of new media is not robustly associated with a declining price of attention.

Growth, Adoption, and Use of Mobile E-Commerce

- American Economic Review---2014---Liran Einav,Jonathan Levin,Igor Popov,Neel Sundaresan

We document some early effects of how mobile devices might change Internet and retail commerce. We present three main findings based on an analysis of eBay's mobile shopping application and core Internet platform. First, early adopters of mobile e-commerce applications appear to be people who already were relatively heavy Internet commerce users. Second, adoption of the mobile shopping application is associated with both an immediate and sustained increase in total platform purchasing, with little evidence of substitution from the core platform. Third, differences in user behavior across the mobile applications and the regular Internet site are not yet so dramatic.

Stochastic Choice: An Optimizing Neuroeconomic Model

- American Economic Review---2014---Michael Woodford

A model is proposed in which stochastic choice results from noise in cognitive processing rather than random variation in preferences. The mental process used to make a choice is nonetheless optimal, subject to a constraint on available information-processing capacity that is motivated by neurophysiological evidence. The optimal information-constrained model is found to offer a better fit to experimental data on choice frequencies and reaction times than either a purely mechanical process model of choice (the drift-diffusion model) or an optimizing model with fewer constraints on feasible choice processes (the rational inattention model).

Benefits of Neuroeconomic Modeling: New Policy Interventions and Predictors of Preference

- American Economic Review---2014---Ian Krajbich,Bastiaan Oud,Ernst Fehr

Neuroeconomics strives to use knowledge from neuroscience to improve models of decisionmaking. Here we introduce a biologically plausible, drift-diffusion model that is able to jointly predict choice behavior and response times across different choice environments. The model has both normative and positive implications for economics. First, we consistently observe that decisionmakers inefficiently allocate their time to choices for which they are close to indifference. We demonstrate that we can improve subjects' welfare using a simple intervention that puts a time limit on their choices. Second, response times can be used to predict indifference points and the strength of preferences.

Rational Attention and Adaptive Coding: A Puzzle and a Solution

- American Economic Review---2014---Camillo Padoa-Schioppa,Aldo Rustichini

Adaptive Coding is the property of the brain to adjust its response to statistical properties of the environment. Its effect is an improved discrimination among signals under the constraints on the dynamic range of its response. It can thus be considered the neural correspondent of Rational Attention, which models how a rational decisionmaker allocates attention among different informative signals. There is strong evidence of existence of widespread adaptive coding. Adaptive coding introduces a dependence of choice from the environment which is not observed in behavior. We discuss potential solutions and propose Hebbian learning as a potentially satisfactory answer.

(Dis)organization and Success in an Economics MOOC

- American Economic Review---2014---Abhijit V. Banerjee,Esther Duflo

Massive Online Open Courses (MOOCs) present the potential to deliver high quality education to a large number of students. But they suffer from low completion rates. This paper identifies disorganization as a factor behind failure to complete a MOOC. Students who enroll one day late are 17 percentage points less likely to earn a certificate than students who enroll exactly on time. This reflects selection, but it does seem to be related to demographic characteristics, motivation to complete the course, or ability. This suggests that building in even more structure in the MOOC could be a factor in improving performance.

The Industrial Organization of Online Education

- American Economic Review---2014---Tyler Cowen,Alexander Tabarrok

Online education has flexibility and cost advantages over in-class teaching and these advantages will grow with improvements in information technology. We consider likely market structures given that the quality aspects of online education exhibit endogenous fixed costs. Concentration in the market for courses could be high, as it is currently in the market for textbooks. The not-for-profit sector will exhibit lower costs, lower concentration, and possibly zero price.

Equalizing Superstars: The Internet and the Democratization of Education

- American Economic Review---2014---Daron Acemoglu,David Laibson,John List

Internet-based educational resources are proliferating rapidly. One concern associated with these (potentially transformative) technological changes is that they will be disequalizing—as many technologies of the last several decades have been—creating superstar teachers and a winner-take-all education system. These important concerns notwithstanding, we contend that a major impact of web-based educational technologies will be the democratization of education: educational resources will be more equally distributed, and lower-skilled teachers will benefit. At the root of our results is the observation that skilled lecturers can only exploit their comparative advantage if other teachers complement those lectures with face-to-face instruction. This complementarity will increase the quantity and quality of face-to-face teaching services, potentially increasing the marginal product and wages of lower-skill teachers.

The Economics of Online Postsecondary Education: MOOCs, Nonselective Education, and Highly Selective Education

- American Economic Review---2014---Caroline Hoxby

I consider economically sustainable online postsecondary education, including massive open online courses (MOOCs). The analysis suggests that MOOCs will be financially sustainable substitutes for some nonselective postsecondary education, but there are substantial risks. The analysis suggests that MOOCs will be financially sustainable substitutes for only a small share of highly selective postsecondary education (HSPE) and are likely to collapse the economic model that allows HSPE institutions to invest in advanced education and research. I outline a non-MOOC model of online education that may allow HSPE institutions to sustain their distinctive activities and to reach a larger number of students.

Discounting and Growth

- American Economic Review---2014---Christian Gollier

In a growing economy, the discount rate to evaluate a long-term investment is the minimum rate of expected return that compensates for the increased intergenerational inequalities. Because the growth rate is uncertain, there is a precautionary argument in favor of lowering the discount rate. If shocks to growth are persistent, this is a robust argument for using a smaller discount rate for more distant time horizons. If climate damages are positively correlated with future consumption, a risk premium should be added to the climate discount rate, which could have an increasing term structure.

Declining Discount Rates

- American Economic Review---2014---Maureen Cropper,Mark C. Freeman,Ben Groom,William A. Pizer

We ask whether the US government should replace its current discounting practices with a declining discount rate schedule, as the United Kingdom and France have done, or continue to discount the future at a constant exponential rate. We present the theoretical basis for a declining discount rate (DDR) schedule, but focus on how, in practice, a DDR could be estimated for use by policy analysts. We discuss the empirical approaches in the literature and review how the United Kingdom and France estimated their DDR schedules. We conclude with advice on how the United States might proceed to consider modifying its current discounting practices.

Fat Tails and the Social Cost of Carbon

- American Economic Review---2014---Martin Weitzman

At high enough greenhouse gas concentrations, climate change might conceivably cause catastrophic damages with small but non-negligible probabilities. If the bad tail of climate damages is sufficiently fat, and if the coefficient of relative risk aversion is greater than one, the catastrophe-reducing insurance aspect of mitigation investments could in theory have a strong influence on raising the social cost of carbon. In this paper I exposit the influence of fat tails on climate change economics in a simple stark formulation focused on the social cost of carbon. I then attempt to place the basic underlying issues within a balanced perspective.

On Not Revisiting Official Discount Rates: Institutional Inertia and the Social Cost of Carbon

- American Economic Review---2014---Cass Sunstein

Within the federal government, official decisions are a product of both substantive judgments and institutional constraints. With respect to discounting, current practice is governed by OMB Circular A-4 and the 2010 and 2013 technical support documents of the Interagency Working Group on the Social Cost of Carbon. Reconsideration of existing judgments must be subjected to a demanding process of internal review (and potentially to external review as well). Institutional constraints, including the need to obtain consensus, can impose obstacles to efforts to rethink existing practices, especially in an area like discounting, which is at once technical and highly controversial. Both decisions costs and error costs must be considered.

Selected International Aspects of Carbon Taxation

- American Economic Review---2014---Charles E. McLure

Disparate commitments to reduce GHG emissions create demands for border carbon adjustments (BCAs) to prevent negative competitive effects and carbon leakage. BCAs that accomplish economic objectives and are administratively feasible, WTO-legal, and politically acceptable may be impossible. BCAs should be limited to a few basic energy-intensive and trade-exposed products and should be based on the lower of the carbon content of production in the importing country and actual carbon content, or perhaps "best available technology." Whether the World Trade Organization (WTO) would condone BCAs is unclear. BCAs violating basic trade rules might qualify for a special exception.

The Costs and Consequences of Clean Air Act Regulation of CO2 from Power Plants

- American Economic Review---2014---Dallas Burtraw,Josh Linn,Karen Palmer,Anthony Paul

US climate policy is unfolding under the Clean Air Act. Mobile source and construction permitting regulations are in place. Most important, EPA and the states will determine the form and stringency of the regulations for power plants. Various approaches would create an implicit price on emitting greenhouse gases and create valuable assets that would be distributed differently among electricity producers, consumers, and the government. We compare a tradable performance standard with several cap-and-trade policies. Distributing asset values to fossil-fueled producers and consumers has small effects on average electricity prices but imposes greater social cost than a revenue-raising policy.

Tax Policy Issues in Designing a Carbon Tax

- American Economic Review---2014---Donald B. Marron,Eric J. Toder

A carbon tax is a promising tool for discouraging the greenhouse gas emissions that cause climate change. In principle, a well-designed tax could reduce the risk of climate change, minimize the cost of emissions reductions, encourage innovation in low-carbon technologies, and raise new public revenue. But designing a real-world carbon tax poses significant challenges. We analyze those challenges from a public finance perspective, emphasizing three tax policy design issues: setting the tax rate, collecting the tax, and using the resulting revenue. The benefits of a carbon tax will depend on how policymakers address those issues.

How Effective Are US Renewable Energy Subsidies in Cutting Greenhouse Gases?

- American Economic Review---2014---Brian C. Murray,Maureen Cropper,Francisco C. de la Chesnaye,John Reilly

The federal tax code provides preferential treatment for the production and use of renewable energy. We report estimates of the subsidies' effects on greenhouse gases (GHG) emissions developed in a recent National Research Council (NRC) Report. Due to lack of estimates of the impact of tax provisions on GHG emissions, new modeling studies were commissioned. The studies found, at best, a small impact of subsidies in reducing GHG emissions; in some cases, emissions increased. The NRC report also identified the need to capture the complex interactions among subsidies, pre-existing regulations, and commodity markets.

Powering Up China: Income Distributions and Residential Electricity Consumption

- American Economic Review---2014---Maximilian Auffhammer,Catherine D. Wolfram

Current forecasts suggest that the vast majority of growth in energy demand will come from the developing world, and that China will play a major part in that growth. This paper presents evidence suggesting that the shape of the income distribution, which is typically omitted from forecasting models, plays a major role in driving household acquisition of energy-using durable goods in rural China. We use province-level data for rural households to show that the share of the population living above the poverty line is an important determinant of household appliance holdings even controlling for average household income.

The Economic Cost of Global Fuel Subsidies

- American Economic Review---2014---Lucas Davis

By 2015, global oil consumption will reach 90 million barrels per day. In part, this high level of consumption reflects the fact that many countries provide subsidies for gasoline and diesel. This paper examines global fuel subsidies using the latest available data from the World Bank, finding that road-sector subsidies for gasoline and diesel totaled $110 billion in 2012. Pricing fuels below cost is inefficient because it leads to overconsumption. Under baseline assumptions about supply and demand elasticities, the total annual deadweight loss worldwide is $44 billion. Incorporating external costs increases the economic costs substantially.

Why Are Power Plants in India Less Efficient Than Power Plants in the United States?

- American Economic Review---2014---Hei Sing Chan,Maureen Cropper,Kabir Malik

India's coal-fired generating capacity doubled between 1990 and 2010 and currently accounts for 70 percent of electricity produced. Despite this, thermal efficiency at state-owned coal-fired power plants in India is significantly lower than at plants in the United States. When matched on age and capacity, heat input per kWh was 8 percent higher at Indian plants between 1997 and 2009. This can only partly be explained by the lower heat content of Indian coal. Electricity sector restructuring in the United States improved thermal efficiency at investor-owned plants; however, electricity sector restructuring in India has yet to improve thermal efficiency at state-owned coal-fired power plants.

Minutes of the Annual Business Meeting: Philadelphia, PA, January 4, 2014

- American Economic Review---2014---Peter Rousseau

Report of the Secretary

- American Economic Review---2014---Peter Rousseau

Report of the Treasurer

- American Economic Review---2014---Peter Rousseau

American Economic Association Universal Academic Questionnaire Summary Statistics

- American Economic Review---2014---Charles E. Scott,John Siegfried

A Grand Gender Convergence: Its Last Chapter

- American Economic Review---2014---Claudia Goldin

The converging roles of men and women are among the grandest advances in society and the economy in the last century. These aspects of the grand gender convergence are figurative chapters in a history of gender roles. But what must the "last" chapter contain for there to be equality in the labor market? The answer may come as a surprise. The solution does not (necessarily) have to involve government intervention and it need not make men more responsible in the home (although that wouldn't hurt). But it must involve changes in the labor market, especially how jobs are structured and remunerated to enhance temporal flexibility. The gender gap in pay would be considerably reduced and might vanish altogether if firms did not have an incentive to disproportionately reward individuals who labored long hours and worked particular hours. Such change has taken off in various sectors, such as technology, science, and health, but is less apparent in the corporate, financial, and legal worlds.

Vertical Integration and Input Flows

- American Economic Review---2014---Enghin Atalay,Ali Horta?su,Chad Syverson

We use broad-based yet detailed data from the economy's goods-producing sectors to investigate firms' ownership of production chains. It does not appear that vertical ownership is primarily used to facilitate transfers of goods along the production chain, as is often presumed: roughly one-half of upstream establishments report no shipments to downstream establishments within the same firm. We propose an alternative explanation for vertical ownership, namely that it promotes efficient intrafirm transfers of intangible inputs.

We show evidence consistent with this hypothesis, including the fact that, after a change of ownership, an acquired establishment begins to resemble the acquiring firm along multiple dimensions.

Misallocation and Growth

- American Economic Review---2014---Boyan Jovanovic

This paper models growth via on-the-job learning when firms and workers are heterogeneous. It is an overlapping generations model in which young agents match with the old. More efficient assignments lead to faster long-run growth, more inequality, and less turnover in the distribution of human capital. Constant-growth paths are characterized for general functional forms and then, for the Cobb-Douglas case, the transition dynamics are solved analytically when the skill of the young is log-normally distributed and the initial human capital of the old generation is also log-normal. Growth and inequality move together on the transition to the balanced growth path.

Search, Liquidity, and the Dynamics of House Prices and Construction

- American Economic Review---2014---Allen Head,Huw Lloyd-Ellis,Hongfei Sun

The dynamics of house prices, sales, construction, and population growth in response to city-specific income shocks are characterized for 106 US cities. A dynamic model of search in the housing market in which construction, the entry of buyers, house prices, and sales are determined in equilibrium is then developed. The theory generates dynamics qualitatively consistent with the observations and a version calibrated to match key features of the US housing market offers a substantial quantitative improvement over models without search. In particular, variation in the time it takes to sell induces transaction prices to exhibit serially correlated growth.

Spatial Development

- American Economic Review---2014---Klaus Desmet,Esteban Rossi-Hansberg

We present a theory of spatial development. Manufacturing and services firms located in a continuous geographic area choose each period how much to innovate. Firms trade subject to transport costs and technology diffuses spatially. We apply the model to study the evolution of the US economy in the last half-century and find that it can generate the reduction in the manufacturing employment share, the increased spatial concentration of services, the growth in service productivity starting in the mid-1990s, the rise in the dispersion of land rents in the same period, as well as several other spatial and temporal patterns.

The Role of Local Officials in New Democracies: Evidence from Indonesia

- American Economic Review---2014---Monica Martinez-Bravo

This paper shows that the body of appointed officials that a new democracy inherits from the previous regime is a key determinant of the extent of electoral fraud and clientelistic spending in new democracies. I develop a model that predicts that appointed officials have stronger incentives to influence voters during national level elections because of their career concerns. I test the implications of the model using data from Indonesia's transition to democracy. Both the pattern of alignment of electoral results between village and district levels and the pattern of subsequent turnover of appointed village heads corroborate the predictions of the model.

Bidding for Incomplete Contracts: An Empirical Analysis of Adaptation Costs

- American Economic Review---2014---Patrick Bajari,Stephanie Houghton,Steven Tadelis

Procurement contracts are often renegotiated because of changes that are required after their execution. Using highway paving contracts we show that renegotiation imposes significant adaptation costs. Reduced form regressions suggest that bidders respond strategically to contractual incompleteness and that adaptation costs are an important determinant of their bids. A structural empirical model compares adaptation costs to bidder markups and shows that adaptation costs account for 7.5-14 percent of the winning bid. Markups from private information and market power, the focus of much of the auctions literature, are much smaller by comparison. Implications for government procurement are discussed.

Do Physicians' Financial Incentives Affect Medical Treatment and Patient Health?

- American Economic Review---2014---Jeffrey Clemens,Joshua Gottlieb

We investigate whether physicians' financial incentives influence health care supply, technology diffusion, and resulting patient outcomes. In 1997, Medicare consolidated the geographic regions across which it adjusts physician payments, generating area-specific price shocks. Areas with higher payment shocks experience significant increases in health care supply. On average, a 2 percent increase in payment rates leads to a 3 percent increase in care provision. Elective procedures such as cataract surgery respond much more strongly than less discretionary services. Non-radiologists expand their provision of MRIs, suggesting effects on technology adoption. We estimate economically small health impacts, albeit with limited precision.

Cycles of Conflict: An Economic Model

- American Economic Review---2014---Daron Acemoglu,Alexander Wolitzky

We propose a model of cycles of conflict and distrust. Overlapping generations of agents from two groups sequentially play coordination games under incomplete information about whether the other side consists of bad types who always take bad actions. Good actions may be misperceived as bad and information about past actions is limited. Conflict spirals start as a result of misperceptions but also contain the seeds of their own dissolution: Bayesian agents eventually conclude that the spiral likely started by mistake, and is thus uninformative of the opposing group's type. The agents then experiment with a good action, restarting the cycle.

Frictionless Technology Diffusion: The Case of Tractors

- American Economic Review---2014---Rodolfo E. Manuelli,Ananth Seshadri

Many new technologies display long adoption lags, and this is often interpreted as evidence of frictions inconsistent with the standard neoclassical model. We study the diffusion of the tractor in American agriculture between 1910 and 1960-a well-known case of slow diffusion-and show that the speed of adoption was consistent with the predictions of a simple neoclassical growth model. The reason for the slow rate of diffusion was that tractor quality kept improving over this period and, more importantly, that only when wages increased did it become relatively unprofitable to operate the alternative, labor-intensive, horse technology.

Investment Dispersion and the Business Cycle

- American Economic Review---2014---Ruediger Bachmann,Christian Bayer

The cross-sectional dispersion of firm-level investment rates is procyclical. This makes investment rates different from productivity, output, and employment growth, which have countercyclical dispersions. A calibrated heterogeneous-firm business cycle model with nonconvex capital adjustment costs and countercyclical dispersion of firm-level productivity shocks replicates these facts and produces a correlation between investment dispersion and aggregate output of 0.53, close to 0.45 in the data. We find that small shocks to the dispersion of productivity, which in the model constitutes firm risk, suffice to generate the mildly procyclical investment dispersion in the data but do not produce serious business cycles.

Knowledge Is (Less) Power: Experimental Evidence from Residential Energy Use

- American Economic Review---2014---Katrina Jessoe,David Rapson

Imperfect information about product attributes inhibits efficiency in many choice settings, but can be overcome by providing simple, lowcost information. We use a randomized control trial to test the effect of high-frequency information about residential electricity usage on the price elasticity of demand. Informed households are three standard deviations more responsive to temporary price increases, an effect that is not attributable to price salience. Conservation extends beyond pricing events in the short and medium run, providing evidence of habit formation and implying that the intervention leads to greenhouse gas abatement. Survey evidence suggests that information facilitates learning.

Stock Prices, News, and Economic Fluctuations: Comment

- American Economic Review---2014---André Kurmann,Elmar Mertens

Beaudry and Portier (2006) propose an identification scheme to study the effects of news shocks about future productivity in vector error correction models (VECMs). This comment shows that, when applied to their VECMs with more than two variables, the identification scheme does not have a unique solution. The problem arises from a particular interplay of cointegration assumptions and longrun restrictions.

Heterogeneity and Aggregation: Implications for Labor-Market Fluctuations: Comment

- American Economic Review---2014---Shuhei Takahashi

Chang and Kim (2007) develop an incomplete asset markets model incorporating discrete labor supply and idiosyncratic labor productivity. Their results resolve long-standing puzzles for business cycle models. Specifically, they produce a low correlation between aggregate hours worked and labor productivity (0.23) and a labor wedge with 76 percent the volatility of output. I show that these results arise from errors in their computational method. I resolve their model using a corrected method and find a strong, positive correlation between hours and productivity (0.80). Fluctuations in the labor wedge decrease to 24 percent of those in output.

Heterogeneity and Aggregation: Implications for Labor-Market Fluctuations: Reply

- American Economic Review---2014---Yongsung Chang,Sun-Bin Kim

Takahashi (2014) has uncovered coding errors in our paper, Chang and Kim (2007)-henceforth, CK. We acknowledge and are embarrassed by these mistakes. We are grateful to Takahashi for uncovering them. While the correction decreases the volatility of the labor market wedge, we find that the main message of CK remains valid: the measured labor market wedge arises endogenously in an economy with incomplete capital markets and indivisible labor supply. For example, our model accounts for 18 percent of the volatility in the labor market wedge in the data; it was 43 percent in CK.

Monetary Policy and Rational Asset Price Bubbles

- American Economic Review---2014---Jordi Gal?

I examine the impact of alternative monetary policy rules on a rational asset price bubble, through the lens of an overlapping generations model with nominal rigidities. A systematic increase in interest rates in response to a growing bubble is shown to enhance the fluctuations in the latter, through its positive effect on bubble growth. The optimal monetary policy seeks to strike a balance between stabilization of the bubble and stabilization of aggregate demand. The paper's main findings call into question the theoretical foundations of the case for "leaning against the wind" monetary policies.

Fiscal Stimulus in a Monetary Union: Evidence from US Regions

- American Economic Review---2014---Emi Nakamura,Jon Steinsson

We use rich historical data on military procurement to estimate the effects of government spending. We exploit regional variation in military build-ups to estimate an "open economy relative multiplier" of approximately 1.5. We develop a framework for interpreting this estimate and relating it to estimates of the standard closed economy aggregate multiplier. The latter is highly sensitive to how strongly aggregate monetary and tax policy "leans against the wind." Our open economy relative multiplier "differences out" these effects because monetary and tax policies are uniform across the nation. Our evidence indicates that demand shocks can have large effects on output.

Trade Adjustment and Productivity in Large Crises

- American Economic Review---2014---Gita Gopinath,Brent Neiman

We empirically characterize the mechanics of trade adjustment during the Argentine crisis. Though imports collapsed by 70 percent from 2000-2002, the entry and exit of firms or products at the country level played a small role. The within-firm churning of imported inputs, however, played a sizeable role. We build a model of trade in intermediate inputs with heterogeneous firms, fixed import costs, and roundabout production. Import demand is non-homothetic and the implications of an import price shock depend on the full distribution of firm-level adjustments. An import price shock generates a significant decline in productivity.

Do Prices and Attributes Explain International Differences in Food Purchases?

- American Economic Review---2014---Pierre Dubois,Rachel Griffith,Aviv Nevo

Food purchases differ substantially across countries. We use detailed household level data from the US, France and the UK to (i) document these differences; (ii) estimate a demand system for food and nutrients, and (iii) simulate counterfactual choices if households faced prices and nutritional characteristics from other countries. We find that differences in prices and characteristics are important and can explain some difference (e.g., US-France difference in caloric intake), but generally cannot explain many of the compositional patterns by themselves. Instead, it seems an interaction between the economic environment and differences in preferences is needed to explain cross country differences.

The Economics of Predation: What Drives Pricing When There Is Learning-by-Doing?

- American Economic Review---2014---David Besanko,Ulrich Doraszelski,Yaroslav Kryukov

We formally characterize predatory pricing in a modern industry-dynamics framework that endogenizes competitive advantage and industry structure. As an illustrative example we focus on learning-by-doing. To disentangle predatory pricing from mere competition for efficiency on a learning curve we decompose the equilibrium pricing condition. We show that forcing firms to ignore the predatory incentives in setting their prices can have a large impact and that this impact stems from eliminating equilibria with predation-like behavior. Along with the predation-like behavior, however, a fair amount of competition for the market is eliminated.

Strategic Interaction and Networks

- American Economic Review---2014---Yann Bramoull?,Rachel Kranton,Martin D'Amours,Yann Bramoullé

Geography and social links shape economic interactions. In industries, schools, and markets, the entire network determines outcomes. This paper analyzes a large class of games and obtains a striking result. Equilibria depend on a single network measure: the lowest eigenvalue. This paper is the first to uncover the importance of the lowest eigenvalue to economic and social outcomes. It captures how much the network amplifies agents' actions. The paper combines new tools?potential games, optimization, and spectral graph theory?to solve for all Nash and stable equilibria and applies the results to R&D, crime, and the econometrics of peer effects.

How University Endowments Respond to Financial Market Shocks: Evidence and Implications

- American Economic Review---2014---Jeffrey Brown,Stephen Dimmock,Jun-Koo Kang,Scott J. Weisbenner

Endowment payouts have become an increasingly important component of universities' revenues in recent decades. We study how universities respond to financial shocks to endowments and thus shed light on a number of existing models of endowment behavior. Endowments actively reduce payouts relative to their stated payout policies following negative, but not positive, shocks. This asymmetric behavior is consistent with "endowment hoarding," especially among endowments whose current value is close to the benchmark value at the start of the university president's tenure. We also document the effect of negative endowment shocks on university operations, such as personnel cuts.

When the Levee Breaks: Black Migration and Economic Development in the American South

- American Economic Review---2014---Richard Hornbeck,Suresh Naidu

In the American South, post-bellum economic development may have been restricted in part by white landowners' access to low-wage black labor. This paper examines the impact of the Great Mississippi Flood of 1927 on black out-migration and subsequent agricultural development. Flooded counties experienced an immediate and persistent out-migration of black population. Over time, landowners in flooded counties modernized agricultural production and increased its capital intensity relative to landowners in nearby similar non-flooded counties. Landowners resisted black out-migration, however, benefiting from the status quo system of labor-intensive agricultural production.

School Choice, School Quality, and Postsecondary Attainment

- American Economic Review---2014---David Deming,Justine Hastings,Thomas J. Kane,Doug Staiger

We study the impact of a public school choice lottery in Charlotte-Mecklenburg schools on college enrollment and degree completion. We find a significant overall increase in college attainment among lottery winners who attend their first choice school. Using rich administrative data on peers, teachers, course offerings and other inputs, we show that the impacts of choice are strongly predicted by gains on several measures of school quality. Gains in attainment are concentrated among girls. Girls respond to attending a better school with higher grades and increases in college-preparatory course-taking, while boys do not.

Do Employers Use Unemployment as a Sorting Criterion When Hiring? Evidence from a Field Experiment

- American Economic Review---2014---Stefan Eriksson,Dan-Olof Rooth

The stigma associated with long-term unemployment spells could create large inefficiencies in labor markets. While the existing literature points toward large stigma effects, it has proven difficult to estimate causal relationships. Using data from a field experiment, we find that long-term unemployment spells in the past do not matter for employers' hiring decisions, suggesting that subsequent work experience eliminate this negative signal. Nor do employers treat contemporary short-term unemployment spells differently, suggesting that they understand that worker/firm matching takes time. However, employers attach a negative value to contemporary unemployment spells lasting at least nine months, providing evidence of stigma effects.

Risk and Precautionary Saving in Two-Person Households

- American Economic Review---2014---Patricia Apps,Yuri Andrienko,Ray Rees

The existing literature on precautionary saving is based almost entirely on the assumption that the household acts as if it consisted of a single individual decision-taker. In reality saving decisions are typically taken by two-person households. This paper examines the implications of this observation for the existence of precautionary saving, and shows that the assumption that the individual utility functions satisfy the conditions for precautionary saving to exist can imply that the household exhibits precautionary saving, but only under strong assumptions on the type of risk change being considered.

Does Money Illusion Matter? Comment

- American Economic Review---2014---Luba Petersen,Abel Winn

This paper experimentally investigates whether money illusion generates substantial nominal inertia. Building on the design of Fehr and Tyran (2001), we find no evidence that agents choose high nominal payoffs over high real payoffs. However, participants do select prices associated with high nominal payoffs within a set of maximum real payoffs as a heuristic to simplify their decision task. The cognitive challenge of this task explains the majority of the magnitude of nominal inertia; money illusion exerts only a second-order effect. The duration of nominal inertia depends primarily on participants' best response functions, not the prevalence of money illusion.

Does Money Illusion Matter? Reply

- American Economic Review---2014---Ernst Fehr,Jean-Robert Tyran

The data in Fehr and Tyran (FT, 2001) and Luba Petersen and Abel Winn (PW,2013) show that money illusion plays an important role in nominal price adjustment after a fully anticipated negative monetary shock. Money Illusion affects subjects' expectations, and causes pronounced nominal inertia after a negative shock but much less inertia after a positive shock. Thus PW provide a misleading interpretation both of our and their own data.

The Dynamic Behavior of the Real Exchange Rate in Sticky Price Models: Comment

- American Economic Review---2014---Jens Iversen,Ulf S?derstr?m

In an article published in the American Economic Review, J?n Steinsson (2008) argues that two sticky price models driven by real shocks can explain the observed persistence, volatility and hump-shaped impulse response function of the real exchange rate. This comment shows, first, that correcting an error in one of Steinsson's models leads to substantially lower persistence and volatility of the real exchange rate; second, that Steinsson's models cannot match real exchange rate volatility relative to output; and, third, that reasonable variations of the model calibration or specification all lead to lower real exchange rate persistence and volatility (or both).

Collateral Crises

- American Economic Review---2014---Gary Gorton,Guillermo Ordo?ez,Guillermo L. Ordonez

Short-term collateralized debt, private money, is efficient if agents are willing to lend without producing costly information about the collateral backing the debt. When the economy relies on such informationally insensitive debt, firms with low quality collateral can borrow, generating a credit boom and an increase in output. Financial fragility is endogenous; it builds up over time as information about counterparties decays. A crisis occurs when a (possibly small) shock causes agents to suddenly have incentives to produce information, leading to a decline in output. A social planner would produce more information than private agents but would not always want to eliminate fragility.

A Macroeconomic Model with a Financial Sector

- American Economic Review---2014---Markus Brunnermeier,Yuliy Sannikov

This article studies the full equilibrium dynamics of an economy with financial frictions. Due to highly nonlinear amplification effects, the economy is prone to instability and occasionally enters volatile crisis episodes. Endogenous risk, driven by asset illiquidity, persists in crisis even for very low levels of exogenous risk. This phenomenon, which we call the volatility paradox, resolves the Kocherlakota (2000) critique. Endogenous leverage determines the distance to crisis. Securitization and derivatives contracts that improve risk sharing may lead to higher leverage and more frequent crises.

Finance and Misallocation: Evidence from Plant-Level Data

- American Economic Review---2014---Virgiliu Midrigan,Yi Xu

We use producer-level data to evaluate the role of financial frictions in determining total factor productivity (TFP). We study a model of establishment dynamics in which financial frictions reduce TFP through two channels. First, finance frictions distort entry and technology adoption decisions. Second, finance frictions generate dispersion in the returns to capital across existing producers and thus productivity losses from misallocation. Parameterizations of our model consistent with the data imply fairly small losses from misallocation, but potentially sizable losses from inefficiently low levels of entry and technology adoption.

Tracing Value-Added and Double Counting in Gross Exports

- American Economic Review---2014---Robert Koopman,Zhi Wang,Shang-Jin Wei

This paper proposes an accounting framework that breaks up a country's gross exports into various value-added components by source and additional double-counted terms. Our parsimonious framework bridges a gap between official trade statistics (in gross value terms) and national accounts (in value-added terms), and integrates all previous measures of vertical specialization and value-added trade in the literature into a unified framework. To illustrate the potential of such a method, we present a number of applications including re-computing revealed comparative advantages and the magnifying impact of multi-stage production on trade costs.

Market Size, Competition, and the Product Mix of Exporters

- American Economic Review---2014---Thierry Mayer,Marc Melitz,Gianmarco Ottaviano

We build a theoretical model of multi-product firms that highlights how competition across market destinations affects both a firm's exported product range and product mix. We show how tougher competition in an export market induces a firm to skew its export sales toward its best performing products. We find very strong confirmation of this competitive effect for French exporters across export market destinations. Theoretically, this within-firm change in product mix driven by the trading environment has important repercussions on firm productivity. A calibrated fit to our theoretical model reveals that these productivity effects are potentially quite large.

Do Consumers Respond to Marginal or Average Price? Evidence from Nonlinear Electricity Pricing

- American Economic Review---2014---Koichiro Ito

Nonlinear pricing and taxation complicate economic decisions by creating multiple marginal prices for the same good. This paper provides a framework to uncover consumers' perceived price of nonlinear price schedules. I exploit price variation at spatial discontinuities in electricity service areas, where households in the same city experience substantially different nonlinear pricing. Using household-level panel data from administrative records, I find strong evidence that consumers respond to average price rather than marginal or expected marginal price. This suboptimizing behavior makes nonlinear pricing unsuccessful in achieving its policy goal of energy conservation and critically changes the welfare implications of nonlinear pricing.

Time to Build and Fluctuations in Bulk Shipping

- American Economic Review---2014---Myrto Kalouptsidi

This paper explores the nature of fluctuations in world bulk shipping by quantifying the impact of time to build and demand uncertainty on investment and prices. We examine the impact of both construction lags and their lengthening in periods of high investment activity, by constructing a dynamic model of ship entry and exit. A rich dataset of secondhand ship sales allows for a new estimation strategy: resale prices provide direct information on value functions and allow their nonparametric estimation. We find that moving from time-varying to constant to no time to build reduces prices, while significantly increasing both the level and volatility of investment.

Time Allocation and Task Juggling

- American Economic Review---2014---Decio Coviello,Andrea Ichino,Nicola Persico

A single worker allocates her time among different projects which are progressively assigned. When the worker works on too many projects at the same time, the output rate decreases and completion time increases according to a law which we derive. We call this phenomenon "task juggling" and argue that it is pervasive in the workplace. We show that task juggling is a strategic substitute of worker effort. We then present a model where task juggling is the result of lobbying by clients, or coworkers, each seeking to get the worker to apply effort to his project ahead of the others'.

How Financial Incentives Induce Disability Insurance Recipients to Return to Work

- American Economic Review---2014---Andreas Kostøl,Magne Mogstad

Using a local randomized experiment that arises from a sharp discontinuity in Disability Insurance (DI) policy in Norway, we provide transparent and credible identification of how financial incentives induce DI recipients to return to work. We find that many DI recipients have considerable capacity to work that can be effectively induced by providing financial work incentives. We further show that providing work incentives to DI recipients may both increase their disposable income and reduce program costs. Our findings also suggest that targeted policies may be the most effective in encouraging DI recipients to return to work.

Outside Options and the Failure of the Coase Conjecture

- American Economic Review---2014---Simon Board,Marek Pycia

A buyer wishes to purchase a good from a seller who chooses a sequence of prices over time. Each period the buyer can also exercise an outside option, abandoning their search or moving on to another seller. We show there is a unique equilibrium in which the seller charges a constant price in every period equal to the monopoly price, contravening the Coase conjecture. We then embed the singleseller model into a search framework and show the result provides a foundation for the usual "no haggling" assumption.

Raising Retailers' Profits: On Vertical Practices and the Exclusion of Rivals

- American Economic Review---2014---John Asker,Heski Bar-Isaac

Resale price maintenance (RPM), slotting fees, loyalty rebates, and other related vertical practices can allow an incumbent manufacturer to transfer profits to retailers. If these retailers were to accommodate entry, upstream competition could lead to lower industry profits and the breakdown of these profit transfers. Thus, in equilibrium, retailers can internalize the effect of accommodating entry on the incumbent's profits. Consequently, if entry requires downstream accommodation, entry can be deterred. We discuss policy implications of this aspect of vertical contracting practices.

Are Private Markets and Filtering a Viable Source of Low-Income Housing? Estimates from a ”Repeat Income” Model

- American Economic Review---2014---Stuart Rosenthal

While filtering has long been considered the primary mechanism by which markets supply low-income housing, direct estimates of that process have been absent. This has contributed to doubts about the viability of markets and to misplaced policy. I fill this gap by estimating a "repeat income" model using 1985-2011 panel data. Real annual filtering rates are faster for rental housing (2.5 percent) than owner-occupied (0.5 percent), vary inversely with the income elasticity of demand and house price inflation, and are sensitive to tenure transitions as homes age. For most locations, filtering is robust which lends support for housing voucher programs.

Income and Democracy: Comment

- American Economic Review---2014---Matteo Cervellati,Florian Jung,Uwe Sunde,Thomas Vischer

Acemoglu et al. (2008) document that the correlation between income per capita and democracy disappears when including time and country fixed effects. While their results are robust for the full sample, we find evidence for significant but heterogeneous effects of income on democracy: negative for former colonies, but positive for non-colonies. Within the sample of colonies we detect heterogeneous effects related to colonial history and early institutions. The zero mean effect estimated by Acemoglu et al. (2008) is consistent with effects of opposite signs in the different subsamples. Our findings are robust to the use of alternative data and estimation techniques.

Sales Taxes and Internet Commerce

- American Economic Review---2014---Liran Einav,Dan Knoepfle,Jonathan Levin,Neel Sundaresan

We estimate the sensitivity of Internet retail purchasing to sales taxes using eBay data. Our first approach exploits the fact that a seller’s location?and therefore the applicable tax rate?is revealed only after a buyer has expressed interest in an item. We document how adverse tax "surprises" reduce the likelihood of purchase and shift subsequent purchases toward out-of-state sellers. We then use more aggregated data to estimate that every one percentage point increase in a state’s sales tax increases online purchases by state residents by almost 2 percent, while decreasing their online purchases from state retailers by 3?4 percent.

Risk Shocks

- American Economic Review---2014---Lawrence J. Christiano,Roberto Motto,Massimo Rostagno

We augment a standard monetary dynamic general equilibrium model to include a Bernanke-Gertler-Gilchrist financial accelerator mechanism. We fit the model to US data, allowing the volatility of cross-sectional idiosyncratic uncertainty to fluctuate over time. We refer to this measure of volatility as risk. We find that fluctuations in risk are the most important shock driving the business cycle.

Aligned Delegation

- American Economic Review---2014---Alexander Frankel

A principal delegates multiple decisions to an agent, who has private information relevant to each decision. The principal is uncertain about the agent’s preferences. I solve for max-min optimal mechanisms? those which maximize the principal’s payoff against the worst case agent preference types. These mechanisms are characterized by a property I call "aligned delegation": all agent types play identically, as if they shared the principal’s preferences. Max-min optimal mechanisms may take the simple forms of ranking mechanisms, budgets, or sequential quotas.

Immigration and the Diffusion of Technology: The Huguenot Diaspora in Prussia

- American Economic Review---2014---Erik Hornung

This paper analyzes long-term effects of skilled-worker immigration on productivity for the Huguenot migration to Prussia. In 1685, religiously persecuted French Huguenots settled in Brandenburg- Prussia and compensated for population losses due to plagues during the Thirty Years' War. We combine Huguenot immigration lists from 1700 with Prussian firm-level data on the value of inputs and outputs in 1802 in a unique database to analyze the effects of skilled immigration to places with underused economic potential. Exploiting this settlement pattern in an instrumental-variable approach, we find substantial long-term effects of Huguenot settlement on the productivity of textile manufactories.

Violence and Risk Preference: Experimental Evidence from Afghanistan

- American Economic Review---2014---Michael Callen,Mohammad Isaqzadeh,James D. Long,Charles Sprenger

We investigate the relationship between violence and economic risk preferences in Afghanistan combining: (i) a two-part experimental procedure identifying risk preferences, violations of Expected Utility, and specific preferences for certainty; (ii) controlled recollection of fear based on established methods from psychology; and (iii) administrative violence data from precisely geocoded military records. We document a specific preference for certainty in violation of Expected Utility. The preference for certainty, which we term a Certainty Premium, is exacerbated by the combination of violent exposure and controlled fearful recollections. The results have implications for risk taking and are potentially actionable for policymakers and marketers.

Consumption Risk-Sharing in Social Networks

- American Economic Review---2014---Attila Ambrus,Markus Mobius,Adam Szeidl

We develop a model in which connections between individuals serve as social collateral to enforce informal insurance payments. We show that: (i) The degree of insurance is governed by the expansiveness of the network, measured with the per capita number of connections that groups have with the rest of the community. "Two-dimensional" networks?like real-world networks in Peruvian villages?are sufficiently expansive to allow very good risk-sharing. (ii) In second- best arrangements, insurance is local: agents fully share shocks within, but imperfectly between endogenously emerging risk-sharing groups. We also discuss how endogenous social collateral affects our results.

Risk Sharing and Transactions Costs: Evidence from Kenya's Mobile Money Revolution

- American Economic Review---2014---William Jack,Tavneet Suri

We explore the impact of reduced transaction costs on risk sharing by estimating the effects of a mobile money innovation on consumption. In our panel sample, adoption of the innovation increased from 43 to 70 percent. We find that, while shocks reduce consumption by 7 percent for nonusers, the consumption of user households is unaffected. The mechanisms underlying these consumption effects are increases in remittances received and the diversity of senders. We report robustness checks supporting these results and use the four-fold expansion of the mobile money agent network as a source of exogenous variation in access to the innovation.

Estimating a Structural Model of Herd Behavior in Financial Markets

- American Economic Review---2014---Marco Cipriani,Antonio Guarino

We develop a new methodology to estimate herd behavior in financial markets. We build a model of informational herding that can be estimated with financial transaction data. In the model, rational herding arises because of information-event uncertainty. We estimate the model using data on a NYSE stock (Ashland Inc.) during 1995. Herding occurs often and is particularly pervasive on some days. On average, the proportion of herd buyers is 2 percent; that of herd sellers is 4 percent. Herding also causes important informational inefficiencies in the market, amounting, on average, to 4 percent of the asset's expected value.

Worktime Regulations and Spousal Labor Supply

- American Economic Review---2014---Dominique Goux,Eric Maurin,Barbara Petrongolo

We study interdependencies in spousal labor supply by exploiting the design of the French workweek reduction, which introduced exogenous variation in one's spouse's labor supply, at constant earnings. Treated employees work on average two hours less per week. Husbands of treated women respond by reducing their labor supply by about half an hour, consistent with substantial leisure complementarity, and specifically cut the nonusual component of their workweek, leaving usual hours unchanged. Women's response to their husband's treatment is instead weak and rarely statistically significant, possibly due to heavier constraints in the organization of their workweek.

One Swallow Doesn't Make a Summer: New Evidence on Anchoring Effects

- American Economic Review---2014---Zacharias Maniadis,Fabio Tufano,John List

Some researchers have argued that anchoring in economic valuations casts doubt on the assumption of consistent and stable preferences. We present new evidence that explores the strength of certain anchoring results. We then present a theoretical framework that provides insights into why we should be cautious of initial empirical findings in general. The model importantly highlights that the rate of false positives depends not only on the observed significance level, but also on statistical power, research priors, and the number of scholars exploring the question. Importantly, a few independent replications dramatically increase the chances that the original finding is true.

Partnerships versus Corporations: Moral Hazard, Sorting, and Ownership Structure

- American Economic Review---2014---Ayca Kaya,Galina Vereshchagina

Team production takes advantage of technological complementarities but comes with the cost of free-ridership. When workers differ in skills, the choice of sorting pattern may be associated with a nontrivial trade-off between exploiting the technological complementarities and minimizing the cost of free-ridership. This paper demonstrates that whether such a trade-off arises depends (i) on how the power of incentives required for effort provision varies with workers' types, and (ii) on whether the workers are organized for production in partnerships or in corporations. These results have implications for how production is organized in different industries?in partnerships or in corporations.

Social Ideology and Taxes in a Differentiated Candidates Framework

- American Economic Review---2014---Stefan Krasa,Mattias K Polborn

Many observers argue that political polarization, particularly on social and cultural issues, has increased in the United States. How does this influence the political competition on economic issues? We analyze this question using a framework in which two office-motivated candidates differ in their fixed ideological position and choose a level of government spending to maximize their vote share. In equilibrium, candidates cater to a set of swing voters who contain socially conservative and economically-liberal voters, as well as socially-liberal and economically-conservative voters. We analyze how voters' cultural preferences and candidates' cultural positions influence equilibrium economic positions.

Term Premia and Inflation Uncertainty: Empirical Evidence from an International Panel Dataset: Comment

- American Economic Review---2014---Michael Bauer,Glenn Rudebusch,Jing Cynthia Wu

Term premia implied by maximum likelihood estimates of affine term structure models are misleading because of small-sample bias. We show that accounting for this bias alters the conclusions about the trend, cycle, and macroeconomic determinants of the term premia estimated in Wright (2011). His term premium estimates are essentially acyclical, and often just parallel the secular trend in longterm interest rates. In contrast, bias-corrected term premia show pronounced countercyclical behavior, consistent with theoretical and empirical arguments about movements in risk premia.

Term Premia and Inflation Uncertainty: Empirical Evidence from an International Panel Dataset: Reply

- American Economic Review---2014---Jonathan H. Wright

Bauer, Rudebusch, and Wu (2014) advocate the use of bias-corrected estimates in their comment on Wright (2011). Econometric estimation of a macro-finance VAR provides quite imprecise estimates of future short-term interest rates. Nonetheless, comparison with survey responses indicates that the proposed bias-corrected point estimates are less plausible than their maximum-likelihood counterparts.

Adverse Selection and Inertia in Health Insurance Markets: When Nudging Hurts

- American Economic Review---2013---Benjamin R. Handel

This paper investigates consumer inertia in health insurance markets, where adverse selection is a potential concern. We leverage a major change to insurance provision that occurred at a large firm to identify substantial inertia, and develop and estimate a choice model that also quantifies risk preferences and ex ante health risk. We use these estimates to study the impact of policies that nudge consumers toward better decisions by reducing inertia. When aggregated, these improved individual-level choices substantially exacerbate adverse selection in our setting, leading to an overall reduction in welfare that doubles the existing welfare loss from adverse selection.

Using Differences in Knowledge across Neighborhoods to Uncover the Impacts of the EITC on Earnings

- American Economic Review---2013---Raj Chetty,John Friedman,Emmanuel Saez

We estimate the impacts of the Earned Income Tax Credit on labor supply using local variation in knowledge about the EITC schedule. We proxy for EITC knowledge in a Zip code with the fraction of individuals who manipulate reported self-employment income to maximize their EITC refund. This measure varies significantly across areas. We exploit changes in EITC eligibility at the birth of a child to estimate labor supply effects. Individuals in high-knowledge areas change wage earnings sharply to obtain larger EITC refunds relative to those in low-knowledge areas. These responses come primarily from intensive-margin earnings increases in the phase-in region.

Intertemporal Price Discrimination in Storable Goods Markets

- American Economic Review---2013---Igal Hendel,Aviv Nevo

We study intertemporal price discrimination when consumers can store for future consumption needs. We offer a simple model of demand dynamics, which we estimate using market-level data. Optimal pricing involves temporary price reductions that enable sellers to discriminate between price sensitive consumers, who stockpile for future consumption, and less price-sensitive consumers, who do not stockpile. We empirically quantify the impact of intertemporal price discrimination on profits and welfare. We find that sales (i) capture 25-30 percent of the gap between nondiscriminatory profits and (unattainable) third-degree price discrimination profits, (ii) increase total welfare, and (iii) have a modest impact on consumer welfare.

Two Perspectives on Preferences and Structural Transformation

- American Economic Review---2013---Berthold Herrendorf,Richard Rogerson,Akos Valentinyi

We assess the empirical importance of changes in income and relative prices for structural transformation in the postwar United States. We explain two natural approaches to the data: sectors may be categories of final expenditure or value added; e.g., the service sector may be the final expenditure on services or the value added from service industries. We estimate preferences for each approach and find that with final expenditure income effects are the dominant force behind structural transformation, whereas with value-added categories price effects are more important. We show how the inputoutput structure of the United States can reconcile these findings.

”Reverse Bayesianism”: A Choice-Based Theory of Growing Awareness

- American Economic Review---2013---Edi Karni,Marie-Louise Vier?,Marie-Louise Vierø

This article introduces a new approach to modeling the expanding universe of decision makers in the wake of growing awareness, and invokes the axiomatic approach to model the evolution of decision makers' beliefs as awareness grows. The expanding universe is accompanied by extension of the set of acts, the preference relations over which are linked by a new axiom, invariant risk preferences, asserting that the ranking of lotteries is independent of the set of acts under consideration. The main results are representation theorems and rules for updating beliefs over expanding state spaces and events that have the flavor of "reverse Bayesianism."

Dynamic Deception

- American Economic Review---2013---Axel Anderson,Lones Smith

We characterize the unique equilibrium of a competitive continuous time game between a resource-constrained informed player and a sequence of rivals who partially observe his action intensity. Our game adds noisy monitoring and impatient players to Aumann and Maschler (1966), and also subsumes insider trading models. The intensity bound induces a novel strategic bias and serial mean reversion by uninformed players. We compute the duration of the informed player's informational edge. The uninformed player's value of information is concave if the intensity bound is large enough. Costly obfuscation by the informed player optimally rises in the public deception.

Debt Contracts with Partial Commitment

- American Economic Review---2013---Natalia Kovrijnykh

This paper analyzes a dynamic lending relationship where the borrower cannot be forced to make repayments, and the lender offers long-term contracts that are imperfectly enforced and repeatedly renegotiated. No commitment and full commitment by the lender are special cases of this model where the probability of enforcement equals zero and one, respectively. I show that an increase in the degree of enforcement can lower social welfare. Furthermore, properties of equilibrium investment dynamics with partial commitment drastically differ from those with full and no commitment. In particular, investment is positively related to cash flow, consistent with empirical findings.

Information and Quality When Motivation Is Intrinsic: Evidence from Surgeon Report Cards

- American Economic Review---2013---Jonathan T. Kolstad

If profit maximization is the objective of a firm, new information about quality should affect firm behavior only through its effects on market demand. I consider an alternate model in which suppliers are motivated by a desire to perform well in addition to profit. The introduction of quality "report cards" for cardiac surgery in Pennsylvania provides an empirical setting to isolate the relative role of extrinsic and intrinsic incentives in determining surgeon response. Information on performance that was new to surgeons and unrelated to patient demand led to an intrinsic response four times larger than surgeon response to profit incentives.

When Do Secondary Markets Harm Firms?

- American Economic Review---2013---Jiawei Chen,Susanna Esteban,Matthew Shum

To investigate whether secondary markets aid or harm durable goods manufacturers, we build a dynamic model of durable goods oligopoly with transaction costs in the secondary market. Calibrating model parameters using data from the US automobile industry, we find the net effect of opening the secondary market is to decrease new car manufacturers' profits by 35 percent. Counterfactual scenarios in which the size of the used good stock decreases, such as when products become less durable, when the number of firms decreases, or when firms can commit to future production levels, increase the profitability of opening the secondary market.

Time as a Trade Barrier

- American Economic Review---2013---David Hummels,Georg Schaur

A large and growing share of world trade travels by air. We model exporters' choice between fast, expensive air cargo and slow, cheap ocean cargo, which depends on the price elasticity of demand and the value that consumers attach to fast delivery. We use US imports data that provide rich variation in the premium paid for air shipping and in time lags for ocean transit to extract consumers' valuation of time. We estimate that each day in transit is equivalent to an advalorem tariff of 0.6 to 2.1 percent. The most time-sensitive trade flows involve parts and components trade.

Vertical Integration and Exclusivity in Platform and Two-Sided Markets

- American Economic Review---2013---Robin Lee

This paper measures the impact of vertically integrated and exclusive software on industry structure and welfare in the sixth-generation of the US video game industry (2000-2005). I specify and estimate a dynamic model of both consumer demand for hardware and software products, and software demand for hardware platforms. I use estimates to simulate market outcomes had platforms been unable to own or contract exclusively with software. Driven by increased software compatibility, hardware and software sales would have increased by 7 percent and 58 percent and consumer welfare by $1.5 billion. Gains would be realized only by the incumbent, suggesting exclusivity favored the entrant platforms.

Conclusions Regarding Cross-Group Differences in Happiness Depend on Difficulty of Reaching Respondents

- American Economic Review---2013---Ori Heffetz,Matthew Rabin

A growing literature explores differences in subjective well-being across demographic groups, often relying on surveys with high nonresponse rates. By using the reported number of call attempts made to participants in the University of Michigan's Surveys of Consumers, we show that comparisons among easy-to-reach respondents differ from comparisons among hard-to-reach ones. Notably, easy-to-reach women are happier than easy-to-reach men, but hard-to-reach men are happier than hard-to-reach women, and conclusions of a survey could reverse with more attempted calls. Better alternatives to comparing group sample averages might include putting greater weight on hard-to-reach respondents or even extrapolating trends in responses.

The Demand for Youth: Explaining Age Differences in the Volatility of Hours

- American Economic Review---2013---Nir Jaimovich,Seth Pruitt,Henry Siu

Over the business cycle young workers experience much greater volatility of hours worked than prime-aged workers. This can arise from age differences in labor supply or labor demand characteristics. To distinguish between these, we document that, for young workers, both the cyclical volatilities of hours and wages are greater than those of the prime-aged. We argue that a general class of models featuring only age-specific labor supply differences cannot reconcile these facts. We then show that a simple model featuring labor demand differences can.

News, Noise, and Fluctuations: An Empirical Exploration

- American Economic Review---2013---Olivier Blanchard,Jean-Paul L'Huillier,Guido Lorenzoni

We explore empirically models of aggregate fluctuations in which consumers form anticipations about the future based on noisy sources of information and these anticipations affect output in the short run. Our objective is to separate fluctuations due to changes in fundamentals (news) from those due to temporary errors in agents' estimates (noise). We show that structural VARs cannot be used to identify news and noise shocks, but identification is possible via a method of moments or maximum likelihood. Next, we estimate our model on US data. Our results suggest that noise shocks explain a sizable fraction of short-run consumption fluctuations.

Polarization and Ambiguity

- American Economic Review---2013---Sandeep Baliga,Eran Hanany,Peter Klibanoff

We offer a theory of polarization as an optimal response to ambiguity. Suppose individual A's beliefs first-order stochastically dominate individual B's. They observe a common signal. They exhibit polarization if A's posterior dominates her prior and B's prior dominates her posterior. Given agreement on conditional signal likelihoods, we show that polarization is impossible under Bayesian updating or after observing extreme signals. However, we also show that polarization can arise after intermediate signals as ambiguity averse individuals implement their optimal prediction strategies. We explore when this polarization will occur and the logic underlying it.

Social Preferences under Risk: Equality of Opportunity versus Equality of Outcome

- American Economic Review---2013---Kota Saito

This paper axiomatizes a utility function for social preferences under risk. In the model, a single parameter captures a preference for equality of opportunity (i.e., equality of exante expected payoffs) relative to equality of outcome (i.e., equality of ex-post payoffs). In a deterministic environment, the model reduces to the model of Fehr and Schmidt (1999). The model is consistent with recent experiments on probabilistic dictator games.

Taxes, Cigarette Consumption, and Smoking Intensity: Reply

- American Economic Review---2013---Jerome Adda,Francesca Cornaglia

This paper shows that smoking intensity, i.e. the amount of nicotine extracted per cigarette smoked, responds to changes in excise taxes and tobacco prices. We exploit NHANES data covering the period 1988 to 2006 across many US states. Moreover, using panel data from the Coronary Artery Risk Development in Young Adults (CARDIA) study, we provide new evidence on the importance of cotinine measures in explaining long-run smoking behavior. We show the importance of smoking intensity as a long-run determinant of smoking cessation. We also investigate the sensitivity of smoking cessation to changes in excise taxes and their interaction with smoking intensity.

Understanding the Mechanisms through Which an Influential Early Childhood Program Boosted Adult Outcomes

- American Economic Review---2013---James Heckman,Rodrigo Pinto,Peter Savelyev

A growing literature establishes that high quality early childhood interventions targeted toward disadvantaged children have substantial impacts on later life outcomes. Little is known about the mechanisms producing these impacts. This paper uses longitudinal data on cognitive and personality skills from an experimental evaluation of the influential Perry Preschool program to analyze the channels through which the program boosted both male and female participant outcomes. Experimentally induced changes in personality skills explain a sizable portion of adult treatment effects.

The Effect of Education on Adult Mortality and Health: Evidence from Britain

- American Economic Review---2013---Damon Clark,Heather Royer

There is a strong, positive, and well-documented correlation between education and health outcomes. In this paper, we attempt to understand to what extent this relationship is causal. Our approach exploits two changes to British compulsory schooling laws that generated sharp across-cohort differences in educational attainment. Using regression discontinuity methods, we find the reforms did not affect health although the reforms impacted educational attainment and wages. Our results suggest caution as to the likely health returns to educational interventions focused on increasing educational attainment among those at risk of dropping out of high school, a target of recent health policy efforts.

The China Syndrome: Local Labor Market Effects of Import Competition in the United States

- American Economic Review---2013---David Autor,David Dorn,Gordon Hanson

We analyze the effect of rising Chinese import competition between 1990 and 2007 on US local labor markets, exploiting cross- market variation in import exposure stemming from initial differences in industry specialization and instrumenting for US imports using changes in Chinese imports by other high-income countries. Rising imports cause higher unemployment, lower labor force participation, and reduced wages in local labor markets that house import-competing manufacturing industries. In our main specification, import competition explains one-quarter of the contemporaneous aggregate decline in US manufacturing employment. Transfer benefits payments for unemployment, disability, retirement, and healthcare also rise sharply in more trade-exposed labor markets.

Trade Liberalization and Embedded Institutional Reform: Evidence from Chinese Exporters

- American Economic Review---2013---Amit Khandelwal,Peter Schott,Shang-Jin Wei

If trade barriers are managed by inefficient institutions, trade liberalization can lead to greater-than-expected gains. We examine Chinese textile and clothing exports before and after the elimination of externally imposed export quotas. Both the surge in export volume and the decline in export prices following quota removal are driven by net entry. This outcome is inconsistent with a model in which quotas are allocated based on firm productivity, implying misallocation of resources. Removing this misallocation accounts for a substantial share of the overall gain in productivity associated with quota removal.

Does the Classic Microfinance Model Discourage Entrepreneurship among the Poor? Experimental Evidence from India

- American Economic Review---2013---Erica Field,Rohini Pande,John Papp,Natalia Rigol

Do the repayment requirements of the classic microfinance contract inhibit investment in high-return but illiquid business opportunities among the poor? Using a field experiment, we compare the classic contract which requires that repayment begin immediately after loan disbursement to a contract that includes a two-month grace period. The provision of a grace period increased short-run business investment and long-run profits but also default rates. The results, thus, indicate that debt contracts that require early repayment discourage illiquid risky investment and thereby limit the potential impact of microfinance on microenterprise growth and household poverty.

How the West "Invented" Fertility Restriction

- American Economic Review---2013---Nico Voigtl?nder,Hans-Joachim Voth

We analyze the emergence of the first socioeconomic institution in history limiting fertility: west of a line from St. Petersburg to Trieste, the European Marriage Pattern (EMP) reduced childbirths by approximately one-third between the fourteenth and eighteenth century. To explain the rise of EMP we build a two-sector model of agricultural production?grain and livestock. Women have a comparative advantage in animal husbandry. After the Black Death in 1348?1350, land abundance triggered a shift toward the pastoral sector. This improved female employment prospects, leading to later marriages. Using detailed data from England, we provide strong evidence for our mechanism.

Identifying Supply and Demand Elasticities of Agricultural Commodities: Implications for the US Ethanol Mandate

- American Economic Review---2013---Michael Roberts,Wolfram Schlenker

We present a new framework to identify supply elasticities of storable commodities where past shocks are used as exogenous price shifters. In the agricultural context, past yield shocks change inventory levels and futures prices of agricultural commodities. We use our estimated elasticities to evaluate the impact of the 2009 Renewable Fuel Standard on commodity prices, quantities, and food consumers' surplus for the four basic staples: corn, rice, soybeans, and wheat. Prices increase 20 percent if one-third of commodities used to produce ethanol are recycled as feedstock, with a positively skewed 95 percent confidence interval that ranges from 14 to 35 percent.

Urban Accounting and Welfare

- American Economic Review---2013---Klaus Desmet,Esteban Rossi-Hansberg

We use a simple theory of a system of cities to decompose the determinants of the city size distribution into three main components: efficiency, amenities, and frictions. Higher efficiency and better amenities lead to larger cities but also to greater frictions through congestion and other negative effects of agglomeration. Using data on MSAs in the United States, we estimate these city characteristics. Eliminating variation in any of them leads to large population reallocations, but modest welfare effects. We apply the same methodology to Chinese cities and find welfare effects that are many times larger than those in the US.

Managing Conflicts in Relational Contracts

- American Economic Review---2013---Jin Li,Niko Matouschek

A manager and a worker are in an infinitely repeated relationship in which the manager privately observes her opportunity costs of paying the worker. We show that the optimal relational contract generates periodic conflicts during which effort and expected profits decline gradually but recover instantaneously. To manage a conflict, the manager uses a combination of informal promises and formal commitments that evolves with the duration of the conflict. Finally, we show that liquidity constraints limit the manager's ability to manage conflicts but may also induce the worker to respond to a conflict by providing more effort rather than less.

The Cost of Contract Renegotiation: Evidence from the Local Public Sector

- American Economic Review---2013---Philippe Gagnepain,Marc Ivaldi,David Martimort

Contract theory claims that renegotiation prevents attainment of the efficient solution that could be obtained under full commitment. Assessing the cost of renegotiation remains an open issue from an empirical viewpoint. We fit a structural principal-agent model with renegotiation on a set of contracts for urban transport services. The model captures two important features of the industry as only two types of contracts are used (fixed price and cost-plus) and subsidies are greater following a cost-plus contract than following a fixed price one. We conclude that the welfare gains from improving commitment would be significant but would accrue mostly to operators.

Competition with Exclusive Contracts and Market-Share Discounts

- American Economic Review---2013---Giacomo Calzolari,Vincenzo Denicol?

We analyze firms that compete by means of exclusive contracts and market-share discounts (conditional on the seller's share of customers' total purchases). With incomplete information about demand, firms have a unilateral incentive to use these contractual arrangements to better extract buyers' informational rents. However, exclusive contracts intensify competition, thus reducing prices and profits and (in all Pareto undominated equilibria) increasing welfare. Market-share discounts, by contrast, produce a double marginalization effect that leads to higher prices and harms buyers. We discuss the implications of these results for competition policy

Spontaneous Discrimination

- American Economic Review---2013---Marcin P?ski,Bal?zs Szentes

We consider a dynamic economy in which agents are repeatedly matched and decide whether or not to form profitable partnerships. Each agent has a physical color and a social color. An agent's social color acts as a signal, conveying information about the physical color of agents in his partnership history. Before an agent makes a decision, he observes his match's physical and social colors. Neither the physical color nor the social color is payoff relevant. We identify environments where equilibria arise in which agents condition their decisions on the physical and social colors of their potential partners. That is, they discriminate.

Incarceration and Incapacitation: Evidence from the 2006 Italian Collective Pardon

- American Economic Review---2013---Paolo Buonanno,Steven Raphael

In August 2006, the Italian government released one-third of the nation's prison inmates via a national collective pardon. We test for a discontinuous break in national crime rates corresponding to the mass release. We also test for the effect of the return of the incarceration rate to its predicted steady state level on national crime rates. Finally, we exploit regional variation in prison releases based on the province of residence of pardoned inmates. All three sources of variation yield substantial incapacitation effect estimates and suggest that the crime-preventing effects of incarceration diminish with increases in the incarceration rate.

Word-of-Mouth Communication and Percolation in Social Networks

- American Economic Review---2013---Arthur Campbell

This paper develops a model of demand, pricing and advertising in the presence of social learning via word-of-mouth communication between friends. In the model consumers must receive information about a monopolist's product in order to consider purchasing it. The presence of word-of-mouth is not sufficient for demand to be more elastic and prices to be lower compared to an informed population. I derive the comparative static results of connectivity, mean-preserving spread of friendships, and clustering of friends on prices. The optimal targets for advertising are not, generically, the individuals with the most friends.

The Nature of Risk Preferences: Evidence from Insurance Choices

- American Economic Review---2013---Levon Barseghyan,Francesca Molinari,Ted O'Donoghue,Joshua Teitelbaum

We use data on insurance deductible choices to estimate a structural model of risky choice that incorporates "standard" risk aversion (diminishing marginal utility for wealth) and probability distortions. We find that probability distortions?characterized by substantial overweighting of small probabilities and only mild insensitivity to probability changes?play an important role in explaining the aversion to risk manifested in deductible choices. This finding is robust to allowing for observed and unobserved heterogeneity in preferences. We demonstrate that neither K?szegi-Rabin loss aversion alone nor Gul disappointment aversion alone can explain our estimated probability distortions, signifying a key role for probability weighting.

Consumer Spending and the Economic Stimulus Payments of 2008

- American Economic Review---2013---Jonathan Parker,Nicholas S. Souleles,David S. Johnson,Robert McClelland

We measure the change in household spending caused by receipt of the economic stimulus payments of 2008, using questions added to the Consumer Expenditure Survey and variation from the randomized timing of disbursement. Households spent 12-30 percent (depending on specification) of their payments on nondurable goods during the three-month period of payment receipt, and a significant amount more on durable goods, primarily vehicles, bringing the total response to 50-90 percent of the payments. The responses are substantial and significant for older, lower-income, and home-owning households. Spending does not vary significantly with the method of disbursement (check versus electronic transfer).

Trading Away Wide Brands for Cheap Brands

- American Economic Review---2013---Swati Dhingra

Firms face competing needs to expand product variety and reduce production costs. Access to larger markets enables innovation to reduce costs. Although firm scale increases, foreign competition reduces markups. Firms' ability to recapture lost markups depends on the interplay between within-firm competition and across-firm competition. Narrowing product variety eases within-firm competition but lowers market share. I provide a theory detailing the impact of trade policy on product and process innovation. Unbundling innovation provides new insights into welfare gains and innovation policy. Product innovation increases welfare beyond standard gains from trade. The relative returns to innovation policy change with trade liberalization.

Surplus Maximization and Optimality

- American Economic Review---2013---Edward Schlee

Expected consumer's surplus rarely represents preferences over price lotteries. Still, I give sufficient conditions for policies which maximize aggregate expected surplus to be interim Pareto Optimal. Besides two standard partial equilibrium conditions, I assume that feasible prices satisfy a single-crossing property; and each consumer's indirect utility satisfies increasing differences in the price and income. I use the result to extend well-known welfare conclusions beyond the knife-edge quasilinear utility case. Since increasing differences puts no upper bound on risk aversion, the result is useful for applications in which risk aversion is important.

News Shocks and the Slope of the Term Structure of Interest Rates

- American Economic Review---2013---André Kurmann,Christopher Otrok

We adopt a statistical approach to identify the shocks that explain most of the fluctuations of the slope of the term structure of interest rates. We find that one shock can explain the majority of unpredictable movements in the slope. Impulse response functions lead us to interpret this shock as news about future total factor productivity (TFP). By showing that "slope shocks" are essentially "TFP news shocks" we provide a new explanation for the relationship between the slope and macroeconomic fundamentals. Our results also provide a new empirical benchmark for structural models at the intersection of macroeconomics and finance.

Do We Follow Others When We Should? A Simple Test of Rational Expectations: Comment

- American Economic Review---2013---Anthony Ziegelmeyer,Christoph March,Sebastian Kr?gel

The payoff of actions is estimated and the resulting empirical payoff is controlled for in regression analyses to formulate a test of rational expectations in information cascade experiments. We show that the empirical payoff of actions is a function of estimates of choice probabilities and estimates of the information parameters of the game. We introduce an alternative empirical payoff of actions with true values of the information parameters. Our improved measure of the success of social learning confirms that rational expectations are violated, but deviations from rational expectations are statistically significantly smaller than in Weizsacher (2010).

The Growth of Low-Skill Service Jobs and the Polarization of the US Labor Market

- American Economic Review---2013---David Autor,David Dorn

We offer a unified analysis of the growth of low-skill service occupations between 1980 and 2005 and the concurrent polarization of US employment and wages. We hypothesize that polarization stems from the interaction between consumer preferences, which favor variety over specialization, and the falling cost of automating routine, codifiable job tasks. Applying a spatial equilibrium model, we corroborate four implications of this hypothesis. Local labor markets that specialized in routine tasks differentially adopted information technology, reallocated low-skill labor into service occupations (employment polarization), experienced earnings growth at the tails of the distribution (wage polarization), and received inflows of skilled labor.

Ownership Consolidation and Product Characteristics: A Study of the US Daily Newspaper Market

- American Economic Review---2013---Ying Fan

This paper develops a structural model of newspaper markets to analyze the effects of ownership consolidation, taking into account not only firms' price adjustments but also the adjustments in newspaper characteristics. A new dataset on newspaper prices and characteristics is used to estimate the model. The paper then simulates the effect of a merger in the Minneapolis newspaper market and studies how welfare effects of mergers vary with market characteristics. It finds that ignoring adjustments of product characteristics causes substantial differences in estimated effects of mergers.

Trade, Tastes, and Nutrition in India

- American Economic Review---2013---David Atkin

This paper explores the causes and consequences of regional taste differences. I introduce habit formation into a standard general equilibrium model. Household tastes evolve over time to favor foods consumed as a child. Thus, locally abundant foods are preferred in every region, as they were relatively inexpensive in prior generations. These patterns alter the correspondence between price changes and nutrition. For example, neglecting this relationship between tastes and agro-climatic endowments overstates the short-run nutritional gains from agricultural trade liberalization, since preferred foods rise in price in every region. I examine the model's predictions using household survey data from many regions of India.

Time Use during the Great Recession

- American Economic Review---2013---Mark Aguiar,Erik Hurst,Loukas Karabarbounis

Using data from the American Time Use Survey between 2003 and 2010, we document that home production absorbs roughly 30 percent of foregone market work hours at business cycle frequencies. Leisure absorbs roughly 50 percent of foregone market work hours, with sleeping and television watching accounting for most of this increase. We document significant increases in time spent on shopping, child care, education, and health. Job search absorbs between 2 and 6 percent of foregone market work hours. We discuss the implications of our results for business cycle models with home production and non-separable preferences.

The Great Diversification and Its Undoing

- American Economic Review---2013---Vasco Carvalho,Xavier Gabaix

We investigate the hypothesis that macroeconomic fluctuations are primitively the results of many microeconomic shocks. We define fundamental volatility as the volatility that would arise from an economy made entirely of idiosyncratic sectoral or firm-level shocks. Fundamental volatility accounts for the swings in macroeconomic volatility in the major world economies in the past half-century. It accounts for the "great moderation" and its undoing. The initial great moderation is due to a decreasing share of manufacturing between 1975 and 1985. The recent rise of macroeconomic volatility is chiefly due to the growth of the financial sector.

Asset Prices and Institutional Investors

- American Economic Review---2013---Suleyman Basak,Anna Pavlova

We consider an economy populated by institutional investors alongside standard retail investors. Institutions care about their performance relative to a certain index. Our framework is tractable, admitting exact closed-form expressions, and produces the following analytical results. We find that institutions tilt their portfolios towards stocks that compose their benchmark index. The resulting price pressure boosts index stocks. By demanding more risky stocks than retail investors, institutions amplify the index stock volatilities and aggregate stock market volatility and give rise to countercyclical Sharpe ratios. Trades by institutions induce excess correlations among stocks that belong to their benchmark, generating an asset-class effect.

The Political Resource Curse

- American Economic Review---2013---Fernanda Brollo,Tommaso Nannicini,Roberto Perotti,Guido Tabellini

This paper studies the effect of additional government revenues on political corruption and on the quality of politicians, both with theory and data. The theory is based on a political agency model with career concerns and endogenous entry of candidates. The data refer to Brazil, where federal transfers to municipal governments change exogenously at given population thresholds, allowing us to implement a regression discontinuity design. The empirical evidence shows that larger transfers increase observed corruption and reduce the average education of candidates for mayor. These and other more specific empirical results are in line with the predictions of the theory.

Does Disability Insurance Receipt Discourage Work? Using Examiner Assignment to Estimate Causal Effects of SSDI Receipt

- American Economic Review---2013---Nicole Maestas,Kathleen Mullen,Alexander Strand

We present the first causal estimates of the effect of Social Security Disability Insurance benefit receipt on labor supply using all program applicants. We use administrative data to match applications to disability examiners and exploit variation in examiners' allowance rates as an instrument for benefit receipt. We find that among the estimated 23 percent of applicants on the margin of program entry, employment would have been 28 percentage points higher had they not received benefits. The effect is heterogeneous, ranging from no effect for those with more severe impairments to 50 percentage points for entrants with relatively less severe impairments.

When Should Sellers Use Auctions?

- American Economic Review---2013---James W. Roberts,Andrew Sweeting

A bidding process can be organized so that offers are submitted simultaneously or sequentially. In the latter case, potential buyers can condition their behavior on previous entrants' decisions. The relative performance of these mechanisms is investigated when entry is costly and selective, meaning that potential buyers with higher values are more likely to participate. A simple sequential mechanism can give both buyers and sellers significantly higher payoffs than the commonly used simultaneous bid auction. The findings are illustrated with parameters estimated from simultaneous entry USFS timber auctions where our estimates predict that the sequential mechanism would increase revenue and efficiency.

Early Life Health Interventions and Academic Achievement

- American Economic Review---2013---Prashant Bharadwaj,Katrine Vellesen L?ken,Christopher Neilson,Katrine Vellesen Løken

This paper studies the effect of improved early life health care on mortality and long-run academic achievement in school. We use the idea that medical treatments often follow rules of thumb for assigning care to patients, such as the classification of Very Low Birth Weight (VLBW), which assigns infants special care at a specific birth weight cutoff. Using detailed administrative data on schooling and birth records from Chile and Norway, we establish that children who receive extra medical care at birth have lower mortality rates and higher test scores and grades in school. These gains are in the order of 0.15-0.22 standard deviations.

Taxation and International Migration of Superstars: Evidence from the European Football Market

- American Economic Review---2013---Henrik Jacobsen Kleven,Camille Landais,Emmanuel Saez

We analyze the effects of top tax rates on international migration of football players in 14 European countries since 1985. Both country case studies and multinomial regressions show evidence of strong mobility responses to tax rates, with an elasticity of the number of foreign (domestic) players to the net-of-tax rate around one (around 0.15). We also find evidence of sorting effects (low taxes attract highability players who displace lowability players) and displacement effects (low taxes on foreigners displace domestic players). Those results can be rationalized in a simple model of migration and taxation with rigid labor demand.

Immigration, Offshoring, and American Jobs

- American Economic Review---2013---Gianmarco Ottaviano,Giovanni Peri,Greg Wright

Following Grossman and Rossi-Hansberg (2008) we present a model in which tasks of varying complexity are matched to workers of varying skill in order to develop and test predictions regarding the effects of immigration and offshoring on US native-born workers. We find that immigrant and native-born workers do not compete much due to the fact that they tend to perform tasks at opposite ends of the task complexity spectrum, with offshore workers performing the tasks in the middle. An effect of offshoring and a positive effect of immigration on native-born employment suggest that immigration and offshoring improve industry efficiency.

Regional Effects of Trade Reform: What Is the Correct Measure of Liberalization?

- American Economic Review---2013---Brian K. Kovak

A growing body of research examines the regional effects of trade liberalization using a weighted average of trade policy changes across industries. This paper develops a specific-factors model of regional economies that provides a theoretical foundation for this intuitively appealing empirical approach and also provides guidance on treatment of the nontraded sector. In the context of Brazil's early 1990s trade liberalization, I find that regions facing a 10 percentage point larger liberalization-induced price decline experienced a 4 percentage point larger wage decline. The results also confirm the empirical relevance of appropriately dealing with the nontraded sector.

Limited Life Expectancy, Human Capital and Health Investments

- American Economic Review---2013---Emily Oster,Ira Shoulson,E. Ray Dorsey

Human capital theory predicts that life expectancy will impact human capital attainment. We estimate this relationship using variation in life expectancy driven by Huntington disease, an inherited neurological disorder. We compare investments for individuals who have ex-ante identical risks of HD but differ in disease realization. Individuals with the HD mutation complete less education and job training. The elasticity of demand for college attendance with respect to life expectancy is around 1.0. We relate this to cross-country and over-time differences in education. We use smoking and cancer screening data to test the corollary that health capital responds to life expectancy.

Intergenerational Occupational Mobility in Great Britain and the United States since 1850: Comment

- American Economic Review---2013---Yu Xie,Alexandra Killewald

Using historical census and survey data, Long and Ferrie (2013) found a significant decline in social mobility in the United States from 1880 to 1973. We present two critiques of the Long-Ferrie study. First, the data quality of the Long-Ferrie study is more limiting than the authors acknowledge. Second, and more critically, they applied a method ill-suited for measuring social mobility of farmers in a comparative study between 1880 and 1973, a period in which the proportion of farmers dramatically declined in the United States. We show that Long and Ferrie's main conclusion is all driven by this misleading result for farmers.

Intergenerational Occupational Mobility in Great Britain and the United States since 1850: Comment

- American Economic Review---2013---Michael Hout,Avery M. Guest

We reanalyze Long and Ferrie's data. We find that the association of occupational status across generations was quite similar over time and place. Two significant differences were: (i) American farms in 1880 were far more open to men who had nonfarm backgrounds than were American farms in 1973 or British farms in either century; (ii) of the four cases, the intergenerational correlation was strongest in Britain in 1881. Structural mobility related to, among other things, economic growth and occupational differentiation, affected mobility most in 1970s America.

Intergenerational Occupational Mobility in Great Britain and the United States since 1850: Reply

- American Economic Review---2013---Jason Long,Joseph Ferrie

We respond to several criticisms by Avery Guest and Michael Hout (2013) and Yu Xie and Alexandra Killewald (2013) to Jason Long and Joseph Ferrie (2013). We do not dispute Guest and Hout's characterization of the importance of total mobility in addition to relative mobility. We find much in their additional analyses that supports our original findings. In response to Xie and Killewald, we discuss the limitations of our data and the conceptualization of mobility.

Matching with Contracts: Comment

- American Economic Review---2013---Orhan Ayg?n,Tayfun S?nmez,Tayfun Sönmez

The matching with contracts model (Hatfield and Milgrom 2005) is widely considered to be one of the most important advances of the last two decades in matching theory. One of their main messages is that the set of stable allocations is non-empty under a substitutes condition. We show that an additional irrelevance of rejected contracts (IRC) condition is implicitly assumed throughout their analysis, and in the absence of IRC several of their results, including the guaranteed existence of a stable allocation, fail to hold.

Intergenerational Occupational Mobility in Great Britain and the United States since 1850

- American Economic Review---2013---Jason Long,Joseph Ferrie

The US tolerates more inequality than Europe and believes its economic mobility is greater than Europe?s, though they had roughly equal rates of intergenerational occupational mobility in the late twentieth century. We extend this comparison into the nineteenth century using 10,000 nationally-representative British and US fathers and sons. The US was more mobile than Britain through 1900, so in the experience of those who created the US welfare state in the 1930s, the US had indeed been ?exceptional.? The US mobility lead over Britain was erased by the 1950s, as US mobility fell from its nineteenth century levels.

Why Don't the Poor Save More? Evidence from Health Savings Experiments

- American Economic Review---2013---Pascaline Dupas,Jonathan Robinson

Using data from a field experiment in Kenya, we document that providing individuals with simple informal savings technologies can substantially increase investment in preventative health and reduce vulnerability to health shocks. Simply providing a safe place to keep money was sufficient to increase health savings by 66 percent. Adding an earmarking feature was only helpful when funds were put toward emergencies, or for individuals that are frequently taxed by friends and relatives. Group-based savings and credit schemes had very large effects.

Unconventional Fiscal Policy at the Zero Bound

- American Economic Review---2013---Isabel Correia,Emmanuel Farhi,Juan Pablo Nicolini,Pedro Teles

When the zero lower bound on nominal interest rates binds, monetary policy cannot provide appropriate stimulus. We show that, in the standard New Keynesian model, tax policy can deliver such stimulus at no cost and in a time-consistent manner. There is no need to use inefficient policies such as wasteful public spending or future commitments to low interest rates.

The Dynamic Effects of Personal and Corporate Income Tax Changes in the United States

- American Economic Review---2013---Karel Mertens,Morten Ravn

This paper estimates the dynamic effects of changes in taxes in the United States. We distinguish between changes in personal and corporate income taxes and develop a new narrative account of federal tax liability changes in these two tax components. We develop an estimator which uses narratively identified tax changes as proxies for structural tax shocks and apply it to quarterly post-WWII data. We find that short run output effects of tax shocks are large and that it is important to distinguish between different types of taxes when considering their impact on the labor market and on expenditure components.

A Theory of Strategic Voting in Runoff Elections

- American Economic Review---2013---Laurent Bouton

This paper analyzes the properties of runoff electoral systems when voters are strategic. A model of three-candidate runoff elections is presented, and two new features are included: the risk of upset victory in the second round is endogenous, and many types of runoff systems are considered. Three main results emerge. First, runoff elections produce equilibria in which only two candidates receive a positive fraction of the votes. Second, a sincere voting equilibrium does not always exist. Finally, runoff systems with a threshold below 50 percent produce an Ortega effect that may lead to the systematic victory of the Condorcet loser.

Going to a Better School: Effects and Behavioral Responses

- American Economic Review---2013---Cristian Pop-Eleches,Miguel Urquiola

This paper applies a regression discontinuity design to the Romanian secondary school system, generating two findings. First, students who have access to higher achievement schools perform better in a (high stakes) graduation test. Second, the stratification of schools by quality in general, and the opportunity to attend a better school in particular, result in significant behavioral responses: (i) teachers sort in a manner consistent with a preference for higher achieving students; (ii) children who make it into more selective schools realize they are relatively weaker and feel marginalized; (iii) parents reduce effort when their children attend a better school.

The Lure of Authority: Motivation and Incentive Effects of Power

- American Economic Review---2013---Ernst Fehr,Holger Herz,Tom Wilkening

Authority and power permeate political, social, and economic life, but empirical knowledge about the motivational origins and consequences of authority is limited. We study the motivation and incentive effects of authority experimentally in an authority-delegation game. Individuals often retain authority even when its delegation is in their material interest?suggesting that authority has nonpecuniary consequences for utility. Authority also leads to overprovision of effort by the controlling parties, while a large percentage of subordinates underprovide effort despite pecuniary incentives to the contrary. Authority thus has important motivational consequences that exacerbate the inefficiencies arising from suboptimal delegation choices.

Preferences and Incentives of Appointed and Elected Public Officials: Evidence from State Trial Court Judges

- American Economic Review---2013---Claire S. H. Lim

We study how two selection systems for public officials, appointment and election, affect policy outcomes, focusing on state court judges and their criminal sentencing decisions. First, under appointment, policy congruence with voter preferences is attained through selecting judges with homogeneous preferences. In contrast, under election, judges face strong reelection incentives, while selection on preferences is weak. Second, the effectiveness of election in attaining policy congruence critically depends on payoffs from the job, which implies that the effectiveness of election may vary substantially across public offices. Third, reelection incentives may discourage judges with significant human capital from holding office.

Just Luck: An Experimental Study of Risk-Taking and Fairness

- American Economic Review---2013---Alexander Cappelen,James Konow,Erik ?. S?rensen,Bertil Tungodden,Erik Ø. Sørensen

Choices involving risk significantly affect the distribution of income and wealth in society. This paper reports the results of the first experiment, to our knowledge, to study fairness views about risktaking, specifically whether such views are based chiefly on ex ante opportunities or on ex post outcomes. We find that, even though many participants focus exclusively on ex ante opportunities, most favor some redistribution ex post. Many participants also make a distinction between ex post inequalities that reflect differences in luck and ex post inequalities that reflect differences in choices. These findings apply to both stakeholders and impartial spectators.

The Gravity of Knowledge

- American Economic Review---2013---Wolfgang Keller,Stephen Yeaple

We analyze the international operations of multinational firms to measure the spatial barriers to transferring knowledge. We model firms that can transfer bits of knowledge to their foreign affiliates in either embodied (traded intermediates) or disembodied form (direct communication). The model shows how knowledge transfer costs can be inferred from multinationals? operations. We use firm-level data on the trade and sales of US multinationals to confirm the model?s predictions. Disembodied knowledge transfer costs not only make the standard multinational firm model consistent with the fact that affiliate sales fall in distance but quantitatively accounts for much of the gravity in multinational activity.

Nonconvexities, Retirement, and the Elasticity of Labor Supply

- American Economic Review---2013---Richard Rogerson,Johanna Wallenius

We consider two life cycle models of labor supply that use nonconvexities to generate retirement. In each case we derive a link between hours worked prior to retirement, the intertemporal elasticity of substitution for labor (IES), and the size of the nonconvexities. This link is robust to allowing for credit constraints and human capital accumulation by younger workers and suggests values for the IES that are .75 or higher.

Lemons Markets and the Transmission of Aggregate Shocks

- American Economic Review---2013---Pablo Kurlat

I study a dynamic economy featuring adverse selection in asset markets. Borrowing-constrained entrepreneurs sell past projects to finance new investment, but asymmetric information creates a lemons problem. I show that this friction is equivalent to a tax on financial transactions. The implicit tax rate responds to aggregate shocks, generating amplification in the response of investment and cyclical variation in liquidity.

Placebo Reforms

- American Economic Review---2013---Ran Spiegler

I study a dynamic model of strategic reform decisions that potentially affect the stochastic evolution of a publicly observed economic variable. Policy makers maximize their evaluation by a boundedly rational public. Specifically, the public follows a rule that attributes recent changes to the most recent intervention. I analyze subgame perfect equilibrium in this model when the economic variable follows a linear growth trend with noise. Equilibrium is essentially unique and stationary, bearing a subtle formal relation to optimal search models. Policy makers tend to act during crises, display risk aversion conditional on acting, and prefer interventions that induce permanent noise.

Discretionary Tax Changes and the Macroeconomy: New Narrative Evidence from the United Kingdom

- American Economic Review---2013---James Cloyne

This paper provides new estimates of the macroeconomic effects of tax changes using a new narrative dataset for the United Kingdom. Identification is achieved by isolating ?exogenous? tax policy changes using the Romer and Romer narrative strategy. I find that a 1 percent cut in taxes increases GDP by 0.6 percent on impact and 2.5 percent over three years. The findings are remarkably similar to Romer and Romer narrative estimates for the United States, reinforcing the view that tax changes have powerful and persistent effects. ?Exogenous? tax changes are also shown to have contributed to important episodes in the UK business cycle.

Even (Mixed) Risk Lovers Are Prudent

- American Economic Review---2013---David Crainich,Louis Eeckhoudt,Alain Trannoy

The purpose of this note is to analyze properties of the risk lovers? utility function beyond the positive sign of its second order derivative. We show that??contrarily to a priori beliefs??risk lovers are prudent and are willing to accumulate precautionary savings.

Even (Mixed) Risk Lovers Are Prudent: Comment

- American Economic Review---2013---Sebastian Ebert

Crainich, Eeckhoudt, and Trannoy (2013) show that mixed risk lovers are prudent. I show that common risk loving utility functions may not exhibit mixed risk loving??as is typical for risk aversion and mixed risk aversion??and thus these traits should be carefully distinguished. In particular, risk lovers may be imprudent.

Investment Behavior, Observable Expectations, and Internal Funds: Corrigendum

- American Economic Review---2013---Jason G. Cummins,Kevin Hassett,Stephen D. Oliner

President's Foreword

- American Economic Review---2013---Claudia Goldin

Editor's Introduction

- American Economic Review---2013---William Johnson,Samantha Bennett

A Nation of Gamblers: Real Estate Speculation and American History

- American Economic Review---2013---Edward L. Glaeser

The great housing convulsion that buffeted America between 2000 and 2010 has historical precedents, from the frontier land boom of the 1790s to the skyscraper craze of the 1920s. But this time was different. There was far less real uncertainty about fundamental economic and geographic trends, making the convulsion even more puzzling. During historic and recent booms, sensible models could justify high prices on the basis of seemingly reasonable projections about stable or growing prices. The recurring error appears to be a failure to anticipate the impact that elastic supply will eventually have on prices, whether for cotton in Alabama in 1820 or land in Las Vegas in 2006. Buyers don't appear to be irrational but rather cognitively limited investors who work with simple heuristic models, instead of a comprehensive general equilibrium framework. Low interest rates rarely seem to drive price growth; underpriced default options are a more common contributor to high prices. The primary cost of booms has not typically been overbuilding, but rather the financial chaos that accompanies housing downturns.

Glass-Steagall: A Requiem

- American Economic Review---2013---Robert Lucas

This paper is a discussion of monetary efficiency, monetary safety, and the relation of the 1933 Glass-Steagall Act to both. It contains speculation about whether a modified version of the Act could have postponed or prevented the crisis of 2008.

Shifting Mandates: The Federal Reserve's First Centennial

- American Economic Review---2013---Carmen Reinhart,Kenneth Rogoff

The Federal Reserve's mandate has evolved considerably over the organization's hundred-year history. It was changed from an initial focus in 1913 on financial stability, to fiscal financing in World War II and its aftermath, to a strong anti-inflation focus from the late 1970s, and then back to greater emphasis on financial stability since the Great Contraction. Yet, as the Fed's mandate has expanded in recent years, its range of instruments has narrowed, partly based on a misguided belief in the inherent stability of financial markets. We argue for a return to multiple instruments, including a more active role for reserve requirements.

The Most Dangerous Idea in Federal Reserve History: Monetary Policy Doesn't Matter

- American Economic Review---2013---Christina D. Romer,David Romer

Monetary policy-makers' beliefs about how the economy functions are a key determinant of the conduct of policy. That monetary policy has little impact under the prevailing circumstances is a belief which has resurfaced periodically over the Federal Reserve's 100-year history. In both the 1930s and the 1970s a belief in the ineffectiveness of monetary policy led to policy inaction and poor economic outcomes. For some of the recent period, the same view appears to have limited the policy response to prolonged high unemployment in the presence of low inflation.

Not Just the Great Contraction: Friedman and Schwartz's A Monetary History of the United States 1867 to 1960

- American Economic Review---2013---Michael Bordo,Hugh Rockoff

Milton Friedman and Anna J. Schwartz published A Monetary History of the United States: 1867 to 1960 with Princeton University Press in 1963, to critical acclaim. Since then the book's reputation has grown and it clearly has become one of the most influential volumes in economics in the twentieth century. In this paper we document the extraordinary impact of A Monetary History and argue that the key to this success was the use of the "narrative approach" to the problem of identifying the effects of monetary policy on economic activity.

The Missing Transmission Mechanism in the Monetary Explanation of the Great Depression

- American Economic Review---2013---Christina D. Romer,David Romer

This paper examines the missing transmission mechanism in Friedman's and Schwartz's monetary explanation of the Great Depression. We review the challenge provided by the decline in nominal interest rates in the early 1930s, and show that the monetary explanation requires not just that there were expectations of deflation, but that they were caused by monetary contraction. Using a detailed analysis of Business Week magazine, we find evidence that monetary contraction and Federal Reserve policy contributed to expectations of deflation during the downturn. This suggests that monetary shocks may have depressed spending and output in part by raising real interest rates.

Shadowy Banks and Financial Contagion during the Great Depression: A Retrospective on Friedman and Schwartz

- American Economic Review---2013---Kris James Mitchener,Gary Richardson

This essay assesses whether network linkages within the banking system amplified the real effects of bank failures during the Great Contraction. In 1929, nearly all interbank deposits held by Federal Reserve member banks belonged to "shadowy" nonmember banks which were outside the regulatory reach of federal regulators. Regional banking panics in the early 1930s drained these interbank deposits from central reserve city banks. Money-center banks in Chicago and New York responded to volatile and declining interbank deposits by changing their asset composition. They reduced their lending to businesses and individuals, and increased their holdings of cash and government bonds.

Married to Intolerance: Attitudes toward Intermarriage in Germany, 1900-2006

- American Economic Review---2013---Nico Voigtländer,Hans-Joachim Voth

We analyze under what conditions intermarriage can be used as an indicator of tolerance, and whether such tolerant attitudes persisted in Germany during the twentieth century. We find strong evidence for the persistence of tolerant attitudes towards intermarriage with Jews. At the same time, our empirical analysis also cautions against using intermarriage as a simple proxy for tolerance: The size of Jewish communities in the early twentieth century is an important confounding factor.

The Transmission of Democracy: From the Village to the Nation-State

- American Economic Review---2013---Paola Giuliano,Nathan Nunn

We provide evidence that a tradition of village democracy is associated with the presence of national democracy today. We also show that a tradition of local democracy is associated with attitudes which are more supportive of democracy, with better quality institutions and with higher levels of economic development. Our findings indicate persistence in democratic institutions over time, and suggest the importance of traditional local institutions for well-functioning national-level institutions.

The Persistence of Inferior Cultural-Institutional Conventions

- American Economic Review---2013---Marianna Belloc,Samuel Bowles

Our theory of cultural-institutional persistence and innovation is based on uncoordinated updating of individual social norms and contracts, so that both culture and institutions co-evolve. We explain why Pareto-dominated cultural-institutional configurations may persist over long periods and how transitions nonetheless occur. In our model the exercise of elite power plays no role in either persistence or innovation, and transitions occur endogenously. This is unlike models in which elites impose inferior institutions or cultures as a self-interested distributional strategy. We show that persistence will be greater the more inferior is the Pareto-dominated configuration and the more rational and individualistic is the population.

Cyclical Variation in Labor Hours and Productivity Using the ATUS

- American Economic Review---2013---Michael Burda,Daniel Hamermesh,Jay Stewart

We examine monthly variation in weekly work hours using data from 2003 to 2010. The data sources include the Current Population Survey (CPS) on hours/worker, the Current Employment Survey (CES) on hours/job, and the American Time Use Survey (ATUS) on both. The ATUS data minimize recall difficulties and constrain hours of work to accord with total available time. The ATUS hours/worker are less cyclical than the CPS series, but the hours/job are more cyclical than the CES series. We present alternative estimates of productivity based on ATUS data, and find that it is more pro-cyclical than other productivity measures.

Comparisons of Weekly Hours over the Past Century and the Importance of Work-Sharing Policies in the 1930s

- American Economic Review---2013---Todd C. Neumann,Jason E. Taylor,Price Fishback

Changes in the work week drove a larger portion of changes in total labor input during the Great Depression of the 1930s than during other decades. Work-sharing policies appear to be responsible. Herbert Hoover created various work-sharing committees--led by key industrialists--which pushed for shorter work weeks. And Franklin Roosevelt's President's Reemployment Agreement called for sharp cuts in weekly work hours. Spreading available work amongst more people was the goal. During these periods between 50 and 90 percent of declines in labor input were accommodated by falling hours. In recent decades employers have instead relied on layoffs to achieve the same end.

The Life-Cycle Profile of Time Spent on Job Search

- American Economic Review---2013---Mark Aguiar,Erik Hurst,Loukas Karabarbounis

Using time use survey data we document a hump-shaped profile of job search time in the United States across the life-cycle. The middle-aged unemployed spend roughly three times as much time in job search as the youngest group of unemployed. The hump-shaped profile of job search time is relatively stable across demographic groups. However, the profile of job search time appears to be declining in non-US countries. We discuss how standard life-cycle models with incomplete markets have difficulty in accounting for the hump-shaped profile found in the US data.

Growth Forecast Errors and Fiscal Multipliers

- American Economic Review---2013---Olivier Blanchard,Daniel Leigh

This paper investigates the relation between growth forecast errors and planned fiscal consolidation during the crisis. We find that, in advanced economies, stronger planned fiscal consolidation has been associated with lower growth than expected. The relation is particularly strong, both statistically and economically, early in the crisis. A natural interpretation is that fiscal multipliers were substantially higher than implicitly assumed by forecasters. The weaker relation in more recent years may in part reflect learning by forecasters and in part smaller multipliers than in the early years of the crisis.

Using State Pension Shocks to Estimate Fiscal Multipliers since the Great Recession

- American Economic Review---2013---Daniel Shoag

Has government spending raised income and employment since 2008? I use new data on state pension returns during the Great Recession to recover exogenous changes in spending. Instrumenting with these return shocks, I estimate that each dollar of windfall-financed spending raised local incomes by $1.43 and every additional $22,011 of spending created one contemporaneous job. These estimates are similar to those found in Shoag (2010) despite the non-overlapping datasets. Unlike Shoag (2010), however, the bulk of the employment increase post-2008 stems from decreases in unemployment rather than increased labor force participation.

How Much Would US Style Fiscal Integration Buffer European Unemployment and Income Shocks? (A Comparative Empirical Analysis)

- American Economic Review---2013---James Feyrer,Bruce Sacerdote

We examine the degree to which federal fiscal integration smoothes income and unemployment shocks across US States. We find that roughly 25 cents of every dollar of income shock at the state level is offset by federal fiscal policy. This stabilization comes entirely through the Federal tax system, not through spending stabilizers, automatic or otherwise. If we apply a comparable amount of cross country stabilization to European Union countries (as exists across US States), Greece and Spain would be receiving additional transfers of 2.5 percent of GDP.

Are Government Spending Multipliers Greater during Periods of Slack? Evidence from Twentieth-Century Historical Data

- American Economic Review---2013---Michael Owyang,Valerie Ramey,Sarah Zubairy

A key question that has arisen during recent debates is whether government spending multipliers are larger during times when resources are idle. This paper seeks to shed light on this question by analyzing new quarterly historical data covering multiple large wars and depressions in the United States and Canada. Using Jorda's (2005) method for estimating impulse responses, we find no evidence that multipliers are greater during periods of high unemployment in the United States. In every case, they are below unity. We do find evidence of higher multipliers during periods of slack in Canada, with some multipliers above unity.

The Mystique Surrounding the Central Bank's Balance Sheet, Applied to the European Crisis

- American Economic Review---2013---Ricardo Reis

A central bank's resource constraint bounds the dividends it can distribute by the present value of seignorage, which is a modest share of GDP. This is in spite of the mystique behind a central bank's balance sheet. Moreover, the statutes of the Federal Reserve or the ECB make it difficult for it to redistribute resources across regions. In a simple model of sovereign default, where multiple equilibria arise if debt repudiation lowers fiscal surpluses, the central bank may help to select one equilibrium. The central bank's main lever over fundamentals is to raise inflation, but otherwise the balance sheet gives it little leeway.

Output Spillovers from Fiscal Policy

- American Economic Review---2013---Alan Auerbach,Yuriy Gorodnichenko

For a large number of OECD countries we estimate the cross-country spillover effects of government purchases on output. Following the methodology in Auerbach and Gorodnichenko (2012a, b), we allow these multipliers to vary smoothly according to the state of the economy and use real-time forecast data to purge policy innovations of their predictable components. Our findings suggest that cross-country spillovers have an important impact. The findings also confirm those of our earlier papers--namely that fiscal shocks have a larger impact when the affected country is in recession.

Forecasting the Recovery from the Great Recession: Is This Time Different?

- American Economic Review---2013---Kathryn Dominguez,Matthew Shapiro

This paper asks whether the slow recovery of the US economy from the trough of the Great Recession was anticipated, and identifies some of the factors that contributed to surprises in the course of the recovery. We construct a narrative using news reports and government announcements to identify policy and financial shocks. We then compare forecasts and forecast revisions of GDP to the narrative. Successive financial and fiscal shocks emanating from Europe, together with self-inflicted wounds from the political stalemate over the US fiscal situation, help explain the slowing of the pace of an already slow recovery.

Extreme Wage Inequality: Pay at the Very Top

- American Economic Review---2013---Brian Bell,John van Reenen

We provide new evidence on the growth in pay at the very top of the wage distribution in the United Kingdom. Sectoral decompositions show that workers in the financial sector have accounted for the majority of the gains at the top over the last decade. New results are also presented on the pay of CEOs in the United Kingdom. We show how improved measurement of pay points to a stronger pay-performance link than previously estimated. This link is stronger, and more symmetric, for those firms in which institutional investors play a larger role.

Family, Education, and Sources of Wealth among the Richest Americans, 1982-2012

- American Economic Review---2013---Steven N. Kaplan,Joshua D. Rauh

We examine characteristics of the 400 wealthiest individuals in the United States over the past three decades as tabulated by Forbes Magazine, and analyze which theories of increasing inequality are most consistent with these data. The people of the Forbes 400 in recent years did not grow up as advantaged as in decades past. They are more likely to have started their businesses and to have grown up upper-middle class, not wealthy. Today's Forbes 400 were able to access education while young, and apply their skills to the most scalable industries: technology, finance, and mass retail. Most of the change occurred by 2001.

Bailouts and the Optimal Taxation of Bonus Pay

- American Economic Review---2013---Timothy Besley,Maitreesh Ghatak

This paper argues that the possibility of bailouts to financial intermediaries distorts the supply price of capital and creates an argument for taxing financial bonuses separately from other sources of income. We develop a model of financial contracting where intermediaries compete for workers whose actions affect productivity and risk-taking in the financial sector. This derives the second-best optimum and market equilibrium. The optimal taxes that we propose increase both equity and efficiency compared to the pure market outcome.

Income Inequality, Mobility, and Turnover at the Top in the US, 1987-2010

- American Economic Review---2013---Gerald Auten,Geoffrey Gee,Nicholas Turner

While cross-sectional data show increasing income inequality in the United States, it is also important to examine how incomes change over time. Using income tax data, this paper provides new evidence on long-term and intergenerational mobility, and persistence at the top of the income distribution. Half of those aged 35-40 in the top or bottom quintile in 1987 remain there in 2007; the others have moved up or down. While 30 percent of dependents aged 15-18 from bottom quintile households are themselves in the bottom quintile after 20 years, most have moved up. Persistence is lower in the highest income groups.

Deconstructing Income and Income Inequality Measures: A Crosswalk from Market Income to Comprehensive Income

- American Economic Review---2013---Philip Armour,Richard Burkhauser,Jeff Larrimore

Recent research on levels and trends in the United States in income inequality vary substantially in how they measure income. We show the sensitivity of alternative income measures in capturing income trends using a unified data set. Focusing solely on market income or including realized taxable capital gains based on IRS tax return data in more comprehensive household income measures will dramatically increase inequality growth compared to capital gains measures more in keeping with Haig-Simons principles. Using a measure of yearly accrued capital gains dramatically reduces observed growth in income inequality across the distribution, but also equalizes income growth since 1989.

Consumption and Income Inequality and the Great Recession

- American Economic Review---2013---Bruce Meyer,James Sullivan

We examine changes in consumption and income inequality between 2000 and 2011. During the most recent recession, unemployment rose and asset values declined sharply. We investigate how the recession affected inequality while addressing concerns about underreporting in consumption data. Income inequality rose throughout the period from 2000 to 2011. The 90/10 ratio was 19 percent higher at the end of this period than at the beginning. In contrast, consumption inequality rose during the first half of this period but then fell after 2005. By 2011, the 90/10 ratio for consumption was slightly lower than it was in 2000.

Measuring the Trends in Inequality of Individuals and Families: Income and Consumption

- American Economic Review---2013---Jonathan Fisher,David S. Johnson,Timothy M. Smeeding

We present evidence on the level of and trend in inequality from 1985-2010 in the United States, using disposable income and consumption for a sample of individuals from the Consumer Expenditure (CE) Survey. Differing from the findings in other recent research, we find that the trends in income and consumption inequality are broadly similar between 1985 and 2006, but diverge during the Great Recession with consumption inequality decreasing and income inequality increasing. Given the differences in the trends in inequality in the last four years, using both income and consumption provides useful information.

The Scale and Selectivity of Foreign-Born PhD Recipients in the US

- American Economic Review---2013---Jeffrey Grogger,Gordon Hanson

We study the scale and selectivity of foreign-born PhD students in science and engineering. We focus on students from China, India, Korea, and Taiwan, which together account for most roughly one-third of science and engineering PhD students in the United States. The selectivity of these students is high, as measured by their fathers' relative education levels. In China and India, fathers of students who receive US PhDs in these fields are roughly 15 times more likely to have a BA degree than their contemporaries are to have tertiary education. Over time, selectivity falls for China but the trend for other countries is ambiguous.

Immigration and Employer Transitions for STEM Workers

- American Economic Review---2013---Sari Pekkala Kerr,William Kerr

The firm is almost entirely absent from models of immigration, and yet firms play a central role for high-skilled immigration. The H-1B visa program, for example, is a firm-sponsored entry where firms are responsible for every stage: from identifying the immigrant, to employing them, to filing for permanent residency on behalf of the immigrant. This central role of firms for high-skilled immigration suggests the traditional lens for evaluating the impact of immigration on natives through local area labor markets or national age-education approaches may miss important dynamics. We analyze the employment and wage trajectories of high-skilled workers born in America when a high-skilled immigrant arrives at their work site. We use linked employer-employee data during the 1995-2008 period from the Census Bureau for this exercise, which identifies the immigration status and country-of-birth of workers. We follow the subsequent career path of workers after high-skilled immigration occurs to the employee's work site both within firms (e.g., changes in employee salary, relocation to other sites) and across firms (e.g., movements to new jobs or out of workforce, long-term salary adjustments). The richness and depth of the Census Bureau data allow for multiple comparison points: selection on observables (e.g., age, tenure, salary levels and recent growth), varying immigration treatments across different work sites for the same firm for otherwise comparable employees, and (for a subset of cases and short time period at the end of our sample) randomization in H-1B admission lotteries.

Why Do Programmers Earn More in Houston Than Hyderabad? Evidence from Randomized Processing of US Visas

- American Economic Review---2013---Michael Clemens

Why do workers earn so much more in the United States than in India? This study compares the earnings of workers in the two countries in a unique setting. The product is perfectly tradable (software), technology differences are nil (they are members of the same work team), and the workers are identical in expectation (those who enter the United States are chosen by natural randomization). The results suggest that output tradability, technology, and human capital together explain much less than half of the earnings gap. Location itself may have large effects on individual workers' wages and productivity, for reasons poorly understood.

Pathways to Adjustment: The Case of Information Technology Workers

- American Economic Review---2013---John Bound,Breno Braga,Joseph M. Golden,Sarah Turner

One long-standing hypothesis about science and engineering labor markets is that the supply of highly skilled workers is likely to be inelastic in the short run. We consider the market for computer scientists and electrical engineers (IT workers) and the evolution of wages and employment through two periods of increased demand. Relative to the boom of the 1970s, the demand shock in the 1990s generated relatively greater changes in employment and smaller changes in wages. The growth in the pool of skilled workers abroad, combined with increased immigration in high-skill fields, is central to this story.

A Trapped-Factors Model of Innovation

- American Economic Review---2013---Nicholas Bloom,Paul Romer,Stephen Terry,John van Reenen

We explain a counterintuitive empirical finding: Firms facing more import competition do more innovation. In our model, factors are trapped inside a firm. An increase in import competition encourages a firm to innovate by reducing the opportunity cost of inputs. Without trapped factors, trade liberalization leads to a small permanent increase in the worldwide rate of growth. With trapped factors, firms that face more import competition do relatively more innovation. The extra innovation induced by trapped factors induces a small permanent increase in aggregate output, consumption, and welfare, generalizing the appropriate estimate of the gains from trade.

Sources of Wage Inequality

- American Economic Review---2013---Anders Akerman,Elhanan Helpman,Oleg Itskhoki,Marc-Andreas Muendler,Stephen Redding

Recent theories of firm heterogeneity emphasize between-firm wage differences as a new mechanism through which trade can affect wage inequality. Using linked employer-employee data for Sweden, we show that many of the stylized facts about wage inequality found in Helpman et al. (2012) for Brazil also hold for Sweden. Much of overall wage inequality arises within sector-occupations and for workers with similar observable characteristics. One notable difference is a smaller contribution from between-firm differences in wages in Sweden, which could reflect the influence of Swedish labor market institutions in dampening the scope for variation in wages between firms through collective wage agreements.

The Geography of Trade and Technology Shocks in the United States

- American Economic Review---2013---David Autor,David Dorn,Gordon Hanson

This paper explores the geographic overlap of trade and technology shocks across local labor markets in the United States. Regional exposure to technological change, as measured by specialization in routine task-intensive production and clerical occupations, is largely uncorrelated with regional exposure to trade competition from China. While the impacts of technology are dispersed throughout the United States, the impacts of trade tend to be more geographically concentrated, owing in part to the spatial agglomeration of labor-intensive manufacturing. Our findings highlight the feasibility of separately identifying the impacts of recent changes in trade and technology on US regional economies.

Long-Term Neighborhood Effects on Low-Income Families: Evidence from Moving to Opportunity

- American Economic Review---2013---Jens Ludwig,Greg Duncan,Lisa A. Gennetian,Lawrence Katz,Ronald C. Kessler,Jeffrey Kling,Lisa Sanbonmatsu

We examine long-term neighborhood effects on low-income families using data from the Moving to Opportunity (MTO) randomized housing-mobility experiment. This experiment offered to some public-housing families but not to others the chance to move to less-disadvantaged neighborhoods. We show that ten to 15 years after baseline, MTO: (i) improves adult physical and mental health; (ii) has no detectable effect on economic outcomes or youth schooling or physical health; and (iii) has mixed results by gender on other youth outcomes, with girls doing better on some measures and boys doing worse. Despite the somewhat mixed pattern of impacts on traditional behavioral outcomes, MTO moves substantially improve adult subjective well-being.

Achieving Escape Velocity: Neighborhood and School Interventions to Reduce Persistent Inequality

- American Economic Review---2013---Roland G. Fryer,Lawrence Katz

This paper reviews the evidence on the efficacy of neighborhood and school interventions in improving the long-run outcomes of children growing up in poor families. We focus on studies exploiting exogenous sources of variation in neighborhoods and schools and which examine at least medium-term outcomes. Higher-quality neighborhoods improve family safety, adult subjective well-being and health, and girls' mental health. But they have no detectable impact on youth human capital, labor market outcomes, or risky behaviors. In contrast, higher-quality schools can improve children's academic achievement and can have longer-term positive impacts of increasing educational attainment and earnings and reducing incarceration and teen pregnancy.

Place Based Policies with Unemployment

- American Economic Review---2013---Patrick Kline,Enrico Moretti

We develop a stylized model of frictional local labor markets with the goal of studying the efficiency of unemployment differences across areas. The model adapts the widely used Diamond-Mortensen-Pissarides framework to a local labor market setting with a competitive housing market. The result is a simple search analogue of the classic Roback model that provides a tractable environment for studying the effects of local job creation efforts.

Career, Family, and the Well-Being of College-Educated Women

- American Economic Review---2013---Marianne Bertrand

I report on measures of life satisfaction and emotional well-being across groups of college-educated women, based on whether they have a career, a family, both, or neither. The biggest premium to life satisfaction is associated with having a family. While there is also a life satisfaction premium associated with having a career, women do not seem able to "double up" on these premiums. A qualitatively similar picture emerges from the emotional well-being data. Among college-educated women with family, those with a career spend a larger share of their day unhappy, sad, stressed and tired.

Female Labor Supply: Why Is the United States Falling Behind?

- American Economic Review---2013---Francine Blau,Lawrence Kahn

In 1990, the US had the sixth highest female labor participation rate among 22 OECD countries. By 2010 its rank had fallen to seventeenth. We find that the expansion of "family-friendly" policies, including parental leave and part-time work entitlements in other OECD countries, explains 29 percent of the decrease in US women's labor force participation relative to these other countries. However, these policies also appear to encourage part-time work and employment in lower level positions: US women are more likely than women in other countries to have full time jobs and to work as managers or professionals.

Shocking Labor Supply: A Reassessment of the Role of World War II on Women's Labor Supply

- American Economic Review---2013---Claudia Goldin,Claudia Olivetti

The most prominent feature of the female labor force across the past hundred years is its enormous growth. But many believe that the increase was discontinuous. Our purpose is to identify the short- and long-run impacts of WWII on the labor supply of women who were currently married in 1950 and 1960. Using WWII mobilization rates by state, we find a wartime impact on weeks worked and the labor force participation of married white (non-farm) women in both 1950 and 1960. The impact, moreover, was experienced almost entirely by women in the top half of the education distribution.

Is Ignorance Bliss? The Effect of Asymmetric Information between Spouses on Intra-household Allocations

- American Economic Review---2013---Carolina Castilla,Thomas Walker

We conducted a field experiment in Southern Ghana to test the effect of asymmetric information on intrahousehold allocation. A lottery was conducted, where prizes were distributed in public and in private. The results indicate that asymmetric information over windfalls has a differential effect on observable and concealable expenses, consistent with hiding. Husbands' public windfalls increase investment in assets and social capital, while there is no such effect when wives win. Private windfalls of both spouses are committed to cash (wives) or in-kind gifts (husband) which are either difficult to monitor or to reverse if discovered by the other spouse.

Trade Liberalization and Gender Inequality

- American Economic Review---2013---Chinhui Juhn,Gergely Ujhelyi,Carolina Villegas-Sanchez

We consider a model where firms differ in their productivity and workers are differentiated by skill and gender. A reduction in tariffs induces more productive firms to modernize their technology and enter the export market. New technologies involve computerized production processes and lower the need for physically demanding skills. As a result, the relative wage and employment of women improves in blue-collar tasks, but not in white-collar tasks. We empirically confirm these theoretical predictions using a panel of Mexican establishments and the tariff reductions associated with the North American Free Trade Agreement (NAFTA).

Sexual Violence against Women and Labor Market Outcomes

- American Economic Review---2013---Joseph J. Sabia,Angela Dills,Jeffrey DeSimone

This study is the first in the economics literature to explore the labor market consequences of sexual violence toward women. Using data from the Add Health, we find that sexual violence against women is associated with a 6.6 percent lower probability of labor force participation and 5.1 percent lower average wages. These estimates are robust to controls for unobserved heterogeneity at the school- and family-levels, as well as detailed controls for personality, personal discount rates, and risk preferences. We find that the adverse labor market effects of sexual violence are partially explained by its adverse psychological and physical consequences.

The Effects of School Calendar Type on Maternal Employment across Racial Groups: A Story of Child Care Availability

- American Economic Review---2013---Jennifer Graves

This paper presents evidence that school districts' use of an alternative academic calendar, the year-round school calendar, results in a reduction in maternal employment for women with school-aged children that varies in magnitude across racial groups. Negative employment effects are larger in districts with a particularly high proportion white and smaller in districts with a particularly high proportion of minorities. The larger effects in primarily white school districts is not likely to be explained by income differences, yet could potentially be explained by the lower reliance on relatives for child care among whites than minorities.

The Impact of Crime and Insecurity on Trust in Democracy and Institutions

- American Economic Review---2013---Luisa Blanco,Isabel Ruiz

This paper examines the impact of crime and insecurity on support for and satisfaction with democracy and trust in institutions. We use survey data from the Latin American Public Opinion Project (LAPOP) for Colombia during the 2004-2010 period. We find that perceptions of insecurity, crime victimization, being asked for a bribe and being affected by the armed conflict have a negative significant effect on satisfaction with democracy and trust in public institutions. Our findings show an important indirect channel through which crime can hinder development because distrust in institutions is associated with lower levels of social capital.

Earnings Inequality and the Intersectionality of Gender and Ethnicity in Sub-Saharan Africa: The Case of Tanzanian Manufacturing

- American Economic Review---2013---Juliet U. Elu,Linda Loubert

This paper estimates quantile earnings functions with data from the 2004 Tanzanian Household Worker Survey to determine if ethnicity and gender--being female--matters per se and across the distribution of earnings. We find that in the Tanzanian manufacturing sector gender intersects with ethnicity to condition earnings and the return to schooling across the distribution of earnings. This suggests that in Sub-Saharan Africa--at least in Tanzania--labor market policies aimed at eradicating gender earnings inequality may not be effective if not accompanied by policies that also aim to eradicate ethnic inequality.

Access to Credit by Firms in Sub-Saharan Africa: How Relevant Is Gender?

- American Economic Review---2013---Elizabeth Asiedu,Isaac Kanyama,Leonce Ndikumana,Akwasi Nti-Addae

The literature on the determinants of firms' financing constraints has paid little attention to gender as a determinant of access to finance. Using data for 34,342 firms from 90 developing countries, the paper analyzes the determinants of firms' financing constraints and assesses whether female-owned firms are more financially constrained than male-owned businesses. The results show that female-owned firms in sub-Saharan Africa are more likely to be financially constrained than male-owned firms, but there is no gender gap in other developing regions. The gender gap in sub-Saharan Africa is robust to variations in specifications and econometric estimation procedures.

Fidelity Networks and Long-Run Trends in HIV/AIDS Gender Gaps

- American Economic Review---2013---Roland Pongou,Roberto Serrano

More than half of the HIV/AIDS-infected population today are women. We study a dynamic model of (in)fidelity, which explains the HIV/AIDS gender gap by the configuration of sexual networks. Each individual desires sexual relationships with opposite sex individuals. Two Markov matching processes are defined, each corresponding to a different culture of gender relations. The first process leads to egalitarian pairwise stable networks in the long run, and HIV/AIDS is equally prevalent among men and women. The second process leads to anti-egalitarian pairwise stable networks reflecting male domination, and women bear a greater burden. The results are consistent with empirical observations.

The Informational Role of Voluntary Certification: Evidence from the Mexican Clean Industry Program

- American Economic Review---2013---Andrew D. Foster,Emilio Gutierrez

In the presence of imperfect information, voluntary certification can provide an important complement to mandatory inspections as a basis for environmental regulation in low income countries. Using data from Mexico's Clean Industry Program, we show that patterns of compliance and certification by sector are consistent with a model in which selection into the voluntary program permits more efficient targeting of regulator effort. As expected given the informational role played by certification in the model, we also find evidence, for a sample of publicly traded firms, of positive stock price deviations linked to the announcement of certification.

Liquidity Constraints and Deforestation: The Limitations of Payments for Ecosystem Services

- American Economic Review---2013---Seema Jayachandran

A popular environmental policy is to pay forest owners for avoiding deforestation on their land. This is an example of "payments for ecosystem services" (PES). This paper shows that liquidity constraints can limit the effectiveness of PES programs. If an individual would have cut down trees to sell them, his opportunity costs are more front-loaded than the stream of PES income. If credit constrained, he might decline the program even if the net present value (NPV) of the PES income exceeds the NPV of his opportunity costs. I present evidence consistent with this prediction using data on forest owners in Uganda.

What Does Reputation Buy? Differentiation in a Market for Third-Party Auditors

- American Economic Review---2013---Esther Duflo,Michael Greenstone,Rohini Pande,Nicholas Ryan

We study differences in quality in the market for third-party environmental auditors in Gujarat, India. We find that, despite the low overall quality, auditors are heterogeneous and some perform well. We posit that these high-quality auditors survive by using their good name to insulate select client plants from regulatory scrutiny. We find two pieces of evidence broadly consistent with this hypothesis: (i) though estimates are not precise, higher-quality auditors appear to be paid more both in their work as third-party auditors and in their complementary work as consultants; and (ii) plants with high-quality auditors incur fewer costly penalties from the regulator.

A Numerical Investigation of the Potential for Negative Emissions Leakage

- American Economic Review---2013---Niven Winchester,Sebastian Rausch

Emissions restrictions in one region may decrease emissions elsewhere (negative leakage), as increased demand for capital and labor to abate emissions in constrained regions may reduce output in unconstrained regions. We investigate leakage in computable general equilibrium (CGE) models under alternative fossil fuel supply elasticity values and factor mobility assumptions. We find that fossil fuel supply elasticities must be equal or close to infinity to generate net negative leakage. As empirical estimates for fossil fuel supply elasticities are less than 1, we conclude that leakage estimates from CGE models are unlikely to be negative.

Linking Numerical and Analytical Models of Carbon Leakage

- American Economic Review---2013---Jared Carbone

I use an applied general equilibrium model to quantify the influence of a new, theoretical channel for carbon leakage effects, as identified by Fullerton, Karney and Baylis (2012). I first produce parameterizations of the model that generate a close correspondence with the theory, isolating the quantitative effect of this channel. I then produce parameterizations that allow for an examination of net leakage rates in a model with a more comprehensive set of leakage channels. I find that the new channel exerts a negative influence on net leakage rates but that positive forces of leakage dominate in the comprehensive assessment.

Leakage, Welfare, and Cost-Effectiveness of Carbon Policy

- American Economic Review---2013---Kathy Baylis,Don Fullerton,Daniel H. Karney

We extend the model of Fullerton, Karney, and Baylis (2012) to explore cost-effectiveness of unilateral climate policy in the presence of leakage. We ignore the welfare gain from reducing greenhouse gas emissions, and focus on the welfare cost of the emissions tax or permit scheme. Whereas that prior paper solves for changes in emissions quantities and finds that leakage may be negative, we show here that all cases with negative leakage in that model are cases where a unilateral carbon tax results in a welfare loss. With positive leakage, however, a unilateral policy can improve welfare.

Natural Gas: From Shortages to Abundance in the United States

- American Economic Review---2013---Paul Joskow

The history of natural gas wellhead and pipeline regulation, deregulation and regulatory reforms are discussed. These reforms brought natural gas shortages and pipeline inefficiencies to an end. They also created an economic platform that could support unanticipated developments in the supply and costs of domestic natural gas. Such unanticipated developments emerged in the last few years as several technological innovations came together to make it commercially attractive to development US shale gas deposits located deep in the earth. How and why shale gas supplies will lead to dramatic changes in the United States' energy future with appropriate environmental regulatory reforms are discussed.

Transportation Fuels Policy since the OPEC Embargo: Paved with Good Intentions

- American Economic Review---2013---Christopher Knittel

A long line of research investigates whether the retail prices of electricity and natural gas send proper signals about scarcity in order to induce efficient consumption. Historically, regulated utilities have not designed tariffs that set marginal prices equal to marginal costs. Currently, some jurisdictions are opening the retail sectors to competition via "retail choice." These new regimes replace imperfect regulation with imperfect competition as the process by which retail tariffs are formed. We discuss the challenges in evaluating the efficiency of tariffs and present evidence of how pricing has changed in markets with retail choice.

Efficient Retail Pricing in Electricity and Natural Gas Markets

- American Economic Review---2013---Steven Puller,Jeremy West

A long line of research investigates whether the retail prices of electricity and natural gas send proper signals about scarcity in order to induce efficient consumption. Historically, regulated utilities have not designed tariffs that set marginal prices equal to marginal costs. Currently, some jurisdictions are opening the retail sectors to competition via "retail choice." These new regimes replace imperfect regulation with imperfect competition as the process by which retail tariffs are formed. We discuss the challenges in evaluating the efficiency of tariffs and present evidence of how pricing has changed in markets with retail choice.

Transaction Networks: Evidence from Mobile Money in Kenya

- American Economic Review---2013---William Jack,Adam Ray,Tavneet Suri

Mobile money allows households in Kenya to spread risk more efficiently. In this paper we show that these efficiencies are achieved through deeper financial integration and expanded informal networks. Active networks are more geographically dispersed and support more reciprocal financial arrangements. Consistent with the reported reciprocity, mobile money users report a higher share of transactions as being for credit and insurance purposes.

Behavioral Biases and Firm Behavior: Evidence from Kenyan Retail Shops

- American Economic Review---2013---Michael Kremer,Jean Lee,Jonathan Robinson,Olga Rostapshova

Many subjects in lab experiments exhibit small-stakes risk aversion, consistent with loss aversion. Those with greater math skills are less likely to show small-stakes risk aversion. We argue that departures from expected utility maximization may help explain why many firms in developing countries leave high expected return investments unexploited. We show that among a sample of Kenyan shopkeepers, inventories are negatively associated with small-stakes risk aversion and positively associated with math skills.

The Home Economics of E-Money: Velocity, Cash Management, and Discount Rates of M-Pesa Users

- American Economic Review---2013---Isaac Mbiti,David Weil

We study the mobile phone-based money transfer system in Kenya. Based on aggregate data, we estimate that the velocity with which units of e-money are transferred among users is approximately four times per month, and that the average number of transfers undergone by a unit of e-money between its creation and destruction is approximately one. Most M-Pesa transactions are made by frequent users. Examination of data on withdrawals shows a high frequency of small withdrawals and no response to "notches" in the price schedule, indicating that many users seem to have high implicit discount rates.

Informal Risk Sharing, Index Insurance, and Risk Taking in Developing Countries

- American Economic Review---2013---Ahmed Mobarak,Mark Rosenzweig

Preliminary findings are presented from a research project which examined the interactions between informal risk sharing, index insurance and risk-taking. Rainfall insurance contracts were randomly offered to cultivating and landless households in a set of Indian villages where preexisting census data on caste networks allowed the characterization of the nature and extent of informal risk sharing. We study how informal risk sharing mediates the demand for index insurance, whether index insurance or informal indemnification allows farmers to invest in risky technologies, and the general equilibrium effects of offering insurance contracts to cultivators and agricultural laborers.

Profitability of Fertilizer: Experimental Evidence from Female Rice Farmers in Mali

- American Economic Review---2013---Lori Beaman,Dean Karlan,Bram Thuysbaert,Christopher Udry

We conducted an experiment providing fertilizer grants to female rice farmers in Mali. We found that women who received fertilizer used both more fertilizer and more complementary inputs such as herbicides and hired labor. This shows that farmers respond to an increase in one input by re-optimizing other inputs. Second, while the increase in inputs led to a considerable increase in output, we found no evidence that profits increased. Our results suggest that fertilizer's impact on profits is small compared to other sources of variation. This may make it difficult for farmers to learn about the returns to fertilizer.

Deposit Collecting: Unbundling the Role of Frequency, Salience, and Habit Formation in Generating Savings

- American Economic Review---2013---Suresh de Mel,Craig McIntosh,Christopher Woodruff

We report on a field experiment using several methods for collecting deposits made in formal bank accounts in rural areas in Sri Lanka. We find that only frequent, face-to-face collection increases aggregate household savings. Collection involving community lock boxes increases balances at the collecting bank, but not overall household savings. Only community box collection appears to have the possibility of being financially viable. The various collection methods allow us to unbundle the role of frequency, salience and habit formation in deposit decisions. We find that frequency and salience affect the number of transactions, but not the level of savings.

Benefit-Cost Analysis for Financial Regulation

- American Economic Review---2013---Eric Posner,Eric Weyl

Calls for benefit-cost analysis in rule-making, based on the Dodd-Frank Wall Street Reform Act, have revealed a paucity of work on allocative efficiency in financial markets. We propose three principles to help fill this gap. First, we highlight the need for quantifying the statistical cost of a crisis to trade off the risk of a crisis against loss of growth during good times. Second, we propose a framework quantifying the social value of price discovery, and highlighting which arbitrages are over- and under-supplied from a social perspective. Finally, we distinguish between insurance benefits and gambling-facilitation harms of market completion.

Financial Innovation and Portfolio Risks

- American Economic Review---2013---Alp Simsek

I illustrate the effect of financial innovation on portfolio risks by using an example with risk-sharing needs and belief disagreements. I consider two types of innovation: product innovation, formalized as an expansion of new financial assets; and process innovation, formalized as a reduction in transaction costs. When belief disagreements are large, both types of innovation increase portfolio risks. Moreover, endogenous financial innovation is directed towards speculative assets that increase portfolio risks.

Reflections on Finance and the Good Society

- American Economic Review---2013---Robert Shiller

The concept of the Good Society--grounded in principles of reciprocity and the Golden Rule--is as ancient as human civilization. To many the concept may appear in conflict with the goings-on of financial markets. This may be especially true after the financial crisis. Financial theory and financial legislation cannot ignore this apparent conflict, but must instead find ways to reduce it. When teaching economics it is important to convey how individuals and organizations impose rules and standards which help reconcile their deeply-held beliefs with their business practices.

Can Financial Engineering Cure Cancer?

- American Economic Review---2013---David E. Fagnan,Jose Maria Fernandez,Andrew Lo,Roger M. Stein

Traditional financing sources such as private and public equity may not be ideal for investment projects with low probabilities of success, long time horizons, and large capital requirements. Nevertheless, such projects, if not too highly correlated, may yield attractive risk-adjusted returns when combined into a single portfolio. Such "megafund" portfolios may be too large to finance through private or public equity alone. But with sufficient diversification and risk analytics, debt financing via securitization may be feasible. Credit enhancements (i.e., derivatives and government guarantees) can also improve megafund economics. We present an analytical framework and illustrative empirical examples involving cancer research.

Health Care Usage and Health Status of Immigrant Children: The Effects of Nativity versus Citizenship

- American Economic Review---2013---Mónica García-Pérez

This paper addresses the relationship between child access to and use of health services, perceived health, and parental nativity. Parental region of birth is identified to include the underlying cultural differences across immigrant groups. We found that children of immigrant families, regardless of their immigration status, have lower odds to visit the doctor at least once a year and lack of usual place of care. Conversely, this group has better outcomes with regard to their perceived health. Results hold when parental region of birth is included. Overall, non-citizen children of Latino American, Asian and African families have the worse outcomes.

The Effects of Job Corps Training on Wages of Adolescents and Young Adults

- American Economic Review---2013---German Blanco,Carlos A. Flores,Alfonso Flores-Lagunes

Previous evaluations of Job Corps document disparate effects on the earnings of adolescents (aged 16-19) and young adults (aged 20-24). These are conjectured to be due to differential human capital accumulation within the program between these groups. If correct, the effect of the program on wages should be larger than that on earnings, since wages more accurately reflect human capital. We estimate bounds on average and quantile treatment effects of Job Corps on wages and find that the relative effects on both outcomes are similar, casting some doubt on the conjecture that human capital is driving the disparate effects.

The Poverty Gap in School Spending Following the Introduction of Title I

- American Economic Review---2013---Elizabeth Cascio,Sarah Reber

Title I of the 1965 Elementary and Secondary Education Act explicitly directed more federal aid for K-12 education to poorer areas for the first time in US history, with a goal of promoting regional convergence in school spending. Using newly collected data, we find some evidence that Title I narrowed the gap in per-pupil school spending between richer and poorer states in the short- to medium-run. However, the program was small relative to then-existing poverty gaps in school spending; even in the absence of crowd-out by local or state governments, the program could have reduced the gap by only 15 percent.

Achieving the DREAM: The Effect of IRCA on Immigrant Youth Postsecondary Educational Access

- American Economic Review---2013---Kalena E. Cortes

This paper contributes to the existing literature on the effect of legal status on educational access among immigrant youth in the United States. The Immigration Reform and Control Act (IRCA) of 1986 granted amnesty to undocumented immigrants who entered the United States before 1982. Using a difference-in-differences framework, I analyze the effect of this large amnesty program on immigrant youth's postsecondary educational access. My main finding shows that immigrant youths who were granted amnesty under IRCA are more likely to enroll in postsecondary education.

HIV Risk and Adolescent Behaviors in Africa

- American Economic Review---2013---Anne Case,Christina Paxson

We investigate the relationship between HIV, marriage and nonmarital sexual activity, with a focus on adolescent behaviors. We use data from 45 Demographic and Health Surveys to examine how adolescent behavior among women born from 1958 to 1965 are related to the subsequent spread of HIV over time. These women were adolescents during the early 1980s, a time when HIV had started to spread but the cause was still unknown. We find that areas with currently high HIV rates had greater female education and more premarital sexual activity in the cohorts that came of age before HIV was understood.

Learning from Others' HIV Testing: Updating Beliefs and Responding to Risk

- American Economic Review---2013---Susan Godlonton,Rebecca Thornton

An individual who takes an HIV test can be informed about their own status and risk. Similarly, when friends, family or neighbors learn of a person's HIV status, they may update their beliefs about HIV infection among people they know. Using an experiment conducted in rural Malawi which randomly assigned incentives to learn HIV results, we find that as people in the community learn their HIV results, individuals revise their beliefs downward about deaths attributable to HIV/AIDS. We find corresponding behavioral responses with a significant decrease in condom use and no significant increase in multiple partnerships among those who are HIV-negative.

Do Sex Workers Respond to Disease? Evidence from the Male Market for Sex

- American Economic Review---2013---Manisha Shah

Sex markets play a key role in the transmission of sexually transmitted infections (STI) and HIV/AIDS in developing countries. While individuals should substitute away from risky sex as STI prevalence rises, female sex workers draw a premium for engaging in unprotected sex, mitigating their propensity to use condoms. We provide the first evidence of a positive premium for non-condom sex in developing country male sex markets. Testing whether this is a compensating differential for disease risk, we find that a one percentage point increase in the STI rate increases the premium 28 percent. Market forces may curb the self-limiting effect of STI epidemics.

Inheritances, Intergenerational Transfers, and the Accumulation of Health

- American Economic Review---2013---Katherine Carman

This paper considers the mechanisms behind a positive correlation between inheritances and health. First, there may merely be a correlation: those from families with enough wealth to provide an inheritance tend to have better health. Second, financial resources could be used to purchase inputs to health. Third, bequests may signal a stronger interest in one's child. This reminder to the child could improve their emotional well-being. On average, the positive correlation suggests merely correlation. However, among subsets of the population, particularly men and those expecting to receive an inheritance, there is a causal relationship likely driven by the third mechanism.

Adult Antiretroviral Therapy and Child Health: Evidence from Scale-Up in Zambia

- American Economic Review---2013---Adrienne Lucas,Nicholas Wilson

One in five Zambian children lives with an HIV/AIDS-infected adult. We estimate the effect that the availability of adult antiretroviral therapy (ART) has on the health of such children. Using a triple difference specification, we find that adult access to ART resulted in increased weight-for-age and decreased incidence of stunting among children younger than 60 months who resided with an infected father or other infected adult in an intact household. Because the increased availability of adult ART in sub-Saharan Africa has multigenerational effects, cost-effectiveness estimates restricted to direct recipients understate the economic benefit of the treatment.

SSI for Disabled Immigrants: Why Do Ethnic Networks Matter?

- American Economic Review---2013---Delia Furtado,Nikolaos Theodoropoulos

Immigrants residing among many coethnics are especially likely to receive SSI for a disability when they belong to high SSI take-up immigrant groups. After showing that this relationship cannot be fully explained by differences in health, we consider the likely sources of these network effects by separately examining their role in the decision to apply for SSI and, conditional on applying, their role in determining who ultimately receives benefits. Our results suggest that networks may increase the probability of applying for SSI despite minor disabilities, but it is unlikely that network effects are driven by egregious lies on applications.

Boys' Cognitive Skill Formation and Physical Growth: Long-Term Experimental Evidence on Critical Ages for Early Childhood Interventions

- American Economic Review---2013---Tania Barham,Karen Macours,John Maluccio

It is often assumed that early life circumstances, in particular before age two, are important for later human capital development. Using experimental variation in the timing of benefits from a conditional cash transfer program, we test the hypothesis that intervention starting in utero and continuing in the first two years is critical. At age ten, boys exposed to the program during this period had better cognitive, but not anthropometric, outcomes than those exposed in their second year of life or later. The lack of a differential effect on anthropometrics was due catch-up growth.

Incentive Effects of Inheritances and Optimal Estate Taxation

- American Economic Review---2013---Wojciech Kopczuk

I consider optimal nonlinear taxation of income and bequests with a joy-of-giving bequest motive and explicitly characterize the optimal estate tax rate. The optimal formula trades off correction of externality from giving and discouraging effort of children due to income effect generated by bequests. The analysis shows that optimality of a positive tax on bequests rests on the strength of the effect of bequests on behavior of future generations. The analysis also suggests that inheritance, rather than estate tax, is better suited to implement the optimal policy.

The Estate Tax and Inter Vivos Transfers over Time

- American Economic Review---2013---Kathleen McGarry

The strong dislike evidenced by the American public towards the estate tax suggests that the wealthy wish to transfer resources to their heirs tax-free and would thus exploit mechanisms allowing them to reduce the tax burden whenever possible. However, I find strong evidence that the wealthy fail to utilize what is perhaps the simplest method of tax avoidance--that of making transfers to eventual heirs up to the annual exclusion. Instead they transfer far less than the amount permitted by the tax code, whether measured in cross-section or over time. In failing to give more, they forgo significant tax savings.

Income and Substitution Effects of Estate Taxation

- American Economic Review---2013---James Hines

This paper evaluates the effect of estate taxes on labor supply. The analysis decomposes the effect of estate taxation into the substitution effect of relative price changes and the two income effects for which the estate tax is responsible. These two income effects arise from tax burdens on those who leave estates plus tax burdens on those who receive them. Despite the double income burden of the estate tax, existing empirical evidence suggests that the net effect of estate taxation on aggregate labor supply is uncertain.

Estate Taxation with Altruism Heterogeneity

- American Economic Review---2013---Emmanuel Farhi,Iván Werning

We develop a theory of optimal estate taxation in a model where bequest inequality is driven by differences in parental altruism. We show that a wide range of results are possible, from positive taxes to subsidies. The results depend on redistributive objectives implicit in the cardinal specification of utility and social welfare functions. We propose a normalization that is helpful in classifying these different possibilities. We isolate cases where the optimal policy bans negative bequests and taxes positive bequests, features present in most advanced countries.

Optimal Progressive Labor Income Taxation and Education Subsidies When Education Decisions and Intergenerational Transfers Are Endogenous

- American Economic Review---2013---Dirk Krueger,Alexander Ludwig

We quantitatively characterize the optimal mix of progressive income taxes and education subsidies in a model with endogenous human capital formation, borrowing constraints, income risk and incomplete financial markets. In addition to the distortions of labor supply, progressive taxes weaken the incentives to acquire education. The latter distortion can potentially be mitigated by an education subsidy. We find that the welfare-maximizing fiscal policy is indeed characterized by a substantially progressive labor income tax code and a positive subsidy for college education. Both the degree of tax progressivity and the education subsidy are larger than in the current US status quo.

Optimal Pension Systems with Simple Instruments

- American Economic Review---2013---Mikhail Golosov,Ali Shourideh,Maxim Troshkin,Aleh Tsyvinski

We analyze optimal pension systems relying on simple policy instruments in a lifecycle environment which admits endogenous decisions of how much to work as well as when to retire. The optimality in this context means the highest welfare that can be achieved within a restricted set of instruments, while keeping the total cost of the pension system unchanged. The policy instruments we consider are the optimized retirement benefit functions modeled after a stylized version of the current US Social Security.

Some Basic Economics of National Security

- American Economic Review---2013---Kevin M. Murphy,Robert H. Topel

We define national security (NS) as public policies that protect the safety or welfare of a nation's citizens from substantial threats. NS capital provides societal insurance against widespread harm or catastrophe, so optimal NS investments may have very low expected rates of return. Investment targeted at extreme events (war) has spillovers, reducing potential harm in less threatening situations as well. Potential threats are highly uncertain, which raises the value of ex-post scalability of NS technologies. Higher probabilities of extreme events raise the demand for flexibility, so ex-post responses to threats are more elastic, but may reduce current precaution.

Modest, Secure, and Informed: Successful Development in Conflict Zones

- American Economic Review---2013---Eli Berman,Joseph H. Felter,Jacob N. Shapiro,Erin Troland

Most interpretations of prevalent counterinsurgency theory imply that increasing government services reduces rebel violence. Empirically, however, development programs and economic activity sometimes increase violence. Using new panel data on development spending in Iraq, we show that violence-reducing effects of development assistance are greater when: (i) projects are small; (ii) troop strength is high; and (iii) professional development expertise is available. These findings are consistent with an information-centric ("hearts and minds") model, which implies that violence-reduction is greatest when projects are secure, valued by community members, and services derived are conditional on government control of the territory.

Insurgent Compensation: Evidence from Iraq

- American Economic Review---2013---Benjamin W. Bahney,Radha K. Iyengar,Patrick B. Johnston,Danielle F. Jung,Jacob N. Shapiro,Howard Shatz

Participating in insurgency is physically risky. Why do people do so? Using new data on 3,799 payments to insurgent fighters by Al Qa'ida Iraq, we find that: (i) wages were extremely low relative to outside options, even compared to unskilled labor; (ii) the estimated risk premium is negative; and (iii) the wage schedule favors equalization and provides additional compensation for larger families. These results challenge the notion that fighters are paid their marginal product, or the opportunity cost of their time. They may be consistent with a "lemons" model in which fighters signal commitment by accepting low wages.

An Analysis of Economic Warfare

- American Economic Review---2013---Jeffrey Clemens

I develop a framework for assessing economic warfare, which describes efforts to undermine adversaries' sources of income. The ability to target adversarial market participants is a primary determinant of the success of such efforts, as is the elasticity of demand in the relevant market. An application of the framework to US efforts to suppress the Afghan opium trade yields pessimistic results. Inelastic demand and poorly targeted enforcement have led these efforts to increase the drug trade resources flowing toward the Taliban.

Genetic Diversity and the Origins of Cultural Fragmentation

- American Economic Review---2013---Quamrul Ashraf,Oded Galor

The origin of the uneven distribution of ethnic and cultural fragmentation across countries has been underexplored, despite the importance attributed to the effects of diversity on the stability and prosperity of nations. Building on the role of deeply-rooted biogeographical forces in comparative development, this research empirically demonstrates that genetic diversity, predominantly determined during the prehistoric "out of Africa" migration of humans, is an underlying cause of various existing manifestations of ethnolinguistic heterogeneity. Further research may revolutionize our understanding of how economic development and the composition of human capital across the globe are affected by these deeply-rooted factors.

Social Organizations, Violence, and Modern Growth

- American Economic Review---2013---Avner Greif,Murat Iyigun

Social institutions were often founded by the elite to avoid social upheavals. Institutions helped mitigate the threat of violent social responses to labor-saving innovations. But their organizational forms were influenced by preexisting cultural and social factors. The differences in Chinese and English social institutions explain why England became the first modern economy. Using an English panel of poor relief and social unrest from 1650 to 1830, we document that poor relief was statistically significant in reducing social disorder. Social instability, in turn, negatively influenced innovations, while innovations were positively and significantly related to poor relief.

Not the Opium of the People: Income and Secularization in a Panel of Prussian Counties

- American Economic Review---2013---Sascha Becker,Ludger Woessmann

The interplay between religion and the economy has long occupied social scientists. We construct a unique panel of income and Protestant church attendance using 175 Prussian counties, presented in six waves from 1886 to 1911. The data reveal a marked decline in church attendance coinciding with increasing income. The cross-section also shows a negative association between income and church attendance. The associations disappear in panel analyses, including first-differenced models of the 1886 to 1911 change, panel models with county and time fixed effects, and panel Granger-causality tests. The results cast doubt on causal interpretations of the religion-economy nexus in Prussian secularization.

From Stagnation to Sustained Growth: The Role of Female Empowerment

- American Economic Review---2013---Claude Diebolt,Faustine Perrin

This paper explores the role of gender equality over a long-run economic and demographic development path of industrialized countries. Our unified cliometric growth model of female empowerment suggests that changes in gender relations are a key ingredient of economic development. The economy evolves from a Malthusian regime--with slow technological progress, low income and low fertility--to a Modern Growth regime, with high living standards and low fertility. The rise in technological progress, together with improvements in gender equality, generates a positive feedback loop that engages the process of human capital accumulation (economic transition) and triggers the demographic transition.

Nonparametric Instrumental Variables Estimation

- American Economic Review---2013---Whitney Newey

In many economic models, objects of interest are functions which satisfy conditional moment restrictions. Economics does not restrict the functional form of these models, motivating nonparametric methods. In this paper we review identification results and describe a simple nonparametric instrumental variables (NPIV) estimator. We also consider a simple method of inference. In addition we show how the ability to uncover nonlinearities with conditional moment restrictions is related to the strength of the instruments. We point to applications where important nonlinearities can be found with NPIV and applications where they cannot.

What Do Instrumental Variable Models Deliver with Discrete Dependent Variables?

- American Economic Review---2013---Andrew Chesher,Adam Rosen

We compare nonparametric instrumental variables (IV) models with linear models and 2SLS methods when dependent variables are discrete. A 2SLS method can deliver a consistent estimator of a Local Average Treatment Effect but is not informative about other treatment effect parameters. The IV models set identify a range of interesting structural and treatment effect parameters. We give set identification results for a counterfactual probability and an Average Treatment Effect in a IV binary threshold crossing model. We illustrate using data on female employment and family size (employed by Joshua Angrist and William Evans (1998)) and compare with their LATE estimates.

Control Functions and Simultaneous Equations Methods

- American Economic Review---2013---Richard Blundell,Dennis Kristensen,Rosa Matzkin

The control function approach is a convenient method of estimation in simultaneous equation systems. This requires that the system can be expressed in triangular form with variables satisfying a conditional mean independence restriction. Linear simultaneous models with additive errors can always be expressed in this form. However, in nonlinear nonadditive simultaneous systems, conditional independence requires a strong additional restriction known as control function separability. We argue that nonadditive models are a key characteristic of simultaneous models of economic behavior with unobserved heterogeneity. We review alternative "system" approaches and document the biases that occur when the control function approach is used inappropriately.

What Goes Up Must Come Down? Experimental Evidence on Intuitive Forecasting

- American Economic Review---2013---John Beshears,James Choi,Andreas Fuster,David Laibson,Brigitte Madrian

Do laboratory subjects correctly perceive the dynamics of a mean-reverting time series? In our experiment, subjects receive historical data and make forecasts at different horizons. The time series process that we use features short-run momentum and long-run partial mean reversion. Half of the subjects see a version of this process in which the momentum and partial mean reversion unfold over ten periods ("fast"), while the other subjects see a version with dynamics that unfold over 50 periods ("slow"). Typical subjects recognize most of the mean reversion of the fast process and none of the mean reversion of the slow process.

Estimating the Effect of Salience in Wholesale and Retail Car Markets

- American Economic Review---2013---Meghan R. Busse,Nicola Lacetera,Devin G. Pope,Jorge Silva-Risso,Justin R. Sydnor

We investigate whether the first digit of an odometer reading is more salient to consumers than subsequent digits. We find that retail transaction prices and volumes of used vehicles drop discontinuously at 10,000-mile odometer thresholds, echoing effects found in the wholesale market by Lacetera, Pope and Sydnor (2012). Our results reveal that retail consumers devote limited attention to evaluating vehicle mileage, and that this drives effects in the wholesale market. We estimate the inattention parameter implied by the price discontinuities. In addition, our results suggest that estimating consumer-level structural parameters using data from an intermediate market can give misleading results.

Distinguishing Probability Weighting from Risk Misperceptions in Field Data

- American Economic Review---2013---Levon Barseghyan,Francesca Molinari,Ted O'Donoghue,Joshua Teitelbaum

We outline a strategy for distinguishing rank-dependent probability weighting from systematic risk misperceptions in field data. Our strategy relies on singling out a field environment with two key properties: (i) the objects of choice are money lotteries with more than two outcomes; and (ii) the ranking of outcomes differs across lotteries. We first present an abstract model of risky choice that elucidates the identification problem and our strategy. The model has numerous applications, including insurance choices and gambling. We then consider the application of insurance deductible choices and illustrate our strategy using simulated data.

The Importance of Being Marginal: Gender Differences in Generosity

- American Economic Review---2013---Stefano DellaVigna,John List,Ulrike Malmendier,Gautam Rao

Do men and women have different social preferences? Previous findings are contradictory. We provide a potential explanation using evidence from a field experiment. In a door-to-door solicitation, men and women are equally generous, but women become less generous when it becomes easy to avoid the solicitor. Our structural estimates of the social preference parameters suggest an explanation: women are more likely to be on the margin of giving, partly because of a less dispersed distribution of altruism. We find similar results for the willingness to complete an unpaid survey; women are more likely to be on the margin of participation.

Two Happiness Puzzles

- American Economic Review---2013---Angus Deaton,Arthur A. Stone

We consider two happiness puzzles. First, many studies show that only relative income matters for well-being. Yet the Gallup data for the United States and from the rest of the world show no such result, at least for life evaluation. There may be relative income effects in hedonic well-being though other interpretations are available. Second, more religious people typically report higher experiential well-being but more religious places have worse well-being on average, both across US states and across countries. More religious states and counties in the US also have worse murder rates, deaths from cardiovascular disease and from cancer.

Subjective Well-Being and Income: Is There Any Evidence of Satiation?

- American Economic Review---2013---Betsey Stevenson,Justin Wolfers

Many scholars have argued that once "basic needs" have been met, further rises in income are not associated with further increases in subjective well-being. We assess the validity of this claim in comparisons of both rich and poor countries, and also of rich and poor people within a country. Analyzing multiple datasets, multiple definitions of "basic needs" and multiple questions about well-being, we find no support for this claim. The relationship between well-being and income is roughly log-linear and does not diminish as incomes rise. If there is a satiation point, we are yet to reach it.

Aggregating Local Preferences to Guide Marginal Policy Adjustments

- American Economic Review---2013---Daniel Benjamin,Ori Heffetz,Miles Kimball,Nichole Szembrot

We propose a social choice rule for aggregating preferences elicited from surveys into a marginal adjustment of policy from the status quo. The mechanism is: (i) symmetric in its treatment of survey respondents; (ii) ordinal, using only the orientation of respondents' indifference surfaces; (iii) local, using only preferences in the neighborhood of current policy; and (iv) what we call "first-order strategy-proof," making the gains from misreporting preferences second order. The mechanism could be applied to guide policy based on how policy affects responses to subjective well-being surveys.

The Psychology of Tail Events: Progress and Challenges

- American Economic Review---2013---Nicholas Barberis

Over the past decade there has been a surge of interest in "tail events," or rare, high-impact events. In this article, I start by summarizing some recent progress in our understanding of the psychology of tail events. I suggest that much of this progress has centered on the concept of "probability weighting" and, in particular, on applications of this concept in various fields of economics. I then describe some major open questions in this area.

An Approach to Incorporating Psychology into Economics

- American Economic Review---2013---Matthew Rabin

This article proposes an approach to improving the psychological realism of economics while maintaining its conventional techniques and goals--formal theoretical and empirical analysis using tractable models, with a focus on prediction and estimation. Besides tolerating the imperfections that come with precision, models should aim for two crucial criteria: power and scope. The approach advocated is to develop portable extensions of existing models that embed preexisting theories as parameter values, while introducing the new psychological assumptions as alternative parameter values, and make the model portable by defining it in all cases where existing models make predictions.

Salience and Asset Prices

- American Economic Review---2013---Pedro Bordalo,Nicola Gennaioli,Andrei Shleifer

We present a simple model of asset pricing in which payoff salience drives investors' demand for risky assets. The key implication is that extreme payoffs receive disproportionate weight in the market valuation of assets. The model accounts for several puzzles in finance in an intuitive way, including preference for assets with a chance of very high payoffs, an aggregate equity premium, and countercyclical variation in stock market returns.

Views among Economists: Professional Consensus or Point-Counterpoint?

- American Economic Review---2013---Roger Gordon,Gordon Dahl

To what degree do economists disagree about key economic questions? We provide evidence by using the responses to a series of questions posed to a distinguished panel of economists put together by the Chicago School of Business. Based on our analysis, we find a broad consensus on these many different economic issues, particularly when the past economic literature on the question is large. Any differences are unrelated to observable characteristics of the Panel members, other than men being slightly more likely to express an opinion. These differences are idiosyncratic, with no support for liberal versus conservative camps.

Economic Experts versus Average Americans

- American Economic Review---2013---Paola Sapienza,Luigi Zingales

We compare answers to policy questions by economic experts and a representative sample of the US population. We find a 35 percentage point difference between the two groups. This gap is only partially explained by differences in ideological or personal characteristics of the two samples. Interestingly, the difference is the largest on the questions where economists agree the most and where there is the largest amount of literature. Informing people of the expert opinions does not seem to have much of an impact. Ordinary people seem to be skeptical of the implicit assumptions embedded into the economists' answers.

Course Requirements for Bachelor's Degrees in Economics

- American Economic Review---2013---William Bosshardt,Michael Watts,William Becker

We conducted a national survey of department Chairs to investigate whether departments of economics changed course requirements for bachelors degrees since the Siegfried and Bidani (1992) paper using 1980 data.

There have been few changes to course requirements. Most notable are a large increase in the number of departments requiring econometrics and a drop in departments requiring courses such as money, banking and economic history--courses once required in many business schools.

One Essay on Dissertation Formats in Economics

- American Economic Review---2013---Wendy A. Stock,John Siegfried

Dissertations in economics have changed dramatically over the past forty years, from primarily treatise-length books to sets of essays on related topics. We document trends in essay-style dissertations across several metrics, using data on dissertation format, PhD program characteristics, demographics, job market outcomes, and early career research productivity for two large samples of US PhDs graduating in 1996-1997 or 2001-2002. Students at higher ranked PhD programs, citizens outside the United States, and microeconomics students have been at the forefront of this trend. Economics PhD graduates who take jobs as academics are more likely to have written essay-style dissertations, while those who take government jobs are more likely to have written a treatise. Finally, most of the evidence suggests that essay-style dissertations enhance economists' early career research productivity.

How Economists Allocate Time to Teaching and Research

- American Economic Review---2013---Sam Allgood,William B. Walstad

This study investigates three questions: (i) are there differences in teaching and research behavior between economists and other professors; (ii) do economists in the top 100 research departments allocate time differently than faculty in other disciplines at similarly ranked departments; and (iii) do professors respond to changes in incentives in allocating their time? The study uses data from the National Study of Postsecondary Faculty (NSOPF). The study specifies a regression equation controlling for institutional incentives to compare time allocation to teaching and research for economics professors and faculty members in math, physics, psychology, political science and business.

Economic Understanding in US High School Courses

- American Economic Review---2013---William B. Walstad

The effects of courses on student achievement are studied using 2006 data from the National Assessment of Educational Progress (NAEP) in economics. A regression analysis showed expected and significant achievement differences by course, with the highest scores in advanced economics, followed by general economics. Courses in business and personal finance were not substitutes for advanced or general economics courses. A probit analysis showed that students taking economics courses relative to personal finance courses are significantly more likely to think their courses helped them understand the US economy, the international economy, and current events--but not how to manage personal finances.

Minutes of the Annual Business Meeting: San Diego, CA, January 5, 2013

- American Economic Review---2013---Peter Rousseau

Report of the Secretary

- American Economic Review---2013---Peter Rousseau

Report of the Treasurer

- American Economic Review---2013---Peter Rousseau

American Economic Association Universal Academic Questionnaire Summary Statistics

- American Economic Review---2013---Charles E. Scott,John Siegfried

List of Online Reports

- American Economic Review---2013---Peter Rousseau

2013

Minutes of the Meeting of the Executive Committee: Chicago, IL, April 27, 2012

- American Economic Review---2013---John Siegfried

Minutes of the Meeting of the Executive Committee: San Diego, CA, January 3, 2013

- American Economic Review---2013---Peter Rousseau

Report of the Editor: American Economic Review

- American Economic Review---2013---Pinelopi Goldberg

Report of the Editor: Journal of Economic Literature

- American Economic Review---2013---Janet Currie

Report of the Editor: Journal of Economic Perspectives

- American Economic Review---2013---David Autor

Report of the Editor: American Economic Journal: Applied Economics

- American Economic Review---2013---Esther Duflo

Report of the Editor: American Economic Journal: Economic Policy

- American Economic Review---2013---Alan Auerbach

Report of the Editor: American Economic Journal: Macroeconomics

- American Economic Review---2013---John Leahy

Report of the Editor: American Economic Journal: Microeconomics

- American Economic Review---2013---Andrew Postlewaite

Report of the Director: Job Openings for Economists

- American Economic Review---2013---John Siegfried

Report: Committee on Economic Education

- American Economic Review---2013---Sam Allgood

Report: Committee on the Status of Women in the Economics Profession

- American Economic Review---2013---Marjorie B. McElroy

Report: Committee on the Status of Minority Groups in the Economics Profession

- American Economic Review---2013---Cecilia Rouse

Report: American Economic Association Committee on Statistics

- American Economic Review---2013---Robert Feenstra

Report: Committee on Government Relations

- American Economic Review---2013---Robert Moffitt

Report: Ad Hoc Committee on Criterion for the John Bates Clark Medal

- American Economic Review---2013---Jonathan Gruber,Christina Paxson,Valerie Ramey,Michael Woodford

Report: Ad Hoc Search Committee for the Editor of the American Economic Journal: Economic Policy

- American Economic Review---2013---David Cutler,Amy Finkelstein,Adriana Lleras-Muney,James Poterba,David Romer,Robert Shimer

Report: Ad Hoc Search Committee for the Editor of the Journal of Economic Literature

- American Economic Review---2013---Anil Kashyap

Paper Money

- American Economic Review---2013---Christopher Sims

Drastic changes in central bank operations and monetary institutions in recent years have made previously standard approaches to explaining the determination of the price level obsolete. Recent expansions of central bank balance sheets and of the levels of rich-country sovereign debt, as well as the evolving political economy of the European Monetary Union, have made it clear that fiscal policy and monetary policy are intertwined. Our thinking and teaching about inflation, monetary policy, and fiscal policy should be based on models that recognize fiscal-monetary policy interactions. (JEL E31, E52, E58, E62, H63)

Designing Random Allocation Mechanisms: Theory and Applications

- American Economic Review---2013---Eric Budish,Yeon-Koo Che,Fuhito Kojima,Paul Milgrom

Randomization is commonplace in everyday resource allocation. We generalize the theory of randomized assignment to accommodate multi-unit allocations and various real-world constraints, such as group-specific quotas ("controlled choice") in school choice and house allocation, and scheduling and curriculum constraints in course allocation. We develop new mechanisms that are ex ante efficient and fair in these environments, and that incorporate certain non-additive substitutable preferences. We also develop a "utility guarantee" technique that limits ex post unfairness in random allocations, supplementing the ex ante fairness promoted by randomization. This can be applied to multi-unit assignment problems and certain two-sided matching problems. (JEL C78, D82)

Inferring Strategic Voting

- American Economic Review---2013---Kei Kawai,Yasutora Watanabe

We estimate a model of strategic voting and quantify the impact it has on election outcomes. Because the model exhibits multiplicity of outcomes, we adopt a set estimator. Using Japanese general-election data, we find a large fraction (63.4 percent, 84.9 percent) of strategic voters, only a small fraction (1.4 percent, 4.2 percent) of whom voted for a candidate other than the one they most preferred (misaligned voting). Existing empirical literature has not distinguished between the two, estimating misaligned voting instead of strategic voting. Accordingly, while our estimate of strategic voting is high, our estimate of misaligned voting is comparable to previous studies. (JEL D72)

Dynamic Matching and Bargaining Games: A General Approach

- American Economic Review---2013---Stephan Lauermann

Dynamic matching and bargaining games are models of decentralized markets with trading frictions. A central objective is to investigate how equilibrium outcomes depend on the level of frictions. In particular, does the trading outcome become Walrasian when frictions become small? Existing specifications of such games provide divergent answers. This paper presents a new characterization result for competitive allocations in quasilinear economies. The characterization result is used to investigate what causes these differences and to generalize insights from the analysis of specific matching and bargaining games. (JEL C73, C78, D82, D83)

The Effect of Language on Economic Behavior: Evidence from Savings Rates, Health Behaviors, and Retirement Assets

- American Economic Review---2013---M. Keith Chen

Languages differ widely in the ways they encode time. I test the hypothesis that the languages that grammatically associate the future and the present, foster future-oriented behavior. This prediction arises naturally when well-documented effects of language structure are merged with models of intertemporal choice. Empirically, I find that speakers of such languages: save more, retire with more wealth, smoke less, practice safer sex, and are less obese. This holds both across countries and within countries when comparing demographically similar native households. The evidence does not support the most obvious forms of common causation. I discuss implications for theories of intertemporal choice. (JEL D14, D83, E21, I12, J26, Z13)

Intermediary Asset Pricing

- American Economic Review---2013---Zhiguo He,Arvind Krishnamurthy

We model the dynamics of risk premia during crises in asset markets where the marginal investor is a financial intermediary. Intermediaries face an equity capital constraint. Risk premia rise when the constraint binds, reflecting the capital scarcity. The calibrated model matches the nonlinearity of risk premia during crises and the speed of reversion in risk premia from a crisis back to precrisis levels. We evaluate the effect of three government policies: reducing intermediaries borrowing costs, injecting equity capital, and purchasing distressed assets. Injecting equity capital is particularly effective because it alleviates the equity capital constraint that drives the model's crisis. (JEL E44, G12, G21, G23, G24)

Job Selection and Wages over the Business Cycle

- American Economic Review---2013---Marcus Hagedorn,Iourii Manovskii

We consider a model with on-the-job search where current wages depend only on current aggregate labor market conditions and idiosyncratic match-specific productivities. We show theoretically that the model replicates the findings in Bils (1985) and Beaudry and DiNardo (1991) on the history dependence in wages. We develop a method to measure match qualities in the data and show empirically that various variables summarizing past aggregate labor market conditions have explanatory power for current wages only because they are correlated with match qualities. They lose any predictive power once match qualities are accounted for. (JEL E3, E24, J3)

Optimal Expectations and Limited Medical Testing: Evidence from Huntington Disease

- American Economic Review---2013---Emily Oster,Ira Shoulson,E. Ray Dorsey

We use novel data to study genetic testing among individuals at risk for Huntington disease (HD), a hereditary disease with limited life expectancy. Although genetic testing is perfectly predictive and carries little economic cost, presymptomatic testing is rare. Testing rates increase with increases in ex ante risk of having HD. Untested individuals express optimistic beliefs about their health and make decisions (e.g., retirement) as if they do not have HD, even though individuals with confirmed HD behave differently. We suggest that these facts can be reconciled by an optimal expectations model (Brunnermeier and Parker 2005). (JEL D84, I12)

Public Monopoly and Economic Efficiency: Evidence from the Pennsylvania Liquor Control Board's Entry Decisions

- American Economic Review---2013---Katja Seim,Joel Waldfogel

We estimate a spatial model of liquor demand to analyze the impact of government-controlled retailing on entry patterns. In the absence of the Pennsylvania Liquor Control Board, the state would have roughly 2.5 times the current number of stores, higher consumer surplus, and lower payments to liquor store employees. With just over half the number of stores that would maximize welfare, the government system is instead best rationalized as profit maximization with profit sharing. Government operation mitigates, but does not eliminate, free entry's bias against rural consumers. We find only limited evidence of political influence on entry. (JEL D42, D72, L11, L12, L43, L81)

Commercial Imperialism? Political Influence and Trade during the Cold War

- American Economic Review---2013---Daniel Berger,William Easterly,Nathan Nunn,Shanker Satyanath

We provide evidence that increased political influence, arising from CIA interventions during the Cold War, was used to create a larger foreign market for American products. Following CIA interventions, imports from the US increased dramatically, while total exports to the US were unaffected. The surge in imports was concentrated in industries in which the US had a comparative disadvantage, not a comparative advantage. Our analysis is able to rule out decreased trade costs, changing political ideology, and an increase in US loans and grants as alternative explanations. We provide evidence that the increased imports arose through direct purchases of American products by foreign governments. (JEL D72, F14, F54, N42, N72)

Assessing the Incidence and Efficiency of a Prominent Place Based Policy

- American Economic Review---2013---Matias Busso,Jesse Gregory,Patrick Kline

This paper empirically assesses the incidence and efficiency of Round I of the federal urban Empowerment Zone (EZ) program using confidential microdata from the Decennial Census and the Longitudinal Business Database. Using rejected and future applicants to the EZ program as controls, we find that EZ designation substantially increased employment in zone neighborhoods and generated wage increases for local workers without corresponding increases in population or the local cost of living. The results suggest the efficiency costs of first Round EZs were relatively modest. (JEL H26, H77, J31, R23, R58)

Selection, Agriculture, and Cross-Country Productivity Differences

- American Economic Review---2013---David Lagakos,Michael Waugh

Cross-country labor productivity differences are larger in agriculture than in non-agriculture. We propose a new explanation for these patterns in which the self-selection of heterogeneous workers determines sector productivity. We formalize our theory in a general-equilibrium Roy model in which preferences feature a subsistence food requirement. In the model, subsistence requirements induce workers that are relatively unproductive at agricultural work to nonetheless select into the agriculture sector in poor countries. When parameterized, the model predicts that productivity differences are roughly twice as large in agriculture as non-agriculture even when countries differ by an economy-wide efficiency term that affects both sectors uniformly. (JEL J24, J31, J43, O11, O13, O40)

Testing for Racial Differences in the Mental Ability of Young Children

- American Economic Review---2013---Roland G. Fryer,Steven Levitt

Using a new nationally representative dataset, we find minor differences in test outcomes between black and white infants that disappear with a limited set of controls. However, relative to whites, all other races lose substantial ground by age two. Combining our estimates with results in prior literature, we show that a simple model with assortative mating fits our data well, implying that differences in children's environments between racial groups can fully explain gaps in intelligence. If parental ability influences a child's test scores both genetically and through environment, then our findings are less informative and can be reconciled with a wide range of racial differences in inherited intelligence.

Merger Policy with Merger Choice

- American Economic Review---2013---Volker Nocke,Michael Whinston

We analyze the optimal policy of an antitrust authority towards horizontal mergers when merger proposals are endogenous and firms choose among alternative mergers. In our model, the optimal policy of an antitrust authority that seeks to maximize expected consumer surplus imposes a tougher standard on "larger" mergers, i.e., those involving firms with a larger pre-merger market share. The optimal policy is a response to a bias in firms' proposal incentives: firms always propose a larger merger when it is better for consumers than a smaller one, but sometimes will propose the larger one even when it is worse for consumers.

Inferior Good and Giffen Behavior for Investing and Borrowing

- American Economic Review---2013---Felix Kubler,Larry Selden,Xiao Wei

The standard assumption that asset demand increases in income and decreases in price has its origin in Arrow's classic model with one risky and one risk free asset, where both are held long, and preferences exhibit decreasing absolute and increasing relative risk aversion. However if one allows shorting of the risk free asset or decreasing relative risk aversion, the risk free asset can not only fail to be a normal good but can be a Giffen good. This behavior can occur even for members of the popular HARA utility family. More generally, Giffen behavior can occur over multiple income ranges.

Misclassification Errors and the Underestimation of the US Unemployment Rate

- American Economic Review---2013---Shuaizhang Feng,Yingyao Hu

Using recent results in the measurement error literature, we show that the official US unemployment rate substantially underestimates the true level of unemployment, due to misclassification errors in the labor force status in the Current Population Survey. During the period from January 1996 to August 2011, the corrected monthly unemployment rates are between 1 and 4.4 percentage points (2.1 percentage points on average) higher than the official rates, and are more sensitive to changes in business cycles. The labor force participation rates, however, are not affected by this correction.

Self-Enforcing Trade Agreements: Evidence from Time-Varying Trade Policy

- American Economic Review---2013---Chad Bown,Meredith Crowley

The Bagwell and Staiger (1990) theory of cooperative trade agreements predicts new tariffs (i) increase with imports, (ii) increase with the inverse of the sum of the import demand and export supply elasticities, and (iii) decrease with the variance of imports. We find US import policy during 1997-2006 to be consistent with this theory. A one standard deviation increase in import growth, the inverse of the sum of the import demand and export supply elasticity, and the standard deviation of import growth changes the probability that the US imposes an antidumping tariff by 35 percent, by 88 percent, and by -76 percent, respectively.

A Theory of Charitable Fund-Raising with Costly Solicitations

- American Economic Review---2013---Alvaro J. Name-Correa,Huseyin Yildirim

We present a theory of charitable fund-raising in which it is costly to solicit donors. We fully characterize the solicitation strategy that maximizes donations net of fund-raising costs. It is optimal for the fund-raiser to target only the "net contributors" -- donors who would give more than their solicitation costs. We show that as the income inequality increases, so does the level of the public good, despite a (potentially) non-monotonic fund-raising strategy. This implies that costly fund-raising can provide a novel explanation for the non-neutrality of income redistributions and government grants often found in empirical studies.

The 'Out of Africa' Hypothesis, Human Genetic Diversity, and Comparative Economic Development

- American Economic Review---2013---Quamrul Ashraf,Oded Galor

This research advances and empirically establishes the hypothesis that, in the course of the prehistoric exodus of Homo sapiens out of Africa, variation in migratory distance to various settlements across the globe affected genetic diversity and has had a persistent hump-shaped effect on comparative economic development, reflecting the trade-off between the beneficial and the detrimental effects of diversity on productivity. While the low diversity of Native American populations and the high diversity of African populations have been detrimental for the development of these regions, the intermediate levels of diversity associated with European and Asian populations have been conducive for development. (JEL N10, N30, N50, O10, O50, Z10)

Pandering to Persuade

- American Economic Review---2013---Yeon-Koo Che,Wouter Dessein,Navin Kartik

An agent advises a principal on selecting one of multiple projects or an outside option. The agent is privately informed about the projects' benefits and shares the principal's preferences except for not internalizing her value from the outside option. We show that for moderate outside option values, strategic communication is characterized by pandering: the agent biases his recommendation toward "conditionally better-looking" projects, even when both parties would be better off with some other project. A project that has lower expected value can be conditionally better-looking. We develop comparative statics and implications of pandering. Pandering is also induced by an optimal mechanism without transfers. (JEL D23, D82)

School Admissions Reform in Chicago and England: Comparing Mechanisms by Their Vulnerability to Manipulation

- American Economic Review---2013---Parag Pathak,Tayfun Sönmez

In Fall 2009, Chicago authorities abandoned a school assignment mechanism midstream, citing concerns about its vulnerability to manipulation. Nonetheless, they asked thousands of applicants to re-rank schools in a new mechanism that is also manipulable. This paper introduces a method to compare mechanisms by their vulnerability to manipulation. Our methodology formalizes how the old mechanism is at least as manipulable as any other plausible mechanism, including the new one. A number of similar transitions took place in England after the widely popular Boston mechanism was ruled illegal in 2007. Our approach provides support for these and other recent policy changes. (JEL C78, D82, H75, I21, I28)

Coercive Contract Enforcement: Law and the Labor Market in Nineteenth Century Industrial Britain

- American Economic Review---2013---Suresh Naidu,Noam Yuchtman

British Master and Servant law made employee contract breach a criminal offense until 1875. We develop a contracting model generating equilibrium contract breach and prosecutions, then exploit exogenous changes in output prices to examine the effects of labor demand shocks on prosecutions. Positive shocks in the textile, iron, and coal industries increased prosecutions. Following the abolition of criminal sanctions, wages differentially rose in counties that had experienced more prosecutions, and wages responded more to labor demand shocks. Coercive contract enforcement was applied in industrial Britain; restricted mobility allowed workers to commit to risk-sharing contracts with lower, but less volatile, wages. (JEL J31, J41, K12, K31, N33, N43)

Price Discrimination and Bargaining: Empirical Evidence from Medical Devices

- American Economic Review---2013---Matthew Grennan

Many important issues in business-to-business markets involve price discrimination and negotiated prices, situations where theoretical predictions are ambiguous. This paper uses new panel data on buyer-supplier transfers and a structural model to empirically analyze bargaining and price discrimination in a medical device market. While many phenomena that restrict different prices to different buyers are suggested as ways to decrease hospital costs (e.g., mergers, group purchasing organizations, and transparency), I find that: (i) more uniform pricing works against hospitals by softening competition; and (ii) results depend ultimately on a previously unexplored bargaining effect. (JEL C78, L13, L14, L64)

Selection on Moral Hazard in Health Insurance

- American Economic Review---2013---Liran Einav,Amy Finkelstein,Stephen Ryan,Paul Schrimpf,Mark R. Cullen

We use employee-level panel data from a single firm to explore the possibility that individuals may select insurance coverage in part based on their anticipated behavioral ("moral hazard") response to insurance, a phenomenon we label "selection on moral hazard." Using a model of plan choice and medical utilization, we present evidence of heterogenous moral hazard as well as selection on it, and explore some of its implications. For example, we show that, at least in our context, abstracting from selection on moral hazard could lead to overestimates of the spending reduction associated with introducing a high-deductible health insurance option. (JEL D82, G22, I13, J32)

Are Consumers Myopic? Evidence from New and Used Car Purchases

- American Economic Review---2013---Meghan R. Busse,Christopher Knittel,Florian Zettelmeyer

We investigate whether car buyers are myopic about future fuel costs. We estimate the effect of gasoline prices on short-run equilibrium prices of cars of different fuel economies. We then compare the implied changes in willingness-to-pay to the associated changes in expected future gasoline costs for cars of different fuel economies in order to calculate implicit discount rates. Using different assumptions about annual mileage, survival rates, and demand elasticities, we calculate a range of implicit discount rates similar to the range of interest rates paid by car buyers who borrow. We interpret this as showing little evidence of consumer myopia. (JEL D12, H25, L11, L62, L71, L81)

The Impact of Medical Liability Standards on Regional Variations in Physician Behavior: Evidence from the Adoption of National-Standard Rules

- American Economic Review---2013---Michael Frakes

I explore the association between regional variations in physician behavior and the geographical scope of malpractice standards of care. I estimate a 30-50 percent reduction in the gap between state and national utilization rates of various treatments and diagnostic procedures following the adoption of a rule requiring physicians to follow national, as opposed to local, standards. These findings suggest that standardization in malpractice law may lead to greater standardization in practices and, more generally, that physicians may indeed adhere to specific liability standards. In connection with the estimated convergence in practices, I observe no associated changes in patient health. (JEL I11, I18, J44, K13)

Innovation and Institutional Ownership

- American Economic Review---2013---Philippe Aghion,John van Reenen,Luigi Zingales

We find that greater institutional ownership is associated with more innovation. To explore the mechanism, we contrast the "lazy manager" hypothesis with a model where institutional owners increase innovation incentives through reducing career risks. The evidence favors career concerns. First, we find complementarity between institutional ownership and product market competition, whereas the lazy manager hypothesis predicts substitution. Second, CEOs are less likely to be fired in the face of profit downturns when institutional ownership is higher. Finally, using instrumental variables, policy changes, and disaggregating by type of institutional owner, we argue that the effect of institutions on innovation is causal. (JEL G23, G32, L25, M10, O31, O34)

Cross-Country Differences in Productivity: The Role of Allocation and Selection

- American Economic Review---2013---Eric Bartelsman,John Haltiwanger,Stefano Scarpetta

This paper investigates the effect of idiosyncratic (firm-level) policy distortions on aggregate outcomes. Exploiting harmonized firmâ€ ‘level data for a number of countries, we show that there is substantial and systematic crossâ€ ‘country variation in the within-industry covariance between size and productivity. We develop a model in which heterogeneous firms face adjustment frictions (overhead labor and quasi-fixed capital) and distortions. The model can be readily calibrated so that variations in the distribution of distortions allow matching the observed cross-country moments. We show that the differences in the distortions that account for the size-productivity covariance imply substantial differences in aggregate performance. (JEL D24, L25, O47)

Making Sense of Nonbinding Retail-Price Recommendations

- American Economic Review---2013---Stefan Buehler,Dennis Gärtner

We model retail-price recommendations (RPRs) as a communication device in vertical supply relations with private manufacturer information on production costs and consumer demand. With static trade, RPRs are irrelevant, and the equilibrium outcome is inefficient. With repeated trade, RPRs can become part of a relational contract, communicating private information from manufacturer to retailer that is indispensable for maximizing joint surplus. We show that this contract is self-enforcing if the retailer’s profit is independent of production costs and punishment strategies are chosen appropriately. The predictions of our analysis are consistent with the available empirical evidence. (JEL D21, D24, L11, L14, L22, L60, L81)

Entropy and the Value of Information for Investors

- American Economic Review---2013---Antonio Cabrales,Olivier Gossner,Roberto Serrano

Consider an investor who fears ruin when facing investments that satisfy no-arbitrage. Before investing he can purchase information about the state of nature as an information structure. Given his prior, information structure α investment dominates information structure β if, whenever he is willing to buy β at some price, he is also willing to buy α at that price. We show that this informativeness ordering is complete and is represented by the decrease in entropy of his beliefs, regardless of his preferences, initial wealth, or investment problem. We also show that no prior-independent informativeness ordering based on similar premises exists. (JEL D14, D81, D83, G11)

Technological Diversification

- American Economic Review---2013---Miklós Koren,Silvana Tenreyro

Economies at early stages of development are frequently shaken by large changes in growth rates, whereas advanced economies tend to experience relatively stable growth rates. To explain this pattern, we propose a model of technological diversification. Production makes use of input-varieties that are subject to imperfectly correlated shocks. Endogenous variety adoption by firms raises average productivity and provides diversification benefits against variety-specific shocks. Firm-level and aggregate volatility thus decline as a by-product of the development process. We quantitatively assess the model's predictions and find that it can generate patterns of volatility and development consistent with the data. (JEL D21, D24, E23, O33, O47)

Dictating the Risk: Experimental Evidence on Giving in Risky Environments

- American Economic Review---2013---J. Michelle Brock,Andreas Lange,Erkut Ozbay

We study if and how social preferences extend to risky environments. We provide experimental evidence from different versions of dictator games with risky outcomes and establish that preferences that are exclusively based on ex post or on ex ante comparisons cannot generate the observed behavioral patterns. The more money decision-makers transfer in the standard dictator game, the more likely they are to equalize payoff chances under risk. Risk to the recipient does, however, generally decrease the transferred amount. Ultimately, a utility function with a combination of ex post and ex ante fairness concerns may best describe behavior. (JEL C72, D63, D64, D81)

Children's Resources in Collective Households: Identification, Estimation, and an Application to Child Poverty in Malawi

- American Economic Review---2013---Geoffrey Dunbar,Arthur Lewbel,Krishna Pendakur

The share of household resources devoted to children is hard to identify because consumption is measured at the household level and goods can be shared. Using semiparametric restrictions on individual preferences within a collective model, we identify how total household resources are divided up among household members by observing how each family member's expenditures on a single private good like clothing vary with income and family size. Using data from Malawi we show how resources devoted to wives and children vary by family size and structure, and we find that standard poverty indices understate the incidence of child poverty. (JEL I31, I32, J12, J13, O12, O15)

Cultural Change as Learning: The Evolution of Female Labor Force Participation over a Century

- American Economic Review---2013---Raquel Fernández

This paper develops a learning model of cultural change to investigate why women's labor force participation (LFP) and attitudes toward womenâ€™s work both changed dramatically. In the model, women's beliefs about the long-run payoff from working evolve endogenously via an intergenerational learning process. This process generically generates the data's S-shaped LFP curve and introduces a novel role for wage changes via their effect on the speed of intergenerational learning. The calibrated model does a good job of replicating the evolution of female LFP in the United States over the last 120 years and finds that the new role for wages was quantitatively significant.

Submission Fees and Response Times in Academic Publishing

- American Economic Review---2013---Christopher Cotton

Both submission fees and response times enable editors to maintain an acceptable refereeing burden by discouraging the submission of articles with low probability of acceptance. When authors differ in their ability or willingness to pay submission fees and deal with delays, journal quality is maximized under a combination of moderate fees and moderate delays.

Impatience and Uncertainty: Experimental Decisions Predict Adolescents' Field Behavior

- American Economic Review---2013---Matthias Sutter,Martin Kocher,Daniela Glätzle-Rützler,Stefan Trautmann

We study risk attitudes, ambiguity attitudes, and time preferences of 661 children and adolescents, aged ten to eighteen years, in an incentivized experiment and relate experimental choices to field behavior. Experimental measures of impatience are found to be significant predictors of health-related field behavior, saving decisions, and conduct at school. In particular, more impatient children and adolescents are more likely to spend money on alcohol and cigarettes, have a higher body mass index, are less likely to save money, and show worse conduct at school. Experimental measures for risk and ambiguity attitudes are only weak predictors of field behavior.

Preferences for Truthfulness: Heterogeneity among and within Individuals

- American Economic Review---2013---Rajna Gibson,Carmen Tanner,Alexander Wagner

We conduct an experiment assessing the extent to which people trade off the economic costs of truthfulness against the intrinsic costs of lying. The results allow us to reject a type-based model. People's preferences for truthfulness do not identify them as only either "economic types" (who care only about consequences) or "ethical types" (who care only about process). Instead, we find that preferences for truthfulness are heterogeneous among individuals. Moreover, when examining possible sources of intrinsic costs of lying and their interplay with economic costs of truthfulness, we find that preferences for truthfulness are also heterogeneous within individuals.

Fairness and Redistribution: Comment

- American Economic Review---2013---Rafael Di Tella,Juan Dubra

We provide an example that shows that in the Alesina and Angeletos (2005) model one can obtain multiplicity even if luck plays no role in the economy. Thus, it is not critical that the noise to signal ratio be increasing in taxes, or that desired taxes are increasing in the noise to signal ratio.

Fairness and Redistribution: Reply

- American Economic Review---2013---Alberto Alesina,George-Marios Angeletos,Guido Cozzi

This paper responds to the comment of Di Tella and Dubra (2013). We first clarify that the model of Alesina and Angeletos (2005) admits two distinct types of multiplicity: one that is at the core of their contribution, and a separate one that is at work in Di Tella and Dubra's example. We then proceed to show how Alesina and Angeletos's results are robust to alternative specifications of the voting mechanism.

The Spending and Debt Response to Minimum Wage Hikes

- American Economic Review---2012---Daniel Aaronson,Sumit Agarwal,Eric French

Immediately following a minimum wage hike, household income rises on average by about $250 per quarter and spending by roughly $700 per quarter for households with minimum wage workers. Most of the spending response is caused by a small number of households who purchase vehicles. Furthermore, we find that the high spending levels are financed through increases in collateralized debt. Our results are consistent with a model where households can borrow against durables and face costs of adjusting their durables stock. (JEL D12, D14, D91, J38)

Offshoring and the Role of Trade Agreements

- American Economic Review---2012---Pol AntrÃ S,Robert Staiger,Pol Antras

The rise of offshoring of intermediate inputs raises important questions for commercial policy. Do the distinguishing features of offshoring introduce novel reasons for trade policy intervention? Does offshoring create new problems of global policy cooperation whose solutions require international agreements with novel features? In this paper we provide answers to these questions, and thereby initiate the study of trade agreements in the presence of offshoring. We argue that the rise of offshoring will make it increasingly difficult for governments to rely on traditional GATT/WTO concepts and rules -- such as market access, reciprocity and non-discrimination -- to solve their trade-related problems. (JEL F12, F13, L24)

Information and Employee Evaluation: Evidence from a Randomized Intervention in Public Schools

- American Economic Review---2012---Jonah E. Rockoff,Doug Staiger,Thomas J. Kane,Eric S. Taylor

We examine how employers learn about worker productivity in a randomized pilot experiment which provided objective estimates of teacher performance to school principals. We test several hypotheses that support a simple Bayesian learning model with imperfect information. First, the correlation between performance estimates and prior beliefs rises with more precise objective estimates and more precise subjective priors. Second, new information exerts greater influence on posterior beliefs when it is more precise and when priors are less precise. Employer learning affects job separation and productivity in schools, increasing turnover for teachers with low performance estimates and producing small test score improvements. (JEL D83, I21, J24, J45)

Pricing and Welfare in Health Plan Choice

- American Economic Review---2012---M. Kate Bundorf,Jonathan Levin,Neale Mahoney

Premiums in health insurance markets frequently do not reflect individual differences in costs, either because consumers have private information or because prices are not risk rated. This creates inefficiencies when consumers self-select into plans. We develop a simple econometric model to study this problem and estimate it using data on small employers. We find a welfare loss of 2-11 percent of coverage costs compared to what is feasible with risk rating. Only about one-quarter of this is due to inefficiently chosen uniform contribution levels. We also investigate the reclassification risk created by risk rating individual incremental premiums, finding only a modest welfare cost. (JEL G22, I13, I18)

Diagnosing Consumer Confusion and Sub-optimal Shopping Effort: Theory and Mortgage-Market Evidence

- American Economic Review---2012---Susan E. Woodward,Robert Hall

Mortgage loans are leading examples of transactions where experts on one side of the market take advantage of consumers' lack of knowledge and experience. We study the compensation that borrowers pay to mortgage brokers for assistance from application to closing. Two findings support the conclusion that confused borrowers overpay for brokers' services: (i) A model of effective shopping shows that borrowers sacrifice at least $1,000 by shopping from too few brokers. (ii) Borrowers who compensate their brokers with both cash and a commission from the lender pay twice as much as similar borrowers who pay no cash. (JEL D12, D14, G21)

Lost in Transit: Product Replacement Bias and Pricing to Market

- American Economic Review---2012---Emi Nakamura,Jon Steinsson

In the microdata underlying US trade price indexes, 40 percent of products are replaced before a single price change is observed and 70 percent are replaced after two price changes or fewer. A price index that focuses on price changes for identical items may, therefore, miss an important component of price adjustment occurring at the time of product replacements. We provide a model of this "product replacement bias" and quantify its importance using US data. Accounting for product replacement bias, long-run exchange rate "pass-through" is substantially higher than conventional estimates suggest, and the terms of trade are substantially more volatile. (JEL F14, F31)

Imperfect Public Monitoring with Costly Punishment: An Experimental Study

- American Economic Review---2012---Attila Ambrus,Ben Greiner

This paper experimentally investigates the effects of a costly punishment option on cooperation and social welfare in long, finitely repeated public good contribution games. In a perfect monitoring environment, increasing the severity of the potential punishment monotonically increases average net payoffs. In a more realistic imperfect monitoring environment, we find a U-shaped relationship. Access to a standard punishment technology in this setting significantly decreases net payoffs, even in the long run. Access to a severe punishment technology leads to roughly the same payoffs as with no punishment option, as the benefits of increased cooperation offset the social costs of punishing. (JEL C92, H41, K42)

Estimating Time Preferences from Convex Budgets

- American Economic Review---2012---James Andreoni,Charles Sprenger

Experimentally elicited discount rates are frequently higher than what seems reasonable for economic decision-making. Such high rates are often attributed to present-biased discounting. A well-known bias of standard measurements is the assumption of linear consumption utility. Attempting to correct this bias using measures of risk aversion to identify concavity, researchers find reasonable discounting but at the cost of exceptionally high utility function curvature. We present a new methodology for identifying time preferences, both discounting and curvature, from simple allocation decisions. We find reasonable levels of both discounting and curvature and, surprisingly, dynamically consistent time preferences. (JEL C91, D12, D81)

Risk Preferences Are Not Time Preferences

- American Economic Review---2012---James Andreoni,Charles Sprenger

Risk and time are intertwined. The present is known while the future is inherently risky. This is problematic when studying time preferences since uncontrolled risk can generate apparently present-biased behavior. We systematically manipulate risk in an intertemporal choice experiment. Discounted expected utility performs well with risk, but when certainty is added common ratio predictions fail sharply. The data cannot be explained by prospect theory, hyperbolic discounting, or preferences for resolution of uncertainty, but seem consistent with a direct preference for certainty. The data suggest strongly a difference between risk and time preferences. (JEL C91 D81 D91)

Married with Children: A Collective Labor Supply Model with Detailed Time Use and Intrahousehold Expenditure Information

- American Economic Review---2012---Laurens Cherchye,Bram De Rock,Frederic Vermeulen

We propose a collective labor supply model with household production that generalizes a model of Blundell, Chiappori, and Meghir (2005). Adults' preferences depend not only on own leisure and individual private consumption of market goods. They also depend on the consumption of domestic goods, which are produced by combining market goods with individuals' time. A new identification result, which uses production shifters, is developed. We apply our model to unique data on Dutch couples with children. Our application uses a novel estimation strategy that builds upon the familiar two-stage allocation representation of the collective model. (JEL D12, J12, J22)

Exports, Export Destinations, and Skills

- American Economic Review---2012---Irene Brambilla,Daniel Lederman,Guido Porto

This paper explores the links between exports, export destinations, and skill utilization. We identify two mechanisms behind these links: differences across destinations in quality valuation and in exporting required services, activities that are intensive in skilled labor. Depending on the characteristics of the source country (income, language), the theories suggest a skill-bias in export destinations. We test the theory using a panel of Argentine manufacturing firms. We find that Argentine firms exporting to high-income countries hired more skilled workers than other exporters and domestic firms. Instead, we cannot identify any causal effect of exporting per se on skill utilization. (JEL F14, F16, J24, L60, O14, O19)

Who Matters in Coordination Problems?

- American Economic Review---2012---JÃ³zsef SÃ¡kovics,Jakub Steiner,József Sákovics

Agents face a coordination problem akin to the adoption of a network technology. A principal announces investment subsidies that, at minimal cost, attain a given likelihood of successful coordination. Optimal subsidies target agents who impose high externalities on others and on whom others impose low externalities. Based on the analysis of the role of strategic uncertainty in coordination processes, we provide a methodology that can be used to find the optimal targets for a variety of interventions in a large class of coordination problems with heterogeneous agents. (JEL D81, D82, D83, O33)

Loss Leading as an Exploitative Practice

- American Economic Review---2012---Zhijun Chen,Patrick Rey

We show that large retailers, competing with smaller stores that carry a narrower range, can exercise market power by pricing below cost some of the products also offered by the smaller rivals, in order to discriminate multistop shoppers from one-stop shoppers. Loss leading thus appears as an exploitative device rather than as an exclusionary instrument, although it hurts the smaller rivals as well; banning below-cost pricing increases consumer surplus, rivals' profits, and social welfare. Our insights extend to industries where established firms compete with entrants offering fewer products. They also apply to complementary products such as platforms and applications. (JEL L11, L13, L81)

Human Capital Prices, Productivity, and Growth

- American Economic Review---2012---Audra Bowlus,Chris Robinson

Separate identification of the price and quantity of human capital has important implications for understanding key issues in economics. Price and quantity series are derived for four education levels. The price series are highly correlated and they exhibit a strong secular trend. Three resulting implications are explored: the rising college premium is found to be driven more by relative quantity than relative price changes, life-cycle wage profiles are readily interpretable as reflecting optimal human capital investment paths using the estimated price series, and adjusting the labor input for quality increases dramatically reduces the contribution of MFP to growth. (JEL D91, I20, J24, J31, O47)

Political Aid Cycles

- American Economic Review---2012---Michael Faye,Paul Niehaus

Researchers have scrutinized foreign aid's effects on poverty and growth, but anecdotal evidence suggests that donors often use aid for other ends. We test whether donors use bilateral aid to influence elections in developing countries. We find that recipient country administrations closely aligned with a donor receive more aid during election years, while those less aligned receive less. Consistent with our interpretation, this effect holds only in competitive elections, is absent in US aid flows to non-government entities, and is driven by bilateral alignment rather than incumbent characteristics.

Human Capital Investment and the Gender Division of Labor in a Brawn-Based Economy

- American Economic Review---2012---Mark Pitt,Mark Rosenzweig,Mohammad Nazmul Hassan

A model of human capital investment and activity choice is used to explain facts describing gender differentials in the levels and returns to human capital investments and occupational choice. These include the higher return to and level of schooling, the small effect of healthiness on wages, and the large effect of healthiness on schooling for females relative to males. The model incorporates gender differences in the level and responsiveness of brawn to nutrition in a Roy-economy setting in which activities reward skill and brawn differentially. Evidence from rural Bangladesh provides support for the model and the importance of the distribution of brawn.

The 11-20 Money Request Game: A Level-k Reasoning Study

- American Economic Review---2012---Ayala Arad,Ariel Rubinstein

We study experimentally a new two-player game: each player requests an amount between 11 and 20 shekels. He receives the requested amount and if he requests exactly one shekel less than the other player, he receives an additional 20 shekels. Level-k reasoning is appealing due to the natural starting point (requesting 20) and the straightforward best-response operation. Nevertheless, almost all subjects exhibit at most three levels of reasoning. Two variants of the game demonstrate that the depth of reasoning is not increased by enhancing the attractiveness of the level-0 strategy or by reducing the cost of undercutting the other player.

Who Gets the Job Referral? Evidence from a Social Networks Experiment

- American Economic Review---2012---Lori Beaman,Jeremy Magruder

We use recruitment into a laboratory experiment in Kolkata, India to analyze how social networks select individuals for jobs. The experiment allows subjects to refer actual network members for casual jobs as experimental subjects under exogenously varied incentive contracts. We provide evidence that some workers, those who are high ability, have useful information about the abilities of members of their social network. However, the experiment also shows that social networks provide incentives to refer less qualified workers, and firms must counterbalance these incentives in order to effectively use existing employees to help overcome their screening problem.

Innovation and Foreign Ownership

- American Economic Review---2012---Maria Guadalupe,Olga Kuzmina,Catherine Thomas

This paper uses a rich panel dataset of Spanish manufacturing firms (1990-2006) and a propensity score reweighting estimator to show that multinational firms acquire the most productive domestic firms, which, on acquisition, conduct more product and process innovation (simultaneously adopting new machines and organizational practices) and adopt foreign technologies, leading to higher productivity. We propose a model of endogenous selection and innovation in heterogeneous firms that explains both the observed selection patterns and the innovation decisions. Further, we show in the data that innovation upon acquisition is associated with the increased market scale provided by the parent firm.

The Effect of Evaluation on Teacher Performance

- American Economic Review---2012---Eric S. Taylor,John H. Tyler

Teacher performance evaluation has become a dominant theme in school reform efforts. Yet, whether evaluation changes the performance of teachers, the focus of this paper, is unknown. Instead, evaluation has largely been studied as an input to selective dismissal decisions. We study mid-career teachers for whom we observe an objective measure of productivity -- value-added to student achievement -- before, during, and after evaluation. We find teachers are more productive in post-evaluation years, with the largest improvements among teachers performing relatively poorly ex-ante. The results suggest teachers can gain information from evaluation and subsequently develop new skills, increase long-run effort, or both.

The Impact of Pollution on Worker Productivity

- American Economic Review---2012---Joshua Graff Zivin,Matthew Neidell

This paper assesses the impact of pollution on worker productivity by relating exogenous daily variations in ozone with productivity of agricultural workers as recorded under piece rate contracts. We find robust evidence that ozone levels well below federal air quality standards have a significant impact on productivity. These results suggest that, in contrast to common characterizations of environmental protection as a tax on producers, environmental protection can also be viewed as an investment in human capital, and thus a tool for promoting economic growth.

Self-Fulfilling Risk Panics

- American Economic Review---2012---Philippe Bacchetta,Cédric Tille,Eric van Wincoop

Recent crises have seen large spikes in asset price risk. We propose an explanation for such panics based on self-fulfilling shifts in beliefs about risk. A negative link between the current level and the future risk of an asset price leads to a circular relationship between the stochastic process of asset price risk and the price itself. Self-fulfilling shifts in perceived risk can be coordinated around a pure sunspot or around a macro fundamental. In a risk panic, a macro fundamental can be a focal point that affects both the magnitude of the panic and subsequent shifts in perceived risk.

Life Insurance and Household Consumption

- American Economic Review---2012---Jay Hong,JosÃ©-VÃctor RÃos-Rull

Using life insurance holdings by age, sex, and marital status, we infer how individuals value consumption in different demographic stages. We estimate equivalence scales and bequest motives simultaneously within a fully specified model where agents face US demographics and save and purchase life insurance. Our findings indicate that individuals are very caring for dependents, that economies of scale are large, that children are very costly (or yield very high marginal utility), that wives with children produce lots of home goods, and that females display habits from marriage, while men do not. These findings contrast sharply with standard equivalence scales.

Revolving Door Lobbyists

- American Economic Review---2012---Jordi Blanes i Vidal,Mirko Draca,Christian Fons-Rosen

Washington's "revolving door"â€ “â€ “the movement from government service into the lobbying industryâ€ “â€ “is regarded as a major concern for policy-making. We study how ex-government staffers benefit from the personal connections acquired during their public service. Lobbyists with experience in the office of a US Senator suffer a 24 percent drop in generated revenue when that Senator leaves office. The effect is immediate, discontinuous around the exit period, and long-lasting. Consistent with the notion that lobbyists sell access to powerful politicians, the drop in revenue is increasing in the seniority of and committee assignments power held by the exiting politician.

The Economic Impacts of Climate Change: Evidence from Agricultural Output and Random Fluctuations in Weather: Comment

- American Economic Review---2012---Anthony C. Fisher,Michael Hanemann,Michael Roberts,Wolfram Schlenker

In a series of studies employing a variety of approaches, we have found that the potential impact of climate change on US agriculture is likely negative. DeschÃªnes and Greenstone (2007) report dramatically different results based on regressions of agricultural profits and yields on weather variables. The divergence is explained by (1) missing and incorrect weather and climate data in their study; (2) their use of older climate change projections rather than the more recent and less optimistic projections from the Fourth Assessment Report; and (3) difficulties in their profit measure due to the confounding effects of storage.

The Economic Impacts of Climate Change: Evidence from Agricultural Output and Random Fluctuations in Weather: Reply

- American Economic Review---2012---Olivier DeschÃªnes,Michael Greenstone

Fisher et al. (2012)â€ "â€ "henceforth, FHRSâ€ "â€ "have uncovered coding and data errors in our paper, DeschÃªnes and Greenstone (2007), henceforth, DG. We acknowledge and are embarrassed by these mistakes. We are grateful to FHRS for uncovering them. We hope that this Reply will also contribute to advancing the literature on the vital question of the impact of climate change on the US agricultural sector.

Growth Dynamics: The Myth of Economic Recovery: Comment

- American Economic Review---2012---Hannes Mueller

This comment highlights different ways of coding crisis episodes in Cerra and Saxena (2008) (CS). The comment shows that the coding used for civil war implies a misrepresentation of its impact. A correct coding of civil war reveals that the average civil war leads to a loss in output of 18 percent. This makes civil wars more devastating than all other crisis studied by CS.

The Collateral Channel: How Real Estate Shocks Affect Corporate Investment

- American Economic Review---2012---Thomas Chaney,David Sraer,David Thesmar

What is the impact of real estate prices on corporate investment? In the presence of financing frictions, firms use pledgeable assets as collateral to finance new projects. Through this collateral channel, shocks to the value of real estate can have a large impact on aggregate investment. To compute the sensitivity of investment to collateral value, we use local variations in real estate prices as shocks to the collateral value of firms that own real estate. Over the 1993-2007 period, the representative US corporation invests $0.06 out of each $1 of collateral. (JEL D22, G31, R30)

Modeling the Change of Paradigm: Non-Bayesian Reactions to Unexpected News

- American Economic Review---2012---Pietro Ortoleva

Bayes' rule has two well-known limitations: 1) it does not model the reaction to zero-probability events; 2) a sizable empirical evidence documents systematic violations of it. We characterize axiomatically an alternative updating rule, the Hypothesis Testing model. According to it, the agent follows Bayes' rule if she receives information to which she assigned a probability above a threshold. Otherwise, she looks at a prior over priors, updates it using Bayes' rule for second-order priors, and chooses the prior to which the updated prior over priors assigns the highest likelihood. We also present an application to equilibrium refinement in game theory. (JEL D11, D81, D83)

Markups and Firm-Level Export Status

- American Economic Review---2012---Jan De Loecker,Frédéric Warzynski

In this paper, we develop a method to estimate markups using plant-level production data. Our approach relies on cost-minimizing producers and the existence of at least one variable input of production. The suggested empirical framework relies on the estimation of a production function and provides estimates of plant-level markups without specifying how firms compete in the product market. We rely on our method to explore the relationship between markups and export behavior. We find that markups are estimated significantly higher when controlling for unobserved productivity; that exporters charge, on average, higher markups and that markups increase upon export entry. (JEL D22, D24, F14, L11, L60)

The Evolution of Brand Preferences: Evidence from Consumer Migration

- American Economic Review---2012---Bart J. Bronnenberg,Jean-Pierre H. Dube,Matthew Gentzkow

We study the long-run evolution of brand preferences, using new data on consumers' life histories and purchases of consumer packaged goods. Variation in where consumers have lived in the past allows us to isolate the causal effect of past experiences on current purchases, holding constant contemporaneous supply-side factors. We show that brand preferences form endogenously, are highly persistent, and explain 40 percent of geographic variation in market shares. Counterfactuals suggest that brand preferences create large entry barriers and durable advantages for incumbent firms and can explain the persistence of early-mover advantage over long periods. (JEL D12, L11, M31, M37)

The Contribution of Large and Small Employers to Job Creation in Times of High and Low Unemployment

- American Economic Review---2012---Giuseppe Moscarini,Fabien Postel-Vinay

We document a negative correlation, at business cycle frequencies, between the net job creation rate of large employers and the level of aggregate unemployment that is much stronger than for small employers. The differential growth rate of employment between initially large and small employers has an unconditional correlation of -0.5 with the unemployment rate, and varies by about 5 percent over the business cycle. We exploit several datasets from the United States, Denmark, and France, both repeated cross sections and job flows with employer longitudinal information, spanning the last four decades and several business cycles. We discuss implications for theories of factor demand. (JEL D22, E23, E32, J23, L25)

The Rise of the Service Economy

- American Economic Review---2012---Francisco Buera,Joseph Kaboski

This paper analyzes the role of specialized high-skilled labor in the disproportionate growth of the service sector. Empirically, the importance of skill-intensive services has risen during a period of increasing relative wages and quantities of high-skilled labor. We develop a theory in which demand shifts toward more skill-intensive output as productivity rises, increasing the importance of market services relative to home production. Consistent with the data, the theory predicts a rising level of skill, skill premium, and relative price of services that is linked to this skill premium. (JEL J24, L80, L90)

Liquidity, Monetary Policy, and the Financial Crisis: A New Monetarist Approach

- American Economic Review---2012---Stephen Williamson

A model of public and private liquidity integrates financial intermediation theory with a New Monetarist monetary framework. Non-passive fiscal policy and costs of operating a currency system imply that an optimal policy deviates from the Friedman rule. A liquidity trap can exist in equilibrium away from the Friedman rule, and there exists a permanent nonneutrality of money, driven by an illiquidity effect. Financial frictions can produce a financial-crisis phenomenon that can be mitigated by conventional open market operations working in an unconventional manner. Private asset purchases by the central bank are either irrelevant or they reallocate credit and redistribute income. (JEL E13, E44, E52, E62, G01)

How General Are Risk Preferences? Choices under Uncertainty in Different Domains

- American Economic Review---2012---Liran Einav,Amy Finkelstein,Iuliana Pascu,Mark R. Cullen

We analyze the extent to which individuals' choices over five employer-provided insurance coverage decisions and one 401(k) investment decision exhibit systematic patterns, as would be implied by a general utility component of risk preferences. We provide evidence consistent with an important domain-general component that operates across all insurance choices. We find a considerably weaker relationship between one's insurance decisions and 401(k) asset allocation, although this relationship appears larger for more "financially sophisticated" individuals. Estimates from a stylized coverage choice model suggest that up to 30 percent of our sample makes choices that may be consistent across all 6 domains. (JEL D12, D14, D81, G22, J33)

Sinking, Swimming, or Learning to Swim in Medicare Part D

- American Economic Review---2012---Jonathan D. Ketcham,Claudio Lucarelli,Eugenio Miravete,M. Christopher Roebuck

Under Medicare Part D, senior citizens choose prescription drug insurance offered by numerous private insurers. We examine nonpoor enrollees- actions in 2006 and 2007 using panel data. Our sample reduced overspending by $298 on average, with gains by 81 percent of them. The greatest improvements were by those who overspent most in 2006 and by those who switched plans. Decisions to switch depended on individuals' overspending in 2006 and on individual-specific effects of changes in their current plans. The oldest consumers and those initiating medications for Alzheimer's disease improved by more than average, suggesting that real-world institutions help overcome cognitive limitations. (JEL D14, G22, H51, I13, I18)

Maturity, Indebtedness, and Default Risk

- American Economic Review---2012---Satyajit Chatterjee,Burcu Eyigungor

We advance quantitative-theoretic models of sovereign debt by proving the existence of a downward sloping equilibrium price function for long-term debt and implementing a novel method to accurately compute it. We show that incorporating long-term debt allows the model to match Argentina's average external debt-to-output ratio, average spread on external debt, the standard deviation of spreads, and simultaneously improve upon the model's ability to account for Argentina's other cyclical facts. We also investigated the welfare properties of maturity length and showed that if the possibility of self-fulfilling rollover crises is taken into account, long-term debt is superior to short-term debt. (JEL E23, E32, F34, O11, O19)

Trade Costs, Asset Market Frictions, and Risk Sharing

- American Economic Review---2012---Doireann Fitzgerald

I use bilateral import data to test for and quantify the importance of trade costs and asset market frictions in explaining the failure of perfect international consumption risk sharing. I find that while frictions in international asset markets significantly impede optimal consumption risk sharing between developed and developing countries over the period 1970-2000, developed countries are close to optimal risk sharing with each other. Trade costs, in contrast, significantly impede risk sharing for all countries. (JEL E21, E44, F14, F41, G15)

Disaster Risk and Business Cycles

- American Economic Review---2012---Francois Gourio

Motivated by the evidence that risk premia are large and countercyclical, this paper studies a tractable real business cycle model with a small risk of economic disaster, such as the Great Depression. An increase in disaster risk leads to a decline of employment, output, investment, stock prices, and interest rates, and an increase in the expected return on risky assets. The model matches well data on quantities, asset prices, and particularly the relations between quantities and prices, suggesting that variation in aggregate risk plays a significant role in some business cycles. (JEL E13, E32, E44, G32)

But Who Will Monitor the Monitor?

- American Economic Review---2012---David Rahman

Suppose that providing incentives for a group of individuals in a strategic context requires a monitor to detect their deviations. What about the monitor's deviations? To address this question, I propose a contract that makes the monitor responsible for monitoring, and thereby provides incentives even when the monitor's observations are not only private, but costly, too. I also characterize exactly when such a contract can provide monitors with the right incentives to perform. In doing so, I emphasize virtual enforcement and suggest its implications for the theory of repeated games. (JEL C78, D23, D82, D86)

Reset Price Inflation and the Impact of Monetary Policy Shocks

- American Economic Review---2012---Mark Bils,Pete Klenow,Benjamin Malin

Many business cycle models use a flat short-run Phillips curve, due to time-dependent pricing and strategic complementarities, to explain fluctuations in real output. But, in doing so, these models predict unrealistically high persistence and stability of US inflation in recent decades. We calculate "reset price inflation"--based on new prices chosen by the subsample of price changers--to dissect this discrepancy. We find that the models generate too much persistence and stability both in reset price inflation and in the way reset price inflation is converted into actual inflation. Our findings present a challenge to existing explanations for business cycles. (JEL E31, E52)

Physician Agency and Adoption of Generic Pharmaceuticals

- American Economic Review---2012---Toshiaki Iizuka

I examine physician agency in health care services in the context of the choice between brand-name and generic pharmaceuticals. I examine micro-panel data from Japan, where physicians can legally make profits by prescribing and dispensing drugs. The results indicate that physicians often fail to internalize patient costs, explaining why cheaper generics are infrequently adopted. Doctors respond to markup differentials between the two versions, indicating another agency problem. However, generics' markup advantages are short-lived, which limits their impact on increasing generic adoption. Additionally, state dependence and heterogeneous doctor preferences affected generics' adoption. Policy makers can target these factors to improve static efficiency. (JEL D82, I11, J44, L65)

Is the Volatility of the Market Price of Risk Due to Intermittent Portfolio Rebalancing?

- American Economic Review---2012---YiLi Chien,Harold Cole,Hanno Lustig

Our paper examines whether the failure of unsophisticated investors to rebalance their portfolios can help to explain the countercyclical volatility of aggregate risk compensation in financial markets. To answer this question, we set up a model in which a large mass of investors do not rebalance their portfolio shares in response to aggregate shocks, while a smaller mass of active investors do. We find that intermittent rebalancers more than double the effect of aggregate shocks on the time variation in risk premia by forcing active traders to sell more shares in good times and buy more shares in bad times. (JEL D14, E32, G11, G12)

The Strategy of Manipulating Conflict

- American Economic Review---2012---Sandeep Baliga,Tomas Sjostrom

Two players choose hawkish or dovish actions in a conflict game with incomplete information. An "extremist," who can either be a hawk or a dove, attempts to manipulate decision making. If actions are strategic complements, a hawkish extremist increases the likelihood of conflict, and reduces welfare, by sending a public message which triggers hawkish behavior from both players. If actions are strategic substitutes, a dovish extremist instead sends a public message which causes one player to become more dovish and the other more hawkish. A hawkish (dovish) extremist is unable to manipulate decision making if actions are strategic substitutes (complements). (JEL D74, D82)

Credit Market Consequences of Improved Personal Identification: Field Experimental Evidence from Malawi

- American Economic Review---2012---Xavier Gine,Jessica Goldberg,Dean Yang

We implemented a randomized field experiment in Malawi examining borrower responses to being fingerprinted when applying for loans. This intervention improved the lender's ability to implement dynamic repayment incentives, allowing it to withhold future loans from past defaulters while rewarding good borrowers with better loan terms. As predicted by a simple model, fingerprinting led to substantially higher repayment rates for borrowers with the highest ex ante default risk, but had no effect for the rest of the borrowers. We provide unique evidence that this improvement in repayment rates is accompanied by behaviors consistent with less adverse selection and lower moral hazard. (JEL D14, D82, G21, O12, O16)

Testing Models of Consumer Search Using Data on Web Browsing and Purchasing Behavior

- American Economic Review---2012---Babur De los Santos,Ali Hortacsu,Matthijs Wildenbeest

Using a large dataset on web browsing and purchasing behavior we test to what extent consumers are searching in accordance to various search models. We find that the benchmark model of sequential search with a known price distribution can be rejected based on recall patterns found in the data as well as the absence of dependence of search decisions on prices. Our findings suggest fixed sample size search provides a more accurate description of search behavior. We then utilize the fixed sample size search model to estimate demand elasticities of online bookstores in an environment where store preferences are heterogeneous. (JEL D12, D83, L81)

Inequality at Work: The Effect of Peer Salaries on Job Satisfaction

- American Economic Review---2012---David Card,Alexandre Mas,Enrico Moretti,Emmanuel Saez

We study the effect of disclosing information on peers' salaries on workers' job satisfaction and job search intentions. A randomly chosen subset of University of California employees was informed about a new website listing the pay of University employees. All employees were then surveyed about their job satisfaction and job search intentions. Workers with salaries below the median for their pay unit and occupation report lower pay and job satisfaction and a significant increase in the likelihood of looking for a new job. Above-median earners are unaffected. Differences in pay rank matter more than differences in pay levels. (JEL I23, J28, J31, J64)

Credit Traps

- American Economic Review---2012---Efraim Benmelech,Nittai K. Bergman

This paper studies the limitations of monetary policy in stimulating credit and investment. We show that, under certain circumstances, unconventional monetary policies fail in that liquidity injections into the banking sector are hoarded and not lent out. We use the term "credit traps" to describe such situations and show how they can arise due to the interplay between financing frictions, liquidity, and collateral values. We show that small contractions in monetary policy can lead to a collapse in lending. Our analysis demonstrates how quantitative easing may be useful in increasing collateral prices, bank lending, and aggregate investment. (JEL E44, E52, E58, G01)

Economic Growth with Bubbles

- American Economic Review---2012---Alberto Martin,Jaume Ventura

We develop a stylized model of economic growth with bubbles in which changes in investor sentiment lead to the appearance and collapse of macroeconomic bubbles or pyramid schemes. These bubbles mitigate the effects of financial frictions. During bubbly episodes, unproductive investors demand bubbles while productive investors supply them. These transfers of resources improve economic efficiency thereby expanding consumption, the capital stock and output. When bubbly episodes end, there is a fall in consumption, the capital stock and output. We argue that the stochastic equilibria of the model provide a natural way of introducing bubble shocks into business cycle models. (JEL E22, E23, E32, E44, O41)

The Colonial Origins of Comparative Development: An Empirical Investigation: Comment

- American Economic Review---2012---David Albouy

Acemoglu, Johnson, and Robinson's (2001) seminal article argues property-rights institutions powerfully affect national income, using estimated mortality rates of early European settlers to instrument capital expropriation risk. However, 36 of the 64 countries in the sample are assigned mortality rates from other countries, often based on mistaken or conflicting evidence. Also, incomparable mortality rates from populations of laborers, bishops, and soldiers--often on campaign--are combined in a manner that favors the hypothesis. When these data issues are controlled for, the relationship between mortality and expropriation risk lacks robustness, and instrumental-variable estimates become unreliable, often with infinite confidence intervals. (JEL D02, E23, F54, I12, N40, O43, P14)

The Colonial Origins of Comparative Development: An Empirical Investigation: Reply

- American Economic Review---2012---Daron Acemoglu,Simon Johnson,James Robinson

Acemoglu, Johnson, and Robinson (2001) established that economic institutions today are correlated with expected mortality of European colonialists. David Albouy argues this relationship is not robust. He drops all data from Latin America and much of the data from Africa, making up almost 60 percent of our sample, despite much information on the mortality of Europeans in those places during the colonial period. He also includes a "campaign" dummy that is coded inconsistently; even modest corrections undermine his claims. We also show that limiting the effect of outliers strengthens our results, making them robust to even extreme versions of Albouy's critiques. (JEL D02, E23, F54, I12, N40, O43, P14)

A Field Study on Matching with Network Externalities

- American Economic Review---2012---Mariagiovanna Baccara,Ayse Imrohoroglu,Alistair Wilson,Leeat Yariv

We study the effects of network externalities within a protocol for matching faculty to offices in a new building. Using web and survey data on faculty's attributes and choices, we identify the different layers of the social network: institutional affiliation, coauthorships, and friendships. We quantify the effects of network externalities on choices and outcomes, disentangle the layers of the networks, and quantify their relative influence. Finally, we assess the protocol used from a welfare perspective. Our study suggests the importance and feasibility of accounting for network externalities in assignment problems and evaluates techniques that can be employed to this end. (JEL C78, C93, D62, D85, Z13)

Pay for Percentile

- American Economic Review---2012---Gadi Barlevy,Derek Neal

We propose an incentive scheme for educators that links compensation to the ranks of their students within comparison sets. Under certain conditions, this scheme induces teachers to allocate socially optimal levels of effort. Moreover, because this scheme employs only ordinal information, it allows education authorities to employ completely new assessments at each testing date without ever having to equate various assessments. This removes incentives for teachers to teach to a particular assessment form and eliminates opportunities to influence reward pay by corrupting assessment scales. Education authorities can employ separate no-stakes assessment systems to track trends in scaled measures of student achievement. (JEL I21, I28, J33, J45)

Europe's Tired, Poor, Huddled Masses: Self-Selection and Economic Outcomes in the Age of Mass Migration

- American Economic Review---2012---Ran Abramitzky,Leah Boustan,Katherine Eriksson

During the age of mass migration (1850-1913), one of the largest migration episodes in history, the United States maintained a nearly open border, allowing the study of migrant decisions unhindered by entry restrictions. We estimate the return to migration while accounting for migrant selection by comparing Norway-to-US migrants with their brothers who stayed in Norway in the late nineteenth century. We also compare fathers of migrants and nonmigrants by wealth and occupation. We find that the return to migration was relatively low (70 percent) and that migrants from urban areas were negatively selected from the sending population. (JEL J11, J61, N31, N33)

Social Capital and Social Quilts: Network Patterns of Favor Exchange

- American Economic Review---2012---Matthew Jackson,Tomás Rodríguez,Xu Tan

We examine the informal exchange of favors in societies such that any two individuals interact too infrequently to sustain exchange, but such that the social pressure of the possible loss of multiple relationships can sustain exchange. Patterns of exchange that are locally enforceable and renegotiation-proof necessitate that all links are "supported": any two individuals exchanging favors have a common friend. In symmetric settings, such robust networks are "social quilts": tree-like unions of completely connected subnetworks. Examining favor exchange networks in 75 villages in rural India, we find high levels of support and identify characteristics that correlate with support. (JEL D85, O12, O18, Z13)

A Rational Expectations Approach to Hedonic Price Regressions with Time-Varying Unobserved Product Attributes: The Price of Pollution

- American Economic Review---2012---Patrick Bajari,Jane Fruehwirth,Kyoo il Kim,Christopher Timmins

We propose a new strategy for a pervasive problem in the hedonics literature: recovering hedonic prices in the presence of time-varying correlated unobservables. Our approach relies on an assumption about home buyer rationality, under which prior sales prices can be used to control for time-varying unobservable attributes of the house or neighborhood. Using housing transactions data from California's Bay Area between 1990 and 2006, we apply our estimator to recover marginal willingness to pay for reductions in three of the EPA's "criteria" air pollutants. Our findings suggest that ignoring bias from time-varying correlated unobservables considerably understates the benefits of a pollution reduction policy. (JEL D12, D84, Q53, Q58, R21)

The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit

- American Economic Review---2012---Gordon Dahl,Lance Lochner

Using an instrumental variables strategy, we estimate the causal effect of income on children's math and reading achievement. Our identification derives from the large, nonlinear changes in the Earned Income Tax Credit. The largest of these changes increased family income by as much as 20 percent, or approximately $2,100, between 1993 and 1997. Our baseline estimates imply that a $1,000 increase in income raises combined math and reading test scores by 6 percent of a standard deviation in the short run. Test gains are larger for children from disadvantaged families and robust to a variety of alternative specifications. (JEL H24, H31, I21, I38, J13)

Bundling and Competition for Slots

- American Economic Review---2012---Doh-Shin Jeon,Domenico Menicucci

We consider competition between sellers selling multiple distinct products to a buyer having k slots. Under independent pricing, a pure strategy equilibrium often does not exist, and equilibrium in mixed strategy is never efficient. When bundling is allowed, each seller has an incentive to bundle his products, and an efficient "technology-renting" equilibrium always exists. Furthermore, in the case of digital goods or when sales below marginal cost are banned, all equilibria are efficient. Comparing the mixed-strategy equilibrium with the technology-renting equilibrium reveals that bundling often increases the buyer's surplus. Finally, we derive clear-cut policy implications.(JEL D43, D86, K21, L13, L14, L41, L82)

Fund Managers, Career Concerns, and Asset Price Volatility

- American Economic Review---2012---Veronica Guerrieri,Péter Kondor

We propose a model of delegated portfolio management with career concerns. Investors hire fund managers to invest their capital either in risky bonds or in riskless assets. Some managers have superior information on default risk. Based on past performance, investors update beliefs on managers and make firing decisions. This leads to career concerns that affect managers' investment decisions, generating a countercyclical "reputational premium." When default risk is high, return on bonds is high to compensate uninformed managers for the high risk of being fired. As default risk changes over time, the reputational premium amplifies price volatility. (JEL G11, G12, G23, L84)

Organ Allocation Policy and the Decision to Donate

- American Economic Review---2012---Judd B. Kessler,Alvin Roth

Organ donations from deceased donors provide the majority of transplanted organs in the United States, and one deceased donor can save numerous lives by providing multiple organs. Nevertheless, most Americans are not registered organ donors despite the relative ease of becoming one. We study in the laboratory an experimental game modeled on the decision to register as an organ donor and investigate how changes in the management of organ waiting lists might impact donations. We find that an organ allocation policy giving priority on waiting lists to those who previously registered as donors has a significant positive impact on registration. (JEL C91, D64, I11)

Katrina's Children: Evidence on the Structure of Peer Effects from Hurricane Evacuees

- American Economic Review---2012---Scott Imberman,Adriana Kugler,Bruce Sacerdote

In 2005, Hurricanes Katrina and Rita forced many children to relocate across the Southeast. While schools quickly enrolled evacuees, families in receiving schools worried about the impacts on incumbent students. We find no effect, on average, of the inflow of evacuees on achievement in Houston. In Louisiana we find little impact on average and we reject linear-in-means models. Moreover, we find that student achievement improves with high achieving peers and worsens with low achieving peers. Finally, an increase in the inflow of evacuees raised incumbent absenteeism and disciplinary problems in Houston's secondary schools. (JEL I21, Q54)

What Do You Think Would Make You Happier? What Do You Think You Would Choose?

- American Economic Review---2012---Daniel Benjamin,Ori Heffetz,Miles Kimball,Alex Rees-Jones

Would people choose what they think would maximize their subjective well-being (SWB)? We present survey respondents with hypothetical scenarios and elicit both choice and predicted SWB rankings of two alternatives. While choice and predicted SWB rankings usually coincide in our data, we find systematic reversals. We identify factors--such as predicted sense of purpose, control over one's life, family happiness, and social status--that help explain hypothetical choice controlling for predicted SWB. We explore how our findings vary by SWB measure and by scenario. Our results have implications regarding the use of SWB survey questions as a proxy for utility. (JEL D03, I31)

Industrial Structure and Capital Flows

- American Economic Review---2012---Keyu Jin

This paper provides a new theory of international capital flows. In a framework that integrates factor-proportions-based trade and financial capital flows, a novel force emerges: capital tends to flow toward countries that become more specialized in capital-intensive industries. This "composition" effect competes with the standard force that channels capital toward the location where it is scarcer. If the composition effect dominates, capital flows away from the country hit by a positive labor force/productivity shock--a flow "reversal." Extended to a quantitative framework, the model generates sizable current account imbalances between developing and developed countries broadly consistent with the data. (JEL F14, F21, F32, F41, L16, O19)

Spatial Differentiation and Vertical Mergers in Retail Markets for Gasoline

- American Economic Review---2012---Jean-Francois Houde

This paper studies an empirical model of spatial competition applied to gasoline markets. The main feature is to specify commuting paths as the "locations" of consumers in a Hotelling-style model. As a result, spatial differentiation depends in an intuitive way on the structure of the road network and the direction of traffic flows. The model is estimated using panel data on the Quebec City gasoline market and used to evaluate the consequences of a recent vertical merger. Difference-in-difference and counterfactual simulation methods are compared, and the results, to a large extent, validate the assumptions of the demand model. (JEL G34, L13, L42, L81, Q41, R41)

Revealed Attention

- American Economic Review---2012---Yusufcan Masatlioglu,Daisuke Nakajima,Erkut Ozbay

The standard revealed preference argument relies on an implicit assumption that a decision maker considers all feasible alternatives. The marketing and psychology literatures, however, provide well-established evidence that consumers do not consider all brands in a given market before making a purchase (Limited Attention). In this paper, we illustrate how one can deduce both the decision maker's preference and the alternatives to which she pays attention and inattention from the observed behavior. We illustrate how seemingly compelling welfare judgments without specifying the underlying choice procedure are misleading. Further, we provide a choice theoretical foundation for maximizing a single preference relation under limited attention. (JEL D11, D81)

Heuristic Thinking and Limited Attention in the Car Market

- American Economic Review---2012---Nicola Lacetera,Devin G. Pope,Justin R. Sydnor

Can heuristic information processing affect important product markets? Analyzing over 22 million wholesale used-car transactions, we find evidence of left-digit bias in the processing of odometer values, whereby individuals focus on the number's leftmost digits. The bias leads to discontinuous drops in sale prices at 10,000-mile odometer thresholds, along with smaller drops at 1,000-mile thresholds. These findings reveal that information-processing heuristics matter even in markets with large stakes and easily observed information. We model left-digit bias in an inattention framework and structurally estimate the inattention parameter. Empirical patterns suggest the results are driven by final customers rather than professional agents. (JEL D12, D44, D83, L81)

The Multi-unit Assignment Problem: Theory and Evidence from Course Allocation at Harvard

- American Economic Review---2012---Eric Budish,Estelle Cantillon

We use theory and field data to study the draft mechanism used to allocate courses at Harvard Business School. We show that the draft is manipulable in theory, manipulated in practice, and that these manipulations cause significant welfare loss. Nevertheless, we find that welfare is higher than under its widely studied strategyproof alternative. We identify a new link between fairness and welfare that explains why the draft performs well despite the costs of strategic behavior, and then design a new draft that reduces these costs. We draw several broader lessons for market design, regarding Pareto efficiency, fairness, and strategyproofness. (JEL D63, D82, I23)

Durable Consumption and Asset Management with Transaction and Observation Costs

- American Economic Review---2012---Fernando Alvarez,Luigi Guiso,Francesco Lippi

The empirical evidence on rational inattention lags the theoretical developments: micro evidence on one of the most immediate consequences of observation costs--the infrequent observation of state variables--is not available in standard datasets. We contribute to filling the gap using new household surveys. To match these data we modify existing models, shifting the focus from non-durable to durable consumption. The model features both observation and transaction costs and implies a mixture of time-dependent and state-dependent rules. Numerical simulations explain the frequencies of trading and observation of the median investor with small observation costs and larger transaction costs. (JEL D12, D14, E21, G11)

Credit Supply and Monetary Policy: Identifying the Bank Balance-Sheet Channel with Loan Applications

- American Economic Review---2012---Gabriel Jimenez,Steven Ongena,Jose-Luis Peydro,Jesús Saurina

We analyze the impact of monetary policy on the supply of bank credit. Monetary policy affects both loan supply and demand, thus making identification a steep challenge. We therefore analyze a novel, supervisory dataset with loan applications from Spain. Accounting for time-varying firm heterogeneity in loan demand, we find that tighter monetary and worse economic conditions substantially reduce loan granting, especially from banks with lower capital or liquidity ratios; responding to applications for the same loan, weak banks are less likely to grant the loan. Finally, firms cannot offset the resultant credit restriction by applying to other banks. (JEL E32, E44, E52, G21, G32)

Skill Dispersion and Trade Flows

- American Economic Review---2012---Matilde Bombardini,Giovanni Gallipoli,Germán Pupato

Is skill dispersion a source of comparative advantage? In this paper we use microdata from the International Adult Literacy Survey to show that the effect of skill dispersion on trade flows is quantitatively similar to that of the aggregate endowment of human capital. In particular we investigate, and find support for, the hypothesis that countries with a more dispersed skill distribution specialize in industries characterized by lower complementarity of workers' skills. The result is robust to the introduction of controls for alternative sources of comparative advantage, as well as to alternative measures of industry-level skill complementarity. (JEL F14, F16, J24, J31)

Interjurisdictional Spillovers, Decentralized Policymaking, and the Elasticity of Capital Supply

- American Economic Review---2012---Thomas Eichner,Marco Runkel

This paper points to the important role that the elasticity of aggregate capital supply with respect to the net rate of return to capital plays for the efficiency of policymaking in a decentralized economy with mobile capital and spillovers among jurisdictions. In accordance with previous studies, we show that under the assumption of a fixed capital supply (zero capital supply elasticity) the decentralized policy choice is optimal. If the capital supply elasticity is strictly positive, however, capital tax rates are inefficiently low in the decentralized equilibrium. (JEL E22, E61, H25, H77)

The Hidden Advantage of Delegation: Pareto Improvements in a Gift Exchange Game

- American Economic Review---2012---Gary Charness,Ramon Cobo-Reyes,Natalia Jiménez,Juan A. Lacomba,Francisco Lagos

This paper analyzes the effect on performance and earnings of delegating the wage choice to employees. Our results show that such delegation significantly increases effort levels. Moreover, we observe a Pareto improvement, as the earnings of both employers and employees increase when employers delegate than when they do not. Interestingly, we also find that the employees' performance under delegation is higher than under nondelegation, even for similar wages. While there is strong evidence that behavior reflects strategic considerations, this result also holds for one-shot interactions. A possible nonstrategic motivation explaining the positive reaction to delegation is a sense of enhanced responsibility. (JEL J31, J33, J41)

Statistical Modeling of Monetary Policy and Its Effects

- American Economic Review---2012---Christopher Sims

2012

Targeting the Poor: Evidence from a Field Experiment in Indonesia

- American Economic Review---2012---Vivi Alatas,Abhijit Banerjee,Rema Hanna,Benjamin Olken,Julia Tobias

This paper reports an experiment in 640 Indonesian villages on three approaches to target the poor: proxy means tests (PMT), where assets are used to predict consumption; community targeting, where villagers rank everyone from richest to poorest; and a hybrid. Defining poverty based on PPP$2 per capita consumption, community targeting and the hybrid perform somewhat worse in identifying the poor than PMT, though not by enough to significantly affect poverty outcomes for a typical program. Elite capture does not explain these results. Instead, communities appear to apply a different concept of poverty. Consistent with this finding, community targeting results in higher satisfaction. (JEL C93, I32, I38, O12, O15, O18, R23)

Incentives Work: Getting Teachers to Come to School

- American Economic Review---2012---Esther Duflo,Rema Hanna,Stephen Ryan

We use a randomized experiment and a structural model to test whether monitoring and financial incentives can reduce teacher absence and increase learning in India. In treatment schools, teachers' attendance was monitored daily using cameras, and their salaries were made a nonlinear function of attendance. Teacher absenteeism in the treatment group fell by 21 percentage points relative to the control group, and the children's test scores increased by 0.17 standard deviations. We estimate a structural dynamic labor supply model and find that teachers respond strongly to financial incentives. Our model is used to compute cost-minimizing compensation policies. (JEL I21, J31, J45, O15)

Selective Trials: A Principal-Agent Approach to Randomized Controlled Experiments

- American Economic Review---2012---Sylvain Chassang,Gerard Padro I Miquel,Erik Snowberg

We study the design of randomized controlled experiments when outcomes are significantly affected by experimental subjects' unobserved effort expenditure. While standard randomized controlled trials (RCTs) are internally consistent, the unobservability of effort compromises external validity. We approach trial design as a principal-agent problem and show that natural extensions of RCTs--which we call selective trials--can help improve external validity. In particular, selective trials can disentangle the effects of treatment, effort, and the interaction of treatment and effort. Moreover, they can help identify when treatment effects are affected by erroneous beliefs and inappropriate effort expenditure. (JEL C90, D82)

Ethnicity and Conflict: An Empirical Study

- American Economic Review---2012---Joan Esteban,Laura Mayoral,Debraj Ray

We examine empirically the impact of ethnic divisions on conflict, by using a specification based on Esteban and Ray (2011). That theory links conflict intensity to three indices of ethnic distribution: polarization, fractionalization, and the Gini-Greenberg index. The empirical analysis verifies that these distributional measures are significant correlates of conflict. These effects persist as we introduce country-specific measures of group cohesion and of the importance of public goods, and combine them with the distributional measures exactly as described by the theory. (JEL D63, D74, J15, O15, O17)

Information, Animal Spirits, and the Meaning of Innovations in Consumer Confidence

- American Economic Review---2012---Robert Barsky,Eric Sims

Innovations to consumer confidence convey incremental information about economic activity far into the future. Does this reflect a causal effect of animal spirits on economic activity, or news about exogenous future productivity received by consumers? Using indirect inference, we study the impulse responses to confidence innovations in conjunction with an appropriately augmented New Keynesian model. While news, animal spirits, and pure noise all contribute to confidence innovations, the relationship between confidence and subsequent activity is almost entirely reflective of the news component. Confidence innovations are well characterized as noisy measures of changes in expected productivity growth over a relatively long horizon. (JEL D12, D83, D84, E12)

Why Does Trend Growth Affect Equilibrium Employment? A New Explanation of an Old Puzzle

- American Economic Review---2012---Michael Elsby,Matthew Shapiro

That the employment rate appears to respond to changes in trend growth is an enduring macroeconomic puzzle. This paper shows that, in the presence of a return to experience, a slowdown in productivity growth raises reservation wages, thereby lowering aggregate employment. The paper develops new evidence that shows this mechanism is important for explaining the growth-employment puzzle. The combined effects of changes in aggregate wage growth and returns to experience account for all the increase from 1968 to 2006 in nonemployment among low-skilled men and for approximately half the increase in nonemployment among all men. (JEL E24, J24, J31)

Understanding Bank Runs: The Importance of Depositor-Bank Relationships and Networks

- American Economic Review---2012---Rajkamal Iyer,Manju Puri

We use unique depositor-level data for a bank that faced a run to understand the factors that affect depositor behavior. We find uninsured depositors are most likely to run. Deposit insurance helps, but is only partially effective. Bank-depositor relationships mitigate runs, suggesting that relationship with depositors help banks reduce fragility. In addition, we also find that social networks matter. Finally, we find long-term effects of a solvent bank run in that depositors who run do not return back to the bank. Our results help understand the underlying dynamics of bank runs and hold important policy implications. (JEL D12, G21, O16, Z13)

Dynamics and Stability of Constitutions, Coalitions, and Clubs

- American Economic Review---2012---Daron Acemoglu,Georgy Egorov,Konstantin Sonin

In dynamic collective decision making, current decisions determine the future distribution of political power and influence future decisions. We develop a general framework to study this class of problems. Under acyclicity, we characterize dynamically stable states as functions of the initial state and obtain two general insights. First, a social arrangement is made stable by the instability of alternative arrangements that are preferred by sufficiently powerful groups. Second, efficiency-enhancing changes may be resisted because of further changes they will engender. We use this framework to analyze dynamics of political rights in a society with different types of extremist views. (JEL D71, D72, K10)

The Enduring Impact of the American Dust Bowl: Short- and Long-Run Adjustments to Environmental Catastrophe

- American Economic Review---2012---Richard Hornbeck

The 1930s American Dust Bowl was an environmental catastrophe that greatly eroded sections of the Plains. The Dust Bowl is estimated to have immediately, substantially, and persistently reduced agricultural land values and revenues in more-eroded counties relative to less-eroded counties. During the Depression and through at least the 1950s, there was limited relative adjustment of farmland away from activities that became relatively less productive in more-eroded areas. Agricultural adjustments recovered less than 25 percent of the initial difference in agricultural costs for more-eroded counties. The economy adjusted predominantly through large relative population declines in more-eroded counties, both during the 1930s and through the 1950s. (JEL N32, N52, Q15, Q18, Q54)

The Origins of Ethnolinguistic Diversity

- American Economic Review---2012---Stelios Michalopoulos

This study explores the determinants of ethnolinguistic diversity within as well as across countries, shedding light on its geographic origins. The empirical analysis conducted across countries, virtual countries, and pairs of contiguous regions establishes that geographic variability, captured by variation in regional land quality and elevation, is a fundamental determinant of contemporary linguistic diversity. The findings are consistent with the proposed hypothesis that differences in land endowments gave rise to location-specific human capital, leading to the formation of localized ethnicities. (JEL J15, J24, Z13)

Competitive Pressure and the Adoption of Complementary Innovations

- American Economic Review---2012---Tobias Kretschmer,Eugenio Miravete,Jose C. Pernias

Liberalization of the European automobile distribution system in 2002 limits the ability of manufacturers to impose vertical restraints, leading to a substantial increase in competitive pressure among dealers. We estimate an equilibrium model of profit maximization to evaluate how dealers change their innovation adoption strategies following the elimination of exclusive territories. Using French data we evaluate the existence of complementarities between the adoption of software applications and the scale of production. Firms view these innovations as substitutes and concentrate their effort in one type of software as they expand their scale of production. Results are robust to the existence of unobserved heterogeneity. (JEL D24, K21, L21, L22, L62, O32)

Evaluating Microfoundations for Aggregate Price Rigidities: Evidence from Matched Firm-Level Data on Product Prices and Unit Labor Cost

- American Economic Review---2012---Mikael Carlsson,Oskar Skans

Using matched data on product-level prices and the producing firm's unit labor cost, we find a moderate pass-through of current idiosyncratic marginal-cost changes. Also, the response does not vary across firms facing very different idiosyncratic shock variances, but identical aggregate conditions. These results do not fit the predictions of Mackowiak and Wiederholt (2009). Neither do firms react strongly to predictable marginal-cost changes, as expected from Mankiw and Reis (2002). We find that firms consider both current and expected future marginal cost when setting prices. This points toward impediments to continuous price adjustments as a key driver of monetary non-neutrality.

On the Timing and Pricing of Dividends

- American Economic Review---2012---Jules van Binsbergen,Michael Brandt,Ralph Koijen

We present evidence on the term structure of the equity premium. We recover prices of dividend strips, which are short-term assets that pay dividends on the stock index every period up to period T and nothing thereafter. It is short-term relative to the index because the index pays dividends in perpetuity. We find that expected returns, Sharpe ratios, and volatilities on short-term assets are higher than on the index, while their CAPM betas are below one. Short-term assets are more volatile than their realizations, leading to excess volatility and return predictability. Our findings are inconsistent with many leading theories.

The Finnish Great Depression: From Russia with Love

- American Economic Review---2012---Yuriy Gorodnichenko,Enrique Mendoza,Linda Tesar

Why did Finland experience, in 1991-1993, the deepest recession observed in an industrialized country since the 1930s? Using a dynamic general equilibrium model with labor frictions, we argue that the collapse of the Soviet-Finnish trade was a major contributor to the contraction. Finland's experience mirrors that of the transition economies of Eastern Europe, which suffered similar deep recessions coupled with institutional changes. By focusing on the Finnish case, we isolate the effects of the Finnish-Soviet trade collapse and shed new light on the sources of recessions in transition economies.

The Currency of Reciprocity: Gift Exchange in the Workplace

- American Economic Review---2012---Sebastian Kube,Michel Maréchal,Clemens Puppe

What determines reciprocity in employment relations? We conducted a controlled field experiment to measure the extent to which monetary and nonmonetary gifts affect workers' performance. We find that nonmonetary gifts have a much stronger impact than monetary gifts of equivalent value. We also observe that when workers are offered the choice, they prefer receiving money, but reciprocate as if they received a nonmonetary gift. This result is consistent with the common saying, "it's the thought that counts." We underline this point by showing that monetary gifts can effectively trigger reciprocity if the employer invests more time and effort into the gift's presentation.

Risk Aversion and the Labor Margin in Dynamic Equilibrium Models

- American Economic Review---2012---Eric Swanson

The household's labor margin has a substantial effect on risk aversion, and hence asset prices, in dynamic equilibrium models even when utility is additively separable between consumption and labor. This paper derives simple, closed-form expressions for risk aversion that take into account the household's labor margin. Ignoring this margin can dramatically overstate the household's true aversion to risk. Risk premia on assets priced with the stochastic discount factor increase essentially linearly with risk aversion, so measuring risk aversion correctly is crucial for asset pricing in the model.

Credit Spreads and Business Cycle Fluctuations

- American Economic Review---2012---Simon Gilchrist,Egon Zakrajsek

Using micro-level data, we construct a credit spread index with considerable predictive power for future economic activity. We decompose the credit spread into a component that captures firm-specific information on expected defaults and a residual component--the excess bond premium. Shocks to the excess bond premium that are orthogonal to the current state of the economy lead to declines in economic activity and asset prices. An increase in the excess bond premium appears to reflect a reduction in the risk-bearing capacity of the financial sector, which induces a contraction in the supply of credit and a deterioration in macroeconomic conditions.

Do Matching Frictions Explain Unemployment? Not in Bad Times

- American Economic Review---2012---Pascal Michaillat

This paper proposes a search-and-matching model of unemployment in which jobs are rationed: the labor market does not clear in the absence of matching frictions. This job shortage arises in an economic equilibrium from the combination of some wage rigidity and diminishing marginal returns to labor. In recessions, job rationing is acute, driving the rise in unemployment, whereas matching frictions contribute little to unemployment. Intuitively in recessions, jobs are lacking, the labor market is slack, and recruiting is easy and inexpensive, so matching frictions do not matter much. In a calibrated model, cyclical fluctuations in the composition of unemployment are large.

Taxes, Cigarette Consumption, and Smoking Intensity: Comment

- American Economic Review---2012---Jason Abrevaya,Laura Puzzello

This paper re-examines Adda and Cornaglia's (2006) evidence on the compensatory behavior of smokers who, in face of higher taxes, are found to reduce their consumption of cigarettes while maintaining their cotinine--a biomarker for nicotine--levels constant. This comment examines the robustness of the empirical findings in Adda and Cornaglia (2006) using: appropriate clustered standard errors, a larger sample from the same years and survey as the data in Adda and Cornaglia (2006), cigarette-prices instead of and in addition to cigarette-taxes, and sampling weights. The empirical findings of Adda and Cornaglia (2006) are not robust. Further, little systematic evidence of compensatory behavior is found among subsamples of smokers.

Foreword

- American Economic Review---2012---Christopher Sims

2012

Editors' Introduction

- American Economic Review---2012---William Johnson,Samantha Bennett

2012

Does the Current Account Still Matter?

- American Economic Review---2012---Maurice Obstfeld

2012

Simple Market Equilibria with Rationally Inattentive Consumers

- American Economic Review---2012---Filip Matejka,Alisdair McKay

We study a market with rationally inattentive consumers who are unsure of the terms of the offers made by firms, but can acquire information about the terms at a cost. In a symmetric equilibrium, the price set by firms is continuously increasing in the cost of information for consumers and decreasing in the number of firms operating. In addition, favorable a priori information about a firm leads it to set a higher price, and a new entrant can increase demand for incumbents. When consumers have heterogeneous costs of information, firms selling low-quality products may choose to set the highest prices.

Information Processing and Limited Liability

- American Economic Review---2012---Bartosz Maćkowiak,Mirko Wiederholt

Decision-makers often face limited liability and thus know that their loss will be bounded. We study how limited liability affects the behavior of an agent who chooses how much information to acquire and process in order to take a good decision. We find that an agent facing limited liability processes less information than an agent with unlimited liability. The informational gap between the two agents is larger in bad times than in good times and when information is more costly to process.

Information Choice Technologies

- American Economic Review---2012---Christian Hellwig,Sebastian Kohls,Laura Veldkamp

Theories based on information costs or frictions have become increasing popular in macroeconomics and macro-finance. The literature has used various types of information choices, such as rational inattention, inattentiveness, information markets and costly precision. Using a unified framework, we compare these different information choice technologies and explain why some generate increasing returns and others, particularly those where agents choose how much public information to observe, generate multiple equilibria. The results can help applied theorists to choose the appropriate information choice technology for their application and to understand the consequences of that modeling choice.

Prospect Theory as Efficient Perceptual Distortion

- American Economic Review---2012---Michael Woodford

The paper proposes a theory of efficient perceptual distortions, in which the statistical relation between subjective perceptions and the objective state minimizes the error of the state estimate, subject to a constraint on information processing capacity. The theory is shown to account for observed limits to the accuracy of visual perception, and then postulated to apply to perception of options in economic choice situations as well. When applied to choice between lotteries, it implies reference-dependent valuations, and predicts both risk-aversion with respect to gains and risk-seeking with respect to losses, as in the prospect theory of Kahneman and Tversky (1979).

Salience in Experimental Tests of the Endowment Effect

- American Economic Review---2012---Pedro Bordalo,Nicola Gennaioli,Andrei Shleifer

We provide a novel account of experimental evidence for the endowment effect using the salience mechanism (Bordalo, Gennaioli, and Shleifer, 2011). The two-stage procedure implemented in experiments implies that the endowed good and other goods are evaluated in different contexts. We describe conditions under which the standard effect occurs, but also account for recent evidence such as a reverse endowment effect for bads and a role for reference prices in modulating the WTA-WTP gap.

Getting at Systemic Risk via an Agent-Based Model of the Housing Market

- American Economic Review---2012---John Geanakoplos,Robert Axtell,J. Farmer,Peter Howitt,Benjamin Conlee,Jonathan Goldstein,Matthew Hendrey,Nathan M. Palmer,Chun-Yi Yang

Systemic risk must include the housing market, though economists have not generally focused on it. We begin construction of an agent-based model of the housing market with individual data from Washington, DC. Twenty years of success with agent-based models of mortgage prepayments give us hope that such a model could be useful. Preliminary analysis suggests that the housing boom and bust of 1997-2007 was due in large part to changes in leverage rather than interest rates.

Capital Shortfall: A New Approach to Ranking and Regulating Systemic Risks

- American Economic Review---2012---Viral Acharya,Robert Engle,Matthew Richardson

The financial crisis of 2007-2009 has given way to the sovereign debt crisis of 2010-2012, yet many of the banking issues remain the same. We discuss a method to estimate the capital that a financial firm would need to raise if we have another financial crisis. This measure of capital shortfall is based on publicly available information but is conceptually similar to the stress tests conducted by US and European regulators. We argue that this measure summarizes the major characteristics of systemic risk and provides a reliable interpretation of the past and current financial crises.

Privacy-Preserving Methods for Sharing Financial Risk Exposures

- American Economic Review---2012---Emmanuel A. Abbe,Amir E. Khandani,Andrew Lo

The financial industry relies on trade secrecy to protect its business processes and methods, which can obscure critical financial risk exposures from regulators and the public. Using results from cryptography, we develop computationally tractable protocols for sharing and aggregating such risk exposures that protect the privacy of all parties involved, without the need for trusted third parties. Financial institutions can share aggregate statistics such as Herfindahl indexes, variances, and correlations without revealing proprietary data. Potential applications include: privacy-preserving real-time indexes of bank capital and leverage ratios; monitoring delegated portfolio investments; financial audits; and public indexes of proprietary trading strategies.

Fiscal Policy and the Great Recession in the Euro Area

- American Economic Review---2012---Günter Coenen,Roland Straub,Mathias Trabandt

How much did fiscal policy contribute to euro area real GDP growth during the Great Recession? We estimate that discretionary fiscal measures have increased annualized quarterly real GDP growth during the crisis by up to 1.6 percentage points. We obtain our result by using an extended version of the European Central Bank's New Area-Wide Model with a rich specification of the fiscal sector. A detailed modeling of the fiscal sector and the incorporation of as many as eight fiscal time series appear pivotal for our result.

Fiscal Policy in a Financial Crisis: Standard Policy versus Bank Rescue Measures

- American Economic Review---2012---Robert Kollmann,Werner Roeger,Jan in 't Veld

A key dimension of fiscal policy during the financial crisis was massive government support for the banking system. The macroeconomic effects of that support have, so far, received little attention in the literature. This paper fills this gap, using a quantitative dynamic model with a banking sector. Our results suggest that state aid for banks may have a strong positive effect on real activity. Bank state aid multipliers are in the same range as conventional fiscal spending multipliers. Support for banks has a positive effect on investment, while a rise in government purchases crowds out investment.

Bubbles and Total Factor Productivity

- American Economic Review---2012---Jianjun Miao,Pengfei Wang

This paper presents an infinite-horizon model of production economies in which firms face idiosyncratic productivity shocks and are subject to endogenous credit constraints. Credit-driven stock price bubbles can arise which can relax credit constraints and reallocate capital more efficiently among firms. The collapse of bubbles causes a fall of total factor productivity.

Debt Financing in Asset Markets

- American Economic Review---2012---Zhiguo He,Wei Xiong

We study rollover risk and collateral value in a dynamic asset pricing model with endogenous debt financing by extending the framework of Geanakoplos (2009) with a generic binomial tree and time-varying heterogeneous beliefs. Optimistic borrowers face rollover risk if the belief dispersion between the borrowers and the pessimistic lenders widens after interim bad news. We demonstrate the optimality of the maximum riskless short-term debt financing for optimistic borrowers even in the presence of the rollover risk. We also highlight the role of interim trading which, by allowing creditors to sell seized collateral to other optimists with saved cashes, boosts the asset's collateral value and equilibrium price.

Understanding Bubbly Episodes

- American Economic Review---2012---Vasco Carvalho,Alberto Martin,Jaume Ventura

Over the last two decades US aggregate wealth has fluctuated substantially. Against the backdrop of the Great Recession, the effects of these boom-and-bust cycles have come to dominate academic and policy discussions. How can we explain these fluctuations in wealth? Why are these fluctuations associated with changes in consumption, investment and output? In this note, we argue that answers to these questions entail the addition of two ingredients to existent macroeconomic models: rational bubbles and financial frictions. We explain why each of these building blocks is crucial to understand recent events and how they can be seamlessly integrated in standard models.

The Safe-Asset Share

- American Economic Review---2012---Gary Gorton,Stefan Lewellen,Andrew Metrick

We document that the percentage of all U.S. assets that are "safe" has remained stable at about 33 percent since 1952. This stable ratio is a rare example of calm in a rapidly changing financial world. Over the same time period, the ratio of U.S. assets to GDP has increased by a factor of 2.5, and the main supplier of safe financial debt has shifted from commercial banks to the "shadow banking system." We analyze this pattern of stylized facts and offer some tentative conclusions about the composition of the safe-asset share and its role within the overall economy.

Three Principles for Market-Based Credit Regulation

- American Economic Review---2012---Perry Mehrling

A key lesson of the financial crisis 2007-09 is that the Bagehot Rule, "lend freely but at a high rate," needs to be updated for the emerging market-based credit system. A modern rule is suggested: Markets, not Banks; Outside spread, not Inside spread; Core, not Periphery.

Limited-Purpose Banking--Moving from ”Trust Me” to ”Show Me” Banking

- American Economic Review---2012---Christophe Chamley,Laurence Kotlikoff,Herakles Polemarchakis

There are many alleged culprits for the bank runs of 2008 and their devastating economic fallout. But proprietary information and leverage top our list. Claims of proprietary information forced financial markets to operate on trust, while providing the perfect breeding ground for fraud. And leverage permitted creditors to run at the first whiff of fraud, leveling one financial giant after another. Limited Purpose Banking (LPB), presented here, is a financial reform that sharply curtails proprietary information and eliminates leverage and, thus, the possibility of financial collapse. LPB's adoption is supported by our simple model showing how fraud can destroy finance.

Within-City Variation in Urban Decline: The Case of Detroit

- American Economic Review---2012---Veronica Guerrieri,Daniel Hartley,Erik Hurst

When a city experiences a decline in income or population, do all neighborhoods within the city decline equally? Or, do some neighborhoods decline more than others? What are the characteristics of the neighborhoods that decline the most? We answer these questions by looking at what happened to neighborhoods within Detroit as Detroit experienced a sharp decline in income and population from the 1980s to the late 2000s. We find patterns of changes in income and population that are consistent with the model and empirical patterns of gentrification presented in Guerrieri, Hartley, and Hurst (2011), only playing out in reverse.

Housing Booms and City Centers

- American Economic Review---2012---Edward L. Glaeser,Joshua Gottlieb,Kristina Tobio

Popular discussions often treat the great housing boom of the 1996-2006 period as if it were a national phenomenon with similar impacts across locales, but across metropolitan areas, price growth was dramatically higher in warmer, less educated cities with less initial density and higher initial housing values. Within metropolitan areas, price growth was faster in neighborhoods closer to the city center. The centralization of price growth during the boom was particularly dramatic in those metropolitan areas where income is higher away from the city center. We consider a number of different explanations for this connection, and find that the connection between centralized price growth and decentralized income seems to be most explained by the faster price growth in central cities that use relatively more public transit.

Heterogeneity in Neighborhood-Level Price Growth in the United States, 1993-2009

- American Economic Review---2012---Fernando Ferreira,Joseph Gyourko

Examination of detailed geographical information on U.S. housing transactions from 1993 to 2009 find much heterogeneity at the neighborhood level in when the recent boom began, how big the initial jumps in price growth were, how long the booms lasted, and what types of neighborhoods boomed first. There is less neighborhood-level heterogeneity in when the bust began and in aggregate price appreciation during the boom. This heterogeneity suggests that there was no one dominant cause of the boom. We also comment on how very local data may help understand the role of contagion, among other housing market phenomena.

Market Prices of Risk with Diverse Beliefs, Learning, and Catastrophes

- American Economic Review---2012---Timothy Cogley,Thomas Sargent,Viktor Tsyrennikov

We compare market prices of risk in economies with identical patterns of endowments, priors, and information flows, but two different market structures, one with complete markets, another in which consumers can trade only a single risk-free bond. We study how opportunities to speculate, uncommon priors, and learning affect market prices of risk. Two types of consumers have diverse beliefs about the law of motion for a random exogenous endowment. One type knows the true law of motion while the other type learns about it via Bayes' theorem. Less-well-informed consumers are pessimistic, initially overestimating the probability of a catastrophic state. Learning dynamics and the wealth dynamics that they drive contribute to differences in evolutions of market prices of risk across market structures.

Financial Innovation and Asset Price Volatility

- American Economic Review---2012---Felix Kubler,Karl Schmedders

We compare asset prices in an overlapping generations model for incomplete and complete markets. Individuals within a generational cohort have heterogeneous beliefs about future states of the economy and thus would like to make bets against each other. In the incomplete-markets economy, agents cannot make such bets. Asset price volatility is very small. The situation changes dramatically when markets are completed through financial innovations as the set of available securities now allows agents with different beliefs to place bets against each other. Wealth shifts across agents and generations. Such changes in the wealth distribution lead to substantial asset price volatility.

International Robust Disagreement

- American Economic Review---2012---Riccardo Colacito,Mariano M. Croce

We characterize the equilibrium of a two-country, two-good economy in which agents have opposite preference bias toward one of the two consumption goods and fear model misspecification. We document that disagreement about endowments' growth prospects is a persistent endogenous outcome of this class of economies.

Heterogeneous Beliefs, Wealth Distribution, and Asset Markets with Risk of Default

- American Economic Review---2012---Viktor Tsyrennikov

We study asset markets and wealth dynamics in the economy with heterogeneous beliefs and risk of default. Agents can trade a full set of Arrow securities but are allowed to default on their delivery promises. Financial markets rationally subject agents to the endogenous "no-default" borrowing limits. Because of the rich menu of financial assets traded in the market speculation opportunities are plentiful. Financial wealth is volatile and the endogenous borrowing limits are always active. Variance of the asset returns is amplified. The asset trading volume is substantial and volatile.

Estimating Sovereign Default Risk

- American Economic Review---2012---Huixin Bi,Nora Traum

This paper uses Bayesian methods to estimate the sovereign default probability for Greece and Italy in the post-EMU period. We build a real business cycle model that allows for interactions among fiscal policy instruments, sovereign default risk, and a "fiscal limit," which measures the maximum level of debt the government is willing to finance. We estimate the full nonlinear model using likelihood inference methods. Although we find that Greece historically had a lower default probability than Italy for a given debt level, our estimates suggest that the Italian government is more willing to service debt than the Greek government.

Evolving Monetary/Fiscal Policy Mix in the United States

- American Economic Review---2012---Francesco Bianchi

A micro-founded model that allows for changes in the monetary/fiscal policy mix and in the volatility of structural shocks is fit to US post-WWII data. Agents are aware of the possibility of regime changes and their beliefs have an impact on the law of motion of the macroeconomy. The results show that the '60s and the '70s were characterized by a prolonged period of active fiscal policy and passive monetary policy. The appointment of Volcker marked a change in the conduct of monetary policy, but it took almost ten years for the fiscal authority to start accommodating this regime change.

Monetary-Fiscal Policy Interactions and Indeterminacy in Postwar US Data

- American Economic Review---2012---Saroj Bhattarai,Jae Won Lee,Woong Yong Park

Using a micro-founded model and a likelihood-based inference method, we show that while a passive monetary and passive fiscal policy regime prevailed in the U.S. before Paul Volcker's chairmanship at the Federal Reserve, an active monetary and passive fiscal policy regime prevailed after his appointment. Since both monetary and fiscal policies were passive pre-Volcker, equilibrium indeterminacy was a feature of the economy. Finally, pre-Volcker, the effects of unanticipated policy shifts were substantially different from those predicted by conventional monetary models: unanticipated increases in interest rates increased inflation and output, while unanticipated increases in lump-sum taxes decreased inflation and output.

Real Exchange Rate Adjustment in and out of the Eurozone

- American Economic Review---2012---Martin Berka,Michael Devereux,Charles Engel

It is often suggested that currency unions unduly inhibit the efficient adjustment of real exchange rates. Recently, this has been seen as a key failure of the Eurozone. This paper presents evidence that throws doubt on this conclusion. Our evidence suggests that real exchange rate movement within the Eurozone was at least as compatible with efficient adjustment as the behavior of real exchange rates for the floating rate countries outside the Eurozone. This interpretation is consistent with a model in which nominal exchange rate movements give rise to persistent deviations from the law of one price in traded goods.

Fiscal Consolidation in an Open Economy

- American Economic Review---2012---Christopher Erceg,Jesper Lindé

his paper uses a New Keynesian DSGE model of a small open economy to compare how the effects of fiscal consolidation differ depending on whether monetary policy is constrained by currency union membership or by the zero lower bound on policy rates. We show that there are important differences in the impact of fiscal shocks across these monetary regimes that depend both on the duration of the zero lower bound and on features that determine the responsiveness of inflation.

Managing Currency Pegs

- American Economic Review---2012---Stephanie Schmitt-Grohe,Martin Uribe

The combination of a fixed exchange rate and downward nominal wage rigidity creates a real rigidity. In turn, this real rigidity makes the economy prone to involuntary unemployment during external crises. This paper presents a graphical analysis of alternative policy strategies aimed at mitigating this source of inefficiency. First- and second-best monetary and fiscal solutions are analyzed. Second-best solutions are prudential, whereas first-best solutions are not.

Can Asia Overcome the IMF Stigma?

- American Economic Review---2012---Takatoshi Ito

Asian countries still have the IMF stigma, which originates from the experiences of the Asian crisis of 1997-98. The feeling of being unfairly treated grew even stronger afterward. The Asian countries built large foreign reserves, carried out structural reforms, and became even stronger than pre- crisis period. Asians are confident in not repeating the same mistake of falling into a crisis with too much external borrowing. Whether IMF can entice Asia to new precautionary liquidities facilities remains uncertain. Asia may choose either to focus on completing a regional safety net or to engage in IMF, demanding for a greater voice and votes.

Capital Flow Management

- American Economic Review---2012---Olivier Jeanne

There is a wide variety in the capital account policies of emerging markets and developing economies. Some countries, such as Brazil, have recently experimented with prudential controls on capital inflows, whereas others, such as China, have continued to maintain tight controls. This paper reviews the recent theoretical literature explaining the motivations behind capital account policies, and whether there is a case for international coordination in this area.

International Liquidity in a Multipolar World

- American Economic Review---2012---Barry Eichengreen

Today's global monetary and financial system, to a remarkable extent, continues to rely on the U.S. dollar for international liquidity. This reflects the currency's historic role, the liquidity of American financial markets, and the absence of alternatives. But with the emergence of emerging markets, the capacity of the United States to provide safe assets will be outstripped by the growth of international transactions. It is thus likely that other large economies, presumably Europe and China, will eventually join the United States as sources of international liquidity and that other currencies will come to share the dollar's reserve-currency status.

Follow the Money: Quantifying Domestic Effects of Foreign Bank Shocks in the Great Recession

- American Economic Review---2012---Nicola Cetorelli,Linda Goldberg

Foreign banks pulled significant funding from their US branches during the Great Recession. We estimate that the average-sized branch experienced a twelve percent net internal fund "withdrawal," with the fund transfer disproportionately bigger for larger branches. This internal shock to the balance sheet of US branches of foreign banks had sizable effects on their lending. On average, for each dollar of funds transferred internally to the parent, branches decreased lending supply by about forty to fifty cents. However, the extent of the lending effects was very different across branches depending on their pre-crisis modes of operation in the United States.

Flight Home, Flight Abroad, and International Credit Cycles

- American Economic Review---2012---Mariassunta Giannetti,Luc Laeven

This paper shows that banks exhibit a weaker (stronger) home bias in the extension of new loans when funding conditions in their home country improve (deteriorate). We refer to these changes in home bias as flight abroad and flight home effects, respectively, and show that they are unrelated to the better known flight to quality effect that arises during periods of market turmoil. Our results also indicate that global banks amplify the effect of homegrown shocks on foreign countries while they are a stabilizing factor for the supply of credit in their home countries.

From Financial Crisis to Great Recession: The Role of Globalized Banks

- American Economic Review---2012---Shekhar Aiyar

This paper provides evidence of the role of globalized banks in transmitting financial stresses to the real economy during the global financial crisis. A novel dataset is constructed from quarterly balance sheet reports provided by all UK-resident banks to the Bank of England. I find that the shock to bank funding from non-resident creditors was transmitted domestically through a significant reduction in bank credit supply. Resident subsidiaries and branches of foreign-owned banks reduced lending by a larger amount than domestically-owned banks, while the latter calibrated the reduction in domestic lending more closely to the size of the funding shock.

International Shock Transmission after the Lehman Brothers Collapse: Evidence from Syndicated Lending

- American Economic Review---2012---Ralph De Haas,Neeltje Van Horen

After Lehman Brothers filed for bankruptcy in September 2008, cross-border bank lending contracted sharply. To explain the severity and variation in this contraction, we analyze detailed data on cross-border syndicated lending by 75 banks to 59 countries. We find that banks which had to write down sub-prime assets, refinance large amounts of long-term debt, and which experienced sharp declines in their market-to-book ratio, transmitted these shocks across borders by curtailing their lending abroad. While shocked banks differentiated between countries in much the same way as less constrained banks, they restricted their lending more to small borrowers.

Moving to Higher Ground: Migration Response to Natural Disasters in the Early Twentieth Century

- American Economic Review---2012---Leah Boustan,Matthew Kahn,Paul Rhode

Areas differ in their propensity to experience natural disasters. Exposure to disaster risks can be reduced either through migration (i.e., self-protection) or through public infrastructure investment (e.g., building seawalls). Using migration data from the 1920s and 1930s, this paper studies how the population responded to disaster shocks in an era of minimal public investment. We find that, on net, young men move away from areas hit by tornados but are attracted to areas experiencing floods. Early efforts to protect against future flooding, especially during the New Deal era of the late 1930s, may have counteracted an individual migration response.

Nature versus Nurture: The Environment's Persistent Influence through the Modernization of American Agriculture

- American Economic Review---2012---Richard Hornbeck

Technological innovation in agriculture was substantial during the 20th century. Is "modern" technological control of the environment replacing a "primitive" dependency on natural advantages and disadvantages, or has agricultural production remained persistently dependent on the environment? This paper estimates how the 20th century modernization of United States Plains' agriculture changed the impact of environmental characteristics on agricultural land values. Despite substantial technological innovation and rising land values from 1945 to 2002, counties' environmental characteristics largely maintained influence on land values. Environmental change has become no less costly, as technological innovation has not reduced the importance of natural advantages or disadvantages.

Adaptation to Climate Change in Preindustrial Iceland

- American Economic Review---2012---Matthew Turner,Jeffrey S. Rosenthal,Jian Chen,Chunyan Hao

We investigate the effect of climate change on population growth in 18th and 19th century Iceland. We find that annual temperature changes help determine the population growth rate in pre-industrial Iceland: a year 1 degree Celsius cooler than average drives down population growth rates by 1.14%. We also find that 18th and 19th century Icelanders adapt to prolonged changes in climate after 20 years. These adaptations reduce the short run effect of annual change in temperature by about 60%. Finally, a 1 degree Celsius sustained decrease in temperature decreases the steady state population by 10% to 26%.

Race and Gender Differences under Federal Sentencing Guidelines

- American Economic Review---2012---Todd Sorensen,Supriya Sarnikar,Ronald Oaxaca

Using data from the United States Sentencing Commission, we examine how judicial biases may have influenced sentences during the era of the Federal criminal sentencing guidelines. Our utility maximization model of judicial sentencing preferences leads to a partially censored ordered probit model that accounts for mass points in the sentencing distribution that occur at the upper and lower guideline limits and at sentences involving no prison time. Our results indicate that racial- and gender-based discrepancies exist, even after controlling for circumstances such as the severity of the offense and past criminal history.

Terrorism and Patriotism: On the Earnings of US Veterans following September 11, 2001

- American Economic Review---2012---Alberto Davila,Marie T. Mora

Using data from the 2000 census and the 2001-08 American Community Surveys, this paper examines the impact of 9/11 on the earnings of US veteran men. Our hypothesis is that the surge in patriotism after 9/11 improved their relative earnings, but this earnings effect was short-lived. In addition, we further consider whether this effect was equally felt across race/ethnicity and along regional dimensions. Consistent with our hypothesis, we find a significant short-term improvement in the relative earnings of US veteran men following 9/11. However, additional analyses suggest that this earnings effect did not evenly occur across demographic and geographic dimensions.

The Nonlinear Relationship between Terrorism and Poverty

- American Economic Review---2012---Walter Enders,Gary Hoover

In spite of the common wisdom that poverty breeds terrorism, econometric tests usually find that terrorism is influenced by population and various measures of democratic freedom, but not per capita GDP. Unlike previous studies, we use a data set containing separate measures of domestic and transnational terrorism and estimate models allowing for a nonlinear relationship between terrorism and poverty. When we account for the nonlinearities in the data and distinguish between the two types of terrorist events, we find that poverty has as a very strong influence on domestic terrorism and a small, but significant, effect on transnational terrorism.

War and Stature: Growing Up during the Nigerian Civil War

- American Economic Review---2012---Richard Akresh,Sonia Bhalotra,Marinella Leone,Una Osili

The Nigerian civil war of 1967-70 was precipitated by secession of the Igbo-dominated south-eastern region to create the state of Biafra. It was the first civil war in Africa, the predecessor of many. We investigate the legacies of this war four decades later. Using variation across ethnicity and cohort, we identify significant long-run impacts on human health capital. Individuals exposed to the war at all ages between birth and adolescence exhibit reduced adult stature and these impacts are largest in adolescence. Adult stature is portentous of reduced life expectancy and lower earnings.

Nation Building and Economic Growth

- American Economic Review---2012---Ellyn Creasey,Ahmed Rahman,Katherine A. Smith

Over the past half-century there have been over three hundred instances of nation building initiatives, episodes where countries jointly give military and economic aid to a country embroiled in conflict. Despite the prevalence and expense of this foreign policy, little research has explored the potential growth effects from these operations. This project uses a standard growth regression framework to quantify the effects of nation building on GDP per capita growth of the recipient nation. The research considers how the characteristics of conflict zones and the interaction of diverse types of both military and economic aid impact the development process.

The Determinants and Consequences of School Choice Errors in Kenya

- American Economic Review---2012---Adrienne Lucas,Isaac Mbiti

School choice systems designed to help disadvantaged groups might be hindered by information asymmetries. Kenyan elite secondary schools admit students from the entire country based on a national test score, district quotas, and stated school choices. We find even the highest ability students make school choice errors. Girls, students with lower test scores, and students from public and low quality schools are more likely to make such errors. Net of observable demographic characteristics, these errors are associated with a decrease in the probability that a student is admitted to an elite secondary school, relegating them to schools of lower quality.

Kinship and Financial Networks, Formal Financial Access, and Risk Reduction

- American Economic Review---2012---Cynthia Kinnan,Robert Townsend

Kinship networks are beneficial for smoothing consumption and investment, but the channels are not well understood. We study the financing devices used for consumption and investment by Thai households. Households that are connected to banks achieve significantly better consumption smoothing than unconnected households; indirect connections via interhousehold borrowing are as effective as direct borrowing. Investment appears to be facilitated by kinship: households with kin in the village display reduced sensitivity of investment to income, while connections to banks do not significantly reduce sensitivity. Kin may act as "implicit collateral," permitting borrowing that would violate repayment constraints in its absence.

Child Health and Conflict in Cote d'Ivoire

- American Economic Review---2012---Camelia Minoiu,Olga Shemyakina

We examine the impact of the 2002-07 civil conflict in Cote d'Ivoire on children's health status measured by height-for-age. We use pre- and post-war survey data coupled with information on the location of violent incidents to capture exposure to the conflict of children born during 1997-2007. Our results indicate that children from regions more affected by the conflict suffered significant health setbacks compared with children from less affected regions. Further, household-level victimization -- such as war-related economic stress, health stress, and displacement -- has a large and negative effect on child health in conflict-affected regions.

How Financial Literacy Affects Household Wealth Accumulation

- American Economic Review---2012---Jere Behrman,Olivia Mitchell,Cindy K. Soo,David Bravo

This study isolates the causal effects of financial literacy and schooling on wealth accumulation using a new household dataset and an instrumental variables (IV) approach. Financial literacy and schooling attainment are both strongly positively associated with wealth outcomes in linear regression models, whereas the IV estimates reveal even more potent effects of financial literacy. They also indicate that the schooling effect only becomes positive when interacted with financial literacy. Estimated impacts are substantial enough to imply that investments in financial literacy could have large wealth payoffs.

Financial Education and Timely Decision Support: Lessons from Junior Achievement

- American Economic Review---2012---Bruce Ian Carlin,David Robinson

Using data from a finance theme park at Junior Achievement of Southern California, we explore how timely decision support is impacted by previous exposure to financial education. Some students received a 19-hour curriculum before participating, and some did not. Trained students were more frugal, paid off debt faster, and relied less on credit financing. However, trained students purchased less comprehensive health insurance, exposing themselves to greater financial risk and wealth volatility. This disparity can be explained by differences in decision support within the park. As such, it appears that education and decision support should be considered complements, not substitutes.

Financial Knowledge and Financial Literacy at the Household Level

- American Economic Review---2012---Alan Gustman,Thomas L. Steinmeier,Nahid Tabatabai

There is evidence of a relation between numeracy and wealth held outside of pensions and Social Security. With pensions and Social Security accounting for half of wealth at retirement, and evidence that those with pensions save more in other forms, one would expect to find knowledge of pensions and Social Security influencing retirement saving. Yet we find no evidence that knowledge of pensions and Social Security is related to nonpension, non-Social Security wealth, to numeracy, or that it plays an intermediate role in the numeracy-wealth relation. Our findings raise questions about policies that would enhance numeracy to increase retirement saving.

Effectiveness of Employer-Provided Financial Information: Hiring to Retiring

- American Economic Review---2012---Robert L. Clark,Melinda Morrill,Steven G. Allen

Workers plan and save for retirement throughout their careers. Individuals must navigate complex financial instruments and understand public and employer-provided retirement plan characteristics. Beginning when a worker is first hired, most employers provide the option to contribute to retirement saving plans. As workers near retirement, they face many choices that have considerable consequences for their retirement income security. At these two important periods, employers can provide timely information assisting workers in making choices that optimize lifetime wellbeing. Our research, conducted in cooperation with several large employers, illustrates the importance of employer-provided education in increasing worker understanding of several retirement-related issues.

Efficient Auctions and Interdependent Types

- American Economic Review---2012---Dirk Bergemann,Stephen Morris,Satoru Takahashi

We consider the efficient allocation of a single good with interdependent values in a quasi-linear environment. We present an approach to modeling interdependent preferences distinguishing between "payoff types" and "belief types" and report a characterization of when the efficient allocation can be partially Bayesian implemented on a finite type space. The characterization can be used to unify a number of sufficient conditions for efficient partial implementation in this classical auction setting. We report how a canonical language for discussing interdependent types - developed in a more general setting by Bergemann, Morris and Takahashi (2011) - applies in this setting and note by example that this canonical language will not allow us to distinguish some types in the payoff type - belief type language.

Robustly Ranking Mechanisms

- American Economic Review---2012---Tilman Börgers,Doug Smith

For a mechanism designer with an objective such as welfare we propose a method for robustly ranking mechanisms. The method is based on eliminating weakly dominated strategies only, and thus does not require any assumptions about agents' beliefs about each other except full support. We illustrate the usefulness of this method in two examples: bilateral trading and voting. In both examples we show that there are mechanisms that are ranked by our method above dominant strategy mechanisms. These examples question the literature's focus on dominant strategy mechanisms in cases when such mechanisms yield undesirable outcomes.

Approximation in Mechanism Design

- American Economic Review---2012---Jason D. Hartline

This paper considers three challenge areas for mechanism design and describes the role approximation plays in resolving them. Challenge 1: optimal mechanisms are finely tuned to precise details of the distribution on agent preferences. Challenge 2: in environments with multi-dimensional agent preferences economic analysis has failed to provide general characterizations optimal mechanisms. Challenge 3: optimal mechanisms are parameterized by unrealistic knowledge of the distribution of agents' private preferences. This paper surveys positive resolutions to these challenges with emphasis on basic techniques and their relevance to theory and practice.

Copyright Research in the Digital Age: Moving from Piracy to the Supply of New Products

- American Economic Review---2012---Joel Waldfogel

Twelve years into the Napster era, economists have devoted substantial attention to revenue consequences of unpaid file sharing. Yet, this is only one of a host of questions whose answers are needed to inform evidence-based copyright policy in the digital era. Digitization's effect on travel agents suggests fruitful research questions, which include the impact of digitization on the supply of new works, methods for consumer discovery of new products, and new business models available with digital distribution.

Is Wikipedia Biased?

- American Economic Review---2012---Shane Greenstein,Feng Zhu

This study empirically examines whether Wikipedia has a neutral point of view. It develops a method for measuring the slant of 28 thousand articles about US politics. In its earliest years, Wikipedia's political entries lean Democrat on average. The slant diminishes during Wikipedia's decade of experience. This change does not arise primarily from revision of existing articles. Most articles arrive with a slant, and most articles change only mildly from their initial slant. The overall slant changes due to the entry of articles with opposite slants, leading toward neutrality for many topics, not necessarily within specific articles.

Shifts in Privacy Concerns

- American Economic Review---2012---Avi Goldfarb,Catherine Tucker

This paper explores how digitization and the associated use of customer data have affected the evolution of consumer privacy concerns. We measure privacy concerns by reluctance to disclose income in an online marketing research survey. Using over three million responses over eight years, our data show: (1) Refusals to reveal information have risen over time, (2) Older people are less likely to reveal information, and (3) The difference between older and younger people has increased over time. Our results suggest that the trends over time are partly due to broadening perceptions of the contexts in which privacy is relevant.

New Challenges in Multihospital Kidney Exchange

- American Economic Review---2012---Itai Ashlagi,Alvin Roth

The growth of kidney exchange presents new challenges for the design of kidney exchange clearinghouses. The players now include directors of transplant centers, who see sets of patient-donor pairs, and can choose to reveal only difficult-to-match pairs to the clearinghouse, while withholding easy-to-match pairs to transplant locally. This reduces the number of transplants. We discuss how the incentives for hospitals to enroll all pairs in kidney exchange can be achieved, and how the concentration of hard to match pairs increases the importance of long, non-simultaneous nondirected donor chains.

Holdout in the Assembly of Complements: A Problem for Market Design

- American Economic Review---2012---Scott Kominers,Eric Weyl

Holdout problems prevent private (voluntary and self-financing) assembly of complementary goods--such as land or dispersed spectrum--from many self-interested sellers. While mechanisms that fully respect sellers' property rights cannot alleviate these holdout problems, traditional solutions, such as the use of coercive government powers of "eminent domain" to expropriate property, can encourage wasteful and unfair assemblies. We discuss the problems holdout creates for the efficient operation of markets and how previous approaches have used regulated coercion to address these challenges. We then investigate when encouraging competition can partially or fully substitute for coercion, focusing particularly on questions of spectrum allocation.

Stability and Strategy-Proofness for Matching with Constraints: A Problem in the Japanese Medical Match and Its Solution

- American Economic Review---2012---Yuichiro Kamada,Fuhito Kojima

Real matching markets are subject to constraints. For example, the Japanese government introduced a new medical matching system in 2009 that imposes a "regional cap" in each of its 47 prefectures, which regulates the total number of medical residents who can be employed in each region. Based on Kamada and Kojima (2011), this paper studies matching markets with such constraints by examining in great detail the Japanese medical matching market. Specifically, we show that the new system introduced in 2009 has problems in terms of stability and strategy-proofness, and provide an alternative mechanism that does better.

Understanding Price Controls and Nonprice Competition with Matching Theory

- American Economic Review---2012---John William Hatfield,Charles Plott,Tomomi Tanaka

We develop a quality competition model to understand how price controls affect market outcomes in buyer-seller markets with discrete goods of varying quality. While competitive equilibria do not necessarily exist in such markets when price controls are imposed, we show that stable outcomes do exist and characterize the set of stable outcomes in the presence of price restrictions. In particular, we show that price controls induce non-price competition: price floors induce the trade of inefficiently high quality goods, while price ceilings induce the trade of inefficiently low quality goods.

After Airline Deregulation and Alfred E. Kahn

- American Economic Review---2012---Nancy Rose

Among Alfred E. "Fred" Kahn's many accomplishments, none is better remembered than his pivotal role in deregulation of the US airline industry. Kahn's commitment to marry core microeconomic principles with institutional analysis, willingness as Chairman of the Civil Aeronautics Board to step outside the "regulation as usual box," and appealing wit made him the face of the Airline Deregulation Act of 1978, one of the great microeconomic policy triumphs. Lessons drawn from Kahn's work and the airline deregulation experience remain instructive for current academic research and regulatory policy design across broad sectors of the economy.

Dynamic Pricing of Electricity

- American Economic Review---2012---Paul Joskow,Catherine D. Wolfram

As both a regulator and an academic, Fred Kahn argued that end-use electricity consumers should face prices that reflect the time-varying marginal costs of generating electricity. This has been very slow to happen in the US, even in light of recent technological advances that have lowered costs and improved functionality for meters and automated demand response technologies. We describe these recent developments and discuss the remaining barriers to the proliferation of time-varying electricity pricing.

Telecommunications Deregulation

- American Economic Review---2012---Jerry Hausman,William Taylor

From Fred Kahn's writings and experiences as a telecommunications regulator and commenter, we draw the following conclusions: prices must be informed by costs; costs are actual incremental costs; costs and prices are an outcome of a Schumpeterian competitive process, not the starting point; excluding incumbents from markets is fundamentally anticompetitive; and a regulatory transition to deregulation entails propensities to micromanage the process to generate preferred outcomes, visible competitors and expedient price reductions. And most important, where effective competition takes place among platforms characterized by sunk investment--land-line telephony, cable and wireless--traditional regulation is unnecessary and likely to be anticompetitive.

Government Policy for a Partially Deregulated Industry: Deregulate It Fully

- American Economic Review---2012---Clifford Winston

Alfred Kahn was a major force behind regulatory reform that initially benefited air travelers and subsequently consumers in other industries by placing greater reliance on markets than on regulators to allocate resources. Kahn also believed that effective governance was important for deregulation's success. In this paper, I argue that such governance has not occurred in practice and that problems that persist in partially deregulated industries are more likely to be solved by full deregulation and, if necessary, privatization than by government intervention.

Global Supply Chains and Wage Inequality

- American Economic Review---2012---Arnaud Costinot,Jonathan Vogel,Su Wang

A salient feature of globalization in recent decades is the emergence of "global supply chains" in which different countries specialize in different stages of a sequential production process. In Costinot, Vogel and Wang (2011) (CVW hereafter), we have developed a simple theory of trade with sequential production to shed light on how global supply chains affect the interdependence of nations. In this paper we develop a multi-factor extension of CVW to explore how the emergence of global supply chains may affect wage inequality within countries.

Sustaining Production Chains through Financial Linkages

- American Economic Review---2012---Se-Jik Kim,Hyun Song Shin

The technological constraints on sustaining production chains have been discussed extensively by development economists, but the role of financial linkages has received less attention. In a model of recursive moral hazard for a manufacturing supply chain, we show that the structure of interlocking receivables and payables serve as the glue for the production chain that sustains complex manufacturing output. The inefficiency associated with recursive moral hazard can be mitigated through optimal delays in payments along the chain. However, efficiency requires large stocks of working capital, and invoice prices are high due to implicit amortization costs of inter-firm credit.

Proximity and Production Fragmentation

- American Economic Review---2012---Robert Johnson,Guillermo Noguera

Cross-border production chains tend to include geographically proximate countries. This suggests that increases in fragmentation should be largest among nearby trading partners, and thus may serve to localize gross trade. Using data on gross and value added trade from 1970-2009, we present three results supporting this conjecture. First, value added to export ratios are lower and falling more rapidly within geographic regions than between them. Second, gross trade travels shorter distances from source to destination than value added trade, and this gap is growing over time. Third, bilateral value added to export ratios have fallen most among nearby trading partners.

Measuring the Upstreamness of Production and Trade Flows

- American Economic Review---2012---Pol Antras,Davin Chor,Thibault Fally,Russell Hillberry

We propose two distinct approaches to the measurement of industry upstreamness (or average distance from final use) and show that they yield an equivalent measure. Furthermore, we provide two additional interpretations of this measure, one of them related to the concept of forward linkages. We construct this measure for 426 industries using the 2002 US input-output Tables. We also construct our measure using data from selected countries in the OECD STAN database. Finally, we present an application of our measure that explores the determinants of the average upstreamness of exports at the country level using trade flows for 2002.

Trade, Labor Market Frictions, and Residual Wage Inequality across Worker Groups

- American Economic Review---2012---Pravin Krishna,Jennifer Poole,Mine Senses

Using a matched employer-employee data set, we study the effects of trade liberalization on wage dispersion in Brazil across heterogeneous worker groups, keeping in mind that the assignment of workers to firms may be non-random and determined by the time-invariant productivity of workers specific to the firms with which they are matched. We find differential effects of trade reform on residual wage inequality across worker groups. High education workers experience greater increases in wage dispersion relative to low education workers following trade liberalization. This finding is broadly consistent with the theoretical predictions that emerge from models with heterogeneous firms, heterogeneous workers, and labor market frictions.

Offshoring, Transition, and Training: Evidence from Danish Matched Worker-Firm Data

- American Economic Review---2012---David Hummels,Jakob Munch,Lars Skipper,Chong Xiang

We combine matched Danish worker-firm-trade data with detailed individual-worker training data. We find: 1) workers displaced from offshoring firms take up more vocational-training and have a harder time getting reattached to the labor-force than other displaced workers, and they also exhibit higher vocational-training take-up rates 2 years before layoffs; 2) the staying workers with offshoring firms take up more vocational-training than those with non-offshoring firms; and 3) the post-secondary-training take-up rates for displaced workers are no different than for the general population.

Liberalized Trade and Worker-Firm Matching

- American Economic Review---2012---Carl Davidson,Fredrik Heyman,Steven Matusz,Fredrik Sjöholm,Susan Chun Zhu

Recent theoretical analysis suggests that a reduction in the cost of exporting increases the degree of assortative matching between workers and firms in export-oriented industries. Changes that reduce the cost of imports have an ambiguous impact on matching. We combine detailed Swedish matched worker-firm data from 1995-2005 with tariff data to test these hypotheses. The data cover 94 sectors subject to international competition and include all firms with at least 20 employees. Our findings strongly support the theoretical predictions.

Exports and Within-Plant Wage Distributions: Evidence from Mexico

- American Economic Review---2012---Judith A. Frias,David Kaplan,Eric Verhoogen

This short paper examines the effect of exporting on within-plant wage distributions in employer-employee data on Mexican manufacturing plants. Using the late-1994 peso devaluation interacted with initial plant size as a source of exogenous variation in exporting and focusing on wages at the 10th, 25th, 50th, 75th and 90th percentiles within each plant, we document three patterns: (1) there is no evidence of an effect of exporting on wages at the 10th percentile; (2) the wage effects of exporting are larger at higher percentiles, up to the 75th; and (3) there is no evidence of an increase in dispersion within the top quartile.

Village Economic Accounts: Real and Financial Intertwined

- American Economic Review---2012---Archawa Paweenawat,Robert Townsend

We propose a framework to create village economic and balance of payments accounts from a micro-level household survey. Using the Townsend Thai data, we create the accounts for villages in rural and semi-urban areas of Thailand. We then study these village economies as small open countries, exploring in particular the relationship between the real and financial variables. We examine cross-village risk-sharing and the Feldstein-Horioka puzzle. Our results suggest that within-village risk-sharing is better than across-village and, while there is smoothing in both, the mechanisms are different. We also find that, unlike countries, the cross-village capital markets are highly integrated.

Innovation in Space

- American Economic Review---2012---Klaus Desmet,Esteban Rossi-Hansberg

This paper shows how competition for land may lead firms to optimally innovate in spite of the market being perfectly competitive. When bidding for a location, firms can enhance their bid by investing in innovations that make the land more valuable. Firms are willing to innovate because the non-replicability of land implies that they will not be undercut by some other producer leading to losses as in the standard theory. In the absence of spillovers over space and over time, firms will optimally innovate. Empirical evidence from U.S. metropolitan areas supports the predictions of the theory.

Ricardo's Theory of Comparative Advantage: Old Idea, New Evidence

- American Economic Review---2012---Arnaud Costinot,Dave Donaldson

When asked to name one proposition in the social sciences that is both true and non-trivial, Paul Samuelson famously replied: 'Ricardo's theory of comparative advantage'. Truth, however, in Samuelson's reply refers to the fact that Ricardo's theory of comparative advantage is mathematically correct, not that it is empirically valid. In this paper we develop and implement an empirical test of Ricardo's ideas. We use novel agricultural data that describe the productivity in 17 crops of 1.6 million parcels of land in 55 countries around the world. We find that a regression of log observed output on log predicted output has a (precisely estimated) slope of 0.84 and an R-squared of 0.93. In our view, these findings offer considerable support for Ricardo's ideas.

Tariff Revenue and Tariff Caps

- American Economic Review---2012---Manuel Amador,Kyle Bagwell

We characterize the design of an optimal trade agreement when governments are privately informed about the value of tariff revenue. We show that the problem of designing an optimal trade agreement in this setting can be represented as an optimal delegation problem when a money burning instrument is available. In a specification with quadratic payoffs and a uniform distribution, we find that the tariff cap and the probability of binding overhang are higher when the upper bound of the support distribution is higher and when the support distribution has greater width.

Profits in the "New Trade" Approach to Trade Negotiations

- American Economic Review---2012---Ralph Ossa

I highlight two advantages of adopting a "new trade" approach to trade negotiations. First, it allows for a view of trade negotiations in which producer interests play a prominent role. And second, it lends itself naturally to quantitative analyses of non-cooperative and cooperative trade policy. My specific focus is on profit shifting effects through which countries can gain at the expense of one another.

Trade Agreements and the Nature of Price Determination

- American Economic Review---2012---Pol Antras,Robert Staiger

According to the terms-of-trade theory, negotiations over tariffs alone, coupled with an effective market access preservation rule, can bring governments to the efficiency frontier. In this paper, we show that the nature of international price determination is important for this central result of the terms-of-trade theory. While the received theory assumes that international prices are fully disciplined by aggregate market clearing conditions, we show here that support for "shallow" integration is overturned, and instead a need for "deep" integration is suggested ? wherein direct negotiations occur over both border and behind-the-border policies ? if international prices are determined through bargaining.

On the Use of Holdout Samples for Model Selection

- American Economic Review---2012---Frank Schorfheide,Kenneth I. Wolpin

Researchers often hold out data from the estimation of econometric models to use for external validation. However, the use of holdout samples is suboptimal from a Bayesian perspective, which prescribes using the entire sample to form posterior model weights. This paper examines a possible rationale for the use of holdout samples: data-inspired modifications of structural models are likely to lead to an exaggeration of model fit. The use of holdout samples can, in principle, set an incentive for the modeler not to exaggerate model fit.

Prediction with Misspecified Models

- American Economic Review---2012---John Geweke,Gianni Amisano

The assumption that one of a set of prediction models is a literal description of reality formally underlies many formal econometric methods, including Bayesian model averaging and most approaches to model selection. Prediction pooling does not invoke this assumption and leads to predictions that improve on those based on Bayesian model averaging, as assessed by the log predictive score. The paper shows that the improvement is substantial using a pool consisting of a dynamic stochastic general equilibrium model, a vector autoregression, and a dynamic factor model, in conjunction with standard US postwar quarterly macroeconomic time series.

Assumptions Matter: Model Uncertainty and the Deterrent Effect of Capital Punishment

- American Economic Review---2012---Steven Durlauf,Chao Fu,Salvador Navarro

This paper examines how estimates of the deterrent effect of capital punishment depend on alternate choices of assumptions concerning the homicide process. Specific models of the homicide process represent bundles of these assumptions, which involve the unobserved heterogeneity, the relevant penalty probabilities for homicide choices, possible cross-polity parameter variation, and exchangeability between polity-time pairs that do and do not experience positive numbers of murders. We demonstrate how various assumptions have driven the conflicting findings from studies on capital punishment, and isolate a particular set of assumptions that are required to find a positive deterrent effect.

Heuristics and Heterogeneity in Health Insurance Exchanges: Evidence from the Massachusetts Connector

- American Economic Review---2012---Keith Ericson,Amanda Starc

We examine heuristic decision rules in consumer choice on health insurance exchanges using data from the Massachusetts Connector. Consumers may have difficulty making optimal choices in a complex environment. The heuristic "choose the cheapest plan" is suggested by the decision context, previous research, and the data: about 20% of enrollees choose the cheapest plan possible. We find evidence of this heuristic in many models, but while heuristics may play a role, preference heterogeneity is also important. Our most flexible models find an insignificant heuristic effect. In part because holding context fixed, this heuristic is observationally equivalent to extreme price sensitivity.

Health Reform, Health Insurance, and Selection: Estimating Selection into Health Insurance Using the Massachusetts Health Reform

- American Economic Review---2012---Martin Hackmann,Jonathan T. Kolstad,Amanda Kowalski

We implement an empirical test for selection into health insurance using changes in coverage induced by the introduction of mandated health insurance in Massachusetts. Our test examines changes in the cost of the newly insured relative to those who were insured prior to the reform. We find that counties with larger increases in insurance coverage over the reform period face the smallest increase in average hospital costs for the insured population, consistent with adverse selection into insurance before the reform. Additional results, incorporating cross-state variation and data on health measures, provide further evidence for adverse selection.

The Impact of the Massachusetts Health Care Reform on Health Care Use among Children

- American Economic Review---2012---Sarah Miller

In 2006 Massachusetts enacted a major health care reform aimed at achieving near-universal coverage in the state. While other studies have found that this reform substantially affected the use of health services in general, the impact of the reform on children is largely unexplored. Children are of special interest to policymakers because it is widely believed that better health in early childhood results in large payoffs to adult health and achievement. I analyze how the reform affected the insurance coverage, health care utilization patterns, and health outcomes of children under 18 years old.

How Did Health Care Reform in Massachusetts Impact Insurance Premiums?

- American Economic Review---2012---John A. Graves,Jonathan Gruber

It is widely recognized that the 2006 Massachusetts health reforms served as a blueprint for national reform under the 2010 Affordable Care Act (ACA). As such, there is interest in using the Massachusetts experience to understand how insurance premiums might change under the ACA. In this paper, we analyze changes in private insurance premiums in Massachusetts between 2002 and 2010. In contrast to earlier estimates from Massachusetts (Cogan, Hubbard and Kessler 2010), we find no statistical evidence of changes in group premiums. By contrast, we find large reductions in non-group premiums in Massachusetts relative to the rest of the U.S.

The Long-Term Effects of UI Extensions on Employment

- American Economic Review---2012---Johannes Schmieder,Till von Wachter,Stefan Bender

The majority of papers analyzing the employment effects of unemployment insurance (UI) benefit durations focus on the duration of the first unemployment spell. In this paper, we make two contributions. First, we use a regression discontinuity design to analyze the long-term effects of extensions in UI durations. These estimates differ from standard estimates in that they incorporate differences in UI benefit receipt and employment due to recurrent unemployment spells. Second, we derive a welfare formula of UI extensions that incorporates recurrent nonemployment spells.

Unemployment in the Great Recession: Did the Housing Market Crisis Prevent the Unemployed from Moving to Take Jobs?

- American Economic Review---2012---Henry S. Farber

The labor market in the Great Recession and its aftermath is characterized by great difficulty in escaping unemployment. I present two empirical analyses of a particular explanation for that difficulty, that the housing market crisis has prevented the unemployed from selling their homes and moving to take new jobs. First, I examine post-job-loss mobility rates by home ownership status using data from the Displaced Workers Survey. Second, I examine mobility rates for unemployed homeowners and renters from the month-to-month CPS match. Neither analysis provides any support for the idea that the housing market crisis has reduced mobility of the unemployed.

Contract Form, Wage Flexibility, and Employment

- American Economic Review---2012---Thomas Lemieux,W. Bentley Macleod,Daniel Parent

We begin with two uncontroversial hypotheses - firm productivity is expensive to measure and employment entails relationship-specific investments. These assumptions imply that firms would optimally choose fixed-wage contracts, and complement these with bonus pay when measuring employee performance is not too costly. These assumptions imply that under an optimal employment contract hours of work is less responsive, while total compensation is more responsive to shocks under bonus-pay contracts compared to fixed wage contracts. Using data from the Panel Study of Income Dynamics (PSID) where shocks are proxied using the local unemployment rate, we find strong support for these two implications.

Access to Credit by Small Businesses: How Relevant Are Race, Ethnicity, and Gender?

- American Economic Review---2012---Elizabeth Asiedu,James A. Freeman,Akwasi Nti-Addae

This paper employs data from the 1998 and 2003 Survey of Small Business Finances to analyze whether, after controlling for observable factors that influence loan decisions, there is a significant difference in the loan approval rate and the interest rate charged on approved loans for businesses owned by minority or white females and firms owned by white males.

Coming to America: Does Having a Developed Home Country Matter for Self-Employment in the United States?

- American Economic Review---2012---Ruth Uwaifo Oyelere,Willie Belton

This research examines the relationship between the economic status of an immigrant's home country and the probability of self-employment in the US. We find that immigrants from developing countries on average have lower self-employment probabilities relative to immigrants from developed countries. Similarly, we find a positive correlation between the current HDI of an immigrant's home country and the probability of self-employment in the US. These result are unexpected given that past research suggests immigrants from countries with high levels of self-employment (developing countries) are more likely to be self-employed in the US. We provide a possible explanation for these results.

The Labor Market Impact of Mandated Employment Verification Systems

- American Economic Review---2012---Catalina Amuedo-Dorantes,Cynthia Bansak

Employment verification systems covered about one out of four people hired in the United States in 2010. In this paper, we evaluate the impact of state-level employment verification mandates on the employment and wages of likely unauthorized workers across the entire United States between 2004 and 2010. We find that E-Verify mandates, particularly those covering all employers, significantly curtail the employment likelihood of likely unauthorized male and female workers. However, they appear to have mixed effects on wages and may redistribute likely unauthorized labor towards industries often benefiting from specific exclusions, such as agriculture or food services.

The Employment of Low-Skilled Immigrant Men in the United States

- American Economic Review---2012---Brian Duncan,Stephen Trejo

Using microdata from the 2000 Census, we analyze how the employment rates of foreign-born and US-born men vary with education. After a period of adjustment during the first few years upon arrival, the overall employment rate of immigrant men quickly approaches that of US natives. Among those with the lowest education levels, immigrants exhibit substantially higher rates of employment than comparable natives. This pattern is consistent with a simple theoretical model of migrant selectivity that jointly considers a potential migrant's decisions regarding where to locate and whether to work.

Love and Money by Parental Matchmaking: Evidence from Urban Couples in China

- American Economic Review---2012---Fali Huang,Ginger Zhe Jin,Lixin Xu

Parental involvement in marriage matchmaking may distort the optimal spouse choice because parents are willing to substitute love for money. The rationale is that the joint income of married children can be shared among extended family members more easily than mutual attraction felt by the couple themselves, and as a result, the best spouse candidate in the parents' eyes can differ from what is optimal to the individual, even though parents are altruistic and care dearly about their children's welfare. We find supporting evidence for this prediction using a unique sample of urban couples in China in the early 1990s.

Business Cycles and Gender Diversification: An Analysis of Establishment-Level Gender Dissimilarity

- American Economic Review---2012---Cynthia Bansak,Mary E. Graham,Allan A. Zebedee

During recessions, the focus on male job losses may overshadow other important outcome variables. We examine the effects of economic downturns on occupational segregation by gender, using staffing data from over 6 million private-sector US establishments from 1966-2010. Consistent with the literature, we find a downward trend in occupational segregation that is diminishing over time. Drawing upon Rubery's (1988) work on women and recessions, we find support for both the buffer and the segmentation hypotheses. On net, however, the buffer hypothesis appears to dominate providing evidence that in periods of economic decline the trend of decreasing economic dissimilarity is interrupted.

Birth Rates and the Vietnam Draft

- American Economic Review---2012---Marianne Bitler,Lucie Schmidt

The Vietnam conflict was the defining event for a generation, with nearly 8 million Americans serving in the armed forces. A large literature in economics has focused on effects of Vietnam-Era service postwar, while little research looks at contemporaneous effects of the mobilization, despite the potential for this mobilization to change marriage markets for particular cohorts. We use exogenous variation across states and over time in men drafted per 100 men 19-25 to look at the effects of the wartime mobilization on birth rates. We find robust evidence that higher rates of inducted men led to significantly lower birth rates.

Identification of the Effect of Depression on Risky Sexual Behavior: Exploiting a Natural Experiment

- American Economic Review---2012---Susan L. Averett,Yang Wang

Depression is pervasive in the US particularly among women. The costs in terms of direct medical costs and forgone earnings are substantial. This paper investigates an additional cost of depression. Using data from the National Longitudinal Survey of Adolescent Health, we use a unique instrument, the attacks of September 11, which have been linked to depression, to identify the effect of depression on risky sexual behaviors. We find that depressed women are more likely to be sexually active, to engage in oral sex and to have sex without a condom, even after controlling for a rich set of covariates.

Hiring, Churn, and the Business Cycle

- American Economic Review---2012---Edward P. Lazear,James Spletzer

Hires occur for two reasons - to grow a business and to replace those who have left (churn). Churn is an important part of employment dynamics, allowing workers to move to their most productive use. We present evidence on churn from the Job Openings and Labor Turnover Survey (JOLTS). Churn is procyclical. During the 2007-09 recession, four-fifths of hiring reductions are associated with reduced churn, not with reductions in job creation. We estimate that the cost of reduced churn is about two-fifths of a percentage point of GDP annually throughout the three-and-one-half year period since the beginning of the recession.

Job-to-Job Flows in the Great Recession

- American Economic Review---2012---Henry Hyatt,Erika McEntarfer

We develop prototype job-to-job flow measures to provide new evidence on labor turnover and earnings dynamics in the Great Recession. We find a sharp drop in job mobility in the Great Recession, much sharper than the previous recession, and higher earnings penalties for job transitions with an intervening nonemployment spell. Focusing on residential construction separators in particular, we find increasing rates of industry change and higher earnings penalties from job change in the Great Recession.

Recruiting Intensity during and after the Great Recession: National and Industry Evidence

- American Economic Review---2012---Steven Davis,Jason Faberman,John Haltiwanger

We measure job-filling rates and recruiting intensity per vacancy at the national and industry levels from January 2001 to September 2011 using data from the Job Openings and Labor Turnover Survey. Industry-level movements in these variables are at odds with implications of the standard matching function in labor search theory but consistent with a generalized function that incorporates an important role for recruiting intensity. Construction makes up less than five percent of employment but accounts for more than 40 percent of the large swings in the job-filling rate during and after the Great Recession.

Did the Housing Price Bubble Clobber Local Labor Market Job and Worker Flows When It Burst?

- American Economic Review---2012---John Abowd,Lars Vilhuber

We use the Census Bureau's Quarterly Workforce Indicators and the Federal Housing Finance Agency's House Price Indices to study the effects of the housing price bubble on local labor markets. We show that the 35 MSAs in the top decile of the house price boom were most severely impacted. Their stable job employment fell much more than the national average. Their real wage rates did not fall as fast as the national average. Accessions fell much faster than average while separations were constant. Job creations fell substantially while destructions rose slightly.

Time Use, Emotional Well-Being, and Unemployment: Evidence from Longitudinal Data

- American Economic Review---2012---Alan Krueger,Andreas Mueller

This paper provides new evidence on the time use and emotional well-being of unemployed individuals in the weeks before and after starting a new job. The major findings are: (1) time spent on home production drops sharply at the time of re-employment, even when controlling for individual fixed effects; (2) time spent on leisure-related activities, which the unemployed find less enjoyable, drops on re-employment, but less so when controlling for individual fixed effects; (3) the unemployed report higher levels of sadness during specific episodes of the day than the employed; and (4) sadness decreases abruptly at the time of re-employment.

Retirement and Home Production: A Regression Discontinuity Approach

- American Economic Review---2012---Elena Stancanelli,Arthur van Soest

Existing studies show that individuals who retire replace some private consumption with home production, but do not consider joint behavior of couples. Here we analyze the causal effect of retirement of each partner on hours of home production for both partners in a couple. Our identification strategy exploits the earliest age retirement laws in France, enabling a fuzzy regression discontinuity approach. We find that own retirement significantly increases own hours of home production and the effect is larger for men than for women. Moreover, retirement of the female partner significantly reduces male hours of home production but not vice versa.

The Role of Preferences and Opportunity Costs in Determining the Time Allocated to Housework

- American Economic Review---2012---Leslie Stratton

Research on intrahousehold time allocations has assumed that housework is a necessary evil and focused exclusively on the causal role of opportunity costs. In fact, agents likely act to maximize happiness, and preferences regarding even mundane household chores differ considerably. I use information from the 2000-01 UK Time Use Survey to examine time spent on laundry, ironing, cleaning, and food shopping. Joint multivariate analysis of his and her time on weekend and weekday days as well as maid service reveals that her opportunity cost of time matters more than his, but that his preferences play a greater role than hers.

Aggregate Impacts of a Gift of Time

- American Economic Review---2012---Jungmin Lee,Daiji Kawaguchi,Daniel Hamermesh

How would people spend additional time if confronted by permanent declines in market work? We examine the impacts of cuts in legislated standard hours which raised employers' overtime costs in Japan around 1990 and in Korea in the early 2000s. Using time-diaries from before and after, we show the shocks were effective -- per-capita hours of market work declined discretely. The economy-wide drops in market work were reallocated solely to leisure and personal maintenance. In the absence of changing household technology a permanent time gift leads to no increase in time spent in household production by the average individual.

Minutes of the Annual Business Meeting: Chicago, IL: January 7, 2012

- American Economic Review---2012---John Siegfried

2012

Report of the Secretary for 2011

- American Economic Review---2012---John Siegfried

2012

Report of the Treasurer

- American Economic Review---2012---John Siegfried

2012

American Economic Association Universal Academic Questionnaire Summary Statistics

- American Economic Review---2012---Charles E. Scott,John Siegfried

2012

Minutes of the Meeting of the Executive Committee: Chicago, IL, April 15, 2011

- American Economic Review---2012---John Siegfried

2012

Minutes of the Meeting of the Executive Committee: Chicago, IL, January 5, 2012

- American Economic Review---2012---John Siegfried

2012

Report of the Editor: American Economic Review

- American Economic Review---2012---Pinelopi Goldberg

2012

Report of the Editor: Journal of Economic Literature

- American Economic Review---2012---Janet Currie

2012

Report of the Editor: Journal of Economic Perspectives

- American Economic Review---2012---David Autor

2012

Report of the Editor: American Economic Journal: Applied Economics

- American Economic Review---2012---Esther Duflo

2012

Report of the Editor: American Economic Journal: Economic Policy

- American Economic Review---2012---Alan Auerbach

2012

Report of the Editor: American Economic Journal: Macroeconomics

- American Economic Review---2012---Steven Davis

2012

Report of the Editor: American Economic Journal: Microeconomics

- American Economic Review---2012---Andrew Postlewaite

2012

Report of the Director: Job Openings for Economists

- American Economic Review---2012---John Siegfried

2012

Report of the Committee on Economic Education for 2011

- American Economic Review---2012---Michael Watts

2012

Report of the Committee on the Status of Women in the Economics Profession 2011

- American Economic Review---2012---Barbara M. Fraumeni

2012

Committee on the Status of Minority Groups in the Economics Profession: Report of Committee Activities for the 2011 Calendar Year

- American Economic Review---2012---Marie T. Mora

2012

American Economic Association Committee on Statistics (AEAStat): Annual Report--2011

- American Economic Review---2012---Robert Feenstra

2012

Committee on Government Relations

- American Economic Review---2012---Charles Schultze

2012

The American Economic Association and Allied Social Science Associations

- American Economic Review---2012---John Siegfried

2012

Report of the Selection Committee for the American Economic Journal: Macroeconomics Editor

- American Economic Review---2012---Michael Woodford

2012

Comparing Real Wage Rates: Presidential Address

- American Economic Review---2012---Orley Ashenfelter

A real wage rate is a nominal wage rate divided by the price of a good and is a transparent measure of how much of the good an hour of work buys. It provides an important indicator of the living standards of workers, and also of the productivity of workers. In this paper I set out the conceptual basis for such measures, provide some historical examples, and then provide my own preliminary analysis of a decade long project designed to measure the wages of workers doing the same job in over 60 countries--workers at McDonald's restaurants. The results demonstrate that the wage rates of workers using the same skills and doing the same jobs differ by as much as 10 to 1, and that these gaps declined over the period 2000-2007, but with much less progress since the Great Recession. (JEL C81, C82, D24, J31, N30, O57)

The Welfare Effects of Bundling in Multichannel Television Markets

- American Economic Review---2012---Gregory Crawford,Ali Yurukoglu

We measure how the bundling of television channels affects short-run welfare. We estimate an industry model of viewership, demand, pricing, bundling, and input-market bargaining using data on ratings, purchases, prices, bundles, and input costs. We conduct simulations of a la carte policies that require distributors to offer individual channels for sale to consumers. We estimate that negotiated input costs rise by 103.0 percent under a la carte. These higher input costs offset consumer benefits from purchasing individual channels. Mean consumer and total surplus change by an estimated -- 5.4 to 0.2 percent and -- 1.7 to 6.0 percent, respectively. (JEL D12, L11, L51, L82, M31)

The Use of Full-Line Forcing Contracts in the Video Rental Industry

- American Economic Review---2012---Katherine Ho,Justin Ho,Julie Mortimer,Kate Ho

Bundling is at the forefront of many policy debates as new technologies allow firms to implement more complex bundling arrangements. Realistic analyses of bundling--particularly between suppliers and retailers--require detailed data on both supply arrangements and consumer demand. We analyze firms' use of bundling as a vertical restraint (known as full-line forcing) using extensive supply and demand data from the video rental industry. Our model captures key details of the market that determine firms' contractual choices, and sheds light on the implications of these decisions. The empirical approach provides a model for how to analyze bundling when detailed data are available. (JEL D86, L14, L81, L82)

Slow to Anger and Fast to Forgive: Cooperation in an Uncertain World

- American Economic Review---2012---Drew Fudenberg,David G. Rand,Anna Dreber

We study the experimental play of the repeated prisoner's dilemma when intended actions are implemented with noise. In treatments where cooperation is an equilibrium, subjects cooperate substantially more than in treatments without cooperative equilibria. In all settings there was considerable strategic diversity, indicating that subjects had not fully learned the distribution of play. Furthermore, cooperative strategies yielded higher payoffs than uncooperative strategies in the treatments with cooperative equilibria. In these treatments successful strategies were "lenient" in not retaliating for the first defection, and many were "forgiving" in trying to return to cooperation after inflicting a punishment. (JEL C72, C73, D81)

Relational Contracts and the Value of Relationships

- American Economic Review---2012---Marina Halac

This article studies optimal relational contracts when the value of the relationship between contracting parties is not commonly known. I consider a principal-agent setting where the principal has persistent private information about her outside option. I show that if the principal has the bargaining power, she wants to understate her outside option to provide strong incentives and then renege on promised payments, while if the uninformed agent has the bargaining power, the principal wants to overstate her outside option to capture more surplus. I characterize how information is revealed, how the relationship evolves, and how this depends on bargaining power. (JEL C78, D82, D83, D86)

Competition through Commissions and Kickbacks

- American Economic Review---2012---Roman Inderst,Marco Ottaviani

In markets for retail financial products and health services, consumers often rely on the advice of intermediaries to decide which specialized offering best fits their needs. Product providers, in turn, compete to influence the intermediaries' advice through hidden kickbacks or disclosed commissions. Motivated by the controversial role of these widespread practices, we formulate a model to analyze competition through commissions from a positive and normative standpoint. The model highlights the role of commissions in making the advisor responsive to supply-side incentives. We characterize situations when commonly adopted policies such as mandatory disclosure and caps on commissions have unintended welfare consequences. (JEL D21, D82, D83, G21, L15, L25)

Estimating the Peace Dividend: The Impact of Violence on House Prices in Northern Ireland

- American Economic Review---2012---Timothy Besley,Hannes Mueller

This article exploits data on the pattern of violence across regions and over time to estimate the impact of the peace process in Northern Ireland on house prices. After establishing a negative correlation between killings and house prices, we estimate the parameters of a Markov switching model with conflict and peace as latent states. We use the model to estimate the size of the peace dividend as captured in house price changes. (JEL D74, R23, R31)

Screening, Competition, and Job Design: Economic Origins of Good Jobs

- American Economic Review---2012---Björn Bartling,Ernst Fehr,Klaus Schmidt

High-performance work systems give workers more discretion, thereby increasing effort productivity but also shirking opportunities. We show experimentally that screening for work attitude and labor market competition are causal determinants of the viability of high-performance work systems, and we identify the complementarities between discretion, rent-sharing, and screening that render them profitable. Two fundamentally distinct job designs emerge endogenously in our experiments: "bad" jobs with low discretion, low wages, and little rent-sharing, and "good" jobs with high discretion, high wages, and substantial rent-sharing. Good jobs are profitable only if employees can be screened, and labor market competition fosters their dissemination. (JEL D12, D82, J24, J31, J41, M12, M54)

Thar She Bursts: Reducing Confusion Reduces Bubbles

- American Economic Review---2012---Michael Kirchler,Jurgen Huber,Thomas Stockl

To explore why bubbles frequently emerge in the experimental asset market model of Smith, Suchanek, and Williams (1988), we vary the fundamental value process (constant or declining) and the cash-to-asset value ratio (constant or increasing). We observe high mispricing in treatments with a declining fundamental value, while overvaluation emerges when coupled with an increasing C/A ratio. A questionnaire reveals that the declining fundamental value process confuses subjects, as they expect the fundamental value to stay constant. Running the experiment with a different context ("stocks of a depletable gold mine" instead of "stocks") significantly reduces mispricing and overvaluation as it reduces confusion. (JEL C91, D14, G11, G12)

Information and Industry Dynamics

- American Economic Review---2012---Emin Dinlersoz,Mehmet Yorukoglu

This paper develops a model of industry dynamics where firms compete to acquire customers over time by disseminating information about themselves in the presence of random shocks to their efficiency. The properties of the model's stationary equilibrium are related to empirical regularities on firm and industry dynamics. As an application of the model, the effects of a decline in the cost of information dissemination on firm and industry dynamics are explored. (JEL D11, D83, L11, L81, M37)

Carrot or Stick? The Evolution of Reciprocal Preferences in a Haystack Model

- American Economic Review---2012---Florian Herold

We study the evolution of both characteristics of reciprocity: the willingness to reward and the willingness to punish. First, both preferences for rewarding and preferences for punishing can survive provided that individuals interact within separate groups. Second, rewarders survive only in coexistence with self-interested preferences, but punishers either vanish or dominate the population entirely. Third, the evolution of preferences for rewarding and the evolution of preferences for punishing influence each other decisively. Rewarders can invade a population of self-interested players. The existence of rewarders enhances the evolutionary success of punishers, who then crowd out all other preferences. (JEL C71, C72, C73, D64, K42)

Violent Conflict and Behavior: A Field Experiment in Burundi

- American Economic Review---2012---Maarten Voors,Eleonora E. M. Nillesen,Philip Verwimp,Erwin Bulte,Robert Lensink,Daan van Soest

We use a series of field experiments in rural Burundi to examine the impact of exposure to conflict on social, risk, and time preferences. We find that conflict affects behavior: individuals exposed to violence display more altruistic behavior towards their neighbors, are more risk-seeking, and have higher discount rates. Large adverse shocks can thus alter savings and investments decisions, and potentially have long-run consequences--even if the shocks themselves are temporary. (JEL C93, D12, D74, 012, 017, 018)

What Do Emissions Markets Deliver and to Whom? Evidence from Southern California's NOx Trading Program

- American Economic Review---2012---Meredith Fowlie,Stephen Holland,Erin Mansur

An advantage of cap-and-trade programs over more prescriptive environmental regulation is that compliance flexibility and cost effectiveness can make more stringent emissions reductions politically feasible. However, when markets (versus regulators) determine where emissions occur, it becomes more difficult to assure that mandated emissions reductions are equitably achieved. We investigate these issues in the context of Southern California's RECLAIM program by matching facilities in RECLAIM with similar California facilities also in nonattainment areas. Our results indicate that average emissions fell 20 percent at RECLAIM facilities relative to our counterfactual. Furthermore, observed changes in emissions do not vary significantly with neighborhood demographic characteristics. (JEL H23, L51, Q53, Q58)

Measuring Economic Growth from Outer Space

- American Economic Review---2012---J. Vernon Henderson,Adam Storeygard,David Weil

We develop a statistical framework to use satellite data on night lights to augment official income growth measures. For countries with poor national income accounts, the optimal estimate of growth is a composite with roughly equal weights on conventionally measured growth and growth predicted from lights. Our estimates differ from official data by up to three percentage points annually. Using lights, empirical analyses of growth need no longer use countries as the unit of analysis; we can measure growth for sub- and supranational regions. We show, for example, that coastal areas in sub-Saharan Africa are growing slower than the hinterland. (JEL E01, E23, O11, 047, 057)

Credit Booms Gone Bust: Monetary Policy, Leverage Cycles, and Financial Crises, 1870-2008

- American Economic Review---2012---Moritz Schularick,Alan Taylor

The financial crisis has refocused attention on money and credit fluctuations, financial crises, and policy responses. We study the behavior of money, credit, and macroeconomic indicators over the long run based on a new historical dataset for 14 countries over the years 1870-2008. Total credit has increased strongly relative to output and money in the second half of the twentieth century. Monetary policy responses to financial crises have also been more aggressive, but the output costs of crises have remained large. Credit growth is a powerful predictor of financial crises, suggesting that policymakers ignore credit at their peril. (JEL E32, E44, E52, G01, N10, N20)

What Drives US Foreign Borrowing? Evidence on the External Adjustment to Transitory and Permanent Shocks

- American Economic Review---2012---Giancarlo Corsetti,Panagiotis T. Konstantinou

The joint dynamics of US net output, consumption, and (the market value of) foreign assets and liabilities, characterized empirically following Lettau and Ludvigson (2004), is shown to be consistent with current account theory. US consumption is virtually insulated from transitory shocks, while these contribute to variations in net output and gross foreign positions--consumption is smoothed against temporary fluctuations in returns. A single permanent shock--naturally interpreted as a supply shock--raises consumption swiftly while causing net output to adjust gradually. This leads to persistent, procyclical external deficits, while moving gross assets and liabilities in the same direction. (JEL E21, E23, F32, F34)

International Income Inequality: Measuring PPP Bias by Estimating Engel Curves for Food

- American Economic Review---2012---Ingvild Almås

Purchasing power-adjusted incomes applied in cross-country comparisons are measured with bias. This paper estimates the purchasing power parity (PPP) bias in Penn World Table incomes and provides corrected incomes. The bias is substantial and systematic: the poorer a country, the more its income tends to be overestimated. Consequently, international income inequality is substantially underestimated. The methodological contribution is to exploit the analogies between PPP bias and the bias in consumer price index (CPI) numbers. The PPP bias and subsequent corrected incomes are measured by estimating Engel curves for food, an established method of measuring CPI bias. (JEL C43, D31, E31, O11, O12)

Behavioral Foundations of Microcredit: Experimental and Survey Evidence from Rural India

- American Economic Review---2012---Michal Bauer,Julie Chytilová,Jonathan Morduch

We use experimental measures of time discounting and risk aversion for villagers in south India to highlight behavioral features of microcredit, a financial tool designed to reduce poverty and fix credit market imperfections. The evidence suggests that microcredit contracts may do more than reduce moral hazard and adverse selection by imposing new forms of discipline on borrowers. We find that, conditional on borrowing from any source, women with present-biased preferences are more likely than others to borrow through microcredit institutions. Another particular contribution of microcredit may thus be to provide helpful structure for borrowers seeking self-discipline. (JEL G21, I38, O15, O16, O18)

Search, Design, and Market Structure

- American Economic Review---2012---Heski Bar-Isaac,Guillermo Caruana,Vicente Cuñat

The Internet has made consumer search easier, with consequences for prices, industry structure, and the kinds of products offered. We provide an industry model with strategic design choices that explores these issues. A polarized market structure results: some firms choose designs aimed at broad-based audiences, while others target narrow niches. We analyze the effect of reduced search costs, finding results consistent with the reported prevalence of niche goods and long-tail and superstar phenomena. In particular, the model suggests that long-tail effects arise when there is a wide range of potential designs, relative to vertical heterogeneity among firms. (JEL D11, D21, D83, L11, L86, M31)

Paying a Premium on Your Premium? Consolidation in the US Health Insurance Industry

- American Economic Review---2012---Leemore Dafny,Mark Duggan,Subramaniam Ramanarayanan

We examine whether and to what extent consolidation in the US health insurance industry has contributed to higher employer-sponsored insurance premiums. We exploit the differential impact across local markets of a national merger of two insurers to identify the causal effect of concentration on premiums. Using data for large groups, we estimate premiums in average markets were approximately seven percentage points higher by 2007 due to increases in local concentration from 1998-2006. We also find evidence consolidation facilitates the exercise of monopsonistic power vis-a-vis physicians, leading to reductions in their absolute employment and earnings relative to other healthcare workers. (JEL G22, I13)

Erratum: Macroeconomic Effects of Financial Shocks

- American Economic Review---2012---Urban Jermann,Vincenzo Quadrini

2012

Optimal Interventions in Markets with Adverse Selection

- American Economic Review---2012---Thomas Philippon,Vasiliki Skreta

We study the design of interventions to stabilize financial markets plagued by adverse selection. Our contribution is to analyze the information revealed by participation decisions. Taking part in a government program carries a stigma, and outside options are mechanism dependent. We show that the efficiency of an intervention can be assessed by its impact on the market interest rate. The presence of an outside market determines the nature of optimal interventions and the choice of financial instruments (debt guarantees in our model), but it does not affect implementation costs. (JEL D82, D86, G01, G20, G31)

Overcoming Adverse Selection: How Public Intervention Can Restore Market Functioning

- American Economic Review---2012---Jean Tirole

The paper provides a first analysis of market jump starting and its two-way interaction between mechanism design and participation constraints. The government optimally overpays for the legacy assets and cleans up the market of its weakest assets, through a mixture of buybacks and equity injections, and leaves the firms with the strongest legacy assets to the market. The government reduces adverse selection enough to let the market rebound, but not too much, so as to limit the cost of intervention. The existence of a market imposes no welfare cost. (JEL D82, D83, G01, G31, H81)

Collective Moral Hazard, Maturity Mismatch, and Systemic Bailouts

- American Economic Review---2012---Emmanuel Farhi,Jean Tirole

The article shows that time-consistent, imperfectly targeted support to distressed institutions makes private leverage choices strategic complements. When everyone engages in maturity mismatch, authorities have little choice but intervening, creating both current and deferred (sowing the seeds of the next crisis) social costs. In turn, it is profitable to adopt a risky balance sheet. These insights have important consequences, from banks choosing to correlate their risk exposures to the need for macro-prudential supervision. (JEL D82, E52, E58, G01, G21, G28)

New Trade Models, Same Old Gains?

- American Economic Review---2012---Costas Arkolakis,Arnaud Costinot,Andres Rodriguez-Clare

Micro-level data have had a profound influence on research in international trade over the last ten years. In many regards, this research agenda has been very successful. New stylized facts have been uncovered and new trade models have been developed to explain these facts. In this paper we investigate to what extent answers to new micro-level questions have affected answers to an old and central question in the field: how large are the welfare gains from trade? A crude summary of our results is: "So far, not much." (JEL F11, F12)

The Environment and Directed Technical Change

- American Economic Review---2012---Daron Acemoglu,Philippe Aghion,Leonardo Bursztyn,David Hemous

This paper introduces endogenous and directed technical change in a growth model with environmental constraints. The final good is produced from "dirty" and "clean" inputs. We show that: (i) when inputs are sufficiently substitutable, sustainable growth can be achieved with temporary taxes/subsidies that redirect innovation toward clean inputs; (ii) optimal policy involves both "carbon taxes" and research subsidies, avoiding excessive use of carbon taxes; (iii) delay in intervention is costly, as it later necessitates a longer transition phase with slow growth; and (iv) use of an exhaustible resource in dirty input production helps the switch to clean innovation under laissez-faire. (JEL O33, O44, Q30, Q54, Q56, Q58)

Americans Do IT Better: US Multinationals and the Productivity Miracle

- American Economic Review---2012---Nicholas Bloom,Raffaella Sadun,John van Reenen

US productivity growth accelerated after 1995 (unlike Europe's), particularly in sectors that intensively use information technologies (IT). Using two new micro panel datasets we show that US multinationals operating in Europe also experienced a "productivity miracle." US multinationals obtained higher productivity from IT than non-US multinationals, particularly in the same sectors responsible for the US productivity acceleration. Furthermore, establishments taken over by US multinationals (but not by non-US multinationals) increased the productivity of their IT. Combining pan-European firm-level IT data with our management practices survey, we find that the US IT related productivity advantage is primarily due to its tougher "people management" practices. (JEL D24, E23, F23, M10, M16, O30)

The Value of Information in the Court: Get It Right, Keep It Tight

- American Economic Review---2012---Matias Iaryczower,Matthew Shum

We estimate an equilibrium model of decision making in the US Supreme Court that takes into account both private information and ideological differences between justices. We measure the value of information in the court by the probability that a justice votes differently from how she would have voted without case-specific information. Our results suggest a sizable value of information: in 44 percent of cases, justices' initial leanings are changed by their personal assessments of the case. Our results also confirm the increased politicization of the Supreme Court in the last quarter century. Counterfactual simulations provide implications for institutional design. (JEL D72, D82, D83, K10)

Macroeconomic Effects of Financial Shocks

- American Economic Review---2012---Urban Jermann,Vincenzo Quadrini

We document the cyclical properties of US firms' financial flows and show that equity payout is procyclical and debt payout is countercyclical. We then develop a model with debt and equity financing to explore how the dynamics of real and financial variables are affected by "financial shocks." We find that financial shocks contributed significantly to the observed dynamics of real and financial variables. The recent events in the financial sector show up as a tightening of firms' financing conditions which contributed to the 2008-2009 recession. The downturns in 1990-1991 and 2001 were also influenced by changes in credit conditions. (JEL E23, E32, E44, G01, G32)

The Effects of Housing Assistance on Labor Supply: Evidence from a Voucher Lottery

- American Economic Review---2012---Brian A. Jacob,Jens Ludwig

This study estimates the effects of means-tested housing programs on labor supply using data from a randomized housing voucher wait-list lottery in Chicago. Economic theory is ambiguous about the expected sign of any labor supply response. We find that among working-age, able-bodied adults, housing voucher use reduces labor force participation by around 4 percentage points (6 percent) and quarterly earnings by $329 (10 percent), and increases Temporary Assistance for Needy Families program participation by around 2 percentage points (15 percent). We find no evidence that the housing-specific mechanisms hypothesized to promote work, such as neighborhood quality or residential stability, are important empirically. (JEL I38, J22, R23, R38)

Standard Setting Committees: Consensus Governance for Shared Technology Platforms

- American Economic Review---2012---Timothy Simcoe

Voluntary Standard Setting Organizations (SSOs) use a consensus process to create new compatibility standards. Practitioners have suggested that SSOs are increasingly politicized and perhaps incapable of producing timely standards. This article develops a simple model of standard setting committees and tests its predictions using data from the Internet Engineering Task Force, an SSO that produces many of the standards used to run the Internet. The results show that an observed slowdown in standards production between 1993 and 2003 can be linked to distributional conflicts created by the rapid commercialization of the Internet. (JEL C78, L15, L86)

A Continuous Dilemma

- American Economic Review---2012---Daniel Friedman,Ryan Oprea

We study prisoners' dilemmas played in continuous time with flow payoffs accumulated over 60 seconds. In most cases, the median rate of mutual cooperation is about 90 percent. Control sessions with repeated matchings over eight subperiods achieve less than half as much cooperation, and cooperation rates approach zero in one-shot sessions. In follow-up sessions with a variable number of subperiods, cooperation rates increase nearly linearly as the grid size decreases, and, with one-second subperiods, they approach continuous levels. Our data support a strand of theory that explains how capacity to respond rapidly stabilizes cooperation and destabilizes defection in the prisoner's dilemma. (JEL C72, C78, C91)

Understanding International Prices: Customers as Capital

- American Economic Review---2012---Lukasz A. Drozd,Jaromir Nosal

The article develops a new theory of pricing to market driven by dynamic frictions of building market shares. Our key innovation is a capital theoretic model of marketing in which relations with customers are valuable. We discipline the introduced friction using data on differences between short-run and long-run price elasticity of international trade flows. We show that the model accounts for several pricing "puzzles" of international macroeconomics. (JEL E13, F14, F31, F41, F44, M31)

Compulsory Licensing: Evidence from the Trading with the Enemy Act

- American Economic Review---2012---Petra Moser,Alessandra Voena

Compulsory licensing allows firms in developing countries to produce foreign-owned inventions without the consent of foreign patent owners. This paper uses an exogenous event of compulsory licensing after World War I under the Trading with the Enemy Act to examine the effects of compulsory licensing on domestic invention. Difference-in-differences analyses of nearly 130,000 chemical inventions suggest that compulsory licensing increased domestic invention by 20 percent. (JEL D45, L24, N42, O31, O34)

Testing Efficient Risk Sharing with Heterogeneous Risk Preferences

- American Economic Review---2012---Maurizio Mazzocco,Shiv Saini

We propose a method that enables one to test efficient risk sharing even when households have different risk preferences. The method is composed of three tests. The first one determines whether in the data households have homogeneous risk preferences. The second and third tests evaluate efficient risk sharing when the hypothesis of homogeneous risk preferences is rejected. We use this method to test efficient risk sharing in rural India. Using the first test, we strongly reject the hypothesis of identical risk preferences. Using the second and third tests, we reject efficiency at the village but not at the caste level. (JEL D12, D86, G22, O12, O18, R23, Z13)

A Structural Analysis of Disappointment Aversion in a Real Effort Competition

- American Economic Review---2012---David Gill,Victoria Prowse

We develop a novel computerized real effort task, based on moving sliders across a screen, to test experimentally whether agents are disappointment averse when they compete in a real effort sequential-move tournament. We predict that a disappointment averse agent, who is loss averse around her endogenous choice-acclimating expectations-based reference point, responds negatively to her rival's effort. We find significant evidence for this discouragement effect, and use the Method of Simulated Moments to estimate the strength of disappointment aversion on average and the heterogeneity in disappointment aversion across the population. (JEL C91, D12, D81, D84)

Why Don't We See Poverty Convergence?

- American Economic Review---2012---Martin Ravallion

Average living standards are converging among developing countries and faster growing economies see more progress against poverty. Yet we do not find poverty convergence; countries starting with higher poverty rates do not see higher proportionate rates of poverty reduction. The paper tries to explain why. Analysis of a new dataset suggests that, at given mean consumption, high initial poverty has an adverse effect on consumption growth and also makes growth less poverty-reducing. Thus, for many poor countries, the growth advantage of starting out with a low mean is lost due to a high incidence of poverty. (JEL D63, I31, I32, O15)

Was the New Deal Contractionary?

- American Economic Review---2012---Gauti Eggertsson

Can government policies that increase the monopoly power of firms and the militancy of unions increase output? This paper shows that the answer is yes under certain "emergency" conditions. These emergency conditions--zero interest rates and deflation--were satisfied during the Great Depression in the United States. The New Deal, which facilitated monopolies and union militancy, was therefore expansionary in the model presented. This conclusion is contrary to a large previous literature. The main reason for this divergence is that this paper incorporates rigid prices and the zero bound on the short-term interest rate. (JEL E23, E32, E52, E62, J51, N12, N42)

The Internet and Local Wages: A Puzzle

- American Economic Review---2012---Chris Forman,Avi Goldfarb,Shane Greenstein

How did the diffusion of the internet affect regional wage inequality? We examine the relationship between business investment in advanced internet technology and local variation in US wage growth between 1995 and 2000. We identify a puzzle. The internet is widespread, but the economic payoffs are not. Advanced internet technology is only associated with substantial wage growth in the 6 percent of counties that were already highly wealthy, educated, and populated and had IT-intensive industry. Advanced internet and wage growth appear unrelated elsewhere. Overall, advanced internet explains over half the difference in wage growth between already well-off counties and all others. (JEL J31, L86, O33, R11, R23)

The Impact of Shrouded Fees: Evidence from a Natural Experiment in the Indian Mutual Funds Market

- American Economic Review---2012---Santosh Anagol,Hugh Hoikwang Kim

We study a natural experiment in the Indian mutual funds sector that created a 22-month period in which closed-end funds were allowed to charge an arguably shrouded fee, whereas open-end funds were forced to charge entry loads. Forty-five new closed-end funds were started during this period, collecting $7.6 billion US, whereas only two closed-end funds were started in the 66 months prior to this period, collecting $42 billion US, and no closed-end funds were started in the 20 months after this period. We estimate that investors lost and fund firms gained approximately $350 million US due to this shrouding. (JEL D14, G23, G28, O16)

Contracts versus Salaries in Matching

- American Economic Review---2012---Federico Echenique

Firms and workers may sign complex contracts that govern many aspects of their interactions. I show that when firms regard contracts as substitutes, bargaining over contracts can be understood as bargaining only over wages. Substitutes is the assumption commonly used to guarantee the existence of stable matchings of workers and firms. (JEL C78, D86, J31, J41)

Efficient Pollution Regulation: Getting the Prices Right: Comment

- American Economic Review---2012---Art Fraas,Randall Lutter

The cost-effectiveness of cap-and-trade emissions regulations has become widely accepted. A 2009 proposal by Muller and Mendelsohn would replace conventional ton-for-ton trading with trading based on estimates of marginal damages by pollutant and by source. This proposal faces difficulties arising from the negative marginal damage estimates--neglected in Muller and Mendelsohn (2009)--for nitrogen oxide (NO x) emissions from many urban counties. Such estimates imply nonconvexities in air chemistry that complicate trading and could result in trades that increase emissions by both buyer and seller. Uncertainty in source-specific damages also creates rent-seeking opportunities and the potential for costly litigation. (JEL H53, Q53, Q58)

Efficient Pollution Regulation: Getting the Prices Right: Reply

- American Economic Review---2012---Nicholas Muller,Robert Mendelsohn

Fraas and Lutter raise two important points in their comment on Muller and Mendelsohn (2009): How to design policies for sources that yield negative marginal damages? How does statistical uncertainty in the marginal damages affect the trading ratios across emitters? We address both issues in this response. (JEL H53, Q53, Q58)

Efficient Pollution Regulation: Getting the Prices Right: Corrigendum (Mortality Rate Update)

- American Economic Review---2012---Nicholas Muller,Robert Mendelsohn

2012

Frictional Wage Dispersion in Search Models: A Quantitative Assessment

- American Economic Review---2011---Andreas Hornstein,Per Krusell,Giovanni Violante

We propose a new measure of frictional wage dispersion: the mean-min wage ratio. For a large class of search models, we show that this measure is independent of the wage-offer distribution but depends on statistics of labor-market turnover and on preferences. Under plausible preference parameterizations, observed magnitudes for worker flows imply that in the basic search model, and in most of its extensions, frictional wage dispersion is very small. Notable exceptions are some of the most recent models of on-the-job search. Our new measure allows us to rationalize the diverse empirical findings in the large literature estimating structural search models. (JEL D81, D83, J31, J41, J64)

Search and Satisficing

- American Economic Review---2011---Andrew Caplin,Mark Dean,Daniel Martin

Many everyday decisions are made without full examination of all available options, and, as a result, the best available option may be missed. We develop a search-theoretic choice experiment to study the impact of incomplete consideration on the quality of choices. We find that many decisions can be understood using the satisficing model of Herbert Simon (1955): most subjects search sequentially, stopping when a "satisficing" level of reservation utility is realized. We find that reservation utilities and search order respond systematically to changes in the decision making environment. (JEL D03, D12, D83)

Sources of Lifetime Inequality

- American Economic Review---2011---Mark Huggett,Gustavo Ventura,Amir Yaron

Is lifetime inequality mainly due to differences across people established early in life or to differences in luck experienced over the working lifetime? We answer this question within a model that features idiosyncratic shocks to human capital, estimated directly from data, as well as heterogeneity in ability to learn, initial human capital, and initial wealth. We find that, as of age 23, differences in initial conditions account for more of the variation in lifetime earnings, lifetime wealth, and lifetime utility than do differences in shocks received over the working lifetime. (JEL D31, D91, J24, J31)

Endogenous Information Flows and the Clustering of Announcements

- American Economic Review---2011---Viral Acharya,Peter DeMarzo,Ilan Kremer

We consider the strategic timing of information releases in a dynamic disclosure model. Because investors don't know whether or when the firm is informed, the firm will not necessarily disclose immediately. We show that bad market news can trigger the immediate release of information by firms. Conversely, good market news slows the release of information by firms. Thus, our model generates clustering of negative announcements. Surprisingly, this result holds only when firms can preemptively disclose their own information prior to the arrival of external information. These results have implications for conditional variance and skewness of stock returns. (JEL D21, D83, G12, G14, L11)

The Effect of Newspaper Entry and Exit on Electoral Politics

- American Economic Review---2011---Matthew Gentzkow,Jesse Shapiro,Michael Sinkinson

We use new data on entries and exits of US daily newspapers from 1869 to 2004 to estimate effects on political participation, party vote shares, and electoral competitiveness. Our identification strategy exploits the precise timing of these events and allows for the possibility of confounding trends. We focus our analysis on the years 1869-1928, and we use the remaining years of data to look at changes over time. We find that newspapers have a robust positive effect on political participation, with one additional newspaper increasing both presidential and congressional turnout by approximately 0.3 percentage points. Newspaper competition is not a key driver of turnout: our effect is driven mainly by the first newspaper in a market, and the effect of a second or third paper is significantly smaller. The effect on presidential turnout diminishes after the introduction of radio and television, while the estimated effect on congressional turnout remains similar up to recent years. We find no evidence that partisan newspapers affect party vote shares, with confidence intervals that rule out even moderate-sized effects. We find no clear evidence that newspapers systematically help or hurt incumbents. (JEL D72, L11, L82, N41, N42, N81, N82)

School Desegregation, School Choice, and Changes in Residential Location Patterns by Race

- American Economic Review---2011---Nathaniel Baum-Snow,Byron F. Lutz

This paper examines the residential location and school choice responses to the desegregation of large urban public school districts. We decompose the well documented decline in white public enrollment following desegregation into migration to suburban districts and increased private school enrollment and find that migration was the more prevalent response. Desegregation caused black public enrollment to increase significantly outside of the South, mostly by slowing decentralization of black households to the suburbs, and large black private school enrollment declines in southern districts. Central district school desegregation generated only a small portion of overall urban population decentralization between 1960 and 1990. (JEL H75, I21, J15, R23)

Dynamic Inefficiencies in an Employment-Based Health Insurance System: Theory and Evidence

- American Economic Review---2011---Hanming Fang,Alessandro Gavazza

We investigate the effects of the institutional settings of the US health care system on individuals' life-cycle medical expenditures. Health is a form of general human capital; labor turnover and labor-market frictions prevent an employer-employee pair from capturing the entire surplus from investment in an employee's health. Thus, the pair underinvests in health during working years, thereby increasing medical expenditures during retirement. We provide empirical evidence consistent with the comparative statics predictions of our model using the Medical Expenditure Panel Survey (MEPS) and the Health and Retirement Study (HRS). Our estimates suggest significant inefficiencies in health investment in the United States. (JEL D14, D91, G22, I11, J32)

The Effects of Rural Electrification on Employment: New Evidence from South Africa

- American Economic Review---2011---Taryn Dinkelman

This paper estimates the impact of electrification on employment growth by analyzing South Africa's mass roll-out of electricity to rural households. Using several new data sources and two different identification strategies (an instrumental variables strategy and a fixed effects approach), I find that electrification significantly raises female employment within five years. This new infrastructure appears to increase hours of work for men and women, while reducing female wages and increasing male earnings. Several pieces of evidence suggest that household electrification raises employment by releasing women from home production and enabling microenterprises. Migration behavior may also be affected. (JEL H54, L94, L98, O15, O18, R23)

Happiness and Time Preference: The Effect of Positive Affect in a Random-Assignment Experiment

- American Economic Review---2011---John Ifcher,Homa Zarghamee

We conduct a random-assignment experiment to investigate whether positive affect impacts time preference, where time preference denotes a preference for present over future utility. Our result indicates that, compared to neutral affect, mild positive affect significantly reduces time preference over money. This result is robust to various specification checks, and alternative interpretations of the result are considered. Our result has implications for the effect of happiness on time preference and the role of emotions in economic decision making, in general. Finally, we reconfirm the ubiquity of time preference and start to explore its determinants. (JEL D12, D83, I31)

Who Thinks about the Competition? Managerial Ability and Strategic Entry in US Local Telephone Markets

- American Economic Review---2011---Avi Goldfarb,Mo Xiao

We examine US local telephone markets shortly after the Telecommunications Act of 1996. The data suggest that more experienced, better-educated managers tend to enter markets with fewer competitors. This motivates a structural econometric model based on behavioral game theory that allows heterogeneity in managers' ability to conjecture competitor behavior. We find that manager characteristics are key determinants in managerial ability. This estimate of ability predicts out-of-sample success. Also, the measured level of ability rises following a shakeout, suggesting that our behavioral assumptions may be most relevant early in the industry's life cycle. (JEL L96, L98, M10)

Buffalo Hunt: International Trade and the Virtual Extinction of the North American Bison

- American Economic Review---2011---M. Scott Taylor

In the sixteenth century, North America contained 25 to 30 million buffalo; by the late nineteenth century fewer than 100 remained. While removing the buffalo east of the Mississippi took over 100 years, the remaining 10 to 15 million buffalo on the Great Plains were killed in a punctuated slaughter lasting little more than ten years. I employ theory, international trade statistics, and first-person accounts to argue the slaughter was initiated by a foreign-made innovation and fueled by a foreign demand for industrial leather. European demand and American policy failure are jointly responsible for the "Slaughter on the Plains." (JEL F14, N51, N71, Q57)

Extreme Walrasian Dynamics: The Gale Example in the Lab

- American Economic Review---2011---Sean Crockett,Ryan Oprea,Charles Plott

We study David Gale's (1963) economy using laboratory markets. Tatonnement theory predicts prices will diverge from an equitable interior equilibrium toward infinity or zero depending only on initial prices. The inequitable equilibria determined by these dynamics give all gains from exchange to one side of the market. We show surprisingly strong support for these predictions. In most sessions one side of the market eventually outgains the other by more than 20 times, leaving the disadvantaged side to trade for mere pennies. We also find preliminary evidence that these dynamics are sticky, resisting exogenous interventions designed to reverse their trajectories. (JEL C92, D50)

The Slave Trade and the Origins of Mistrust in Africa

- American Economic Review---2011---Nathan Nunn,Leonard Wantchekon

We show that current differences in trust levels within Africa can be traced back to the transatlantic and Indian Ocean slave trades. Combining contemporary individual-level survey data with historical data on slave shipments by ethnic group, we find that individuals whose ancestors were heavily raided during the slave trade are less trusting today. Evidence from a variety of identification strategies suggests that the relationship is causal. Examining causal mechanisms, we show that most of the impact of the slave trade is through factors that are internal to the individual, such as cultural norms, beliefs, and values. (JEL J15, N57, Z13)

Media and Political Persuasion: Evidence from Russia

- American Economic Review---2011---Ruben Enikolopov,Maria Petrova,Ekaterina Zhuravskaya

This paper compares electoral outcomes of 1999 parliamentary elections in Russia among geographical areas with differential access to the only national TV channel independent from the government. It was available to three-quarters of Russia's population and its signal availability was idiosyncratic, conditional on observables. Independent TV decreased aggregate vote for the government party by 8.9 percentage points, increased the combined vote for major opposition parties by 6.3 percentage points, and decreased turnout by 3.8 percentage points. The probability of voting for opposition parties increased for individuals who watched independent TV even controlling for voting intentions measured one month before elections. (JEL D72, L82, P26)

The Consequences of Radical Reform: The French Revolution

- American Economic Review---2011---Daron Acemoglu,Davide Cantoni,Simon Johnson,James Robinson

The French Revolution had a momentous impact on neighboring countries. It removed the legal and economic barriers protecting oligarchies, established the principle of equality before the law, and prepared economies for the new industrial opportunities of the second half of the 19th century. We present within-Germany evidence on the long-run implications of these institutional reforms. Occupied areas appear to have experienced more rapid urbanization growth, especially after 1850. A two-stage least squares strategy provides evidence consistent with the hypothesis that the reforms instigated by the French had a positive impact on growth. (JEL: N13, N43, O47)

Trends in Employment and Earnings of Allowed and Rejected Applicants to the Social Security Disability Insurance Program

- American Economic Review---2011---Till von Wachter,Jae Song,Joyce Manchester

Longitudinal administrative data show that rejected male applicants to the Disability Insurance (DI) program who are younger or have low-mortality impairments such as back pain and mental health problems exhibit substantial labor force attachment. While we confirm that employment rates of older rejected applicants are low, continued high numbers of younger and low-mortality beneficiaries have raised the potential employment of DI beneficiaries. Three findings support economic inducement to apply. Mean preapplication earnings have fallen, rejected applicants experience preapplication declines in earnings, and beneficiaries whose first applications were rejected at the DDS level but who ultimately received benefits exhibit substantial employment. (JEL: H55, J14, J28, J31)

Relative Earnings and Giving in a Real-Effort Experiment

- American Economic Review---2011---Nisvan Erkal,Lata Gangadharan,Nikos Nikiforakis

This paper investigates the relationship between relative earnings and giving in a two-stage, real-effort experiment. In the first stage, four players compete in a tournament that determines their earnings. In the second stage, they decide whether to make a transfer to one or more of their group members. Our main finding is that those ranked first are significantly less likely to give than those ranked second. This difference disappears if individuals learn about the second stage after earning their income or if earnings are randomly determined. This suggests that our main finding is driven by selection based on other-regarding preferences. (JEL: D64, J31)

Relational Contracts and the Value of Loyalty

- American Economic Review---2011---Simon Board

This paper characterizes the optimal contract for a principal who repeatedly chooses among N potential agents under the threat of holdup. Over time, the principal would like to trade with different agents; however, the possibility of ex-post opportunism allows agents to collect rents and creates a fixed cost of initiating new relationships. In the optimal contract, the principal divides agents into "insiders" with whom she trades efficiently, and "outsiders" whom she is biased against. The optimal contract is self-enforcing if the principal is sufficiently patient and can be implemented by an "employment contract" that is robust to asymmetric information. (JEL: C73, D82, D83, D86)

Automobiles on Steroids: Product Attribute Trade-Offs and Technological Progress in the Automobile Sector

- American Economic Review---2011---Christopher Knittel

This paper estimates the technological progress that has occurred since 1980 in the automobile industry and the trade-offs faced when choosing between fuel economy, weight, and engine power characteristics. The results suggest that if weight, horsepower, and torque were held at their 1980 levels, fuel economy could have increased by nearly 60 percent from 1980 to 2006. Once technological progress is considered, meeting the CAFE standards adopted in 2007 will require halting the trend in weight and engine power characteristics, but little more. In contrast, the standards recently announced by the new administration, while attainable, require nontrivial "downsizing." (JEL: L50, L60)

Overborrowing and Systemic Externalities in the Business Cycle

- American Economic Review---2011---Javier Bianchi

Credit constraints linking debt to market-determined prices embody a systemic credit externality that drives a wedge between competitive and constrained socially optimal equilibria, inducing private agents to overborrow. This externality arises because private agents fail to internalize the financial amplification effects of carrying a large amount of debt when credit constraints bind. We conduct a quantitative analysis of this externality in a two-sector dynamic stochastic general equilibrium (DSGE) model of a small open economy calibrated to emerging markets. Raising the cost of borrowing during tranquil times restores constrained efficiency and significantly reduces the incidence and severity of financial crises. (JEL: E13, E32, E44, F41, G01)

Stakes Matter in Ultimatum Games

- American Economic Review---2011---Steffen Andersen,Seda Ertaç,Uri Gneezy,Moshe Hoffman,John List

One of the most robust findings in experimental economics is that individuals in one-shot ultimatum games reject unfair offers. Puzzlingly, rejections have been found robust to substantial increases in stakes. By using a novel experimental design that elicits frequent low offers and uses much larger stakes than in the literature, we are able to examine stakes' effects over ranges of data that are heretofore unexplored. Our main result is that proportionally equivalent offers are less likely to be rejected with high stakes. In fact, our paper is the first to present evidence that as stakes increase, rejection rates approach zero. (JEL: C72, C78, C91)

US International Equity Investment and Past and Prospective Returns

- American Economic Review---2011---Stephanie E. Curcuru,Charles Thomas,Francis Warnock,Jon Wongswan

Counter to extant stylized facts, using newly available data on country allocations in US investors' foreign equity portfolios we find that (i) US investors do not exhibit returns-chasing behavior, but, consistent with partial portfolio rebalancing, tend to sell past winners; and (ii) US investors increase portfolio weights on a country's equity market just prior to its strong performance, behavior inconsistent with an informational disadvantage. Over the past two decades, US investors' foreign equity portfolios outperformed a value-weighted foreign benchmark by 160 basis points per year. (JEL: C58, G11, G15)

The Cross Section of Foreign Currency Risk Premia and Consumption Growth Risk: Comment

- American Economic Review---2011---Craig Burnside

Lustig and Verdelhan (2007) argue that the excess returns to borrowing US dollars and lending in foreign currency "compensate US investors for taking on more US consumption growth risk," yet the stochastic discount factor corresponding to their benchmark model is approximately uncorrelated with the returns they study. Hence, one cannot reject the null hypothesis that their model explains none of the cross sectional variation of the expected returns. Given this finding, and other evidence, I argue that the forward premium puzzle remains a puzzle. (JEL: C58, E21, F31, G11, G12)

The Cross-Section of Foreign Currency Risk Premia and Consumption Growth Risk: Reply

- American Economic Review---2011---Hanno Lustig,Adrien Verdelhan

The consumption growth beta of an investment strategy that goes long in high interest rate currencies and short in low interest rate currencies is large and significant. Consumption risk price differs significantly from zero, even after accounting for the sampling uncertainty introduced by the estimation of the consumption betas. The constant in the regression of average returns on consumption betas is not significant. Additionally, this investment strategy's consumption and market betas increase during recessions and times of crisis, when risk prices are high, implying that the unconditional betas understate its riskiness. (JEL: C58, E21, F31, G11, G12)

Searching and Learning by Trial and Error

- American Economic Review---2011---Steven Callander

I study a dynamic model of trial-and-error search in which agents do not have complete knowledge of how choices are mapped into outcomes. Agents learn about the mapping by observing the choices of earlier agents and the outcomes that are realized. The key novelty is that the mapping is represented as the realized path of a Brownian motion. I characterize for this environment the optimal behavior each period as well as the trajectory of experimentation and learning through time. Applied to new product development, the model shares features of the data with the well-known Product Life Cycle. (JEL D81, D83, D92, L26)

Trends in Quality-Adjusted Skill Premia in the United States, 1960-2000

- American Economic Review---2011---Pedro Carneiro,Sokbae (Simon) Lee

This paper presents new evidence that increases in college enrollment lead to a decline in the average quality of college graduates between 1960 and 2000, resulting in a decrease of 6 percentage points in the college premium. A standard demand and supply framework can qualitatively account for the trend in the college and age premia over this period, but substantial quantitative adjustments are needed to account for changes in quality. (JEL I23, J24, J31)

Nudging Farmers to Use Fertilizer: Theory and Experimental Evidence from Kenya

- American Economic Review---2011---Esther Duflo,Michael Kremer,Jonathan Robinson

We model farmers as facing small fixed costs of purchasing fertilizer and assume some are stochastically present biased and not fully sophisticated about this bias. Such farmers may procrastinate, postponing fertilizer purchases until later periods, when they may be too impatient to purchase fertilizer. Consistent with the model, many farmers in Western Kenya fail to take advantage of apparently profitable fertilizer investments, but they do invest in response to small, time-limited discounts on the cost of acquiring fertilizer (free delivery) just after harvest. Calibration suggests that this policy can yield higher welfare than either laissez-faire policies or heavy subsidies. (JEL Q13, Q12, Q16, Q18)

Aggregation and the PPP Puzzle in a Sticky-Price Model

- American Economic Review---2011---Carlos Carvalho,Fernanda Nechio

We study the purchasing power parity (PPP) puzzle in a multisector, two-country, sticky-price model. Sectors differ in the extent of price stickiness, leading to heterogeneous sectoral real exchange rate dynamics. Deviations from PPP are more volatile and persistent than in an otherwise identical one-sector world economy with the same average frequency of price changes. Under the empirical distribution of price stickiness of the US economy, the model produces PPP deviations with a half-life of 39 months. We provide a structural interpretation of the approaches found in the empirical literature on aggregation and PPP, and reconcile its apparently conflicting findings. (JEL F31, G31)

Private Monitoring and Communication in Cartels: Explaining Recent Collusive Practices

- American Economic Review---2011---Joseph E. Harrington,Andrzej Skrzypacz

Motivated by recent cartel practices, a stable collusive agreement is characterized when firms' prices and quantities are private information. Conditions are derived whereby an equilibrium exists in which firms truthfully report their sales and then make transfers within the cartel based on these reports. The properties of this equilibrium fit well with the cartel agreements in a number of markets including citric acid, lysine, and vitamins. (JEL D43, D82, K21, L12, L61, L65)

International Prices, Costs, and Markup Differences

- American Economic Review---2011---Gita Gopinath,Pierre-Olivier Gourinchas,Chang-Tai Hsieh,Nicholas Li

Relative cross-border retail prices, in a common currency, comove closely with the nominal exchange rate. Using product-level prices and wholesale costs from a grocery chain operating in the United States and Canada, we decompose this variation into relative costs and markup components. The high correlation of nominal and real exchange rates is driven mainly by changes in relative costs. National borders segment markets. Retail prices respond to changes in costs in neighboring stores within the same country but not across the border. Prices have a median discontinuous change of 24 percent at the border and 0 percent at state boundaries. (JEL F31, L11, L81)

The Nature of Credit Constraints and Human Capital

- American Economic Review---2011---Lance Lochner,Alexander Monge-Naranjo

We develop a human capital model with borrowing constraints explicitly derived from government student loan (GSL) programs and private lending under limited commitment. The model helps explain the persistent strong positive correlation between ability and schooling in the United States, as well as the rising importance of family income for college attendance. It also explains the increasing share of undergraduates borrowing the GSL maximum and the rise in student borrowing from private lenders. Our framework offers new insights regarding the interaction of government and private lending, as well as the responsiveness of private credit to economic and policy changes. (JEL D14, H52, I22, I23, J24)

Risk Matters: The Real Effects of Volatility Shocks

- American Economic Review---2011---Jesus Fernandez-Villaverde,Pablo Guerron,Juan F Rubio-Ramirez,Martin Uribe

We show how changes in the volatility of the real interest rate at which small open emerging economies borrow have an important effect on variables like output, consumption, investment, and hours. We start by documenting the strong evidence of time-varying volatility in the real interest rates faced by four emerging economies: Argentina, Brazil, Ecuador, and Venezuela. We estimate a stochastic volatility process for real interest rates. Then, we feed this process in a standard small open economy business cycle model. We find that an increase in real interest rate volatility triggers a fall in output, consumption, investment, hours, and debt. (JEL E13, E20, E32, E43, F32, F43, 011)

The Potential of Social Identity for Equilibrium Selection

- American Economic Review---2011---Roy Chen,Yan Chen

When does a common group identity improve efficiency in coordination games? To answer this question, we propose a group-contingent social preference model and derive conditions under which social identity changes equilibrium selection. We test our predictions in the minimum-effort game in the laboratory under parameter configurations which lead to an inefficient low-effort equilibrium for subjects with no group identity. For those with a salient group identity, consistent with our theory, we find that learning leads to ingroup coordination to the efficient high-effort equilibrium. Additionally, our theoretical framework reconciles findings from a number of coordination game experiments. (JEL C71, C91, D71)

Bayesian Persuasion

- American Economic Review---2011---Emir Kamenica,Matthew Gentzkow

When is it possible for one person to persuade another to change her action? We consider a symmetric information model where a sender chooses a signal to reveal to a receiver, who then takes a noncontractible action that affects the welfare of both players. We derive necessary and sufficient conditions for the existence of a signal that strictly benefits the sender. We characterize sender-optimal signals. We examine comparative statics with respect to the alignment of the sender's and the receiver's preferences. Finally, we apply our results to persuasion by litigators, lobbyists, and salespeople. (JEL D72, D82, D83, K40, M31)

The Fundamental Law of Road Congestion: Evidence from US Cities

- American Economic Review---2011---Gilles Duranton,Matthew Turner

We investigate the effect of lane kilometers of roads on vehicle-kilometers traveled (VKT) in US cities. VKT increases proportionately to roadway lane kilometers for interstate highways and probably slightly less rapidly for other types of roads. The sources for this extra VKT are increases in driving by current residents, increases in commercial traffic, and migration. Increasing lane kilometers for one type of road diverts little traffic from other types of road. We find no evidence that the provision of public transportation affects VKT. We conclude that increased provision of roads or public transit is unlikely to relieve congestion. (JEL R41, R48)

Bid Preference Programs and Participation in Highway Procurement Auctions

- American Economic Review---2011---Elena Krasnokutskaya,Katja Seim

We use data from highway procurement auctions subject to California's Small Business Preference program to study the effect of bid preferences on auction outcomes. Our analysis is based on an estimated model of firms' bidding and participation decisions, which allows us to evaluate the effects of current and alternative policy designs. We show that incorporating participation responses significantly alters the assessment of preferential treatment policies. (JEL D44, H76, R42)

Clearing the Air? The Effects of Gasoline Content Regulation on Air Quality

- American Economic Review---2011---Maximilian Auffhammer,Ryan Kellogg

This paper examines whether US gasoline content regulations, which impose substantial costs on consumers, have successfully reduced ozone pollution. We take advantage of spatial and temporal variation in the regulations' implementation to show that federal gasoline standards, which allow refiners flexibility in choosing a compliance mechanism, did not improve air quality. This outcome occurred because minimizing the cost of compliance does not reduce emissions of those compounds most prone to forming ozone. In California, however, we find that precisely targeted, inflexible regulations requiring the removal of particularly harmful compounds significantly improved air quality. (JEL L51, L71, L78, Q53, Q58)

The Chinese Warrants Bubble

- American Economic Review---2011---Wei Xiong,Jialin Yu

In 2005-2008, over a dozen put warrants traded in China went so deep out of the money that they were almost certain to expire worthless. Nonetheless, each warrant was traded more than three times each day at substantially inflated prices. This bubble is unique in that the underlying stock prices make warrant fundamentals publicly observable and that warrants have predetermined finite maturities. This sample allows us to examine a set of bubble theories. In particular, our analysis highlights the joint effects of short-sales constraints and heterogeneous beliefs in driving bubbles and confirms several key findings of the experimental bubble literature. (JEL G12, G13, O16, P34)

Estimating Marginal Returns to Education

- American Economic Review---2011---Pedro Carneiro,James Heckman,Edward Vytlacil

This paper estimates marginal returns to college for individuals induced to enroll in college by different marginal policy changes. The recent instrumental variables literature seeks to estimate this parameter, but in general it does so only under strong assumptions that are tested and found wanting. We show how to utilize economic theory and local instrumental variables estimators to estimate the effect of marginal policy changes. Our empirical analysis shows that returns are higher for individuals with values of unobservables that make them more likely to attend college. We contrast our estimates with IV estimates of the return to schooling. (JEL I23, J24, J31)

How Demanding Is the Revealed Preference Approach to Demand?

- American Economic Review---2011---Timothy Beatty,Ian A. Crawford

A well-known problem with revealed preference methods is that when data are found to satisfy their restrictions it is hard to know whether this should be viewed as a triumph for economic theory, or a warning that these conditions are so undemanding that almost anything goes. This paper allows researchers to make this distinction. Our approach uses an axiomatic characterization of a measure of predictive success due to Selten (1991). We illustrate the idea using a panel dataset.

The results show that this approach can lead us to radically reassess our view of the empirical performance of economic theory. (JEL D11, D12)

Currency Misalignments and Optimal Monetary Policy: A Reexamination

- American Economic Review---2011---Charles Engel

This paper examines optimal monetary policy in an open-economy two-country world with sticky prices under pricing to market. We show that currency misalignments are inefficient and lower world welfare. We find that optimal policy must target consumer price inflation, the output gap, and the currency misalignment. The paper derives the loss function of a cooperative monetary policymaker and the optimal targeting rules. The model is a modified version of Clarida, Gali, and Gertler (JME, 2002). The key change is that we allow pricing to market or local-currency pricing and consider the policy implications of currency misalignments. (JEL E52, F31, F41)

Aggregate and Idiosyncratic Risk in a Frictional Labor Market

- American Economic Review---2011---Leena Rudanko

This paper develops a tractable extension of a Mortensen-Pissarides style matching model that allows for risk averse workers with limited ability to smooth consumption. I show that this leads to a form of equilibrium wage rigidity, as the inability of workers to smooth their consumption across unemployment and employment spells changes how unemployed workers value wage offers, and hence also the offers that employers find profitable to make. In the model risk-averse entrepreneurs use optimal long-term contracts to attract risk averse workers facing limited access to asset markets. A simple analytic representation for the equilibrium is derived. (JEL D81, E21, E24, E32, J31, J41, J64)

Expectations, Learning, and Business Cycle Fluctuations

- American Economic Review---2011---Stefano Eusepi,Bruce Preston

This paper develops a theory of expectations-driven business cycles based on learning. Agents have incomplete knowledge about how market prices are determined and shifts in expectations of future prices affect dynamics. Learning breaks the tight link between fundamentals and equilibrium prices, inducing periods of erroneous optimism or pessimism about future returns to capital and wages which subsequent data partially validate. In a real business cycle model, the theoretical framework amplifies and propagates technology shocks. Moreover, it produces agents' forecast errors consistent with business cycle properties of forecast errors for a wide range of variables from the Survey of Professional Forecasters. (JEL C53, D83, D84, E32, E37)

Environmental Accounting for Pollution in the United States Economy

- American Economic Review---2011---Nicholas Muller,Robert Mendelsohn,William Nordhaus

This study presents a framework to include environmental externalities into a system of national accounts. The paper estimates the air pollution damages for each industry in the United States. An integrated-assessment model quantifies the marginal damages of air pollution emissions for the US which are multiplied times the quantity of emissions by industry to compute gross damages. Solid waste combustion, sewage treatment, stone quarrying, marinas, and oil and coal-fired power plants have air pollution damages larger than their value added. The largest industrial contributor to external costs is coal-fired electric generation, whose damages range from 0.8 to 5.6 times value added. (JEL E01, L94, Q53, Q56)

From Financial Crash to Debt Crisis

- American Economic Review---2011---Carmen Reinhart,Kenneth Rogoff

Newly developed historical time series on public debt, along with data on external debts, allow a deeper analysis of the debt cycles underlying serial debt and banking crises. We test three related hypotheses at both "world" aggregate levels and on an individual country basis. First, external debt surges are an antecedent to banking crises. Second, banking crises (domestic and those in financial centers) often precede or accompany sovereign debt crises; we find they help predict them. Third, public borrowing surges ahead of external sovereign default, as governments have "hidden domestic debts" that exceed the better documented levels of external debt. (JEL E44, F34, F44, G01, H63, N20)

An Experimental Component Index for the CPI: From Annual Computer Data to Monthly Data on Other Goods

- American Economic Review---2011---Tim Erickson,Ariel Pakes

The CPI component indices are obtained from comparing price quotes at a given store in different periods. If we omit comparisons from goods in the store in the initial, but not in the comparison, period we generate a selection bias: goods that exit are disproportionately obsolete goods that have falling prices. Building on Pakes (2003), we explain why standard hedonic predictions for second-period prices of exiting goods do not account for this bias. New hedonic methods are derived, shown to have desirable properties, and are applied to three CPI samples where they generate significant selection corrections. (JEL C43, E31)

Peer Effects, Teacher Incentives, and the Impact of Tracking: Evidence from a Randomized Evaluation in Kenya

- American Economic Review---2011---Esther Duflo,Pascaline Dupas,Michael Kremer

To the extent that students benefit from high-achieving peers, tracking will help strong students and hurt weak ones. However, all students may benefit if tracking allows teachers to better tailor their instruction level. Lower-achieving pupils are particularly likely to benefit from tracking when teachers have incentives to teach to the top of the distribution. We propose a simple model nesting these effects and test its implications in a randomized tracking experiment conducted with 121 primary schools in Kenya. While the direct effect of high-achieving peers is positive, tracking benefited lower-achieving pupils indirectly by allowing teachers to teach to their level. (JEL I21, J45, O15)

The Impact of Regulations on the Supply and Quality of Care in Child Care Markets

- American Economic Review---2011---V. Joseph Hotz,Mo Xiao

We examine the impact of state child care regulations on the supply and quality of care in child care markets. We exploit panel data on both individual establishments and local markets to control for state, time, and, where possible, establishment-specific fixed effects to mitigate the potential bias due to policy endogeneity. We find that the imposition of regulations reduces the number of center-based child care establishments, especially in lower income markets. However, such regulations increase the quality of services provided, especially in higher income areas. Thus, there are winners and losers from the regulation of child care services. (JEL H75, J13, L51, L84)

Competition among Sellers in Securities Auctions

- American Economic Review---2011---Alexander S. Gorbenko,Andrey Malenko

We study simultaneous security-bid second-price auctions with competition among sellers for potential bidders. The sellers compete by designing ordered sets of securities that the bidders can offer as payment for the assets. Upon observing auction designs, potential bidders decide which auctions to enter. We characterize all symmetric equilibria and show that there always exist equilibria in which auctions are in standard securities or their combinations. In large markets the unique equilibrium is auctions in pure cash. We extend the model for competition in reserve prices and show that binding reserve prices never constitute equilibrium as long as equilibrium security designs are not call options. (JEL D44, D82, G10)

Unhealthy Insurance Markets: Search Frictions and the Cost and Quality of Health Insurance

- American Economic Review---2011---Randall D. Cebul,James Rebitzer,Lowell J. Taylor,Mark E. Votruba

We analyze the effect of search frictions in the market for commercial health insurance. Frictions increase insurance premiums (enough to transfer 13.2 percent of consumer surplus from fully insured employer groups to insurers—approximately $34.4 billion in 1997); and increase insurance turnover (by 64 percent for the average policy). This rent transfer harms consumers and—when combined with heightened turnover—reduces incentives to invest in future health. We also find that a publicly financed insurance option can improve the efficiency of private insurance markets by reducing search friction induced distortions in pricing and marketing efforts. (JEL D83 G22, I18)

Segregation and the Quality of Government in a Cross Section of Countries

- American Economic Review---2011---Alberto Alesina,Ekaterina Zhuravskaya

We provide a new compilation of data on ethnic, linguistic, and religious composition at the subnational level for a large number of countries. Using these data, we measure segregation of groups within the country. To overcome the endogeneity problem that arises because of mobility and endogenous internal borders, we construct an instrument for segregation. We find that more ethnically and linguistically segregated countries, i.e., those where groups live more spatially separately, have a lower quality of government; there is no relationship between religious segregation and governance. Trust is an important channel of influence; it is lower in more segregated countries. (JEL H11, H77, J15, O17, Z12, Z13)

New York City Cab Drivers' Labor Supply Revisited: Reference-Dependent Preferences with Rational-Expectations Targets for Hours and Income

- American Economic Review---2011---Vincent Crawford,Juanjuan Meng

This paper proposes a model of cab drivers' labor supply, building on Henry S. Farber's (2005, 2008) empirical analyses and Botond Koszegi and Matthew Rabin's (2006; henceforth "KR") theory of reference-dependent preferences. Following KR, our model has targets for hours as well as income, determined by proxied rational expectations. Our model, estimated with Farber's data, reconciles his finding that stopping probabilities are significantly related to hours but not income with Colin Camerer et al.'s (1997) negative "wage" elasticity of hours; and avoids Farber's criticism that estimates of drivers' income targets are too unstable to yield a useful model of labor supply. (JEL J22, J31, L92)

Climbing atop the Shoulders of Giants: The Impact of Institutions on Cumulative Research

- American Economic Review---2011---Jeffrey L. Furman,Scott Stern

While cumulative knowledge production is central to growth, little empirical research investigates how institutions shape whether existing knowledge can be exploited to create new knowledge. This paper assesses the impact of a specific institution, a biological resource center, whose objective is to certify and disseminate knowledge. We disentangle the marginal impact of this institution on cumulative research from the impact of selection, in which the most important discoveries are endogenously linked to research-enhancing institutions. Exploiting exogenous shifts of biomaterials across institutional settings and employing a difference-in-differences approach, we find that effective institutions amplify the cumulative impact of individual scientific discoveries. (JEL D02, D83, I23, O30)

Finance and Development: A Tale of Two Sectors

- American Economic Review---2011---Francisco Buera,Joseph Kaboski,Yongseok Shin

We develop a quantitative framework to explain the relationship between aggregate/sector-level total factor productivity (TFP) and financial development across countries. Financial frictions distort the allocation of capital and entrepreneurial talent across production units, adversely affecting measured productivity. In our model, sectors with larger scales of operation (e.g., manufacturing) have more financing needs, and are hence disproportionately vulnerable to financial frictions. Our quantitative analysis shows that financial frictions account for a substantial part of the observed cross-country differences in output per worker, aggregate TFP, sector-level relative productivity, and capital-to-output ratios. (JEL E23, E44, O41, O47)

Dynamics and Stagnation in the Malthusian Epoch

- American Economic Review---2011---Quamrul Ashraf,Oded Galor

This paper examines the central hypothesis of the influential Malthusian theory, according to which improvements in the technological environment during the preindustrial era had generated only temporary gains in income per capita, eventually leading to a larger, but not significantly richer, population. Exploiting exogenous sources of cross-country variations in land productivity and the level of technological advancement, the analysis demonstrates that, in accordance with the theory, technological superiority and higher land productivity had significant positive effects on population density but insignificant effects on the standard of living, during the time period 1-1500 CE. (JEL N10, N30, N50, O10, O40, O50)

Bargaining in Stationary Networks

- American Economic Review---2011---Mihai Manea

We study an infinite horizon game in which pairs of players connected in a network are randomly matched to bargain. Players who reach agreement are replaced by new players at the same positions in the network. We show that all equilibria are payoff equivalent. The payoffs and the set of agreement links converge as players become patient. Several new concepts—mutually estranged sets, partners, and shortage ratios—provide insights into the relative strengths of the positions in the network. We develop a procedure to determine the limit equilibrium payoffs for all players. Characterizations of equitable and nondiscriminatory networks are also obtained. (JEL C78, D85)

State Misallocation and Housing Prices: Theory and Evidence from China

- American Economic Review---2011---Shing-Yi Wang

This paper examines the equilibrium price effects of the privatization of housing assets that were previously owned and allocated by the state. I develop a theoretical framework that shows that privatization can have ambiguous effects on prices in the private market, and tha the degree of misallocation of the assets prior to privatization determines the subsequent price effects. I test the predictions of the model using a large-scale housing reform in China. The results suggest that the removal of price distortions allowed households to increase their consumption of housing and led to an increase in equilibrium housing prices. (JEL L33, O18, P25, R31, R38)

Forced Sales and House Prices

- American Economic Review---2011---John Campbell,Stefano Giglio,Parag Pathak

This paper uses data on all house transactions in Massachusetts over the last 20 years to show that houses sold after foreclosure, or close in time to the death or bankruptcy of a seller, are sold at lower prices than other houses. Foreclosure discounts are on average at 27 percent of the value of a house. Moreover, foreclosures that take place within small local geographies of a house lower the price at which it is sold. Our preferred estimate is that a foreclosure at a distance of 0.05 miles lowers the price of a house by about 1 percent.

House Prices, Home Equity-Based Borrowing, and the US Household Leverage Crisis

- American Economic Review---2011---Atif Mian,Amir Sufi

Borrowing against the increase in home equity by existing homeowners was responsible for a significant fraction of the rise in US household leverage from 2002 to 2006 and the increase in defaults from 2006 to 2008. Instrumental variables estimation shows that homeowners extracted 25 cents for every dollar increase in home equity. Home equity-based borrowing was stronger for younger households and households with low credit scores. The evidence suggests that borrowed funds were used for real outlays. Home equity-based borrowing added $1.25 trillion in household debt from 2002 to 2008, and accounts for at least 39 percent of new defaults from 2006 to 2008. JEL: D14, R31

Panic on the Streets of London: Police, Crime, and the July 2005 Terror Attacks

- American Economic Review---2011---Mirko Draca,Stephen Machin,Robert Witt

In this paper we study the causal impact of police on crime, looking at what happened to crime and police before and after the terror attacks that hit central London in July 2005. The attacks resulted in a large redeployment of police officers to central London as compared to outer London. During this time, crime fell significantly in central relative to outer London. The instrumental variable approach we use uncovers an elasticity of crime with respect to police of approximately -0.3 to -0.4, so that a 10 percent increase in police activity reduces crime by around 3 to 4 percent. JEL: K42

Barriers to Investment in Polarized Societies

- American Economic Review---2011---Marina Azzimonti

I present a tractable dynamic model of political economy where disagreements about the composition of public spending result in implementation of short-sighted policies. Excessive taxation reduces the return to physical capital and hence investment rates, which slows down growth along the transition. In the long run, output, consumption and welfare are inefficiently low. The larger is the degree of polarization, the greater is the inefficiency. Political stability mitigates the effects of polarization by making the incumbent internalize the dynamic inefficiencies introduced by the choice of growth-retarding policies. JEL: D72, E22, E23, E62, H25, O16, O17

The Area and Population of Cities: New Insights from a Different Perspective on Cities

- American Economic Review---2011---Hernán D. Rozenfeld,Diego Rybski,Xavier Gabaix,Hernán A. Makse

The distribution of city populations has attracted much attention, in part because it constrains models of local growth. However, there is no consensus on the distribution below the very upper tail, because available data need to rely on "legal" rather than "economic" definitions for medium and small cities. To remedy this difficulty, we construct cities "from the bottom up" by clustering populated areas obtained from high-resolution data. We find that Zipf's law for population holds for cities as small as 5,000 inhabitants in Great Britain and 12,000 inhabitants in the US. We also find a Zipf's law for areas. JEL: R11, R12, R23

The Effects of Lottery Prizes on Winners and Their Neighbors: Evidence from the Dutch Postcode Lottery

- American Economic Review---2011---Peter Kuhn,Peter Kooreman,Adriaan Soetevent,Arie Kapteyn

Each week, the Dutch Postcode Lottery (PCL) randomly selects a postal code, and distributes cash and a new BMW to lottery participants in that code. We study the effects of these shocks on lottery winners and their neighbors. Consistent with the life-cycle hypothesis, the effects on winners' consumption are largely confined to cars and other durables. Consistent with the theory of in-kind transfers, the vast majority of BMW winners liquidate their BMWs. We do, however, detect substantial social effects of lottery winnings: PCL nonparticipants who live next door to winners have significantly higher levels of car consumption than other nonparticipants. JEL: D14, D91, H23, H27

Did Household Consumption Become More Volatile?

- American Economic Review---2011---Olga Gorbachev

I show that after accounting for predictable variation arising from movements in real interest rates, preferences and income shocks, liquidity constraints and measurement errors, volatility of household consumption in the US increased by 25 percent between 1970 and 2004. The increase was lower than that of volatility of family income. Nonwhite and those with less than 13 years of education, for whom there was no differential increase in income volatility, experienced a significantly larger increase in volatility of household consumption. Substantial differences in wealth and access to credit markets point to the main reason for this divide. JEL: D12, D14, E21, J15

Strotz Meets Allais: Diminishing Impatience and the Certainty Effect: Comment

- American Economic Review---2011---Kota Saito

Halevy (2008) states the equivalence between diminishing impatience (i.e., quasi-hyperbolic discounting) and the common ratio effect. The present paper shows that one way of the equivalence is false and shows the correct and general relationships: diminishing impatience is equivalent to the certainty effect and that strong diminishing impatience (i.e., hyperbolic discounting) is equivalent to the common ratio effect. JEL: D81

Unemployment, Vacancies, Wages

- American Economic Review---2011---Peter Diamond

2011

Markets with Search Friction and the DMP Model

- American Economic Review---2011---Dale Mortensen

2011

Equilibrium in the Labor Market with Search Frictions

- American Economic Review---2011---Christopher Pissarides

2011

The Role of Trading Frictions in Real Asset Markets

- American Economic Review---2011---Alessandro Gavazza

This paper investigates how trading frictions vary with the thickness of the asset market by examining patterns of asset allocations and prices in commercial aircraft markets. The empirical analysis indicates that assets with a thinner market are less liquid -- i.e., more difficult to sell. Thus, firms hold on longer to them amid profitability shocks. Hence, when markets for assets are thin, firms' average productivity and capacity utilization are lower, and the dispersions of productivity and of capacity utilization are higher. In turn, prices of assets with a thin market are lower and have a higher dispersion. (JEL A12, L11, L93)

Read All about It!! What Happens Following a Technology Shock?

- American Economic Review---2011---Michelle Alexopoulos

Existing indicators of technical change are plagued by shortcomings. I present new measures based on books published in the field of technology that resolve many of these problems and use them to identify the impact of technology shocks on economic activity. They are positively linked to changes in R&D and scientific knowledge, and capture the new technologies' commercialization dates. Changes in information technology are found to be important sources of economic fluctuations in the post-WWII period, and total factor productivity, investment, and, to a lesser extent, labor are all shown to increase following a positive technology shock. (JEL E22, E23, E32, O33, O34, O47)

Choice Inconsistencies among the Elderly: Evidence from Plan Choice in the Medicare Part D Program

- American Economic Review---2011---Jason Abaluck,Jonathan Gruber

We evaluate the choices of elders across their insurance options under the Medicare Part D Prescription Drug plan, using a unique dataset of prescription drug claims matched to information on the characteristics of choice sets. We document that elders place much more weight on plan premiums than on expected out-of-pocket costs; value plan financial characteristics beyond any impacts on their own financial expenses or risk; and place almost no value on variance- reducing aspects of plans. Partial equilibrium welfare analysis implies that welfare would have been 27 percent higher if patients had all chosen rationally. (JEL D12, I11, J14)

Participation

- American Economic Review---2011---Gary Charness,Martin Dufwenberg

We show experimentally that whether and how communication achieves beneficial social outcomes in a hidden-information context depends crucially on whether low-talent agents can participate in a Pareto-improving outcome. Communication is effective (and patterns of lies and truth quite systematic) when this is feasible, but otherwise completely ineffective. We examine the data in light of two potentially relevant behavioral models: cost-of-lying and guilt-fromblame. (JEL D82, D83, Z13)

What Do Trade Negotiators Negotiate About? Empirical Evidence from the World Trade Organization

- American Economic Review---2011---Kyle Bagwell,Robert Staiger

According to the terms-of-trade theory, governments use trade agreements to escape from a terms-of-trade-driven prisoner's dilemma. We use the terms-of-trade theory to develop a relationship that predicts negotiated tariff levels on the basis of pre-negotiation data: tariffs, import volumes and prices, and trade elasticities. We then confront this predicted relationship with data on the outcomes of tariff negotiations associated with the accession of new members to the World Trade Organization. We find strong and robust support for the central predictions of the terms-of-trade theory in the observed pattern of negotiated tariff cuts. (JEL F11, F13)

Electoral Accountability and Corruption: Evidence from the Audits of Local Governments

- American Economic Review---2011---Claudio Ferraz,Frederico Finan

We show that political institutions affect corruption levels. We use audit reports in Brazil to construct new measures of political corruption in local governments and test whether electoral accountability affects the corruption practices of incumbent politicians. We find significantly less corruption in municipalities where mayors can get reelected. Mayors with reelection incentives misappropriate 27 percent fewer resources than mayors without reelection incentives. These effects are more pronounced among municipalities with less access to information and where the likelihood of judicial punishment is lower. Overall our findings suggest that electoral rules that enhance political accountability play a crucial role in constraining politician's corrupt behavior. (JEL D72, K42, O17)

R&D Investment, Exporting, and Productivity Dynamics

- American Economic Review---2011---Bee Yan Aw,Mark Roberts,Yi Xu

This paper estimates a dynamic structural model of a producer's decision to invest in R&D and export, allowing both choices to endogenously affect the future path of productivity. Using plant-level data for the Taiwanese electronics industry, both activities are found to have a positive effect on the plant's future productivity. This in turn drives more plants to self-select into both activities, contributing to further productivity gains. Simulations of an expansion of the export market are shown to increase both exporting and R&D investment and generate a gradual within-plant productivity improvement. (JEL D24, F14, G31, L63, O31, O33)

Linking Conflict to Inequality and Polarization

- American Economic Review---2011---Joan Esteban,Debraj Ray

In this paper we study a behavioral model of conflict that provides a basis for choosing certain indices of dispersion as indicators for conflict. We show that a suitable monotone transform of the equilibrium level of conflict can be proxied by a linear function of the Gini coefficient, the Herfindahl-Hirschman fractionalization index, and a specific measure of polarization due to Esteban and Ray. (JEL D31, D63, D74)

Using Loopholes to Reveal the Marginal Cost of Regulation: The Case of Fuel-Economy Standards

- American Economic Review---2011---Soren Anderson,James Sallee

Estimating the cost of regulation is difficult. Firms sometimes reveal costs indirectly, however, when they exploit loopholes to avoid regulation. We apply this insight to fuel economy standards for automobiles. These standards feature a loophole that gives automakers a bonus when they equip a vehicle with flexible-fuel capacity. Profitmaximizing automakers will equate the marginal cost of compliance using the loophole, which is observable, with the unobservable costs of strategies that genuinely improve fuel economy. Based on this insight, we estimate that tightening standards by one mile per gallon would have cost automakers just $9-$27 per vehicle in recent years. (JEL L51, L62, Q48)

Strike Three: Discrimination, Incentives, and Evaluation

- American Economic Review---2011---Christopher A. Parsons,Johan Sulaeman,Michael C. Yates,Daniel Hamermesh

Major League Baseball umpires express their racial/ethnic preferences when they evaluate pitchers. Strikes are called less often if the umpire and pitcher do not match race/ethnicity, but mainly where there is little scrutiny of umpires. Pitchers understand the incentives and throw pitches that allow umpires less subjective judgment (e.g., fastballs over home plate) when they anticipate bias. These direct and indirect effects bias performance measures of minorities downward. The results suggest how discrimination alters discriminated groups' behavior generally. They imply that biases in measured productivity must be accounted for in generating measures of wage discrimination. (JEL J15, J31, J44, J71, L83)

The Inflation-Output Trade-Off with Downward Wage Rigidities

- American Economic Review---2011---Pierpaolo Benigno,Luca Ricci

The macroeconomic implications of downward nominal wage rigidities are analyzed via a dynamic stochastic general equilibrium model featuring aggregate and idiosyncratic shocks. A closed-form solution for a long-run Phillips curve relates average output gap to average wage inflation: it is virtually vertical at high inflation and flattens at low inflation. Macroeconomic volatility shifts the curve outwards and reduces output. The results imply that stabilization policies play an important role, and that optimal inflation may be positive and differ across countries with different macroeconomic volatility. Results are robust to relaxing the wage constraint, for example, when large idiosyncratic shocks arise. (JEL E23, E24, E31, E63)

Education and Labor Market Discrimination

- American Economic Review---2011---Kevin Lang,Michael Manove

Using a model of statistical discrimination and educational sorting, we explain why blacks get more education than whites of similar cognitive ability, and we explore how the Armed Forces Qualification Test (AFQT), wages, and education are related. The model suggests that one should control for both AFQT and education when comparing the earnings of blacks and whites, in which case a substantial black-white wage differential emerges. We reject the hypothesis that differences in school quality between blacks and whites explain the wage and education differentials. Our findings support the view that some of the black-white wage differential reflects the operation of the labor market. (JEL I21, J15, J24, J31, J71)

Face Value

- American Economic Review---2011---Catherine Eckel,Ragan Petrie

People pay attention to the appearance of others, and personal characteristics can affect many types of decisions. We ask, is there informational value in a face in a situation where trust and reciprocity can increase earnings? We use a laboratory trust game experiment where subjects are unable to observe a counterpart, must observe a counterpart, or can pay to reveal a counterpart's photograph. Both senders and responders are willing to pay to observe the photos, and we show that behavior, earnings, and efficiency are affected. When subjects are "face to face," efficiency is enhanced, and senders have higher earnings. (JEL D12, D83, Z13)

Term Premia and Inflation Uncertainty: Empirical Evidence from an International Panel Dataset

- American Economic Review---2011---Jonathan H. Wright

This paper provides cross-country empirical evidence on term premia. I construct a panel of zero-coupon nominal government bond yields spanning ten industrialized countries and nearly two decades. I hence compute forward rates and use two different methods to decompose these forward rates into expected future short-term interest rates and term premiums. The first method uses an affine term structure model with macroeconomic variables as unspanned risk factors; the second method uses surveys. I find that term premiums declined internationally over the sample period, especially in countries that apparently reduced inflation uncertainty by making substantial changes in their monetary policy frameworks. (JEL E13, E43, E52, G12, H63)

Asymmetric Information, Adverse Selection and Online Disclosure: The Case of eBay Motors

- American Economic Review---2011---Gregory Lewis

Since Akerlof (1970), economists have understood the adverse selection problem that information asymmetries can create in used goods markets. The remarkable growth in online used goods auctions thus poses a puzzle. Part of the solution is that sellers voluntarily disclose their private information on the auction web page. This defines a precise contract -- to deliver the car shown for the closing price -- which helps protect the buyer from adverse selection. I test this theory using data from eBay Motors, finding that online disclosures are important price determinants, and that disclosure costs impact both the level of disclosure and prices. (JEL D44, D82, L81)

Ambiguity Models and the Machina Paradoxes

- American Economic Review---2011---Aurelien Baillon,Olivier l'Haridon,Laetitia Placido

Machina (2009) introduced two examples that falsify Choquet expected utility, presently one of the most popular models of ambiguity. This article shows that Machina's examples falsify not only the model mentioned, but also four other popular models for ambiguity of the literature, namely maxmin expected utility, variational preferences, α-maxmin, and the smooth model of ambiguity aversion. Thus, Machina's examples pose a challenge to most of the present field of ambiguity. Finally, the paper discusses how an alternative representation of ambiguity-averse preferences works to accommodate the Machina paradoxes and what drives the results. (JEL D81)

Optimal Policy Intervention and the Social Value of Public Information

- American Economic Review---2011---Jonathan G. James,Phillip Lawler

Svensson (2006) argues that Morris and Shin (2002) is, contrary to what is claimed, pro-transparency. This paper reexamines the issue but with an important modification to the original Morris and Shin framework. Recognizing that central banks impact the economy not only indirectly via public announcements, but also directly through policy actions, we consider the social value of public information in the presence of active policy intervention. Our results strengthen Morris and Shin's conclusions considerably: in particular, we find that public disclosure of the central bank's information is unambiguously, i.e., regardless of parameter values, undesirable. (JEL D82, D83, E52, E58)

Why Do Payment Card Networks Charge Proportional Fees?

- American Economic Review---2011---Oz Shy,Zhu Wang

This paper explains why payment card networks charge fees that are proportional to the transaction values instead of charging fixed per-transaction fees. We show that, when card networks and merchants both have market power, card networks earn higher profits by charging proportional fees. It is also shown that competition among merchants reduces card networks' gains from using proportional fees relative to fixed per-transaction fees. Merchants are found to earn lower profits under proportional fees, whereas consumer utility and social welfare are higher. Our welfare results are then evaluated with respect to the current regulatory policy debates. (JEL E42, G21, G28)

Information and Prices with Capacity Constraints

- American Economic Review---2011---Benjamin Lester

In the theoretical literature on consumer search, one conclusion is nearly universal: as buyers become better able to observe and compare prices ex ante, sellers will set lower prices in equilibrium. In this paper, I examine a standard consumer search model with one small -- yet often relevant -- additional restriction: I assume that sellers are capacity constrained. In this environment, I illustrate that the conventional wisdom regarding information and prices does not necessarily hold: having more informed consumers can lead to a decrease in prices, have no effect at all, or even lead to an increase in prices.

Group Size and Incentives to Contribute: A Natural Experiment at Chinese Wikipedia

- American Economic Review---2011---Xiaoquan (Michael) Zhang,Feng Zhu

The literature on the private provision of public goods suggests an inverse relationship between incentives to contribute and group size. We find, however, that after an exogenous reduction of group size at Chinese Wikipedia, the nonblocked contributors decrease their contributions by 42.8 percent on average. We attribute the cause to social effects: contributors receive social benefits that increase with both the amount of their contributions and group size, and the shrinking group size weakens these social benefits. Consistent with our explanation, we find that the more contributors value social benefits, the more they reduce their contributions after the block. (JEL H41, L17, L82)

Fertility and the Personal Exemption: Comment

- American Economic Review---2011---Richard Crump,Gopi Goda,Kevin Mumford

One of the most commonly cited studies on the effect of child subsidies on fertility, Whittington, Alm, and Peters (1990), claimed a large positive effect of child tax benefits on fertility using time series methods. We revisit this question in light of recent increases in child tax benefits by replicating this earlier study and extending the analysis. We do not find strong evidence to justify the model specification from the original paper. Moreover, even if the original specification is appropriate, we show that the results are not robust to more general measures of child tax benefits. (JEL H24, J13)

Returns to Education: Evidence from UK Twins: Comment

- American Economic Review---2011---Vikesh Amin

In an article published in the American Economic Review, Dorothe Bonjour et al. (2003) used a dataset on female monozygotic twins and showed that the within-twin estimated return to one year of education was 7.7 percent and statistically significant at the 5 percent level. This comment illustrates that the point estimate conclusion is driven by one twin pair, which is an outlier in the dataset. If one eliminates this twin pair, then the estimated return to education is 5.1 percent and statistically significant at the 10 percent level only. (JEL I21, J16, J24, J31)

Corrigendum: Psychological Pressure in Competitive Environments: Evidence from a Randomized Natural Experiment

- American Economic Review---2011---Jose Apesteguia,Ignacio Palacios-Huerta

2011

Foreword

- American Economic Review---2011---Orley Ashenfelter

2011

Editors' Introduction

- American Economic Review---2011---William Johnson,Samantha Bennett

2011

Inequality at Birth: Some Causes and Consequences

- American Economic Review---2011---Janet Currie

2011

Recessions, Retirement, and Social Security

- American Economic Review---2011---Courtney Coile,Phillip Levine

This paper examines how labor market fluctuations around the time of retirement affect the labor force status and Social Security receipt of individuals ages 55 to 69 and the income of retirees in their 70s, using data from the March Current Population Survey, Census, and American Community Surveys. We find that workers are more likely to leave the labor force, to collect Social Security earlier, and to have lower Social Security income when they face a recession near retirement. The impact is greatest for the less-educated, who are more susceptible to job loss and rely more heavily on Social Security.

What Explains Changes in Retirement Plans during the Great Recession?

- American Economic Review---2011---Gopi Goda,John B. Shoven,Sita Slavov

We examine changes in subjective probabilities regarding retirement between the 2006 and 2008 waves of the Health and Retirement Study. Using a first-difference approach to eliminate individual heterogeneity, we find that the steep drop in asset prices in 2008 increased the reported probability of working at age 62 during the Great Recession. Increasing unemployment at least partly attenuated this effect, but subjective probabilities of working did not respond to changes in housing markets. Older workers' probabilities of working were more sensitive to fluctuations in the stock market, but less responsive to changes in labor market conditions.

Time to Retire? The Effect of State Fiscal Policies on Retirement Decisions

- American Economic Review---2011---Tami Gurley-Calvez,Brian Hill

Our research addresses the importance of state fiscal policies on the probability of retirement using a panel of individual tax return data. Results indicate that a one percentage point increase in the income or sales tax rate reduces the probability of retirement by about 8.7 percent. The evidence suggests that state spending might also affect retirement decisions but magnitudes are inconclusive. In general, the results suggest that the income effect dominates; that is, higher tax rates at the state-level reduce disposable income and decrease the probability of retiring. Results are similar in models examining single and married filers separately.

Crash and Wait? The Impact of the Great Recession on the Retirement Plans of Older Americans

- American Economic Review---2011---Brooke Helppie McFall

This study uses data from pre- and post-crash surveys from the Cognitive Economics study to examine the impact of recent stock and labor market wealth losses on the planned retirement ages of older Americans. Regression estimates imply that the average wealth loss between July 2008 and May/June 2009 is associated with an increase in planned retirement age of approximately 2.5 months. Furthermore, pessimism about future stock market returns is found to amplify the impact of wealth losses on retirement timing.

Does Concentration Matter? Measurement of Petroleum Merger Price Effects

- American Economic Review---2011---Daniel Hosken,Louis Silvia,Christopher Taylor

We have estimated the price effects of two changes in market structure resulting from two changes in the ownership of gasoline refineries in the San Francisco Bay area: Tosco's purchase of Unocal's Rodeo refinery in April 1997 and UDS's purchase of Tosco's Avon refinery in August 2000. These events provide a relatively unique opportunity to test a price concentration relationship. If market concentration is related to price, then we should observe prices increase and then decrease by a similar amount following these transactions. We do not find evidence of a consistent price concentration relationship.

More Evidence on the Performance of Merger Simulations

- American Economic Review---2011---Matthew Weinberg

Merger simulations are commonly used to simulate the effects of potential mergers. Despite the large resources devoted to merger review, little evidence exists on the accuracy of these methods. This paper uses the acquisition of Tambrands by Proctor and Gamble to provide evidence on the efficacy of merger simulation. Two simple demand systems are estimated under several identification assumptions and combined with a static model of price competition. Simulations predict small price effects of about 1 percent for the merging firms' brands, while direct estimates indicate the merger raised prices by 5-8 percent.

Challenges in Merger Simulation Analysis

- American Economic Review---2011---Christopher Knittel,Konstantinos Metaxoglou

In this paper, we share our experience with merger simulations using a Random Coefficient Logit model on the demand side and assuming a static Bertrand game on the supply side. Drawing largely from our work in Knittel and Metaxoglou (2008), we show that different demand estimates obtained from different combinations of optimization algorithms and starting values lead to substantial differences in post-merger market outcomes using metrics such as industry profits, and change in consumer welfare and prices.

The Effect of Bottle Laws on Income: New Empirical Results

- American Economic Review---2011---Bevin Ashenmiller

Eleven US states have "bottle laws," deposit-refund programs that combine a consumption tax with a recycling rebate. When states set the bottle deposit low enough it becomes a tax on high wage earners, for whom the opportunity cost of their time prevents them from returning containers for their deposit. However, this bottle deposit will still be high enough that harvesting recyclables provides employment for low wage earners. Using individual data on observed cash recycling behavior, this paper shows that an unintended consequence of bottle laws is that they have the potential to increase the incomes of very low wage workers.

Promoting Recycling: Private Values, Social Norms, and Economic Incentives

- American Economic Review---2011---W Viscusi,Joel Huber,Jason Bell

Evidence from a nationally representative sample of households illuminates the determinants of recycling behavior for plastic water bottles. Private values of the environment are influential in promoting recycling, as are personal norms for pro-environmental behavior. However, social norms with respect to the assessment of the household's recycling behaviors by others have little independent effect. Particularly influential are policies that create economic incentives to promote recycling either through state recycling laws that reduce the time and inconvenience costs of recycling or through bottle deposits. Effective policies can have a discontinuous effect at the individual level, transforming non-recyclers into avid recyclers.

The Environmental Consequences of Global Reuse

- American Economic Review---2011---Thomas Kinnaman,Hide-Fumi Yokoo

This paper summarizes a two-country model that solves for optimal tax rates to achieve efficiency in an economy with international trade in used consumer electronics. If only the developed nation can tax the disposal of e-waste, then the global Pareto Optimum can be obtained by either imposing an import tariff on used consumer electronics or subsidizing the return of e-waste for disposal in the developed country. The global Pareto Optimum can also be obtained by reducing the disposal tax in the developed country to a level below the external marginal cost of disposal should no other policy option be available.

The Diffusion of Energy Efficiency in Building

- American Economic Review---2011---Nils Kok,Marquise McGraw,John Quigley

We analyze the diffusion of buildings certified for energy efficiency across US property markets. Using a panel of 48 metropolitan areas (MSAs) observed over the last 15 years, we model the geographic patterns and dynamics of building certification, relating industry composition, changes in economic conditions, characteristics of the local commercial property market, and the presence of human capital, to the cross-sectional variation in energy-efficient building technologies and the diffusion of those technologies over time. Understanding the determinants and the rate at which energy-efficient building practices diffuse is important for designing policies to affect resource consumption in the built environment.

Do Residential Customers Respond to Hourly Prices? Evidence from a Dynamic Pricing Experiment

- American Economic Review---2011---Frank A. Wolak

This paper uses the results of a dynamic pricing experiment for households in the District of Columbia to determine whether the reduction in demand associated with an hourly price signal is economically different from the demand reduction associated with an equivalent price signal that is four times longer in duration. For both regular and all-electric customers, the percentage demand reduction associated with a given percentage increase in the hourly price is approximately equal to the percentage demand reduction associated with the same percentage price increase of a much longer duration.

Electricity Consumption and Durable Housing: Understanding Cohort Effects

- American Economic Review---2011---Dora Costa,Matthew Kahn

We find that households living in California homes built in the 1960s and 1970s had high electricity consumption in 2000 relative to houses of more recent vintages because the price of electricity at the time of home construction was low. Homes built in the early 1990s had lower electricity consumption than homes of earlier vintages because the price of electricity was higher. The elasticity of the price of electricity at the time of construction was -0.22. As homes built between 1960 and 1989 become a smaller share of the housing stock, average household electricity purchases will fall.

Is an Automaker's Road to Bankruptcy Paved with Customers' Beliefs?

- American Economic Review---2011---Ali Hortacsu,Gregor Matvos,Chaehee Shin,Chad Syverson,Sriram Venkataraman

We explore the role the feedback loop between firms' financial health and consumers' demand for their products plays in the auto market. We construct a simple model of an automaker making pricing and debt service (continuation) decisions while recognizing that consumers are sensitive to whether it stays in business. We show that multiple equilibria can exist in such a model, and calibrate it to match stylized facts surrounding GM's recent bankruptcy. The results suggest that while the impact of financial distress on demand substantially reduced GM's profit, bank-run-like multiple equilibria do not appear likely in this market.

Consumers' Perceptions and Misperceptions of Energy Costs

- American Economic Review---2011---Hunt Allcott

This paper presents three initial stylized facts from the Vehicle Ownership and Alternatives Survey (VOAS), a nationally representative survey that elicits consumers' beliefs about gasoline prices and the relative energy costs of autos with different fuel economy ratings. First, American consumers devote little attention to fuel costs when purchasing autos. Second, consistent with a cognitive bias called "MPG Illusion," consumers underestimate the fuel cost differences between low-MPG vehicles and overestimate the differences between high-MPG vehicles. Third, Americans' mean and median expected future gas prices were above current prices and predictions of the futures market at the time of the survey. Although it is often argued that misperceived energy costs justify policies to encourage the sale of energy efficient durable goods, these results show that misperceptions and expectations that differ from market information could either increase or decrease energy efficiency.

Fuel Economy, Car Class Mix, and Safety

- American Economic Review---2011---Mark R. Jacobsen

Fuel economy standards change the composition of the vehicle fleet, potentially influencing accident fatality risks. I estimate the direction and magnitude of this impact, introducing a correction for selection on driver behavior. A policy application using my new estimates shows that the present distinction between light trucks and cars in fuel economy rules has very negative consequences for overall safety: Each MPG increment to the standard results in an additional 150 fatalities per year in expectation. My correction for selection is pivotal in this finding. I then demonstrate a simple alternative regulation that can produce near-zero changes in accident fatalities.

Forecasting Gasoline Prices Using Consumer Surveys

- American Economic Review---2011---Soren Anderson,Ryan Kellogg,James Sallee,Richard T. Curtin

This paper analyzes the predictive power of a new data set of consumer gasoline price forecasts taken from the Michigan Survey of Consumers (MSC). MSC data generally perform as well as a no-change forecast in predicting future gasoline prices, and they substantially out-perform the no-change forecast during the recent economic crisis, during which time they track futures market prices. Finally, the cross-respondent dispersion of the MSC forecasts increases substantially during the economic crisis, paralleling the large increase in price volatility at this time.

Credit Ratings and Security Prices in the Subprime MBS Market

- American Economic Review---2011---Adam Ashcraft,Paul Goldsmith-Pinkham,Peter Hull,James Vickery

We present and discuss preliminary evidence suggesting that credit ratings significantly influenced prices for subprime mortgage-backed securities issued in the period leading up to the recent financial crisis. Ratings are closely correlated with prices even controlling for a rich set of security- and loan-level controls. This incremental variation in ratings has much less predictive power for security defaults, however, based on findings to date from our ongoing research, suggesting prices were excessively sensitive to ratings relative to their informational content.

Credit Ratings Accuracy and Analyst Incentives

- American Economic Review---2011---Heski Bar-Isaac,Joel Shapiro

The financial crisis has brought a new focus on the accuracy of credit rating agencies (CRAs). In this paper, we highlight the incentives of analysts at the CRAs to provide accurate ratings. We construct a model in which analysts initially work at a CRA and can then either remain or move to a bank. The CRA uses incentive contracts to motivate analysts, but does not capture the benefits if the analyst moves. We find that rating agency accuracy increases with CRA monitoring, bank profitability (a positive "revolving door" effect), and can be non-monotonic in the probability of an analyst leaving.

Did Credit Rating Agencies Make Unbiased Assumptions on CDOs?

- American Economic Review---2011---John M. Griffin,Dragon Yongjun Tang

We compare key CDO assumptions from two departments within the same rating agency but with different financial incentives. Assumptions made by the ratings division are more favorable than those by the surveillance department. The differences are not explained by collateral switching during the ramp-up period, a long time gap between reports, nor the collapse of the CDO market in 2007 Additionally, CDOs rated with more favorable assumptions by the ratings group were more likely to be subsequently downgraded. As the useful signals from the surveillance group were seemingly ignored, these findings suggest rating agencies bias towards high ratings.

Credit Ratings and the Evolution of the Mortgage-Backed Securities Market

- American Economic Review---2011---Jie He,Jun Qian,Philip E. Strahan

We compare the structure and performance of private (non-GSE) mortgage-backed securities sold by large issuers vs. those sold by small issuers over the period 2000-2006. Securities sold by large issuers have less subordination--a greater fraction of the deal receiving AAA rating--than those sold by small issuers. Prices for AAA-rated and non-AAA rated tranches sold by large issuers fell more when the market turned down than those sold by small issuers, and this difference was concentrated among tranches issued between 2004 and 2006. These results suggest that rating agencies grant favorable ratings to large issuers, especially during market booms.

Wine Retail Price Dispersion in the United States: Searching for Expensive Wines?

- American Economic Review---2011---David Jaeger,Karl Storchmann

Similar to other markets in which deviations from Jevons' "law of one price" is the norm rather than the exception, the retail wine market in the United States is characterized by large price dispersions. Drawing on a large sample of retail prices from wine-searcher.com we find an average per-wine coefficient of variation of 23 percent. Some of this is due to differential market conditions, especially state regulations. Our evidence suggests that dispersion also depends positively on price levels, after controlling for consumer, market, and state heterogeneity.

Climate, Grapevine Phenology, Wine Production, and Prices: Pauillac (1800-2009)

- American Economic Review---2011---Jean-Michel Chevet,Sébastien Lecocq,Michael Visser

This paper analyzes 19th and 20th century data from a well-known chateau in Bordeaux. The dataset includes information on weather conditions, starting dates of three phenological stages of grapevine, prices, and yields. We discuss how these variables have evolved over the last two centuries. We also study to what extent the impact of climate on yields and prices has changed over time. Our regression analysis suggests that the effect of temperature on yields has become weaker since the 19th century. The influence on prices has, on the contrary, become stronger.

Isolating the Symbolic Implications of Employee Mobility: Price Increases after Hiring Winemakers from Prominent Wineries

- American Economic Review---2011---Peter W. Roberts,Mukti Khaire,Christopher I. Rider

Because wines are aged for several years before they are released, newly hired winemakers arrive as wines made by their predecessors enter the market. An analysis of winemaker hiring events reveals that wines released right after a new winemaker's arrival from a prominent competitor are priced significantly higher than corresponding wines released in the preceding year. However, the wines released before and after the hiring event are indistinguishable in terms of quality. These findings isolate a "purely symbolic" effect of employee mobility, which affirm sociological accounts of markets--under conditions of uncertainty, inter-organizational affiliations condition producers' returns to quality demonstrations.

What Is the Value of Terroir?

- American Economic Review---2011---Robin Cross,Andrew J. Plantinga,Robert Stavins

We examine the value of terroir--the set of special characteristics of a location that impart unique qualities to the wine produced. We conduct a hedonic analysis of vineyard sales in the Willamette Valley of Oregon to ascertain whether site attributes--such as slope, aspect, elevation, and soil types—or designated appellations are more important determinants of price. We find that prices are strongly determined by appellation designations, but not by specific site attributes. These results indicate that the concept of terroir matters economically, but that the reality of terroir--as proxied by locational attributes--is not significant.

The Restoration of Welfare Economics

- American Economic Review---2011---Anthony Atkinson

This paper argues that welfare economics should be restored to a prominent place on the agenda of economists, and should occupy a central role in the teaching of economics. Economists should provide justification for the ethical criteria underlying welfare statements, and these criteria require constant re-evaluation in the light of developments in economic analysis and in moral philosophy. Economists need to be more explicit about the relation between welfare criteria and the objectives of governments, policy-makers and individual citizens. Moreover, such a restoration of welfare economics should be accompanied by consideration of the adoption of an ethical code for the economics profession.

Markets and Morality

- American Economic Review---2011---Jagdish Bhagwati

The paper addresses two issues. First, economics has evolved both as a positive science and, from moral philosophy, also as a normative discipline. Advancing the public good requires that public policy walk on both these legs. Second, the criticism has been forcefully made that markets undermine morality. This contention is refuted in several ways.

Economics: A Moral Inquiry with Religious Origins

- American Economic Review---2011---Benjamin M. Friedman

In contrast to the standard interpretation of the origins of economics out of the secular European Enlightenment of the 18th century, the transition in thinking that we rightly identify with Adam Smith and his contemporaries and followers, which gave us economics as we now know it, was powerfully influenced by then-controversial changes in religious belief in the English-speaking Protestant world in which they lived: in particular, key aspects of the movement away from orthodox Calvinism. Further, those at-the-outset influences of religious thinking not only fostered the subsequent spread of Smithian thinking, especially in America, but shaped the course of its reception. The ultimate result was a variety of fundamental resonances between economic thinking and religious thinking that continue to influence our public discussion of economic issues, and our public debate over economic policy, today.

Economists as Worldly Philosophers

- American Economic Review---2011---Robert Shiller,Virginia M. Shiller

While leading figures in the early history of economics conceived of it as inseparable from philosophy and other humanities, there has been movement, especially in recent decades, towards its becoming an essentially technical field with narrowly specialized areas of inquiry. Certainly, specialization has allowed for great progress in economic science. However, recent events surrounding the financial crisis support the arguments of some that economics needs to develop forums for interdisciplinary interaction and to aspire to broader vision.

Completion Rates and Time-to-Degree in Economics PhD Programs (with comments by David Colander, N. Gregory Mankiw, Melissa P. McInerney, James M. Poterba)

- American Economic Review---2011---Wendy A. Stock,John Siegfried,T. Aldrich Finegan

This paper describes the progress, eight years after matriculating, of 586 individuals who entered one of 27 economics Ph.D. programs in fall 2002. By October 2010, 59 percent of the fall 2002 entering cohort had earned a Ph.D. in economics at the university where they initially matriculated, 37 percent had dropped out, and 4 percent were still writing their dissertations.We examine student outcomes by Ph.D. program tier and investigate factors associated with completion and time to degree. We document and describe the rise in median time to degree from 5.0 to 5.6 years during the period 1996-2010.

A Bright Idea for Measuring Economic Growth

- American Economic Review---2011---J. Vernon Henderson,Adam Storeygard,David Weil

The quantity of human-generated light visible from outer space reflects variation in both population density and income per capita. In this paper we explore the usefulness of the change in visible light as a measure of GDP growth. We discuss the data, and then present a statistical framework that uses lights growth to augment existing income growth measures, assuming that measurement errors in the two series are uncorrelated. For some countries with very poor income measurement, we significantly revise estimates of growth. Our technique also produces growth estimates for cities or regions where no other data are available.

Does Quality Adjustment Matter for Technologically Stable Products? An Application to the CPI for Food

- American Economic Review---2011---John S. Greenlees,Robert McClelland

Most indexes in the Consumer Price Index (CPI) use a form of the "matched-model" approach. It is frequently assumed that this approach accurately reflects inflation for items that have no major trend in quality. In this paper we investigate that hypothesis using CPI data for retail food items. We find that CPI analysts may be correct on average when they decide that new and replacement items are similar in quality. We also find, however, that when sample items are replaced by items of significantly different quality the CPI imputation procedures may underestimate price change and overstate quality change.

Quality Adjustment for Health Care Spending on Chronic Disease: Evidence from Diabetes Treatment, 1999-2009

- American Economic Review---2011---Karen Eggleston,Nilay D. Shah,Steven A. Smith,Ernst R. Berndt,Joseph Newhouse

Although US health care expenditures reached 17.6 percent of GDP in 2009, quality measurement in this important service sector remains limited. Studying quality changes associated with 11 years of health care for patients with diabetes, we find that the value of reduced mortality and avoided treatment spending, net of the increase in annual spending, was $9,094 for the average patient. These results suggest that the unit cost of diabetes treatment, adjusting for the value of health outcomes, has been roughly constant. Since input prices have not been declining, our results are consistent with productivity improvement in health care.

Sale Rates and Price Movements in Art Auctions

- American Economic Review---2011---Orley Ashenfelter,Kathryn Graddy

This paper examines the relationship between sale rates and price shocks in art auctions. Using data on contemporary and impressionist art, we show that while sale rates appear to have little relationship to current prices, there exists a strong negative relationship of sale rates to unexpected price shocks, which is reminiscent of a Phillips curve. We estimate an empirical model that suggests that the reserve price is set on average at about 70% of the low estimate.

Rock and Roll Bands, (In)complete Contracts, and Creativity

- American Economic Review---2011---Cedric Ceulemans,Victor Ginsburgh,Patrick Legros

Members of a rock and roll band are endowed with different amounts of creativity. They match, compose songs, and share credit. The presence of more creative members increases the probability of success, but those more creative members may also claim a larger share of the pie. In our theoretical model, the nature of matching as well as the covariation between the probability of success and the allocation of credit among individual members are a function of the completeness of contracting. The data show that rock bands tend to enter into incomplete contracts and positive assortative matching.

Art and Money

- American Economic Review---2011---William Goetzmann,Luc Renneboog,Christophe Spaenjers

This paper investigates the impact of equity markets and top incomes on art prices. Using a newly constructed art market index, we demonstrate that equity market returns have had a significant impact on the price level in the art market over the last two centuries. We also find evidence that an increase in income inequality may lead to higher prices for art. Finally, the results of Johansen's cointegration tests strongly suggest the existence of a long-run relation between top incomes and art prices.

Optimal Learning Patterns for Creativity Generation in a Field

- American Economic Review---2011---Jonathan S. Feinstein

I present a model of optimal learning for creativity generation in a field. The field is defined as a knowledge structure. A creative contribution is based on combining two previously unconnected elements, generating a new element. Individuals may possess private information/intuition about new combinations. Individuals contribute the maximum creative contribution they are able to produce based on the set of elements they have learned. In equilibrium individuals learn different elements, with some degree of overlap, effectively pursuing distinct creative interests. The model illustrates a general approach for analyzing the creative development of fields and, in a broader sense, cultural innovation.

Why Can't US Airlines Make Money?

- American Economic Review---2011---Severin Borenstein

US airlines have lost nearly $60 billion ($2009) in domestic markets since the 1978 deregulation, most of it in the last decade. The dismal financial record challenges the economics of deregulation. I examine some of the common explanations among industry participants and researchers--including high taxes and fuel costs, weak demand, and competition from lower-cost airlines. Major drivers seem to be the demand downturn after 9/11--demand remains much weaker today than in 2000--and the large cost differential between legacy and low-cost carriers, which has persisted even as the price differential between them has greatly declined.

Comparing the Costs of Intermittent and Dispatchable Electricity Generating Technologies

- American Economic Review---2011---Paul Joskow

Economic evaluations of alternative electric generating technologies typically rely on comparisons between their expected "levelized cost" per MWh supplied. I demonstrate that this metric is inappropriate for comparing intermittent generating technologies like wind and solar with dispatchable generating technologies like nuclear, gas combined cycle, and coal. It overvalues intermittent generating technologies compared to dispatchable base load generating technologies. It also likely overvalues wind generating technologies compared to solar generating technologies. Integrating differences in production profiles, the associated variations in wholesale market prices of electricity, and life-cycle costs associated with different generating technologies is necessary to provide meaningful comparisons between them.

Financial Regulatory Reform: Challenges Ahead

- American Economic Review---2011---Randall S. Kroszner,Philip E. Strahan

Today's financial system is dominated by markets with institutions connected by short-term financing, securitization, derivatives, and other means. Yet regulations have focused on depositories, leaving regulators unprepared for the 2008 crisis. We suggest two key principles for regulatory reform. First, some changes in the financial system came as institutions lowered the burden of regulations through "regulatory arbitrage." Reform needs to avoid driving businesses "into the shadows," where risks may accumulate and sow seeds of future crises. Second, reform ought to improve transparency to reduce uncertainty and inter-linkages between players. We evaluate some of Dodd-Frank Act in light of these principles.

Measuring the Benefits of Greater Spatial Granularity in Short-Term Pricing in Wholesale Electricity Markets

- American Economic Review---2011---Frank A. Wolak

Hourly generation unit-level output levels, detailed information on the technological characteristics of generation units, and daily delivered natural gas prices to all generation units for the California wholesale electricity market before and after the implementation of locational marginal pricing are used to measure the impact of introducing greater spatial granularity in short-term energy pricing. The average hourly number of generation unit starts increases, but both the total hourly energy consumed and total hourly operating costs for all natural gas-fired generation units fall by more than 2 percent after the implementation of locational marginal pricing.

Challenges from State-Federal Interactions in US Climate Change Policy

- American Economic Review---2011---Lawrence H. Goulder,Robert Stavins

With a focus on two sorts of regulation--renewable electricity and clean energy standards, and automobile fuel-economy standards--we analyze problematic interactions that arise when state policies are nested within the domain of Federal policy. Here state efforts may fail to reduce greenhouse gas emissions nationally, and may compromise cost-effectiveness. Difficulties from overlapping regulations are avoidable through price- (as opposed to quantity-) based Federal policy. We identify some potentially positive interactions between state and Federal policies, and identify rationales for state action when Federal and state policies do not overlap.

The Role of Trade and Competitiveness Measures in US Climate Policy

- American Economic Review---2011---Carolyn Fischer,Alan Fox

We review the proposed measures for addressing competitiveness and carbon leakage concerns in recent US climate policy legislation. For eligible energy-intensive, trade-exposed sectors, output-based rebates would initially dampen cost increases; later, border adjustments would ensure that imports face comparable cost burdens. Both measures can in theory enhance the economic efficiency of carbon reduction efforts, but both pose some interesting economic and practical trade-offs. This paper discusses our recent research into the welfare and carbon leakage effects of using output-based allocation and trade measures in conjunction with climate policies.

Vertical Targeting and Leakage in Carbon Policy

- American Economic Review---2011---James Bushnell,Erin Mansur

This paper examines the intersection between two aspects of climate policy design. The first is the point of regulation: should it be placed on pollution sources, carbon-rich inputs, or consumers? The second aspect concerns the external effects of a local climate policy. Leakage occurs when partial regulation results in an increase in emissions in unregulated parts of the economy. Our model demonstrates how directly regulating polluters can increase foreign emissions while indirect regulation (either upstream or downstream of the pollution source) will decrease foreign emissions. The net effect on combined domestic and foreign emissions will depend on market elasticities.

The Effect of Allowing Pollution Offsets with Imperfect Enforcement

- American Economic Review---2011---Hilary Sigman,Howard F. Chang

Public policies for pollution control, including climate change policies, sometimes allow polluters in one sector subject to an emissions cap to offset excessive emissions with pollution abatement in another sector. The government may find it more costly to verify offset claims than to verify compliance with emissions caps. Concerns about such enforcement difficulties may lead regulators to restrict the use of offsets. We demonstrate that allowing offsets may increase pollution abatement and reduce illegal pollution, even if the government has a fixed enforcement budget. We explore circumstances that may make allowing pollution offsets an attractive option when enforcement is costly.

Corrective Taxation versus Liability

- American Economic Review---2011---Steven Shavell

Taxation and liability are compared as means of controlling harmful externalities, with a view toward explaining why the use of liability predominates over taxation. Taxation suffers from a disadvantage in the analysis: because taxes do not reflect all the variables affecting expected harm, inefficiency results, whereas efficiency under liability requires only assessment of actual harm. However, liability also suffers from a disadvantage: incentives are diluted because injurers escape suit. Joint use of taxation and liability is examined, and it is shown that liability should be employed fully, with taxation taking up the slack due to escape from suit.

Optimal Proof Burdens, Deterrence, and the Chilling of Desirable Behavior

- American Economic Review---2011---Louis Kaplow

The optimal stringency of the burden of proof is characterized in a model in which relaxing the proof burden enhances deterrence but also chills desirable behavior. The result are strikingly different from those in prior work that uses a simpler model in which individuals only choose whether to commit a harmful act (so only deterrence is at stake). Moreover, the qualitative differences between the optimal rule and the familiar preponderance of the evidence rule--and related rules that look to Bayesian posteriors--are great, much more so than revealed by prior work.

Trust in Public Institutions over the Business Cycle

- American Economic Review---2011---Betsey Stevenson,Justin Wolfers

We document that trust in public institutions--and particularly trust in banks, business and government--has declined over recent years. US time series evidence suggests that this partly reflects the pro-cyclical nature of trust in institutions. Cross-country comparisons reveal a clear legacy of the Great Recession, and those countries whose unemployment grew the most suffered the biggest loss in confidence in institutions, particularly in trust in government and the financial sector. Finally, analysis of several repeated cross-sections of confidence within US states yields similar qualitative patterns, but much smaller magnitudes in response to state-specific shocks.

Predicting and Preventing Shootings among At-Risk Youth

- American Economic Review---2011---Dana Chandler,Steven Levitt,John List

Each year, more than 250 students in the Chicago Public Schools (CPS) are shot. The authors of this paper worked with the leadership of CPS to build a predictive model of shootings that helped determine which students would be included in a highly targeted and resource intensive mentorship program. This paper describes our predictive model and offers a preliminary evaluation of the mentoring intervention performed by Youth Advocate Programs, Inc. (YAP). We find little evidence that the intervention reduces school misconducts or improves educational outcomes. The scale of intervention was too small to generate meaningful findings on shootings.

The "Collapse in Quality" Hypothesis

- American Economic Review---2011---Andrei Levchenko,Logan Lewis,Linda Tesar

This paper evaluates the hypothesis that during the 2008-2009 collapse in international trade, imports of higher quality goods experienced larger reductions compared to low-quality imports, using data on US imports disaggregated by HS-10 product category and source country. We find little, if any, robust econometric evidence in support of this hypothesis.

Trade Finance and the Great Trade Collapse

- American Economic Review---2011---JaeBin Ahn,Mary Amiti,David Weinstein

Economic models that do not incorporate financial frictions only explain about 70 to 80 percent of the decline in world trade that occurred in the 2008-2009 crisis. We review evidence that shows financial factors also contributed to the great trade collapse and uncover two new stylized facts in support of it. First, we show that the prices of manufactured exports rose relative to domestic prices during the crisis. Second, we show that US seaborne exports and imports, which are likely to be more sensitive to trade finance problems, saw their prices rise relative to goods shipped by air or land.

US Trade and Inventory Dynamics

- American Economic Review---2011---George Alessandria,Joseph Kaboski,Virgiliu Midrigan

We examine the source of the large fall and rebound in US trade in the recent recession. While trade fell and rebounded more than expenditures or production of traded goods, we find that relative to the magnitude of the downturn, these trade fluctuations were in line with those in previous business cycle fluctuations. We argue that the high volatility of trade is attributed to more severe inventory management considerations of firms involved in international trade. We present empirical evidence for autos as well as at the aggregate level that the adjustment of inventory holdings help explain these fluctuations in trade.

Vertical Linkages and the Collapse of Global Trade

- American Economic Review---2011---Rudolfs Bems,Robert Johnson,Kei-Mu Yi

A common view is that cross-border vertical linkages played a key role in the 2008-2009 collapse of global trade. This paper presents two accounting results from a global input-output framework that shed light on this channel. We feed in observed changes in final demand and find that trade in final goods fell by twice as much as trade in intermediate goods. Nevertheless, intermediate goods account for more than two-fifths of the trade collapse. We also find that vertical specialization trade fell 13 percent, while value-added trade fell by 10 percent, because declines in demand were largest in highly vertically-specialized sectors.

Does Market Experience Eliminate Market Anomalies? The Case of Exogenous Market Experience

- American Economic Review---2011---John List

A vibrant literature has emerged that suggests willingness to pay and willingness to accept measures of value are quite different for inexperienced consumers but that value differences erode with market experience. One potential shortcoming of this literature is that market experience is endogenous. This study presents a framed field experiment that exogenously induces market experience. Empirical findings support the premise that market experience, alone, can eliminate an important market anomaly

The Persistence of Treatment Effects with Norm-Based Policy Instruments: Evidence from a Randomized Environmental Policy Experiment

- American Economic Review---2011---Paul Ferraro,Juan Jose Miranda,Michael Price

Policymakers increasingly use norm-based messages to promote conservation efforts. Despite the apparent success of such strategies, empirical analyses have thus far focused exclusively on short-run effects. From a policy perspective, however, whether and how such strategies influence behavior in the long-run is of equal interest. We partner with a metropolitan water utility to implement a natural field experiment examining the effect of such messages on longer-run patterns of water use. Empirical results are striking. While appeals to pro-social preferences affect short-run patterns of water use, only messages augmented with social comparisons have a lasting impact on water demand.

Can Tailored Communications Motivate Environmental Volunteers? A Natural Field Experiment

- American Economic Review---2011---Omar Al-Ubaydli,Min Lee

Volunteering is a significant component of economic activity, especially for environmental organizations. Environmental organizations that rely on volunteers communicate with them using a variety of media, such as newsletters. This is a field experiment investigating whether tailoring the content of these communications to the stated motivations of a volunteer has a positive effect on the number of hours he/she volunteers. For the non-profit in our study, we find that such tailoring has an effect only for volunteers motivated primarily by career concerns. We also find this to be robust to the volunteers being aware that the tailoring is occurring.

Using Artefactual Field Experiments to Learn about the Incentives for Sustainable Forest Use in Developing Economies

- American Economic Review---2011---Maarten Voors,Erwin Bulte,Andreas Kontoleon,John List,Ty Turley

We implement a public goods game and a social intervention modeled after a public goods game in rural Sierra Leone near the Gola Forest Reserve. We also collect demographic, economic and forest conservation data on households in the area. We use this data to assess the mapping of social preferences from the artefactual field experiment (AFE) into real world behavior. We find evidence of heterogeneity in shifting factors between the AFE, the field experiment, and conservation outcomes. We also find evidence that social controls like war violence and witchcraft may explain some of this correlation.

Long-Term Consequences of Vietnam-Era Conscription: New Estimates Using Social Security Data

- American Economic Review---2011---Joshua Angrist,Stacey Chen,Jae Song

We use the draft lottery to construct instrumental variables (IV) estimates of the impact of Vietnam-era military service on veterans’ Social Security (SSA) earnings through 2007. We also use SSA data to construct IV estimates for employment (as measured by an indicator for positive earnings) and disability status (as measured by an indicator for social security disability program application). New findings for recent years show surprisingly rapid convergence in veteran and nonveteran earnings: by the early 1990s, there was no longer a substantial Vietnam-era conscription penalty. The IV estimates also show no effect on employment or disability rates.

Battle Scars? The Puzzling Decline in Employment and Rise in Disability Receipt among Vietnam Era Veterans

- American Economic Review---2011---David Autor,Mark Duggan,David S. Lyle

Using Current Population Survey and US Army administrative data, we document that between 2000 and 2010, the employment rate of Vietnam era veterans fell markedly relative to non-veterans of the same cohorts while simultaneously their enrollment increased steeply in the Veterans Disability Compensation (DC) program, which provides healthcare and transfer payments to veterans with service-connected disabilities. Thirty percent of Vietnam era Army veterans enrolled in DC in 2006 received benefits for Post-Traumatic Stress Disorder, with median annual payments of $25,500. The declining employment and rising transfer payments to Vietnam era veterans underscore the long-term private and public costs of wartime service, potentially stemming from both adverse health consequences and policies that have expanded benefits eligibility.

Long-Run Mortality Effects of Vietnam-Era Army Service: Evidence from Australia's Conscription Lotteries

- American Economic Review---2011---Peter Siminski,Simon Ville

We estimate the effect of Vietnam-era Army service on mortality, exploiting Australia's conscription lotteries for identification. We utilize population data on deaths during 1994-2007 and military personnel records. The estimates are identified by over 51,000 compliers induced to enlist in the Army. We find no statistically significant effects on mortality overall, nor for any cause of death. The estimated relative risk (RR) of death associated with Army service is 1.03 (95% CI: 0.92, 1.19). On the assumption that Army service affected mortality only for those who served in Vietnam, the estimated RR is 1.06 (95% CI: 0.81, 1.51).

The War at Home: Effects of Vietnam-Era Military Service on Postwar Household Stability

- American Economic Review---2011---Dalton Conley,Jennifer Heerwig

Prior researchers have deployed the Vietnam-era draft lottery as an instrument to estimate causal effects of military service on health and earnings. However, household and residential outcomes may be more sensitive to the psychological effects of military service. Using 2SLS analyses of the 2000 Census and the 2005 American Community Survey, we find mixed results for residential stability, housing tenure, and extended family residence. While in the ACS white veterans are less mobile, veteran status has no effect on homeownership. Veteran status reduces extended family living for whites in the Census but increases it for ACS veterans of "other" races.

Race and Home Ownership from the End of the Civil War to the Present

- American Economic Review---2011---William Collins,Robert Margo

We present new estimates of home ownership for black and white households from 1870 to 2007. Black ownership increased by 46 percentage points, whereas white ownership increased by 20 points. Remarkably, 25 of the 26 point narrowing occurred between 1870 and 1910. Part of this early convergence is accounted for by falling white ownership due to movement out of agriculture, but most is accounted for by post-emancipation gains among blacks. After 1910, white and black households increased ownership, but the racial gap barely changed. We discuss the influence of residential segregation, public policy, and permanent income on the ownership gap.

Covenants without Courts: Enforcing Residential Segregation with Legally Unenforceable Agreements

- American Economic Review---2011---Richard R. W. Brooks

Racial restrictive covenants are private agreements prohibiting sale, rental, use or occupancy of properties by persons of designated races, ethnicities, nationalities and religions. Widely acknowledged for facilitating residential segregation, the Supreme Court ruled covenants unenforceable in 1948. Yet they remained legal to write and reference, allowing realtors, banks, insurers, title companies and government agencies to continue to rely on unenforceable covenants in their decisions and policies. Beyond legal enforceability, covenants were essentially signals that coordinated the behavior of a variety of private individual and institutional actors--signals that remained effective without the courts. Evidence is presented to support this claim.

The New Deal, Race, and Home Ownership in the 1920s and 1930s

- American Economic Review---2011---Trevor Kollmann,Price Fishback

Many federal government housing policies began during the New Deal of the 1930s. Many claim that minorities benefited less from these policies than whites. We estimate the relationships between policies in the 1920s and 1930s and black and white home ownership in farm and nonfarm settings using a pseudo-panel of repeated cross-sections of households in 1920, 1930, and 1940 matched with policy measures in 460 state economic areas. The policies examined include FHA mortgage insurance, HOLC loan refinancing, state mortgage moratoria, farm loan programs, public housing, public works and relief, and payments to farmers to take land out of production.

Land and Racial Wealth Inequality

- American Economic Review---2011---Melinda C. Miller

Could racial wealth inequality have been reduced if freed slaves had been granted land following the Civil War? This paper exploits a plausibly exogenous variation in policies of the Cherokee Nation and southern United States to identify the impact of free land on the size of the racial wealth gap. Using data on land, livestock, and home ownership, I find evidence that former slaves who had access to free land were absolutely wealthier and experienced lower levels of racial wealth inequality in 1880 than former slaves who did not. Furthermore, their children continued to experience these advantages in 1900.

Heterogeneity in Choice Inconsistencies among the Elderly: Evidence from Prescription Drug Plan Choice

- American Economic Review---2011---Jason Abaluck,Jonathan Gruber

This paper investigates the degree to which choice inconsistencies documented in the context of Medicare Part D plan choice vary across consumers and geographic regions. Our main finding is that there is surprisingly little variation: regardless of age, gender, predicted drug expenditures or the predictability of drug demand consumers underweight out of pocket costs relative to premiums and fail to consider the individualized consequences of plan characteristics; as a result, they frequently choose plans which are dominated in the sense that an alternative plan provides better risk protection at a lower cost. We find limited evidence that the sickest individuals had more difficulty with plan choice, and we document that much of the variation in potential cost savings across states comes from variation in choice sets, not variation in consumers ability to choose.

Part D Formulary and Benefit Design as a Risk-Steering Mechanism

- American Economic Review---2011---Dana Goldman,Geoffrey F. Joyce,William B. Vogt

Medicare Part D relies upon drug plan competition. Plans have enormous scope to design benefits and to set premiums, but they may not charge differential premiums based on risk. We use the formulary and benefit design of all Medicare prescription drug plans and pharmacy claims data to construct a simulation model of out-of-pocket drug spending. We use this simulation model to examine individual incentives in Medicare Part D for adverse selection. We find that high drug users have much stronger incentives to enroll in generous plans than do low users, thus there is significant scope for adverse selection.

The Medium-Term Impact of Medicare Part D on Pharmaceutical Prices

- American Economic Review---2011---Mark Duggan,Fiona Scott Morton

Medicare Part D began coverage of prescription drugs in 2006. Using data from the first year of the program we found that Part D reduced pharmaceutical prices for Medicare recipients, with these effects driven by enrollees previously without drug coverage. In this paper we extend our analysis through 2009, the fourth year of the program, to investigate whether plans continued to extract price concessions in return for favorable formulary placement, or if consumer inertia or other factors caused prices to bounce back after their initial decline. We find price declines persisted through at least the third year of the program.

Are Drugs Substitutes or Complements for Intensive (and Expensive) Medical Treatment

- American Economic Review---2011---Yuting Zhang,Joseph Newhouse,Katherine Baicker

Little is known about the relationship between variation in drug and non-drug medical treatment and how areas may substitute one type of care for the other. Using pharmacy and medical claims data for Medicare beneficiaries, we examine whether areas with more drug use have lower non-drug medical costs and how the quality of prescribing and primary care are associated with medical costs. We find that areas with higher drug spending do not have lower non-drug medical spending; however, poorer-quality prescribing and primary care are associated with higher medical spending in general and inpatient spending in particular.

The Risky Steady State

- American Economic Review---2011---Nicolas Coeurdacier,Helene Rey,Pablo Winant

We propose a simple quantitative method to linearize around the risky steady state of a small open economy. Unlike when the deterministic steady state is used, the net foreign asset position is well defined. We allow for stochastic income and stochastic interest rate.

Market Sentiment: A Tragedy of the Commons

- American Economic Review---2011---Tarek Hassan,Thomas Mertens

We present a model in which investors decide whether or to what degree they want to allow their behavior to be influenced by "market sentiment." Investors who choose to insulate their decisions from market sentiment earn higher expected returns, but incur a small mental cost. We show that if information is moderately dispersed across investors, even a very small mental cost may result in a significant amount of sentiment in equilibrium: Individuals who choose to be swayed by sentiment increase uncertainty about the future and make it less costly for others to be swayed by sentiment as well.

Disasterization: A Simple Way to Fix the Asset Pricing Properties of Macroeconomic Models

- American Economic Review---2011---Xavier Gabaix

A central difficulty in economics is to create a model with both good business cycle properties and asset pricing properties. I show how to solve this difficulty by a simple portable modeling device: the "disasterization" of models. Take an economy with good business cycle properties and create a new, "disasterized" economy, which is essentially identical to the original one except that disasters can destroy part of the capital stock and productivity. In such a disasterized economy, asset prices exhibit high and volatile risk premia, but macro variables remain unchanged. Perturbations of this benchmark allow for feedback from finance to macro.

Regulating Asset Price Risk

- American Economic Review---2011---Philippe Bacchetta,Cédric Tille,Eric van Wincoop

There has been a long debate about whether speculators are stabilizing or not. We consider a model where speculators have a stabilizing role in normal times, but may also provoke large risk panics. The very feature that makes arbitrageurs liquidity providers in normal times, namely their tolerance of risk, enables a large increase in asset price risk during a financial panic. We show that a policy that discourages balance sheet risk reduces the magnitude of financial panics, as well as asset price risk in both normal and panic states.

Leverage and the Financial Accelerator in a Liquidity Trap

- American Economic Review---2011---Karel Mertens,Morten Ravn

We show that the financial accelerator may be very large in a liquidity trap. We study a sticky price model with real estate and a financial friction specified as a collateral constraint. Expectations can lead the economy to a self-fulfilling liquidity trap equilibrium where the lower bound on the nominal interest rate binds. We model these equilibria as stochastic sunspots. As in the Great Depression, a liquidity trap entails house price depreciation and potentially large output losses. Higher leverage implies much larger output losses but at the same time rules out the existence of short-lived liquidity traps.

Helping Consumers Know Themselves

- American Economic Review---2011---Emir Kamenica,Sendhil Mullainathan,Richard Thaler

Firms sometimes know more about a consumer's expected usage than the consumer herself. We explore the consequences of this reversal in the information asymmetry. We analyze the consequences of making consumers more informed about themselves. While making consumers more informed decreases their expenditure conditional on a given set of prices, equilibrium prices may increase, offsetting the direct benefit of information. We discuss theoretical and practical issues surrounding so-called RECAP regulation that would require firms to provide each consumer with information about her own usage of the firm's product.

The Limits of Transparency: Pitfalls and Potential of Disclosing Conflicts of Interest

- American Economic Review---2011---George Loewenstein,Daylian M. Cain,Sunita Sah

We review evidence from our published and ongoing research that disclosing conflicts of interest has unintended consequences, helping conflicted advisors and harming their advisees: With disclosure, advisors feel comfortable giving more biased advice, but advisees do not properly adjust for this and generally fail to sufficiently discount biased advice. Disclosure also increases pressure on advisees to comply with advice; following disclosure, advisees feel more uncomfortable in turning down advice (e.g., it signals distrust of the advisor's motives). Finally, we examine the effectiveness of policy interventions aimed at reducing these unintended consequences and discuss how to realize potential benefits of disclosure.

The Financial Education Fallacy

- American Economic Review---2011---Lauren E. Willis

Research to date does not demonstrate a causal chain from financial education to welfare-enhancing financial behavior, in part due to biases, heuristics, and emotional influences on decisions. Yet the search for effective financial education continues. But it is time to ask whether giving every person effective financial education would make us better off. Two reasons it might not are discussed here. First, the time, expense, and invasion of privacy required would be enormous. Second, such a world would entail a decrease in individual autonomy. Alternative tools could potentially increase household financial welfare and security at lower social and individual expense.

Superfund Cleanups and Infant Health

- American Economic Review---2011---Janet Currie,Michael Greenstone,Enrico Moretti

We are the first to examine the effect of Superfund cleanups on infant health rather than focusing on proximity to a site. We study singleton births to mothers residing within 5km of a Superfund site between 1989-2003 in five large states. Our "difference in differences" approach compares birth outcomes before and after a site clean-up for mothers who live within 2,000 meters of the site and those who live between 2,000-5,000 meters of a site. We find that proximity to a Superfund site before cleanup is associated with a 20 to 25% increase in the risk of congenital anomalies.

Environmental Regulation and Labor Reallocation: Evidence from the Clean Air Act

- American Economic Review---2011---Reed Walker

This paper uses newly available data on plant level regulatory status linked to the Census Longitudinal Business Database to measure the impact of changes in county level environmental regulations on plant and sector employment levels. Estimates from a variety of specifications suggest a strong connection between changes in environmental regulatory stringency and both employment growth and levels in the affected sectors. The preferred estimates suggest that changes in county level regulatory status due to the 1990 Clean Air Act Amendments reduced the size of the regulated sector by as much as 15 percent in the 10 years following the changes.

Water Quality Violations and Avoidance Behavior: Evidence from Bottled Water Consumption

- American Economic Review---2011---Joshua Graff Zivin,Matthew Neidell,Wolfram Schlenker

We examine the impact of poor water quality on avoidance behavior by estimating the change in bottled water purchases in response to drinking water violations. Using data from a national grocery chain matched with water quality violations, we find an increase in bottled water sales of 22 percent from violations due to microorganisms and 17 percent from violations due to elements and chemicals. Back-of-the envelope calculations yield costs of avoidance behavior at roughly $60 million for all nationwide violations in 2005, which likely reflects a significant understatement of the total willingness to pay to eliminate violations.

Monopsony, Mobility, and Sex Differences in Pay: Missouri School Teachers

- American Economic Review---2011---Michael Ransom,Val Lambson

We examine the sex differences in the pay of school teachers in Missouri. In Missouri school districts, pay is determined by a salary schedule that maps teaching experience and education level of an individual to a salary level. In spite of this apparently mechanical rule for determining pay, female teachers earn less than male teachers, after controlling for experience and education. We explore how such a difference could arise from differential job mobility and find some evidence to support this idea. However, within district differences in pay are a more important source of differences in pay between men and women.

Teacher Mobility Responses to Wage Changes: Evidence from a Quasi-natural Experiment

- American Economic Review---2011---Torberg Falch

This paper utilizes a Norwegian experiment with exogenous wage changes to study teachers' turnover decisions. Within a completely centralized wage setting system, teachers in schools with a high degree of teacher vacancies in the past got a wage premium of about 10 percent during the period 1993-94 to 2002-03. The empirical strategy exploits that several schools switched status during the empirical period. In a fixed effects framework, I find that the wage premium reduces the probability of voluntary quits by six percentage points, which implies a short run labor supply elasticity of about 1 1/4 .

Negative Returns to Seniority and Job Mobility across the Program Quality Distribution: Are Top Public PhD-Granting Programs Different?

- American Economic Review---2011---Michael J. Hilmer,Christiana E. Hilmer

We analyze a unique data set containing annual salary and detailed job and publication histories for a sample of 1,009 faculty members drawn from 53 public Ph.D.-granting economics departments. Empirical results suggest that all else equal: (1) statistically significant negative returns to seniority exist within lower-ranked but not top 15 programs; (2) more frequent movers observe statistically higher annual salaries in lower-ranked but not top 15 programs; and (3) for each level of seniority, faculty in top 15 programs are more likely to move at any point in the career than faculty in lower-ranked programs.

Are Micro and Macro Labor Supply Elasticities Consistent? A Review of Evidence on the Intensive and Extensive Margins

- American Economic Review---2011---Raj Chetty,Adam Guren,Dayanand Manoli,Andrea Weber

We evaluate whether state-of-the-art macro models featuring indivisible labor are consistent with modern quasi-experimental micro evidence by synthesizing evidence on both the intensive and extensive margins. We find that micro estimates are consistent with macro estimates of the steady-state (Hicksian) elasticities relevant for cross-country comparisons on both the extensive and intensive margins. However, micro estimates of intertemporal substitution (Frisch) elasticities are an order of magnitude smaller than the values needed to explain business cycle fluctuations in aggregate hours by preferences. The key puzzle to be resolved is why micro and macro estimates of the Frisch extensive margin elasticity are so different.

Interpreting Labor Supply Regressions in a Model of Full- and Part-Time Work

- American Economic Review---2011---Yongsung Chang,Sun-Bin Kim,Kyooho Kwon,Richard Rogerson

We construct a family model of labor supply that features adjustment along both the intensive and extensive margin. Intensive margin adjsutment is restricted to two values: full-time work and part-time work. Using simulated data from the steady state of the calibrated model, we examine whether standard labor supply regressions can uncover the true value of the intertemporal elasticity of labor supply parameter. We find positive estimated elasticities that are larger for women and that are highly significant, but they bear virtually no relationship to the underlying preference parameters.

Labor Supply and the Extensive Margin

- American Economic Review---2011---Richard Blundell,Antoine Bozio,Guy Laroque

In this paper we propose a systematic way of examining the importance of the extensive and the intensive margins of labor supply in order to explain the overall movements in total hours of work over time. We show how informative bounds can be developed on each of these margins. We apply this analysis to the evolution of hours of work in the US, the UK, and France and show that both the extensive and intensive margins matter in explaining changes in total hours.

A Labor Supply Elasticity Accord?

- American Economic Review---2011---Lars Ljungqvist,Thomas Sargent

A dispute about the size of the aggregate labor supply elasticity has been fortified by a contentious aggregation theory used by real business cycle theorists. The replacement of that aggregation theory with one more congenial to microeconomic observations opens possibilities for an accord about the aggregate labor supply elasticity. The new aggregation theory drops features to which empirical microeconomists objected and replaces them with life-cycle choices. Whether the new aggregation theory ultimately indicates a small or large macro labor supply elasticity will depend on how shocks and government institutions interact to put workers at interior solutions for career length.

Which Dimensions of Culture Matter for Long-Run Growth?

- American Economic Review---2011---Yuriy Gorodnichenko,Gérard Roland

We present empirical evidence that, among a variety of cultural dimensions, the individualism-collectivism dimension, based on Hofstede's (2001) data, is the most important and robustly significant effect of culture on long run growth. Other dimensions that have a significant effect, albeit less robust, are generally strongly correlated with individualism and convey similar information. We found no significant or robust effect on growth from cultural dimensions that are independent from the individualism-collectivism cleavage.

Fertility and the Plough

- American Economic Review---2011---Alberto Alesina,Paola Giuliano,Nathan Nunn

This paper provides evidence that the form of agriculture traditionally practiced--intensive plough agriculture versus shifting hoe agriculture--affected historic norms and preferences about fertility, and that these norms persist, affecting observed fertility around the world today.

The Weight of History on European Cultural Integration: A Gravity Approach

- American Economic Review---2011---Pauline Grosjean

The cultural gravity model proposed in this paper uses micro-level survey data of 21,000 households to estimate the contribution to cultural heterogeneity of a long history of division between the Ottoman, Habsburg, Russian or Prussian Empires since the year 1300 in 21 European countries. By exploiting the variation in the duration of integration of localities in different empires, this paper sheds light on the influence of political integration on cultural integration and on the rate of cultural change. History matters and cultural values change very slowly: long lasting effects on social trust comes after 400 years of common imperial rule.

Social Preferences and Fairness Norms as Informal Institutions: Experimental Evidence

- American Economic Review---2011---Pamela Jakiela

We conduct a series of dictator games in which the status of the dictator relative to other players varies across treatments. Experiments are conducted in a conventional university lab and in villages in rural Kenya. We find that status is an important determinant of dictator game giving, but the relative importance of earned and unearned status differs across cultures.

Gender Gap in Performance under Competitive Pressure: Admissions to Czech Universities

- American Economic Review---2011---Stepan Jurajda,Daniel Münich

Do women perform worse than equally able men in stressful competitive settings? We ask this question for competitions with a high payoff--admissions to tuition-free selective universities. With data on an entire cohort of Czech students graduating from secondary schools and applying to universities, we show that, compared to men of similar general skills and subject-of-study preferences, women perform similarly well when competition is less intense, but perform substantially worse (are less likely to be admitted) when applying to very selective universities.

The Roma/Non-Roma Test Score Gap in Hungary

- American Economic Review---2011---Gabor Kertesi,Gabor Kezdi

This paper documents and decomposes the test score gap between Roma and non-Roma 8th graders in Hungary in 2006. Our data connect national standardized test scores to an individual panel survey with detailed data on ethnicity and family background. The test score gap is approximately one standard deviation for both reading and mathematics, which is similar to the gap between African-American and White students of the same age group in the US in the 1980s. After accounting for on health, parenting, school fixed effects and family background, the gap disappears in reading and drops to 0.15 standard deviation in mathematics.

Learn English, Not the Local Language! Ethnic Russians in the Baltic States

- American Economic Review---2011---Ott Toomet

This paper analyzes the return to dominant language fluency for ethnic Russians in the Baltic States. We look at male workers using Estonian Labor Force Survey for years 2000-2010 and the 1998 wave of a panel of high-school graduates of 1982. The results indicate that the ethnic Russian men enjoy little income premium on their skills of the dominant language. We identify positive returns only in the low end of the income distribution and in public administration sector. Surprisingly, the returns to English fluency are far larger. These outcomes point toward segregation and discrimination at the upper-end hiring.

Oaxaca-Blinder as a Reweighting Estimator

- American Economic Review---2011---Patrick Kline

The classic regression based estimator of counterfactual means studied by Ronald Oaxaca (1973) and Alan Blinder (1973) is shown to constitute a propensity score reweighting estimator based upon a linear model for the conditional odds of being treated.

Robustness to Parametric Assumptions in Missing Data Models

- American Economic Review---2011---Bryan Graham,Keisuke Hirano

We consider estimation of population averages when data are missing at random. If some cells contain few observations, there can be substantial gains from imposing parametric restrictions on the cell means, but there is also a danger of misspecification. We develop a simple empirical Bayes estimator, which combines parametric and unadjusted estimates of cell means in a data-driven way. We also consider ways to use knowledge of the form of the propensity score to increase robustness. We develop an empirical Bayes extension of a double robust estimator. In a small simulation study, the empirical Bayes estimators perform well. They are similar to fully nonparametric methods and robust to misspecification when cells are moderate to large in size, and when cells are small they maintain the benefits of parametric methods and can have lower sampling variance.

Flexible Estimation of Treatment Effect Parameters

- American Economic Review---2011---Thomas MaCurdy,Xiaohong Chen,Han Hong

A variety of identification strategies have a common cell structure, in which the observed heterogeneity of the regression defines a partition of the sample into cells. Typically in the presence of exogenous covariates that define the cell structure, identification assumptions are imposed conditional on each value of the covariate, or cell by cell. Treatment effects across cells are typically heterogeneous. Researchers might be interested in unconditional parameters which are the averaged treatment effects across the cells. Alternatively, treatment effects can be estimated more efficiently if researchers are willing to impose additional parametric and semiparametric structures on the heterogeneous treatment effects across cells.

Origins of the Unemployment Rate: The Lasting Legacy of Measurement without Theory

- American Economic Review---2011---David Card

The modern definition of unemployment emerged in the late 1930s from research conducted at the Works Progress Administration and the Census Bureau. According to this definition, people who are not working but actively searching for work are counted as unemployed. This concept was first used in the Enumerative Check Census, a follow-up sample for the 1937 Census of Unemployment, and continued with the Monthly Report on the Labor Force survey, begun in December 1939 by the Works Progress Administration. A similar definition is now used to measure unemployment around the world.

The Lerner Index of Monopoly Power: Origins and Uses

- American Economic Review---2011---Kenneth Elzinga,David Mills

Abba Lerner's paper in the Review of Economic Studies (1934) is the source of what is now referred to as the Lerner Index of monopoly power. The Lerner Index has become the standard measure of monopoly power and one of the most widely cited indexes in the discipline of economics. This paper traces the origins of the index, sets out its strengths and weaknesses, and examines its role in antitrust enforcement. The Index is a better indicator of a firm's price-setting discretion than its ability to sustain monopoly prices.

Real Wage Index Numbers

- American Economic Review---2011---John Pencavel

Real wage index numbers have been used to measure movements in the standard of living of the typical worker. This paper describes some of these indicators for the United States and England. A new real wage index is proposed that resembles the sliding scale used to adjust wages in certain industries years ago. This new index is applied to US manufacturing industry and it implies a fall in real wages by about 40 percent since 1960. Workers' distributional position in US manufacturing has deteriorated considerably.

The Impact of the Transatlantic Slave Trade on Ethnic Stratification in Africa

- American Economic Review---2011---Warren Whatley,Rob Gillezeau

In the last 15 years, economists and economic historians have argued that Africa has undergone a "reversal of fortune" and that ethnic fragmentation is a significant cause of Africa's underdevelopment. In this article, we join these narratives by arguing that the transatlantic slave trade increased the degree of ethnic heterogeneity in Africa today. Using both correlational and causal instrumental variables analysis, we find an economically and statistically significant positive relationship between slave exports and ethnic heterogeneity. This relationship is robust to changes in the scheme for drawing ethnic boundaries and the choice of observational unit.

Global Financial Crisis and Africa: Is the Impact Permanent or Transitory? Time Series Evidence from North Africa

- American Economic Review---2011---Hassan Y. Aly,Mark Strazicich

We utilize time series tests with structural breaks to test for an adverse impact on economic growth rates in North Africa associated with the recent US financial crisis and global recession. One or two breaks are identified for each country, except for Morocco where no break is found, while breaks coincide with the 2008 financial crisis in only two of the six countries (Libya and Mauritania). These findings suggest that, in general, shocks from the recent financial crisis have only temporary effects on economic growth in these countries. Impulse response functions with breaks confirm these results. We conclude by suggesting explanations for these findings.

Remittances and Income Smoothing

- American Economic Review---2011---Catalina Amuedo-Dorantes,Susan Pozo

Due to inadequate savings and binding borrowing constraints, income volatility can make households in developing countries particularly susceptible to economic hardship. We examine the role of remittances in either alleviating or increasing household income volatility using Mexican household level data over the 2000 through 2008 period. We correct for reverse causality and endogeneity and find that while income smoothing does not appear to be the main motive for sending remittances in a non-negligible share of households, remittances do indeed smooth household income on average. Other variables surrounding income volatility are also considered and evaluated.

Applying Fixed Effects to Hierarchical Segregation Models

- American Economic Review---2011---Dina Shatnawi,Ronald Oaxaca,Michael Ransom

This paper expands the empirical implementation of hierarchical segregation models to allow for the use of panel methods. We use firm level data collected between 1977 and 1985 from a regional grocery store that faced a title VII class-action lawsuit over gender discrimination much the same as Wal-Mart and Costco. Special problems arise in implementing decompositions in a fixed effects and random effects setting, especially when analyzing wage-level differences. We develop a variation of wage decompositions that takes into consideration an unbalanced design and extends the literature by explicitly formalizing the inclusion of the unobserved heterogeneous effects.

Does Mestizaje Matter in the US? Economic Stratification of Mexican Immigrants

- American Economic Review---2011---Alberto Davila,Marie T. Mora,Sue K. Stockly

Using data from the 2003 New Immigrant Survey, this paper examines whether stratification as reflected by skin shade exists among newly legalized Mexican immigrants in the US. While we do not find evidence that skin color directly related to employment probabilities, complexion appeared to play a role in the likelihood of owning a home, having a bank account, and occupational status. As these outcomes partly reflect immigrants' pre-migration experiences, our findings suggest that the social stratification structure in Mexico might be sustained in the US among Mexican-origin populations.

Estimating the Ex Ante Expected Returns to College

- American Economic Review---2011---Andrew Hussey,Omari Swinton

Rather than estimating the returns to obtaining a college degree, this paper treats the college education decision as an uncertain investment involving varying likelihoods of successful graduation. We predict earnings conditional on both graduating and not graduating from both selective and non-selective institutions, and incorporate estimated individual-specific graduation rates in calculating the ex ante expected returns from college attendance for individuals across the ability distribution. Our results suggest that, especially for lower ability students, ex ante returns may differ substantially from typical estimates of the returns to a college degree, and typical estimates of the selectivity premium may be underestimated.

Tracking Intergenerational Progress for Immigrant Groups: The Problem of Ethnic Attrition

- American Economic Review---2011---Brian Duncan,Stephen Trejo

In tracking the later-generation descendants of immigrants, measurement biases can arise from "ethnic attrition" (e.g., US-born individuals who do not self-identify as Mexican despite having ancestors who immigrated from Mexico). We present evidence that such ethnic attrition is sizeable and selective for the third-generation populations of key Hispanic and Asian immigrant groups. In addition, our results suggest that ethnic attrition generates biases that vary across national origin groups in direction as well as magnitude, and that correcting for these biases will raise the socioeconomic standing of the US-born descendants of most Hispanic immigrants relative to their Asian counterparts.

Owner-Occupied Housing: Life-Cycle Implications for the Household Portfolio

- American Economic Review---2011---Marjorie Flavin,Takashi Yamashita

The paper constructs a model of optimal portfolio allocation incorporating the role of housing as collateral. Current house value is a state variable in the portfolio decision due to a nonconvex adjustment cost. Holding risk aversion constant, the percentage of the portfolio held in stocks is decreasing in the ratio of house value to net wealth; thus an older household with a lower ratio of house value to net wealth will generally hold more its portfolio in stocks than younger households. Empirical results using the Survey of Consumer Finances confirm the quantitative and statistical significance of the housing state variable.

House Prices and Marital Stability

- American Economic Review---2011---Martin Farnham,Lucie Schmidt,Purvi Sevak

We investigate the effect of house price changes on divorce using data for 1991-2010 from the Current Population Survey and the Federal Housing Finance Agency. Our findings suggest that changing house prices significantly affect the share of a cohort that is divorced, and that these effects are asymmetric with respect to housing gains versus losses. In addition, we find differential effects for groups that are more likely to be homeowners versus renters. Some of this evidence is consistent with homeowners being locked into their homes--and hence marriages--by increased transactions costs in down markets.

Hazardous Waste Cleanup, Neighborhood Gentrification, and Environmental Justice: Evidence from Restricted Access Census Block Data

- American Economic Review---2011---Shanti Gamper-Rabindran,Christopher Timmins

We test for residential sorting and changes in neighborhood characteristics in response to the cleanup of hazardous waste sites using restricted access fine-geographical-resolution block data. We examine changes between 1990 and 2000 in blocks within 5km of sites that are proposed to the National Priority List that fall in a narrow interval of Hazardous Ranking Scores, comparing blocks near sites that were cleaned with those near sites that were not. Cleanup leads to increases in population density and housing unit density; increases in mean household income and shares of college-educated; but also to increases in the shares of minorities.

Estimating the Willingness to Pay to Avoid Violent Crime: A Dynamic Approach

- American Economic Review---2011---Kelly Bishop,Alvin Murphy

The hedonic model, which has been used extensively in the Environmental, Urban, and Real Estate literatures, allows for the estimation of the implicit prices of housing and neighborhood attributes, as well as households' demand for these non-marketed amenities. A recognized drawback of the existing hedonic literature is that the models assume a myopic decision-maker. In this paper, we estimate a dynamic hedonic model and find that the average household is willing to pay $472 per year for a ten percent reduction in violent crime. In addition, we find that the traditional, myopic model suffers from a 21 percent negative bias.

Compensating Differentials for Sexual Harassment

- American Economic Review---2011---Joni Hersch

Workplace sexual harassment is illegal, but many workers report that they have been sexually harassed. Exposure to the risk of sexual harassment may decrease productivity, which would reduce wages. Alternatively, workers may receive a compensating differential for exposure to sexual harassment, which would increase wages. Data on claims of sexual harassment filed with the Equal Employment Opportunity Commission are used to calculate the first measures of sexual harassment risks by industry, age group, and sex. Female workers face far higher sexual harassment risks. On balance, workers receive a compensating wage differential for exposure to the risk of sexual harassment.

Chipping Away at the Glass Ceiling: Gender Spillovers in Corporate Leadership

- American Economic Review---2011---David A. Matsa,Amalia Miller

This paper examines the role of women helping women in corporate America. Using a merged panel of directors and executives for large US corporations between 1997 and 2009, we find a positive association between the female share of the board of directors in the previous year and the female share among current top executives. The relationship's timing suggests that causality runs from boards to managers and not the reverse. This pattern of women helping women at the highest levels of firm leadership highlights the continued importance of a demand-side "glass ceiling" in explaining the slow progress of women in business.

Have Gender Gaps in Insurance Coverage and Access to Care Narrowed under Health Reform? Findings from Massachusetts

- American Economic Review---2011---Sharon K. Long,Karen Stockley,Shanna Shulman

Under its health reform legislation, Massachusetts has achieved near universal insurance coverage, along with significant gains in health care access and affordability. This paper examines the impacts of health reform in Massachusetts on differences in coverage, access, and affordability for women and men. We find that both women and men gained under health reform, with the gender gap in insurance coverage narrowed as men's coverage increased relative to that of women. However, the gaps in access and affordability of care have not narrowed--women in Massachusetts continue to report more unmet need for care and problems affording care than men.

International Migration and Gender Discrimination among Children Left Behind

- American Economic Review---2011---Francisca Antman

This paper considers how international migration of the head of household affects the allocation of resources toward boys relative to girls within households remaining in the home country. I address the endogeneity of migration with a differences-in-differences style regression model that compares those households in which migrants have already returned home with those in which migrants are still away. The evidence suggests that while the head of household is away a greater fraction of resources are spent on girls relative to boys, but upon his return, this pattern is reversed.

Minutes of the Annual Meeting: Denver, CO, January 8, 2011

- American Economic Review---2011---John Siegfried

2011

Report of the Secretary for 2010

- American Economic Review---2011---John Siegfried

2011

Report of the Treasurer

- American Economic Review---2011---John Siegfried

2011

American Economic Association Universal Academic Questionnaire Summary Statistics

- American Economic Review---2011---Charles E. Scott,John Siegfried

2011

Minutes of the Meeting of the Executive Committee: Chicago, IL, April 23, 2010

- American Economic Review---2011---John Siegfried

2011

Minutes of the Meeting of the Executive Committee: Denver, CO, January 6, 2011

- American Economic Review---2011---John Siegfried

2011

Report of the Editor: American Economic Review (with Appendix by Philip J. Glandon)

- American Economic Review---2011---Robert Moffitt

2011

Report of the Editor: Journal of Economic Literature

- American Economic Review---2011---Janet Currie

2011

Report of the Editor: Journal of Economic Perspectives

- American Economic Review---2011---David Autor

2011

Report of the Editor: American Economic Journal: Applied Economics

- American Economic Review---2011---Esther Duflo

2011

Report of the Editor: American Economic Journal: Economic Policy

- American Economic Review---2011---Alan Auerbach

2011

Report of the Editor: American Economic Journal: Macroeconomics

- American Economic Review---2011---Steven Davis

2011

Report of the Editor: American Economic Journal: Microeconomics

- American Economic Review---2011---Andrew Postlewaite

2011

Report of the Director: Job Openings for Economists

- American Economic Review---2011---John Siegfried

2011

Report of the Committee on Economic Education for 2010

- American Economic Review---2011---Michael Watts

2011

Report of the Committee on the Status of Women in the Economics Profession 2010

- American Economic Review---2011---Barbara M. Fraumeni

2011

Committee on the Status of Minority Groups in the Economics Profession: Report of Committee Activities for the 2010 Calendar Year

- American Economic Review---2011---Ngina Chiteji

2011

American Economic Association Committee on Statistics (AEAStat): Annual Report--2010

- American Economic Review---2011---Matthew Shapiro

2011

Committee on Government Relations

- American Economic Review---2011---Katharine Abraham

2011

The Long Slump

- American Economic Review---2011---Robert Hall

In a market-clearing economy, declines in demand from one sector do not cause large declines in aggregate output because other sectors expand. The key price mediating the response is the interest rate. A decline in the rate stimulates all categories of spending. But in a low-inflation economy, the room for a decline in the rate is small, because of the notorious lower limit of zero on the nominal interest rate. In the Great Depression, substantial deflation caused the real interest rate to reach high levels. In the Great Slump that began at the end of 2007, low inflation resulted in an only slightly negative real rate when full employment called for a much lower real rate because of declines in demand.

Fortunately, the inflation rate hardly responded to conditions in product and labor markets, else deflation might have occurred, with an even higher real interest rate. I concentrate on three closely related sources of declines in demand: the buildup of excess stocks of housing and consumer durables, the corresponding expansion of consumer debt that financed the buildup, and financial frictions that resulted from the decline in real-estate prices. (JEL E23, E24, E31, E32, E65)

Reference Points and Effort Provision

- American Economic Review---2011---Johannes Abeler,Armin Falk,Lorenz Goette,David Huffman

A key open question for theories of reference-dependent preferences is: what determines the reference point? One candidate is expectations: what people expect could affect how they feel about what actually occurs. In a real-effort experiment, we manipulate the rational expectations of subjects and check whether this manipulation influences their effort provision. We find that effort provision is significantly different between treatments in the way predicted by models of expectation-based, reference-dependent preferences: if expectations are high, subjects work longer and earn more money than if expectations are low. (JEL D12, D84, J22)

Contracts as Reference Points--Experimental Evidence

- American Economic Review---2011---Ernst Fehr,Oliver Hart,Christian Zehnder

Hart and John Moore (2008) introduce new behavioral assumptions that can explain long-term contracts and the employment relation. We examine experimentally their idea that contracts serve as reference points. The evidence confirms the prediction that there is a trade-off between rigidity and flexibility. Flexible contracts--which would dominate rigid contracts under standard assumptions--cause significant shading in ex post performance, while under rigid contracts much less shading occurs. The experiment appears to reveal a new behavioral force: ex ante competition legitimizes the terms of a contract, and aggrievement and shading occur mainly about outcomes within the contract. (JEL D44, D86, J41)

The Economics of Credence Goods: An Experiment on the Role of Liability, Verifiability, Reputation, and Competition

- American Economic Review---2011---Uwe Dulleck,Rudolf Kerschbamer,Matthias Sutter

Credence goods markets are characterized by asymmetric information between sellers and consumers that may give rise to inefficiencies, such as under- and overtreatment or market breakdown. We study in a large experiment with 936 participants the determinants for efficiency in credence goods markets. While theory predicts that liability or verifiability yield efficiency, we find that liability has a crucial, but verifiability at best a minor, effect. Allowing sellers to build up reputation has little influence, as predicted. Seller competition drives down prices and yields maximal trade, but does not lead to higher efficiency as long as liability is violated. (JEL D12, D82)

Performance Pay and Multidimensional Sorting: Productivity, Preferences, and Gender

- American Economic Review---2011---Thomas Dohmen,Armin Falk

This paper studies the impact of incentives on worker self-selection in a controlled laboratory experiment. Subjects face the choice between a fixed and a variable payment scheme. Depending on the treatment, the variable payment is a piece rate, a tournament, or a revenue-sharing scheme. We find that output is higher in the variable-payment schemes compared to the fixed-payment scheme. This difference is largely driven by productivity sorting. In addition, different incentive schemes systematically attract individuals with different attitudes, such as willingness to take risks and relative self-assessment as well as gender, which underlines the importance of multidimensional sorting. (JEL C91, D81, D82, J16, J31)

Are Risk Preferences Stable across Contexts? Evidence from Insurance Data

- American Economic Review---2011---Levon Barseghyan,Jeffrey Prince,Joshua Teitelbaum

Using a unique dataset, we test whether households' deductible choices in auto and home insurance reflect stable risk preferences. Our test relies on a structural model that assumes households are objective expected utility maximizers and claims are generated by household-coverage specific Poisson processes. We find that the hypothesis of stable risk preferences is rejected by the data. Our analysis suggests that many households exhibit greater risk aversion in their home deductible choices than their auto deductible choices. Our results are robust to several alternative modeling assumptions. (JEL D11, D83)

Collaborating

- American Economic Review---2011---Alessandro Bonatti,Johannes Hörner

This paper examines moral hazard in teams over time. Agents are collectively engaged in a project whose duration and outcome are uncertain, and their individual efforts are unobserved. Free-riding leads not only to a reduction in effort, but also to procrastination. Collaboration among agents dwindles over time, but does not cease as long as the project has not succeeded. In addition, the delay until the project succeeds, if it ever does, increases with the number of agents. We show why deadlines, but not necessarily better monitoring, help to mitigate moral hazard. (JEL D81, D82, D83)

Heterogeneity in Risky Choice Behavior in a Broad Population

- American Economic Review---2011---Hans-Martin von Gaudecker,Arthur van Soest,Erik Wengström

We analyze risk preferences using an experiment with real incentives in a representative sample of 1,422 Dutch respondents. Our econometric model incorporates four structural parameters that vary with observed and unobserved characteristics: utility curvature, loss aversion, preferences toward the timing of uncertainty resolution, and the propensity to choose randomly rather than on the basis of preferences. We find that all four parameters contribute to explaining choice behavior. The structural parameters are significantly associated with socioeconomic variables, but it is essential to incorporate unobserved heterogeneity in each of them to match the rich variety of choice patterns in the data. (JEL D12, D81)

The Rich Domain of Uncertainty: Source Functions and Their Experimental Implementation

- American Economic Review---2011---Mohammed Abdellaoui,Aurelien Baillon,Laetitia Placido,Peter Wakker

We often deal with uncertain events for which no probabilities are known. Several normative models have been proposed. Descriptive studies have usually been qualitative, or they estimated ambiguity aversion through one single number. This paper introduces the source method, a tractable method for quantitatively analyzing uncertainty empirically. The theoretical key is the distinction between different sources of uncertainty, within which subjective (choice-based) probabilities can still be defined. Source functions convert those subjective probabilities into willingness to bet. We apply our method in an experiment, where we do not commit to particular ambiguity attitudes but let the data speak. (JEL D81)

Procedural Analysis of Choice Rules with Applications to Bounded Rationality

- American Economic Review---2011---Yuval Salant

I study how limited abilities to process information affect choice behavior. I model the decision-making process by an automaton, and measure the complexity of a specific choice rule by the minimal number of states an automaton implementing the rule uses to process information. I establish that any choice rule that is less complicated than utility maximization displays framing effects. I then prove that choice rules that result from an optimal trade-off between maximizing utility and minimizing complexity are history-dependent satisficing procedures that display primacy and recency effects. (JEL D01, D03, D11, D83)

The Bidder's Curse

- American Economic Review---2011---Ulrike Malmendier,Young Han Lee

We employ a novel approach to identify overbidding in auctions. We compare online auction prices to fixed prices for the same item on the same webpage. In detailed data on auctions of a board game, 42 percent of auctions exceed the simultaneous fixed price. The result replicates in a broad cross-section of auctions (48 percent overbidding). A small fraction of overbidders, 17 percent of bidders, suffices to generate the large fraction of auctions with overbidding. We show that the observed behavior is inconsistent with rational behavior, even allowing for uncertainty about prices and switching costs, since the expected auction price also exceeds the fixed price. Limited attention best explains our results. (JEL D12, D44)

Falsifiability

- American Economic Review---2011---Wojciech Olszewski,Alvaro Sandroni

We examine Popper's falsifiability within an economic model in which a tester hires a potential expert to produce a theory. Payments are contingent on the performance of the theory vis-a-vis data. We show that if experts are strategic, falsifiability has no power to distinguish scientific theories from worthless theories. The failure of falsification in screening informed and uninformed experts motivates questions on the broader concepts of refutation and verification. We demonstrate an asymmetry between the two concepts. Like falsification, verification contracts have no power to distinguish between informed and uninformed experts, but some refutation contracts are capable of screening experts. (JEL B41)

Deferred Compensation in Multiperiod Labor Contracts: An Experimental Test of Lazear's Model

- American Economic Review---2011---Steffen Huck,Andrew Seltzer,Brian Wallace

This paper provides the first experimental test of Edward Lazear's (1979) model of deferred compensation. We examine the relationship between firms' wage offers and workers' effort supply in a multi-period environment. If firms can ex ante commit to a wage schedule with deferred compensation, workers should respond by supplying sufficient effort to avoid dismissal. We contrast this full-commitment case to controls with no commitment and computer-generated wages in order to examine the roles of monetary incentives, social preferences, and reciprocity. Finally, we examine a setup without formal commitment, but where firms can build a reputation for paying deferred wages. (JEL D86, J22, J31, J33, J41)

Sales and Monetary Policy

- American Economic Review---2011---Bernardo Guimaraes,Kevin Sheedy

A striking fact about pricing is the prevalence of "sales": large temporary price cuts followed by prices returning to exactly their former levels. This paper builds a macroeconomic model with a rationale for sales based on firms facing customers with different price sensitivities. Even if firms can adjust sales without cost, monetary policy has large real effects owing to sales being strategic substitutes: a firm's incentive to have a sale is decreasing in the number of other firms having sales. Thus the flexibility seen in individual prices due to sales does not translate into flexibility of the aggregate price level. (JEL E13, E31, E52, L11, L25, L81, M31)

The Cyclical Behavior of Debt and Equity Finance

- American Economic Review---2011---Francisco Covas,Wouter J. Den Haan,Wouter Denhaan

Debt and equity issuance are procyclical for most size-sorted firm categories of listed US firms and the procyclicality of equity issuance decreases monotonically with firm size. At the aggregate level, however, the results for equity issuance are not conclusive due to different behavior of the largest firms, especially those in the top one percent. During a deterioration in economic conditions, firms limit the impact of the reduction in external financing on investment by shedding financial assets. This is true for a worsening in aggregate as well as firm-specific conditions. (JEL E32, G32, L11, L25)

Search Dynamics in Consumer Choice under Time Pressure: An Eye-Tracking Study

- American Economic Review---2011---Elena Reutskaja,Rosemarie Nagel,Colin F. Camerer,Antonio Rangel

We study decisions that involve choosing between different numbers of options under time pressure using eye-tracking to monitor the search process of the subjects. We find that subjects are quite adept at optimizing within the set of items that they see, that the initial search process is random in value, that subjects use a stopping rule to terminate the search process that combines features of optimal search and satisficing, and that subjects search more often in certain focal regions of the display, which leads to choice biases. (JEL C91, D12, M31)

Coordination in the Presence of Asset Markets

- American Economic Review---2011---Shimon Kogan,Anthony M. Kwasnica,Roberto Weber

We explore the relationship between outcomes in a coordination game and a pre-play asset market where asset values are determined by outcomes in the subsequent coordination game. Across two experiments, we vary the payoffs from the market relative to the game, the degree of interdependence in the game, and whether traders' asset payoffs are dependent on outcomes in their own or another game. Markets lead to significantly lower efficiency across treatments, even when they produce no distortion of incentives in the game. Market prices forecast game outcomes. Our experiments shed light on how financial markets may influence affiliated economic outcomes. (JEL C91, D83, G13, G14)

Real-Time Search in the Laboratory and the Market

- American Economic Review---2011---Meta Brown,Christopher Flinn,Andrew Schotter

While widely accepted labor market search models imply a constant reservation wage policy, empirical evidence strongly suggests that reservation wages decline in search duration. This paper reports the results of the first real-time-search laboratory experiment. The controlled environment subjects face is stationary, and the payoff-maximizing reservation wage is constant. Nevertheless, subjects' reservation wages decline sharply over time. We investigate two hypotheses to explain this decline: 1. Searchers respond to the stock of accruing search costs. 2. Searchers experience non-stationary subjective costs of time spent searching. Our data support the latter hypothesis, and we substantiate this conclusion both experimentally and econometrically. (JEL C91, D83, J64)

Checkmate: Exploring Backward Induction among Chess Players

- American Economic Review---2011---Steven Levitt,John List,Sally E. Sadoff

Although backward induction is a cornerstone of game theory, most laboratory experiments have found that agents are not able to successfully backward induct. We analyze the play of world-class chess players in the centipede game, which is ill-suited for testing backward induction, and in pure backward induction games--Race to 100 games. We find that chess players almost never play the backward induction equilibrium in the centipede game, but many properly backward induct in the Race to 100 games. We find no systematic within-subject relationship between choices in the centipede game and performance in pure backward induction games. (JEL C73)

The Willingness to Pay—Willingness to Accept Gap, the "Endowment Effect," Subject Misconceptions, and Experimental Procedures for Eliciting Valuations: Comment

- American Economic Review---2011---Andrea Isoni,Graham Loomes,Robert Sugden

Plott and Zeiler (2005) report that the willingness-to-pay/willingness-to-accept disparity is absent for mugs in a particular experimental setting, designed to neutralize misconceptions about the procedures used to elicit valuations. This result has received sustained attention in the literature. However, other data from that same study, not published in that paper, exhibit a significant and persistent disparity when the same experimental procedures are applied to lotteries. We report new data confirming both results, thereby suggesting that the presence or absence of a disparity may be a more complex issue than some may have supposed. (JEL C91, D12, D81, D83)

The Willingness to Pay--Willingness to Accept Gap, the "Endowment Effect," Subject Misconceptions, and Experimental Procedures for Eliciting Valuations: Reply

- American Economic Review---2011---Charles Plott,Kathryn Zeiler

Isoni, Loomes, and Sugden (2011) assert that Plott and Zeiler (2005) reported inaccurate results. Placing ILS's selective quotes into context demonstrates otherwise. Additionally, examining the data closely yields three conclusions. First, all mug data reject endowment effect theory. Second, lottery gaps are associated with unstable attitudes toward uncertainty, a finding consistent with PZ's (2005) lottery data description, explicit warnings about procedure limitations and the data supplement, which reports the lottery data and cautions. Third, lottery outcome beliefs are influenced by whether WTP or WTA is reported, suggesting that changing beliefs, as opposed to the shape of preferences, produce lottery gaps. (JEL C91)

Stationary Concepts for Experimental 2 X 2 Games: Comment

- American Economic Review---2011---Christoph Brunner,Colin F. Camerer,Jacob Goeree

Reinhard Selten and Thorsten Chmura (2008) recently reported laboratory results for completely mixed 2 X 2 games used to compare Nash equilibrium with four other stationary concepts: quantal response equilibrium, action-sampling equilibrium, payoff-sampling equilibrium, and impulse balance equilibrium. We reanalyze their data, correct some errors, and find that Nash clearly fits worst while the four other concepts perform about equally well. We also report new analysis of other previous experiments that illustrate the importance of the loss aversion hardwired into impulse balance equilibrium: when the other non-Nash concepts are augmented with loss aversion, they outperform impulse balance equilibrium.

Stationary Concepts for Experimental 2 X 2 Games: Reply

- American Economic Review---2011---Reinhard Selten,Thorsten Chmura,Sebastian Goerg

This is a reply to "Stationary Concepts for Experimental 2 X 2 Games: Comment" by Brunner, Camerer, and Goeree which corrects some computational errors in Selten and Chmura (2008) and extends the comparison of five stationary concepts to data from previous experimental studies. We critically discuss their new findings and relate them to the data of Selten and Chmura (2008). We conclude that the parametric concepts of action-sampling equilibrium and payoff-sampling equilibrium perform better than quantal response equilibrium, and that the non-parametric concept of impulse-balance equilibrium performs at least as well as quantal response equilibrium. (JEL C70)

Front Matter and Editor's Note

- American Economic Review---2011---Robert Moffitt

2011

100 Years of the American Economic Review: The Top 20 Articles

- American Economic Review---2011---Kenneth Arrow,B. Douglas Bernheim,Martin S. Feldstein,Daniel McFadden,James Poterba,Robert Solow

This paper presents a list of the top 20 articles published in the American Economic Review during its first 100 years. This list was assembled in honor of the AER 's one-hundredth anniversary by a group of distinguished economists at the request of AER 's editor. A brief description accompanies the citations of each article.

The Economic History of the American Economic Review: A Century's Explosion of Economics Research

- American Economic Review---2011---Robert Margo

Written in celebration of the 100th anniversary of the American Economic Review , this paper recounts the history of the journal. The recounting has an analytic core that sees the American Economic Association as an organization supplying goods and services to its members, one of which is the Review . Early in its history the Review was a multipurpose publication with highly disparate content. Over time the economics profession expanded and more economics research was produced, primarily in the form of journal articles. Editors accommodated this shift by allocating more resources to the refereeing and editing process and more space to research papers. (JEL A14, B19, B29)

Some Unsettled Problems of Irrigation (1911)

- American Economic Review---2011---Katharine Coman

A reprint of the lead article in the inaugural issue of the American Economic Review , "Some Unsettled Problems of Irrigation," by Katharine Coman, who examined the common property resource problem as applied to water in the Western United States.

Reflections on "Some Unsettled Problems of Irrigation"

- American Economic Review---2011---Elinor Ostrom

It is instructive to read the article that Katharine Coman published in the first issue of the American Economic Review to gain insight into the problems of collective action related to irrigation in the American West. One gains further understanding of the problems Coman identifies by using a social-ecological system (Ostrom 2007, 2009) to organize the diverse variables identified by Coman. One gains a general lesson from this analysis that changing the formal governance structure of irrigation is not sufficient to ensure efficient investment in facilities or that farmers are able to acquire property and make a reasonable living. Building knowledge and trust are, however, essential for solving collective-action problems. (JEL B31, N51, Q15, Q25)

Institutional Path Dependence in Climate Adaptation: Coman's "Some Unsettled Problems of Irrigation"

- American Economic Review---2011---Gary D. Libecap

Katharine Coman's "Some Unsettled Problems of Irrigation," published in March 1911 in the first issue of the American Economic Review , addressed issues of water supply, rights, and organization. These same issues have relevance today, in the face of growing concern about the availability of fresh water worldwide. The central point of this article is that appropriative water rights and irrigation districts that emerged in the American West in the late nineteenth and early twentieth centuries in response to aridity to facilitate agricultural water delivery, use, and trade raise the transaction costs today of water markets. These markets are vital for smooth reallocation of water to higher-valued uses elsewhere in the economy and for flexible response to greater hydrological uncertainty. This institutional path dependence illustrates how past arrangements to meet conditions of the time constrain contemporary economic opportunities. They cannot be easily significantly modified or replaced ex post. (JEL N51, Q15, Q25, Q54)

The Problem of the Commons: Still Unsettled after 100 Years

- American Economic Review---2011---Robert Stavins

The problem of the commons is more important to our lives and thus more central to economics than a century ago when Katharine Coman led off the first issue of the American Economic Review. As the US and other economies have grown, the carrying capacity of the planet--in regard to natural resources and environmental quality--has become a greater concern, particularly for common-property and open-access resources. The focus of this article is on some important, unsettled problems of the commons. Within the realm of natural resources, there are special challenges associated with renewable resources, which are frequently characterized by open-access. An important example is the degradation of openaccess fisheries. Critical commons problems are also associated with environmental quality. A key contribution of economics has been the development of market-based approaches to environmental protection. These instruments are key to addressing the ultimate commons problem of the twenty-first century-global climate change. (JEL Q15, Q21, Q22, Q25, Q54)

Two Illustrations of the Quantity Theory of Money: Breakdowns and Revivals

- American Economic Review---2011---Thomas Sargent,Paolo Surico

By extending his data, we document the instability of low-frequency regression coefficients that Lucas (1980) used to express the quantity theory of money. We impute the differences in these regression coefficients to differences in monetary policies across periods. A DSGE model estimated over a subsample like Lucas's implies values of the regression coefficients that confirm Lucas's results for his sample period. But perturbing monetary policy rule parameters away from the values estimated over Lucas's subsample alters the regression coefficients in ways that reproduce their instability over our longer sample. (JEL C51, E23, E31, E43, E51, E52)

Is Tiger Woods Loss Averse? Persistent Bias in the Face of Experience, Competition, and High Stakes

- American Economic Review---2011---Devin G. Pope,Maurice E. Schweitzer

Although experimental studies have documented systematic decision errors, many leading scholars believe that experience, competition, and large stakes will reliably extinguish biases. We test for the presence of a fundamental bias, loss aversion, in a high-stakes context: professional golfers' performance on the PGA Tour. Golf provides a natural setting to test for loss aversion because golfers are rewarded for the total number of strokes they take during a tournament, yet each individual hole has a salient reference point, par. We analyze over 2.5 million putts using precise laser measurements and find evidence that even the best golfers--including Tiger Woods--show evidence of loss aversion. (JEL D03, D81, L83)

The Effect of Female Education on Fertility and Infant Health: Evidence from School Entry Policies Using Exact Date of Birth

- American Economic Review---2011---Justin McCrary,Heather Royer

This paper uses age-at-school-entry policies to identify the effect of female education on fertility and infant health. We focus on sharp contrasts in schooling, fertility, and infant health between women born just before and after the school entry date. School entry policies affect female education and the quality of a woman's mate and have generally small, but possibly heterogeneous, effects on fertility and infant health. We argue that school entry policies manipulate primarily the education of young women at risk of dropping out of school. (JEL I12, I21, J13, J16)

Growing Like China

- American Economic Review---2011---Zheng Song,Kjetil Storesletten,Fabrizio Zilibotti

We construct a growth model consistent with China's economic transition: high output growth, sustained returns on capital, reallocation within the manufacturing sector, and a large trade surplus. Entrepreneurial firms use more productive technologies, but due to financial imperfections they must finance investments through internal savings. State-owned firms have low productivity but survive because of better access to credit markets. High-productivity firms outgrow low-productivity firms if entrepreneurs have sufficiently high savings. The downsizing of financially integrated firms forces domestic savings to be invested abroad, generating a foreign surplus. A calibrated version of the theory accounts quantitatively for China's economic transition. (JEL E21, E22, E23, F43, L60, O16, O53, P23, P24, P31)

Reference Prices, Costs, and Nominal Rigidities

- American Economic Review---2011---Martin Eichenbaum,Nir Jaimovich,Sergio Rebelo

We assess the importance of nominal rigidities using a new weekly scanner dataset. We find that nominal rigidities take the form of inertia in reference prices and costs, defined as the most common prices and costs within a given quarter. Reference prices are particularly inertial and have an average duration of roughly one year, even though weekly prices change roughly once every two weeks. We document the relation between prices and costs and find sharp evidence of state dependence in prices. We use a simple model to argue that reference prices and costs are useful statistics for macroeconomic analysis. (JEL L11, L25, L81)

Bundle-Size Pricing as an Approximation to Mixed Bundling

- American Economic Review---2011---Chenghuan Sean Chu,Phillip Leslie,Alan Sorensen

Multiproduct firms can set separate prices for all possible bundled combinations of its products "mixed bundling"). However, this is impractical for firms with more than a few products, because the number of prices increases exponentially with the number of products. We find that simple pricing strategies are often nearly optimal. Specifically, we show that bundle-size pricing--setting prices that depend only on the size of bundle purchased--tends to be more profitable than offering the individual products priced separately and tends to closely approximate the profits from mixed bundling. (JEL D24, D42, L11, L13, L25)

Trade Liberalization, Exports, and Technology Upgrading: Evidence on the Impact of MERCOSUR on Argentinian Firms

- American Economic Review---2011---Paula Bustos

This paper studies the impact of a regional free trade agreement, MERCOSUR, on technology upgrading by Argentinean firms. To guide empirical work, I introduce technology choice in a model of trade with heterogeneous firms. The joint treatment of the technology and exporting choices shows that the increase in revenues produced by trade integration can induce exporters to upgrade technology. An empirical test of the model reveals that firms in industries facing higher reductions in Brazil's tariffs increase investment in technology faster. The effect of tariffs is highest in the upper-middle range of the firm-size distribution, as predicted by the model. (JEL F13, F15, O19, O24, O33)

Monetary Policy, Trend Inflation, and the Great Moderation: An Alternative Interpretation

- American Economic Review---2011---Olivier Coibion,Yuriy Gorodnichenko

With positive trend inflation, the Taylor principle does not guarantee a determinate equilibrium. We provide new theoretical results on determinacy in New Keynesian models with positive trend inflation and new empirical findings on the Federal Reserve's reaction function before and after the Volcker disinflation to find that, (i) while the Fed likely satisfied the Taylor principle before Volcker, the US economy was still subject to self-fulfilling fluctuations in the 1970s, (ii) the US economy switched to determinacy during the Volcker disinflation, and (iii) the switch reflected changes in the Fed's response to macroeconomic variables and the decline in trend inflation. (JEL E12, E23, E31, E32, E52)

Inflation and Unemployment in the Long Run

- American Economic Review---2011---Aleksander Berentsen,Guido Menzio,Randall Wright

We study the long-run relation between money (inflation or interest rates) and unemployment. We document positive relationships between these variables at low frequencies. We develop a framework where money and unemployment are modeled using explicit microfoundations, providing a unified theory to analyze labor and goods markets. We calibrate the model and ask how monetary factors account for labor market behavior. We can account for a sizable fraction of the increase in unemployment rates during the 1970s. We show how it matters whether one uses monetary theory based on the search-and-bargaining approach or on an ad hoc cash-in-advance constraint. (JEL E24, E31, E41, E43, E52)

Resolving Conflicting Preferences in School Choice: The "Boston Mechanism" Reconsidered

- American Economic Review---2011---Atila Abdulkadiroglu,Yeon-Koo Che,Yosuke Yasuda

Despite its widespread use, the Boston mechanism has been criticized for its poor incentive and welfare performances compared to the Gale-Shapley deferred acceptance algorithm (DA). By contrast, when students have the same ordinal preferences and schools have no priorities, we find that the Boston mechanism Pareto dominates the DA in ex ante welfare, that it may not harm but rather benefit participants who may not strategize well, and that, in the presence of school priorities, the Boston mechanism also tends to facilitate greater access than the DA to good schools for those lacking priorities at those schools. (JEL D82, I21, I28)

The Evolution of Cooperation in Infinitely Repeated Games: Experimental Evidence

- American Economic Review---2011---Pedro Dal Bó,Guillaume R. Frochette

A usual criticism of the theory of infinitely repeated games is that it does not provide sharp predictions since there may be a multiplicity of equilibria. To address this issue, we present experimental evidence on the evolution of cooperation in infinitely repeated prisoner's dilemma games as subjects gain experience. We show that cooperation may prevail in infinitely repeated games, but the conditions under which this occurs are more stringent than the subgame perfect conditions usually considered or even a condition based on risk dominance. (JEL C71, C73)

Sudden Stops, Financial Crises, and Leverage

- American Economic Review---2010---Enrique Mendoza

Financial crashes were followed by deep recessions in the Sudden Stops of emerging economies. An equilibrium business cycle model with a collateral constraint explains this phenomenon as a result of the amplification and asymmetry that the constraint induces in the responses of macro-aggregates to shocks. Leverage rises during expansions, and when it rises enough it triggers the constraint, causing a Fisherian deflation that reduces credit and the price and quantity of collateral assets. Output and factor allocations fall because access to working capital financing is also reduced. Precautionary saving makes Sudden Stops low probability events nested within normal cycles, as observed in the data. (JEL E21, E23, E32, E44, G01, O11, O16)

The Political Economy of the US Mortgage Default Crisis

- American Economic Review---2010---Atif Mian,Amir Sufi,Francesco Trebbi

We examine the effects of constituents, special interests, and ideology on congressional voting on two of the most significant pieces of legislation in US economic history. Representatives whose constituents experience a sharp increase in mortgage defaults are more likely to support the Foreclosure Prevention Act, especially in competitive districts. Interestingly, representatives are more sensitive to defaults of their own-party constituents. Special interests in the form ofhigher campaign contributions from the financial industry increase the likelihood of supporting the Emergency Economic Stabilization Act. However, ideologically conservative representatives are less responsive to both constituent and special interests. (JEL D72, G21, G28)

Margins of Multinational Labor Substitution

- American Economic Review---2010---Marc-Andreas Muendler,Sascha Becker

Employment at a multinational enterprise (MNE) responds to wages at the extensive margin, when an MNE enters a foreign location, and at the intensive margin, when an MNE operates existing affiliates. We present an MNE model and conditions for parametric and nonparametric identification. Prior studies rarely found wages to affect MNE employment. Our integrated approach documents salient labor substitution for German manufacturing MNEs and removes bias. In Central and Eastern Europe, most employment responds at the extensive margin, while in Western Europe the extensive margin accounts for around two-thirds of employment shifts. At distant locations, MNEs respond to wages only at the extensive margin. (JEL F23, J23, J31, R32)

An Exploration of Technology Diffusion

- American Economic Review---2010---Diego Comin,Bart Hobijn

We develop a model that, at the aggregate level, is similar to the one-sector neoclassical growth model; at the disaggregate level, it has implications for the path of observable measures of technology adoption. We estimate it using data on the diffusion of 15 technologies in 166 countries over the last two centuries. Our results reveal that, on average, countries have adopted technologies 45 years after their invention. There is substantial variation across technologies and countries. Newer technologies have been adopted faster than old ones. The cross-country variation in the adoption of technologies accounts for at least 25 percent of per capita income differences. (JEL O33, O41, O47)

Inherited Trust and Growth

- American Economic Review---2010---Yann Algan,Pierre Cahuc

This paper develops a new method to uncover the causal effect of trust on economic growth by focusing on the inherited component of trust and its time variation. We show that inherited trust of descendants of US immigrants is significantly influenced by the country of origin and the timing of arrival of their forebears. We thus use the inherited trust of descendants of US immigrants as a time-varying measure of inherited trust in their country of origin. This strategy allows to identify the sizeable causal impact of inherited trust on worldwide growth during the twentieth century by controlling for country fixed effects. (JEL N11, N12, N31, N32, O47, Z13)

International Trade and Income Differences

- American Economic Review---2010---Michael Waugh

I develop a novel view of the trade frictions between rich and poor countries by arguing that to reconcile bilateral trade volumes and price data within a standard gravity model, the trade frictions between rich and poor countries must be systematically asymmetric, with poor countries facing higher costs to export relative to rich countries. I provide a method to model these asymmetries and demonstrate the merits of my approach relative to alternatives in the trade literature. I then argue that these trade frictions are quantitatively important to understanding the large differences in standards of living and total factor productivity across countries. (JEL F11, F13, F14, O19)

Early Admissions at Selective Colleges

- American Economic Review---2010---Christopher Avery,Jonathan Levin

Early admissions are widely used by selective colleges and universities. We identify some basic facts about early admissions policies, including the admissions advantage enjoyed by early applicants and patterns in application behavior, and propose a game-theoretic model that matches these facts. The key feature of the model is that colleges want to admit students who are enthusiastic about attending, and early admissions programs give students an opportunity to signal this enthusiasm. (JEL C78, I23)

The Changing Incidence of Geography

- American Economic Review---2010---James Anderson,Yoto Yotov

The incidence of bilateral trade costs is calculated here using neglected properties of the structural gravity model, disaggregated by commodity and region, and re-aggregated into forms useful for economic geography. For Canada's provinces, 1992-2003, sellers' incidence is on average some five times higher than buyers' incidence. Sellers' incidence falls over time due to specialization, despite constant gravity coefficients. This previously unrecognized globalizing force drives big reductions in "constructed home bias," the disproportionate predicted share of local trade; and large but varying gains in real GDP. (JEL F11, F14, R12)

Is Reputation Good or Bad? An Experiment

- American Economic Review---2010---Brit Grosskopf,Rajiv Sarin

We investigate the impact of reputation in a laboratory experiment. We do so by varying whether the past choices of a long-run player are observable by the short-run players. Our framework allows for reputation to have either a beneficial or a harmful effect on the long-run player. We find that reputation is seldom harmful and its beneficial effects are not as strong as theory suggests. When reputational concerns are at odds with other-regarding preferences, we find th latter overwhelm the former. (JEL C91, D12, D82, D83, Z13)

Institutions and Behavior: Experimental Evidence on the Effects of Democracy

- American Economic Review---2010---Pedro Dal Bó,Andrew Foster,Louis Putterman

A novel experiment is used to show that the effect of a policy on the level of cooperation is greater when it is chosen democratically by the subjects than when it is exogenously imposed. In contrast to the previous literature, our experimental design allows us to control for selection effects (e.g., those who choose the policy may be affected differently by it). Our finding implies that democratic institutions may affect behavior directly in addition to having effects through the choice of policies. Our findings have implications for the generalizability of the results of randomized policy interventions. (JEL C91, D02, D12, D72)

Asymmetric Contests with Conditional Investments

- American Economic Review---2010---Ron Siegel

This paper studies equilibrium behavior in a class of games that models asymmetric competitions with unconditional and conditional investments. Such competitions include lobbying settings, labor-market tournaments, and R& races, among others. I provide an algorithm that constructs the unique equilibrium in these games and apply it to study competitions in which a fraction of each competitor's investment is sunk and the rest is paid only by the winners. Complete-information all-pay auctions are a special case. (JEL D44, D72, D82)

Social Preferences and Strategic Uncertainty: An Experiment on Markets and Contracts

- American Economic Review---2010---Antonio Cabrales,Raffaele Miniaci,Marco Piovesan,Giovanni Ponti

This paper reports a three-phase experiment on a stylized labor market. In the first two phases, agents face simple games, which we use to estimate subjects' social and reciprocity concerns. In the last phase, four principals compete by offering agents a contract from a fixed menu. Then, agents "choose to work" for a principal by selecting one of the available contracts. We find that (i) (heterogeneous) social preferences are significant determinants of choices, (ii) for both principals and agents, strategic uncertainty aversion is a stronger determinant of choices than fairness, and (iii) agents display a marked propensity to work for principals with similar distributional concerns. (JEL D82, D86, J41)

Exploiting Naivete about Self-Control in the Credit Market

- American Economic Review---2010---Paul Heidhues,Botond Koszegi

We analyze contract choices, loan-repayment behavior, and welfare in a model of a competitive credit market when borrowers have a taste for immediate gratification. Consistent with many credit cards and subprime mortgages, for most types of nonsophisticated borrowers the baseline repayment terms are cheap, but they are also inefficiently front loaded and delays require paying large penalties. Although credit is for future consumption, nonsophisticated consumers overborrow, pay the penalties, and back load repayment, suffering large welfare losses. Prohibiting large penalties for deferring small amounts of repayment--akin to recent regulations in the US credit-card and mortgage markets--can raise welfare. (JEL D14, D18, D49, D86)

Inventories, Lumpy Trade, and Large Devaluations

- American Economic Review---2010---George Alessandria,Joseph Kaboski,Virgiliu Midrigan

We document that delivery lags and transaction-level economics of scale matter for international trade, leading importers to import infrequently and hold additional inventory. In a model with these frictions calibrated to empirical measures of inventory and trade lumpiness, these frictions have a large (20 percent) tariff equivalent, mostly due to inventory carrying costs. These frictions also alter the dynamics of imports and prices. Consistent with evidence from large devaluation episodes in six developing economies, following terms-of-trade and interest rate shocks, the model generates a short-term implosion of imports and a gradual increase in the retail price of imports. (JEL D92, F14, G31, L81, M11)

Do We Follow Others When We Should? A Simple Test of Rational Expectations

- American Economic Review---2010---Georg Weizsäcker

The paper presents a meta dataset covering 13 experiments on social learning games. It is found that in situations where it is empirically optimal to follow others and contradict one's own information, the players err in the majority of cases, forgoing substantial parts of earnings. The average player contradicts her own signal only if the empirical odds ratio of the own signal being wrong, conditional on all available information, is larger than 2:1, rather than 1:1 as would be implied by rational expectations. A regression analysis formulates a straightforward test of rational expectations which strongly rejects the null. (JEL D82, D83, D84)

Persuasion by Cheap Talk

- American Economic Review---2010---Archishman Chakraborty,Rick Harbaugh

We consider the credibility, persuasiveness, and informativeness of multidimensional cheap talk by an expert to a decision maker. We find that an expert with state-independent preferences can always make credible comparative statements that trade off the expert's incentive to exaggerate on each dimension. Such communication benefits the expert--cheap talk is "persuasive"--if her preferences are quasiconvex. Communication benefits a decision maker by allowing for a more informed decision, but strategic interactions between multiple decision makers can reverse this gain. We apply these results to topics including product recommendations, voting, auction disclosure, and advertising. (JEL D44, D72, D82, D83, M37)

Can Higher Prices Stimulate Product Use? Evidence from a Field Experiment in Zambia

- American Economic Review---2010---Nava Ashraf,James Berry,Jesse Shapiro

The controversy over how much to charge for health products in the developing world rests, in part, on whether higher prices can increase use, either by targeting distribution to high-use households (a screening effect), or by stimulating use psychologically through a sunk-cost effect. We develop a methodology for separating these two effects. We implement the methodology in a field experiment in Zambia using door-to-door marketing of a home water purification solution. We find evidence of economically important screening effects. By contrast, we find no consistent evidence of sunk-cost effects. (JEL C93, D12, I11, M31, O12)

Inheritance Law and Investment in Family Firms

- American Economic Review---2010---Andrew Ellul,Marco Pagano,Fausto Panunzi

Entrepreneurs may be legally bound to bequeath a minimal stake to noncontrolling heirs. The size of this stake can reduce investment in family firms, by reducing the future income they can pledge to external financiers. Using a purpose-built indicator of the permissiveness of inheritance law and data for 10,004 firms from 38 countries in 1990-2006, we find that stricter inheritance law is associated with lower investment in family firms but does not affect investment in nonfamily firms. Moreover, as the model predicts, inheritance law affects investment only in family firms that experience a succession. (JEL G31, G32, K22, L26, O17).

Binary Payment Schemes: Moral Hazard and Loss Aversion

- American Economic Review---2010---Fabian Herweg,Daniel Muller,Philipp Weinschenk

We modify the principal-agent model with moral hazard by assuming that the agent is expectation-based loss averse according to Koszegi and Rabin (2006, 2007). The optimal contract is a binary payment scheme even for a rich performance measure, where standard preferences predict a fully contingent contract. The logic is that, due to the stochastic reference point, increasing the number of different wages reduces the agent's expected utility without providing strong additional incentives. Moreover, for diminutive occurrence probabilities for all signals the agent is rewarded with the fixed bonus if his performance exceeds a certain threshold. (JEL D82, D86, J41, M52, M12)

Organizational Structure, Communication, and Group Ethics

- American Economic Review---2010---Matthew Ellman,Paul Pezanis-Christou

This paper investigates experimentally how a group's structure affects its ethical behavior towards a passive outsider. We analyze one vertical and two horizontal structures (one requiring consensus, one implementing a compromise by averaging proposals). We also control for internal communication. The data support our main predictions: (1) horizontal, averaging structures are more ethical than vertical structures (where subordinates do not feel responsible) and than consensual structures (where responsibility is dynamically diffused); (2) communication makes vertical structures more ethical (subordinates with voice feel responsible); (3) with communication, vertical structures are more ethical than consensual structures (where in-group bias hurts the outsider). (JEL C92, D23, L21, M14)

Doing Well by Doing Good? Green Office Buildings

- American Economic Review---2010---Piet Eichholtz,Nils Kok,John Quigley

This paper provides the first credible evidence on the economic value of "green buildings" derived from impersonal market transactions rather than engineering estimates. We analyze clusters of certified green and nearby buildings, establishing that "rated" buildings command substantially higher rents and selling prices than otherwise identical buildings. Variations in premiums are systematically related to energy-saving characteristics. Increased energy efficiency is associated with increased selling prices -- beyond the premiums paid for a labeled building. Evidence suggests that the intangible effects of the label itself may also play a role in determining the values of green buildings in the marketplace. (JEL G31, M14, Q52, R33)

Real Business Cycles in Emerging Countries?

- American Economic Review---2010---Javier Garcia-Cicco,Roberto Pancrazi,Martin Uribe,Javier Garcia Cicco

We use more than a century of Argentine and Mexican data to estimate the structural parameters of a small-open-economy real-business-cycle model driven by nonstationary productivity shocks. We find that the RBC model does a poor job of explaining business cycles in emerging countries. We then estimate an augmented model that incorporates shocks to the country premium and financial frictions. We find that the estimated financial-friction model provides a remarkably good account of business cycles in emerging markets and, importantly, assigns a negligible role to nonstationary productivity shocks. (JEL E13, E32, E44, F43, O11, O16)

Negative Marginal Tax Rates and Heterogeneity

- American Economic Review---2010---Philippe Choné,Guy Laroque

Heterogeneity is an important determinant of the shape of optimal tax schemes. This is shown here in a model a la Mirrlees. The agents differ in their productivities and opportunity costs of work, but their labor supplies depend only on a given unidimensional combination of these two characteristics. Conditions are provided under which marginal tax rates are everywhere non-negative. This is the case when work opportunity costs are distributed independently of income. But one can also get negative marginal tax rates, in particular at the bottom of the income distribution. A numerical illustration is given, based on UK data. (JEL H21, H24, H31, J22)

Psychological Pressure in Competitive Environments: Evidence from a Randomized Natural Experiment

- American Economic Review---2010---Jose Apesteguia,Ignacio Palacios-Huerta

Emotions can have important effects on performance and socioeconomic outcomes. We study a natural experiment where two teams of professionals compete in a tournament taking turns in a sequence. As the sequential order is determined by the random outcome of a coin flip, the treatment and control groups are determined via explicit randomization. Hence, absent any psychological effects, both teams should have the same probability of winning. Yet, we find a systematic first-mover advantage. Further, professionals are self-aware of their own psychological effects and, when given the chance, they rationally react by systematically taking advantage of these effects. (JEL C93, D03, D82, L83)

Morally Motivated Self-Regulation

- American Economic Review---2010---David P. Baron

Self-regulation is the private provision of public goods and private redistribution. This paper examines the scope of self-regulation motivated by altruistic moral preferences that are reciprocal and stronger the closer are citizens in a socioeconomic distance. The focus is on the role of organizations in increasing self-regulation by mitigating free-rider problems. Social label and certification organizations can expand the scope of self-regulation but not beyond that with unconditional altruism. Enforcement organizations expand the scope of self-regulation farther, and for-profit enforcement is more aggressive than nonprofit enforcement. Enforcement through social pressure imposed by NGOs also expands the scope of self-regulation. (JEL D64, H41, L51)

Identifying the Elasticity of Substitution with Biased Technical Change

- American Economic Review---2010---Miguel Leon-Ledesma,Peter McAdam,Alpo Willman

The capital-labor substitution elasticity and technical biases in production are critical parameters. The received wisdom claims their joint identification is infeasible. We challenge that interpretation. Putting the new approach of "normalized" production functions at the heart of a Monte Carlo analysis we identify the conditions under which identification is feasible and robust. The key result is that jointly modeling the production function and first-order conditions is superior to single-equation approaches especially when merged with "normalization." Our results will have fundamental implications for production-function estimation under non-neutral technical change, for understanding the empirical relevance of normalization and variability underlying past empirical studies. (JEL E22, O33, O41)

Social Comparisons and Contributions to Online Communities: A Field Experiment on MovieLens

- American Economic Review---2010---Yan Chen,F. Maxwell Harper,Joseph Konstan,Sherry Li

We design a field experiment to explore the use of social comparison to increase contributions to an online community. We find that, after receiving behavioral information about the median user's total number of movie ratings, users below the median demonstrate a 530 percent increase in the number of monthly movie ratings, while those above the median decrease their ratings by 62 percent. When given outcome information about the average user's net benefit score, above-average users mainly engage in activities that help others. Our findings suggest that effective personalized social information can increase the level of public goods provision. (JEL C93, H41, L82)

Are Health Insurance Markets Competitive?

- American Economic Review---2010---Leemore S. Dafny

To gauge the competitiveness of the group health insurance industry, I investigate whether health insurers charge higher premiums, ceteris paribus, to more profitable firms. Such "direct price discrimination" is feasible only in imperfectly competitive settings. Using a proprietary national database of health plans offered by a sample of large, multisite firms from 1998-2005, I find firms with positive profit shocks subsequently face higher premium growth, even for the same health plans. Moreover, within a given firm, those sites located in concentrated insurance markets experience the greatest premium increases. The findings suggest health care insurers are exercising market power in an increasing number of geographic markets. (JEL G22, I11, I18, L11, L25)

Wage Risk and Employment Risk over the Life Cycle

- American Economic Review---2010---Hamish Low,Costas Meghir,Luigi Pistaferri

We specify a life-cycle model of consumption, labor supply and job mobility in an economy with search frictions. We distinguish different sources of risk, including shocks to productivity, job arrival, and job destruction. Allowing for job mobility has a large effect on the estimate of productivity risk. Increases in the latter impose a considerable welfare loss. Increases in employment risk have large effects on output and, primarily through this channel, affect welfare. The welfare value of programs such as Food Stamps, partially insuring productivity risk, is greater than the value of unemployment insurance which provides (partial) insurance against employment risk. (JEL D91, J22, J31, J61, J64, J65)

The Law of the Few

- American Economic Review---2010---Andrea Galeotti,Sanjeev Goyal

Empirical work shows that a large majority of individuals get most of their information from a very small subset of the group, viz., the influencers; moreover, there exist only minor differences between the observable characteristics of the influencers and the others. We refer to these empirical findings as the Law of the Few. This paper develops a model where players personally acquire information and form connections with others to access their information. Every (robust) equilibrium of this model exhibits the law of the few. (JEL D83, D85, Z13)

Technology Capital and the US Current Account

- American Economic Review---2010---Ellen McGrattan,Edward Prescott

The US Bureau of Economic Analysis (BEA) estimates that the return on investments of foreign subsidiaries of US multinational companies over the period 1982-2006 averaged 9.4 percent annually after taxes; US subsidiaries of foreign multinationals averaged only 3.2 percent. BEA returns on foreign direct investment (FDI) are distorted because most intangible investments made by multinationals are expensed. We develop a multicountry general equilibrium model with an essential role for FDI and apply the BEA's methodology to construct economic statistics for the model economy. We estimate that mismeasurement of intangible investments accounts for over 60 percent of the difference in BEA returns. (JEL F23, F32)

Sovereign Risk and Secondary Markets

- American Economic Review---2010---Fernando Broner,Alberto Martin,Jaume Ventura

Conventional wisdom says that, in the absence of default penalties, sovereign risk destroys all foreign asset trade. We show that this conventional wisdom rests on one implicit assumption: that assets cannot be retraded in secondary markets. Without this assumption, foreign asset trade is possible even in the absence of default penalties. This result suggests a broader perspective regarding the origins of sovereign risk and its remedies. Sovereign risk affects foreign asset trade only if default penalties are insufficient and secondary markets work imperfectly. To reduce its effects, one can either increase default penalties or improve the working of secondary markets. (JEL F34, G12, G15)

Pavlovian Processes in Consumer Choice: The Physical Presence of a Good Increases Willingness-to-Pay

- American Economic Review---2010---Benjamin Bushong,Lindsay M. King,Colin F. Camerer,Antonio Rangel

This paper describes a series of laboratory experiments studying whether the form in which items are displayed at the time of decision affects the dollar value that subjects place on them. Using a Becker-DeGroot auction under three different conditions — (i) text displays, (ii) image displays, and (iii) displays of the actual items — we find that subjects' willingness-to-pay is 40-61 percent larger in the real than in the image and text displays. Furthermore, follow-up experiments suggest the presence of the real item triggers preprogrammed consummatory Pavlovian processes that promote behaviors that lead to contact with appetitive items whenever they are available. (JEL C91, D03, D12, D87)

Determinants of Redistributive Politics: An Empirical Analysis of Land Reforms in West Bengal, India

- American Economic Review---2010---Pranab Bardhan,Dilip Mookherjee

We investigate political determinants of land reform implementation in the Indian state of West Bengal. Using a village panel spanning 1974-1998, we do not find evidence supporting the hypothesis that land reforms were positively and monotonically related to control of local governments by a Left Front coalition vis-à-vis the right-centrist Congress party, combined with lack of commitment to policy platforms. Instead, the evidence is consistent with a quasi-Downsian theory stressing the role of opportunism (reelection concerns) and electoral competition. (JEL D72, O13, O17, Q15)

Monopoly Price Discrimination and Demand Curvature

- American Economic Review---2010---Iñaki Aguirre,Simon Cowan,John Vickers

This paper presents a general analysis of the effects of monopolistic third-degree price discrimination on welfare and output when all markets are served. Sufficient conditions — involving straightforward comparisons of the curvatures of the direct and inverse demand functions in the different markets — are presented for discrimination to have negative or positive effects on social welfare and output. (JEL D42)

Strategic Redistricting

- American Economic Review---2010---Faruk Gul,Wolfgang Pesendorfer

Two parties choose redistricting plans to maximize their probability of winning a majority in the House of Representatives. In the unique equilibrium, parties maximally segregate their opponents' supporters but pool their own supporters into uniform districts. Ceteris paribus, the stronger party segregates more than the weaker one, and the election outcome is biased in the stronger party's favor and against the party whose supporters are easier to identify. We incorporate policy choice into our redistricting game and find that when one party controls redistricting, the equilibrium policy is biased towards the preferences of the redistricting party's supporters. (JEL C72, D72)

A Price Theory of Multi-sided Platforms

- American Economic Review---2010---Eric Weyl

I develop a general theory of monopoly pricing of networks. Platforms use insulating tariffs to avoid coordination failure, implementing any desired allocation. Profit maximization distorts in the spirit of A. Michael Spence (1975) by internalizing only network externalities to marginal users. Thus the empirical and prescriptive content of the popular Jean-Charles Rochet and Jean Tirole (2006) model of two-sided markets turns on the nature of user heterogeneity. I propose a more plausible, yet equally tractable, model of heterogeneity in which users differ in their income or scale. My approach provides a general measure of market power and helps predict the effect of price regulation and mergers. (JEL D42, D85, L14)

Consumption Taxes and Redistribution

- American Economic Review---2010---Isabel Correia

This study considers replacing the current US tax system with only a flat tax consumption tax, showing, in contrast to the literature, that such a reform leads to a decline in inequality and increase in welfare for the welfare-poor. The results are obtained from a simple model that identifies the main channels through which the reform affects the economy. It is shown also that these novel results depend on the distribution of wealth and earnings, and that they hold for the relevant empirical distributions. (JEL D31, H23, H25)

When Does Communication Improve Coordination?

- American Economic Review---2010---Tore Ellingsen,Robert Östling

We study costless pre-play communication of intentions among inexperienced players. Using the level-k model of strategic thinking to describe players' beliefs, we fully characterize the effects of preplay communication in symmetric 2x2 games. One-way communication weakly increases coordination on Nash equilibrium outcomes, although average payoffs sometimes decrease. Two-way communication further improves payoffs in some games but is detrimental in others. Moving beyond the class of symmetric 2x2 games, we find that communication facilitates coordination in common interest games with positive spillovers and strategic complementarities, but there are also games in which any type of communication hampers coordination. (JEL C72, D83)

Kinship, Incentives, and Evolution

- American Economic Review---2010---Ingela Alger,Jörgen Weibull

We analyze how family ties affect incentives, with focus on the strategic interaction between two mutually altruistic siblings. The siblings exert effort to produce output under uncertainty, and they may transfer output to each other. With equally altruistic siblings, their equilibrium effort is nonmonotonic in the common degree of altruism, and it depends on the harshness of the environment. We define a notion of local evolutionary stability of degrees of sibling altruism and show that this degree is lower than the kinship-relatedness factor. Numerical simulations show how family ties vary with the environment, and how this affects economic outcomes. (JEL D13, D64, J12, Z13)

Elections, Capital Flows, and Politico-economic Equilibria

- American Economic Review---2010---Roberto Chang

We study an open economy where a pro-labor and a pro-business candidate compete in an election. The winner chooses taxes, which affect investment returns. Electoral outcomes depend on the size of the foreign debt, but the debt itself reflects expectations about the election. The resulting interaction is novel and has several implications. Elections are associated with increased volatility. Politico-economic crises can occur. Inefficiencies vanish if the candidates commit to an appropriate tax policy, but such commitments have predictable effects on the election. Empirical evidence supporting the theory is discussed. (JEL D72, F34, O17, O19)

Preemption Games: Theory and Experiment

- American Economic Review---2010---Steven T. Anderson,Daniel Friedman,Ryan Oprea

Several impatient investors with private costs C i face an indivisible irreversible investment opportunity whose value V is governed by geometric Brownian motion. The first investor i to seize the opportunity receives the entire payoff, V-C i . We characterize the symmetric Bayesian Nash equilibrium for this game. A laboratory experiment confirms the model's main qualitative predictions: competition drastically lowers the value at which investment occurs; usually the lowest-cost investor preempts the other investors; observed investment patterns in competition (unlike monopoly) are quite insensitive to changes in the Brownian parameters. Support is more qualified for the prediction that markups decline with cost. (JEL C73, D44, D82, G31)

Watta Satta: Bride Exchange and Women's Welfare in Rural Pakistan

- American Economic Review---2010---Hanan Jacoby,Ghazala Mansuri

Can marriage institutions limit marital inefficiency? We study the pervasive custom of watta satta in rural Pakistan, a bride exchange between families coupled with a mutual threat of retaliation. Watta satta can be seen as a mechanism for coordinating the actions of two sets of parents, each wishing to restrain their son-in-law. We find that marital discord, as measured by estrangement, domestic abuse, and wife's mental health, is indeed significantly lower in watta satta versus "conventional" marriage, but only after accounting for selection bias. These benefits cannot be explained by endogamy, a marriage pattern associated with watta satta. (JEL J12, J16, O15, O18, Z13)

Self-Interest through Delegation: An Additional Rationale for the Principal-Agent Relationship

- American Economic Review---2010---John Hamman,George Loewenstein,Roberto Weber

Principal-agent relationships are typically assumed to be motivated by efficiency gains from comparative advantage. However, principals may also delegate tasks to avoid taking direct responsibility for selfish or unethical behavior. We report three laboratory experiments in which principals repeatedly either decide how much money to share with a recipient or hire agents to make sharing decisions on their behalf. Across several experimental treatments, recipients receive significantly less, and in many cases close to nothing, when allocation decisions are made by agents. (JEL D82)

The Gender Wage Gap and Domestic Violence

- American Economic Review---2010---Anna Aizer

Three quarters of all violence against women is perpetrated by domestic partners. This study exploits exogenous changes in the demand for labor in female-dominated industries to estimate the impact of the male-female wage gap on domestic violence. Decreases in the wage gap reduce violence against women, consistent with a household bargaining model. These findings shed new light on the health production process as well as observed income gradients in health and suggest that in addition to addressing concerns of equity and efficiency, pay parity can also improve the health of American women via reductions in violence. (JEL D13, I12, J16, J23, J31)

Constrained School Choice: An Experimental Study

- American Economic Review---2010---Caterina Calsamiglia,Guillaume Haeringer,Flip Klijn

The literature on school choice assumes that families can submit a preference list over all the schools they want to be assigned to. However, in many real-life instances families are only allowed to submit a list containing a limited number of schools. Subjects' incentives are drastically affected, as more individuals manipulate their preferences. Including a safety school in the constrained list explains most manipulations. Competitiveness across schools plays an important role. Constraining choices increases segregation and affects the stability and efficiency of the final allocation. Remarkably, the constraint reduces significantly the proportion of subjects playing a dominated strategy (JEL D82, I21)

Financing Development: The Role of Information Costs

- American Economic Review---2010---Jeremy Greenwood,Juan Sanchez,Cheng Wang

To address how technological progress in financial intermediation affects the economy, a costly-state verification framework is embedded into the standard growth model. The framework has two novel ingredients. First, firms differ in the risk/return combinations that they offer. Second, the efficacy of monitoring depends upon the amount of resources invested in the activity. A financial theory of firm size results. Undeserving firms are over-financed, deserving ones under-funded. Technological advance in intermediation leads to more capital accumulation and a redirection of funds away from unproductive firms toward productive ones. With continued progress, the economy approaches its first-best equilibrium. (JEL G21, G31, O16, O33, O41)

Efficiency Gains from Team-Based Coordination—Large-Scale Experimental Evidence

- American Economic Review---2010---Francesco Feri,Bernd Irlenbusch,Matthias Sutter

The need for efficient coordination is ubiquitous in organizations and industries. The literature on the determinants of efficient coordination has focused on individual decision making so far. In reality, however, teams often have to coordinate with other teams. We present a series of coordination experiments with a total of 1,101 participants. We find that teams of three subjects each coordinate much more efficiently than individuals. This finding adds one important cornerstone to the recent literature on the conditions for successful coordination. We explain the differences between individuals and teams using the experience weighted attraction learning model. (JEL C71, C91, D23, D83, M54)

Social Identity and Preferences

- American Economic Review---2010---Daniel Benjamin,James Choi,A. Joshua Strickland

Social identities prescribe behaviors for people. We identify the marginal behavioral effect of these norms on discount rates and risk aversion by measuring how laboratory subjects' choices change when an aspect of social identity is made salient. When we make ethnic identity salient to Asian-American subjects, they make more patient choices. When we make racial identity salient to black subjects, non-immigrant blacks (but not immigrant blacks) make more patient choices. Making gender identity salient has no effect on intertemporal or risk choices. (JEL D81, J15, J16, Z13)

Bidding with Securities: Comment

- American Economic Review---2010---Yeon-Koo Che,Jinwoo Kim

Peter DeMarzo, Ilan Kremer, and Andrzej Skrzypacz (2005) analyzed auctions in which bidders compete in securities. They show that a steeper security leads to a higher expected revenue for the seller, and also use this to establish the revenue ranking between standard auctions. In this comment, we obtain the opposite results to DKS's by assuming that a higher return requires a higher investment cost. Given this latter assumption, steeper securities are more vulnerable to adverse selection, and may yield lower expected revenue, than flatter ones. (JEL D44)

Beyond Markets and States: Polycentric Governance of Complex Economic Systems

- American Economic Review---2010---Elinor Ostrom

Transaction Cost Economics: The Natural Progression

- American Economic Review---2010---Oliver Williamson

Product Creation and Destruction: Evidence and Price Implications

- American Economic Review---2010---Christian Broda,David Weinstein

This paper describes the extent of product creation and destruction in a large sector of the US economy. We find four times more entry and exit in product markets than is found in labor markets because most product turnover happens within firms. Net product creation is strongly procyclical and primarily driven by creation rather than destruction. We find that a cost-of-living index that takes product turnover into account is 0.8 percentage points per year lower than a "fixed goods" price index like the CPI. The procyclicality of the bias implies that business cycles are more volatile than indicated by official statistics. (JEL E31, E32, L11, O31)

A Study of the Internal Organization of a Bidding Cartel

- American Economic Review---2010---John Asker

This paper examines bidding in over 1,700 knockout auctions used by a bidding cartel (or ring) of stamp dealers in the 1990s. The knockout was conducted using a variant of the model studied by Daniel Graham, Robert Marshall, and Jean-Francois Richard (1990). Following a reduced form examination of these data, damages, induced inefficiency, and the ring's benefit from colluding are estimated using a structural model in the spirit of Emmanuel Guerre, Isabelle Perrigne, and Quang Vuong (2000). A notable finding is that nonring bidders suffered damages that were of the same order of magnitude as those of the sellers. (JEL D43, D44, L12)

The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks

- American Economic Review---2010---Christina Romer,David Romer

This paper investigates the impact of tax changes on economic activity. We use the narrative record, such as presidential speeches and Congressional reports, to identify the size, timing, and principal motivation for all major postwar tax policy actions. This analysis allows us to separate legislated changes into those taken for reasons related to prospective economic conditions and those taken for more exogenous reasons. The behavior of output following these more exogenous changes indicates that tax increases are highly contractionary. The effects are strongly significant, highly robust, and much larger than those obtained using broader measures of tax changes. (JEL E32, E62, H20, N12)

Bargaining with Arrival of New Traders

- American Economic Review---2010---William Fuchs,Andrzej Skrzypacz

We study dynamic bargaining with asymmetric information and arrival of exogenous events, which represent arrival of traders or information. We characterize the unique limit of stationary equilibria with frequent offers. The possibility of arrivals changes equilibrium dynamics. There is delay in equilibrium, and the seller slowly screens out buyers with higher valuations. The seller payoff equals what he can achieve by simply awaiting an arrival. In applications, when buyer valuations fall, average prices drop and delay increases. Surplus division depends on relative arrival rates of buyers/sellers and expected time to trade is a nonmonotonic function of the arrival rate. (JEL C78, D82)

Emissions Trading, Electricity Restructuring, and Investment in Pollution Abatement

- American Economic Review---2010---Meredith Fowlie

This paper analyzes an emissions trading program that was introduced to reduce smog-causing pollution from large stationary sources. Using variation in state level electricity industry restructuring activity, I identify the effect of economic regulation on pollution permit market outcomes. There are two main findings. First, deregulated plants in restructured electricity markets were less likely to adopt more capital intensive environmental compliance options as compared to regulated or publicly owned plants. Second, as a consequence of heterogeneity in electricity market regulations, a larger share of the permitted pollution is being emitted in states where air quality problems tend to be more severe. (JEL L51, L94, L98, Q53, Q58)

Infrequent Portfolio Decisions: A Solution to the Forward Discount Puzzle

- American Economic Review---2010---Philippe Bacchetta,Eric van Wincoop

A major puzzle in international finance is that high interest rate currencies tend to appreciate (forward discount puzzle). Motivated by the fact that only a small fraction of foreign currency holdings is actively managed, we calibrate a two-country model in which agents make infrequent portfolio decisions. We show that the model can account for the forward discount puzzle. It can also account for several related empirical phenomena, including that of "delayed overshooting." We also show that making infrequent portfolio decisions is optimal as the welfare gain from active currency management is smaller than the corresponding fees. (JEL F31, G11, G15)

A New Approach to Estimating the Production Function for Housing

- American Economic Review---2010---Dennis Epple,Brett Gordon,Holger Sieg

Dating to the classic works of Alonso, Mills, and Muth, the production function for housing has played a central role in urban economics and local public finance. This paper provides a new flexible approach for estimating the housing production function which treats housing quantities and prices as latent variables. The empirical analysis is based on a comprehensive database of recently built properties in Allegheny County, Pennsylvania. We find that the new method proposed in this paper works well in the application and provides reasonable estimates for the underlying production function. (JEL C51, D24, R11, R31)

Technology Adoption with Exit in Imperfectly Informed Equity Markets

- American Economic Review---2010---Katrin Tinn

This paper focuses on the importance of equity markets in facilitating the exit of entrepreneurs investing in technology. Entrepreneurs' willingness to invest and aggregate output is affected in two opposite ways. First, uncertainty about equity price or lack of market liquidity discourages technology adoption. This can explain slow technology adoption and limited participation by venture capitalists in underdeveloped equity markets. Second, fast adoption is a positive signal to imperfectly informed equity market participants. This provides a rational explanation for overpricing technology stocks and overinvestment in developed markets. Fast adoption is most probable at an intermediate quality of information. (JEL D82, E23, G12, G31, G32, O33)

Is a Donor in Hand Better Than Two in the Bush? Evidence from a Natural Field Experiment

- American Economic Review---2010---Craig Landry,Andreas Lange,John List,Michael Price,Nicholas Rupp

This study examines why people initially give to charities, why they remain committed to the cause, and what factors attenuate these influences. Using an experimental design that links donations across distinct treatments separated in time, we present several results. For example, previous donors are more likely to give, and contribute more, than other donor types. Yet, how previous donors were acquired is critical: agents initially attracted by an economic mechanism are more likely to continue giving than agents attracted by a non-mechanism factor. From a methodological viewpoint, our study showcases the benefit of moving beyond an experimental design that focuses on short-run substitution effects. (JEL C93, D64, D82, H41, L31, Z12)

Pinocchio's Pupil: Using Eyetracking and Pupil Dilation to Understand Truth Telling and Deception in Sender-Receiver Games

- American Economic Review---2010---Joseph Wang,Michael Spezio,Colin F. Camerer

We report experiments on sender-receiver games with an incentive for senders to exaggerate. Subjects "over-communicate" -- messages are more informative of the true state than they should be, in equilibrium. Eyetracking shows that senders look at payoffs in a way that is consistent with a level-k model. A combination of sender messages and lookup patterns predicts the true state about twice as often as predicted by equilibrium. Using these measures to infer the state would enable receiver subjects to hypothetically earn 16-21 percent more than they actually do, an economic value of 60 percent of the maximum increment. (JEL C72, C91, D82, Z13)

Trade Shocks and Labor Adjustment: A Structural Empirical Approach

- American Economic Review---2010---Erhan Artuc,Shubham Chaudhuri,John McLaren

The welfare effects of trade shocks turn on the nature and magnitude of the costs workers face in moving between sectors. Using an Euler-type equilibrium condition derived from a rational expectations model of dynamic labor adjustment, we estimate the mean and variance of workers' switching costs from the US CPS. We estimate high values of both parameters, implying slow adjustment of the economy and sharp movements in wages in response to trade shocks. However, import-competing workers can still benefit from tariff removal; liberalization lowers their wages in the short and long run but raises their option value.(JEL E24, F13, F16)

Investment and Usage of New Technologies: Evidence from a Shared ATM Network

- American Economic Review---2010---Stijn Ferrari,Frank Verboven,Hans Degryse

The success of new technologies depends on both the firms' investment and consumers' usage decisions. We study this problem in a shared ATM network. Inefficiencies may arise because banks coordinate investment, and consumers may not make proper use of the network. Based on an empirical model of ATM investment and demand, we find that banks substantially underinvested in ATMs, in contrast with earlier findings of strategic overinvestment in the United States. Furthermore, ATM usage was too low, because regulation prohibited fees for cash withdrawals. A direct promotion of investment improves welfare, but fees for branch cash withdrawals would be more effective. (JEL G21, G31, O33)

Intertemporal Consumption and Credit Constraints: Does Total Expenditure Respond to an Exogenous Shock to Credit?

- American Economic Review---2010---Søren Leth-Petersen

There is continuing controversy over the importance of credit constraints. This paper investigates whether total household expenditure and debt is affected by an exogenous increase in access to credit provided by a credit market reform that enabled Danish house owners to use housing equity as collateral for consumption loans. We find that the magnitude of the response is correlated with the amount of equity released by the reform and that the effect is strongest for younger households. Even for this group, the response was moderate. The aggregate effect of the reform was significant but small. (JEL D14, D91, E21)

A Theory of Optimal Random Crackdowns

- American Economic Review---2010---Jan Eeckhout,Nicola Persico,Petra Todd

An incentives based theory of policing is developed which can explain the phenomenon of random "crackdowns," i.e., intermittent periods of high interdiction/surveillance. For a variety of police objective functions, random crackdowns can be part of the optimal monitoring strategy. We demonstrate support for implications of the crackdown theory using traffic data gathered by the Belgian Police Department and use the model to estimate the deterrence effect of additional resources spent on speeding interdiction. (JEL K42, R41)

Peddling Influence through Intermediaries

- American Economic Review---2010---Wei Li

A sender may communicate with a decision maker through intermediaries. In this model, an objective sender and intermediary pass on information truthfully, while biased ones favor a particular agenda but also have reputational concerns. I show that the biased sender and the biased intermediary's reporting truthfulness are strategic complements. The biased sender is less likely to use an intermediary than an objective sender if his reputational concerns are low, but more likely to do so if his reputational concerns are moderate. Moreover, the biased sender may be more likely to use an intermediary perceived to be more biased. (JEL D82, D83)

The Burden of the Nondiversifiable Risk of Entrepreneurship

- American Economic Review---2010---Robert Hall,Susan E. Woodward

Entrepreneurship is risky. We study the risk facing a well-documented and important class of entrepreneurs, those backed by venture capital. Using a dynamic program, we calculate the certainty-equivalent of the difference between the cash rewards that entrepreneurs actually received over the past 20 years and the cash that entrepreneurs would have received from a risk-free salaried job. The payoff to a venture-backed entrepreneur comprises a below-market salary and a share of the equity value of the company when it goes public or is acquired. We find that the typical venture-backed entrepreneur received an average of $5.8 million in exit cash. Almost three-quarters of entrepreneurs receive nothing at exit and a few receive over a billion dollars. Because of the extreme dispersion of payoffs, an entrepreneur with a coefficient of relative risk aversion of two places a certainty equivalent value only slightly greater than zero on the distribution of outcomes she faces at the time of her company's launch. (JEL G24, G32, L26, M13)

What Causes Industry Agglomeration? Evidence from Coagglomeration Patterns

- American Economic Review---2010---Glenn Ellison,Edward L. Glaeser,William Kerr

Why do firms cluster near one another? We test Marshall's theories of industrial agglomeration by examining which industries locate near one another, or coagglomerate. We construct pairwise coagglomeration indices for US manufacturing industries from the Economic Census. We then relate coagglomeration levels to the degree to which industry pairs share goods, labor, or ideas. To reduce reverse causality, where collocation drives input-output linkages or hiring patterns, we use data from UK industries and from US areas where the two industries are not collocated. All three of Marshall's theories of agglomeration are supported, with input-output linkages particularly important. (JEL L14, L60, O33, R23, R32)

Specific Capital and Vintage Effects on the Dynamics of Unemployment and Vacancies

- American Economic Review---2010---Burcu Eyigungor

In a reasonably calibrated Mortensen and Pissarides matching model, shocks to average labor productivity can account for a small portion of the fluctuations in unemployment and vacancies (Shimer (2005)). I add heterogeneity in jobs (matches) with respect to the time the job is created in the form of different embodied technology levels. I also introduce specific capital that, once adapted for a match, has less value in another match. I show that the augmented model can account for fluctuations in unemployment and vacancies, and that specific capital is important to decreasing the volatility of the destruction rate of existing matches.

Are Risk Aversion and Impatience Related to Cognitive Ability?

- American Economic Review---2010---Thomas Dohmen,Armin Falk,David Huffman,Uwe Sunde

This paper investigates whether there is a link between cognitive ability, risk aversion, and impatience, using a representative sample of roughly 1,000 German adults. Subjects participate in choice experiments with monetary incentives measuring risk aversion, and impatience over an annual horizon, and conduct two different, widely used, tests of cognitive ability. We find that lower cognitive ability is associated with greater risk aversion, and more pronounced impatience. These relationships are significant, and robust to controlling for personal characteristics, education, income, and measures of credit constraints. We perform a series of additional robustness checks, which help rule out other possible confounds.

Policy Reversal

- American Economic Review---2010---Espen Moen,Christian Riis

We analyze the existence of policy reversal, the phenomenon sometimes observed that a certain policy (say extreme left-wing) is implemented by the "unlikely" (right-wing) party. We formulate a Downsian signaling model where the incumbent government, through its choice of policy, reveals information both regarding own preferences and external circumstances that may call for a particular policy. We show that policy reversal may indeed exist as an equilibrium phenomenon. This is partly because the incumbent party has superior opportunities to reveal information, and partly because its reputation protects a left-wing incumbent when advertising a right-wing policy.

Vertical Relationships and Competition in Retail Gasoline Markets: Empirical Evidence from Contract Changes in Southern California: Comment

- American Economic Review---2010---Christopher T. Taylor,Nicholas M. Kreisle,Paul Zimmerman

In a paper in the March 2004 AER, Justine Hastings concludes that the acquisition of an independent gasoline retailer, Thrifty, by a vertically integrated firm, ARCO, is associated with sizable price increases at competing stations. To better understand the mechanism to which she attributes this effect -- which combines vertical integration and rebranding -- we attempted but ultimately failed to reproduce the results using alternative data.

Vertical Relationships and Competition in Retail Gasoline Markets: Empirical Evidence from Contract Changes in Southern California: Reply

- American Economic Review---2010---Justine Hastings

In their comment, Taylor, Kreisle and Zimmerman use gasoline price data taken from fleet card transactions at selected gasoline stations to re-examine a subset of results presented in Hastings (2004). Bringing new data to re-examine the question is a helpful contribution. Both data sets have limitations, potentially causing differences in the estimated effect. I worked with the authors to explore and understand the differences in the data sets and how they impact the estimates in both analyses, and conclude that the effects sizes are likely smaller in areas of overlap between the two data sets.

Antidumping Investigations and the Pass-Through of Antidumping Duties and Exchange Rates: Comment

- American Economic Review---2010---Brian D. Kelly

Blonigen and Haynes (2002) calculated that pass-through of antidumping duty estimates to U.S. pricing of 200% would be required to eliminate potential antidumping duties. However, this calculation was based on an error in interpretation of U.S. antidumping practice, that antidumping duties themselves are subtracted in an antidumping calculation. In fact there is no such subtraction, and a pass-through of 100% theoretically suffices to eliminate potential antidumping duties.

Antidumping Investigations and the Pass-Through of Antidumping Duties and Exchange Rates: Reply

- American Economic Review---2010---Bruce Blonigen,Stephen E. Haynes

This reply responds to a comment that correctly identifies an invalid assumption in our original article that antidumping (AD) duties are subtracted from the U.S. price when calculating AD duties in administrative reviews. While this point invalidates our theoretical explanation and empirical evidence on the magnitude of AD duty pass-through, it does not affect our original article's theory or empirical evidence on the magnitude of exchange rate pass-through, or the presence of structural breaks in both the AD duty and exchange-rate pass-through coefficients stemming from AD investigations and orders.

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- American Economic Review---2010---Matthew Shapiro

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- American Economic Review---2010---Katharine Abraham

Price Indexes, Inequality, and the Measurement of World Poverty

- American Economic Review---2010---Angus Deaton

I discuss the measurement of world poverty and inequality, with particular attention to the role of purchasing power parity (PPP) price indexes from the International Comparison Project. Global inequality increased with the latest revision of the ICP, and this reduced the global poverty line relative to the US dollar. The recent large increase of nearly half a billion poor people came from an inappropriate updating of the global poverty line, not from the ICP revisions. Even so, PPP comparisons between widely different countries rest on weak theoretical and empirical foundations. I argue for wider use of self-reports from international monitoring surveys, and for a global poverty line that is truly denominated in US dollars. (JEL C43, D31, I31, I32, F31)

Learning about a New Technology: Pineapple in Ghana

- American Economic Review---2010---Timothy Conley,Christopher Udry

This paper investigates the role of social learning in the diffusion of a new agricultural technology in Ghana. We use unique data on farmers' communication patterns to define each individual's information neighborhood. Conditional on many potentially confounding variables, we find evidence that farmers adjust their inputs to align with those of their information neighbors who were surprisingly successful in previous periods. The relationship of these input adjustments to experience further indicates the presence of social learning. In addition, applying the same method to input choices for another crop, of known technology, correctly indicates an absence of social learning effects. (JEL D83, O13, O33, Q16)

Multiple-Product Firms and Product Switching

- American Economic Review---2010---Andrew Bernard,Stephen Redding,Peter Schott

This paper examines the frequency, pervasiveness, and determinants of product switching by US manufacturing firms. We find that one-half of firms alter their mix of five-digit SIC products every five years, that product switching is correlated with both firm- and firm-product attributes, and that product adding and dropping induce large changes in firm scope. The behavior we observe is consistent with a natural generalization of existing theories of industry dynamics that incorporates endogenous product selection within firms. Our findings suggest that product switching contributes to a reallocation of resources within firms toward their most efficient use. (JEL L11, L21, L25, L60)

"Momma's Got the Pill": How Anthony Comstock and Griswold v. Connecticut Shaped US Childbearing

- American Economic Review---2010---Martha Bailey

The 1960s ushered in a new era in US demographic history characterized by significantly lower fertility rates and smaller family sizes. What catalyzed these changes remains a matter of considerable debate. This paper exploits idiosyncratic variation in the language of "Comstock" statutes, enacted in the late 1800s, to quantify the role of the birth control pill in this transition. Almost 50 years after the contraceptive pill appeared on the US market, this analysis provides new evidence that it accelerated the post-1960 decline in marital fertility. (JEL J12, J13, K10, N31, N32)

Matching and Sorting in Online Dating

- American Economic Review---2010---Gunter J. Hitsch,Ali Hortacsu,Dan Ariely

Using data on user attributes and interactions from an online dating site, we estimate mate preferences, and use the Gale-Shapley algorithm to predict stable matches. The predicted matches are similar to the actual matches achieved by the dating site, and the actual matches are approximately efficient. Out-of-sample predictions of offline matches, i.e., marriages, exhibit assortative mating patterns similar to those observed in actual marriages. Thus, mate preferences, without resort to search frictions, can generate sorting in marriages. However, we underpredict some of the correlation patterns; search frictions may play a role in explaining the discrepancy. (JEL C78, J12)

Entry, Exit, and Investment-Specific Technical Change

- American Economic Review---2010---Roberto Samaniego

Using European data, this paper finds that (i) industry entry and exit rates are positively related to industry rates of investment-specific technical change (ISTC); and (ii) the sensitivity of industry entry and exit rates to cross-country differences in entry costs depends on industry rates of ISTC. The paper constructs a general equilibrium model in which the rate of ISTC varies across industries and new investment-specific technologies can be introduced by entrants or by incumbents. In the calibrated model, equilibrium behavior is consistent with stylized facts (i) and (ii), provided the cost of technology adoption is increasing in the rate of ISTC. (JEL G31, L11, O31, O33)

Patient Cost-Sharing and Hospitalization Offsets in the Elderly

- American Economic Review---2010---Amitabh Chandra,Jonathan Gruber,Robin McKnight

In the Medicare program, increases in cost sharing by a supplemental insurer can exert financial externalities. We study a policy change that raised patient cost sharing for the supplemental insurer for retired public employees in California. We find that physician visits and prescription drug usage have elasticities that are similar to those of the RAND Health Insurance Experiment (HIE). Unlike the HIE, however, we find substantial "offset" effects in terms of increased hospital utilization. The savings from increased cost sharing accrue mostly to the supplemental insurer, while the costs of increased hospitalization accrue mostly to Medicare. (JEL G22, I12, I18, J14)

Contractibility and the Design of Research Agreements

- American Economic Review---2010---Josh Lerner,Ulrike Malmendier

We analyze how contractibility affects contract design. A major concern when designing research agreements is that researchers use their funding to subsidize other projects. We show that, when research activities are not contractible, an option contract is optimal. The financing firm obtains the option to terminate the agreement and, in case of termination, broad property rights. The threat of termination deters researchers from cross-subsidization, and the cost of exercising the termination option deters the financing firm from opportunistic termination. We test this prediction using 580 biotechnology research agreements. Contracts with termination options are more common when research is non-contractible. (JEL D86, L65, O31, O34)

Multinationals and Anti-sweatshop Activism

- American Economic Review---2010---Ann Harrison,Jason Scorse

During the 1990s, anti-sweatshop activists campaigned to improve conditions for workers in developing countries. This paper analyzes the impact of anti-sweatshop campaigns in Indonesia on wages and employment. Identification is based on comparing the wage growth of workers in foreign-owned and exporting firms in targeted regions or sectors before and after the initiation of anti-sweatshop campaigns. We find the campaigns led to large real wage increases for targeted enterprises. There were some costs in terms of reduced investment, falling profits, and increased probability of closure for smaller plants, but we fail to find significant effects on employment. (JEL F23, J31, J81, L67, O14, O15)

Robustly Optimal Monetary Policy with Near-Rational Expectations

- American Economic Review---2010---Michael Woodford

The paper considers optimal monetary stabilization policy in a forward-looking model, when the central bank recognizes that private sector expectations need not be precisely model-consistent, and wishes to choose a policy that will be as good as possible in the case of any beliefs that are close enough to model-consistency. It is found that commitment continues to be important for optimal policy, that the optimal long-run inflation target is unaffected by the degree of potential distortion of beliefs, and that optimal policy is even more history-dependent than if rational expectations are assumed. (JEL C62, D84, E13, E31, E32, E52)

Currency Choice and Exchange Rate Pass-Through

- American Economic Review---2010---Gita Gopinath,Oleg Itskhoki,Roberto Rigobon

We show, using novel data on currency and prices for US imports, that even conditional on a price change, there is a large difference in the exchange rate pass-through of the average good priced in dollars (25 percent) versus nondollars (95 percent). We document this to be the case across countries and within disaggregated sectors. This finding contradicts the assumption in an important class of models that the currency of pricing is exogenous. We present a model of endogenous currency choice in a dynamic price setting environment and show that the predictions of the model are strongly supported by the data. (JEL E31, F14, F31)

Demographics and the Politics of Capital Taxation in a Life-Cycle Economy

- American Economic Review---2010---Xavier Mateos-Planas

This article studies the effects of demographics on the mix of tax rates on labor and capital. It uses a quantitative general-equilibrium, overlapping-generations model where tax rates are voted without past commitments in every period and characterized as a Markov equilibrium. In the United States, the younger voting-age population in 1990 compared to 1965 accounts for the observed decline in the relative capital tax rate between those two years. A younger population raises the net return to capital, leads voters to increase their savings, and results in a preference for lower taxes on capital. Conversely, aging might increase capital taxation. (JEL E13, H24, H25, J11)

Can Multistage Production Explain the Home Bias in Trade?

- American Economic Review---2010---Kei-Mu Yi

A large empirical literature finds that there is too little international trade and too much intranational trade to be rationalized by observed international trade costs, such as tariffs and transport costs. This paper investigates whether a model in which the nature of production can change in response to trade costs -- a framework with multistage production -- can better explain the home bias in trade. The calibrated model can explain about two-fifths of the Canada border effect, about two-and-one-half times that of a model with one production stage. The model also explains a significant fraction of Canada-US "back-and- forth," or vertical specialization, trade. (JEL F11, F13, F14)

Trade Agreements as Endogenously Incomplete Contracts

- American Economic Review---2010---Henrik Horn,Giovanni Maggi,Robert Staiger

We propose a model of trade agreements in which contracting is costly, and as a consequence the optimal agreement may be incomplete. In spite of its simplicity, the model yields rich predictions on the structure of the optimal trade agreement and how this depends on the fundamentals of the contracting environment. We argue that taking contracting costs explicitly into account can help explain a number of key features of real trade agreements. (JEL D86, F13)

Intergroup Conflict and Intra-group Punishment in an Experimental Contest Game

- American Economic Review---2010---Klaus Abbink,Jordi Brandts,Benedikt Herrmann,Henrik Orzen

We study how conflict in contest games is influenced by rival parties being groups and by group members being able to punish each other. Our motivation stems from the analysis of sociopolitical conflict. The theoretical prediction is that conflict expenditures are independent of group size and of whether punishment is available. We find, first, that conflict expenditures of groups are substantially larger than those of individuals, and both are above equilibrium. Second, allowing group members to punish each other leads to even larger conflict expenditures. These results contrast with those from public goods experiments where punishment enhances efficiency. (JEL C72, D74, H41)

Building Routines: Learning, Cooperation, and the Dynamics of Incomplete Relational Contracts

- American Economic Review---2010---Sylvain Chassang

This paper studies how agents with conflicting interests learn to cooperate when the details of cooperation are not common knowledge. It considers a repeated game in which one player has incomplete information about when and how her partner can provide benefits. Initially, monitoring is imperfect and cooperation requires inefficient punishment. As the players' common history grows, the uninformed player can learn to monitor her partner's actions, which allows players to establish more efficient cooperative routines. Because revealing information is costly, it may be optimal not to reveal all the existing information, and efficient equilibria can be path-dependent. (JEL C73, D82, D83, D86)

Interpersonal Authority in a Theory of the Firm

- American Economic Review---2010---Eric Van den Steen

This paper develops a theory of the firm in which a firm's centralized asset ownership and low-powered incentives give the manager, as an equilibrium outcome, interpersonal authority over employees (in a world with open disagreement). The paper thus provides microfoundations for the idea that bringing a project inside the firm gives the manager control over that project, while explaining concentrated asset ownership, low-powered incentives, and centralized authority as typical characteristics of firms. The paper also leads to new perspectives on the firm as a legal entity and on the relationship between the Knightian and Coasian views of the firm. (JEL D23, L20)

Monetary Policy Rules and Macroeconomic Stability: Some New Evidence

- American Economic Review---2010---Sophocles Mavroeidis

I revisit the question of indeterminacy in US monetary policy using limited-information identification-robust methods. I find that the conclusions of Clarida, Galí, and Gernter (2000) that policy was inactive before 1979 are robust, but the evidence over the Volcker-Greenspan periods is inconclusive. I show that this is in fact consistent with policy being active over that period. Problems of identification also arise because policy reaction has been more gradual recently. At a methodological level, the paper demonstrates that identification issues should be taken seriously, and that identification-robust methods can be informative even when they produce wide confidence sets. (E31, E32, E52, E65,)

Tournaments and Office Politics: Evidence from a Real Effort Experiment

- American Economic Review---2010---Jeffrey Carpenter,Peter Matthews,John Schirm

Tournaments can elicit more effort but sabotage may attenuate the effect of competition. Because it is hard to separate effort and ability, the evidence on tournaments is thin. There is even less evidence on sabotage because these acts often consist of subjective peer evaluation or "office politics." We discuss real effort experiments in which quality adjusted output and office politics are compared under piece rates and tournaments and find that tournaments increase effort only in the absence of office politics. Competitors subvert each other more in tournaments, and as a result, workers produce less because they expect to be sabotaged. (D82, M54)

Financial Exchange Rates and International Currency Exposures

- American Economic Review---2010---Philip Lane,Jay Shambaugh

In order to gain a better empirical understanding of the international financial implications of currency movements, we construct a database of international currency exposures for a large panel of countries over 1990-2004. We show that trade-weighted exchange rate indices are insufficient to understand the financial impact of currency movements and that our currency measures have high explanatory power for the valuation term in net foreign asset dynamics. Exchange rate valuation shocks are sizable, not quickly reversed, and may entail substantial wealth redistributions. Further, we show that many developing countries have substantially reduced their negative foreign currency positions over the last decade. (F31, F32, G15)

Social Preferences, Beliefs, and the Dynamics of Free Riding in Public Goods Experiments

- American Economic Review---2010---Urs Fischbacher,Simon Gächter

One lingering puzzle is why voluntary contributions to public goods decline over time in experimental and real-world settings. We show that the decline of cooperation is driven by individual preferences for imperfect conditional cooperation. Many people's desire to contribute less than others, rather than changing beliefs of what others will contribute over time or people's heterogeneity in preferences makes voluntary cooperation fragile. Universal free riding thus eventually emerges, despite the fact that most people are not selfish. (D12, D 83, H41, Z13)

Risk and Time Preferences: Linking Experimental and Household Survey Data from Vietnam

- American Economic Review---2010---Tomomi Tanaka,Colin F. Camerer,Quang Nguyen

We conducted experiments in Vietnamese villages to determine the predictors of risk and time preferences. In villages with higher mean income, people are less loss-averse and more patient. Household income is correlated with patience but not with risk. We expand measurements of risk and time preferences beyond expected utility and exponential discounting, replacing those models with prospect theory and a three-parameter hyperbolic discounting model. Comparable risk parameter estimates have been found for Chinese farmers, using our method. (C83, D12, O12, P38)

Earnings Losses of Displaced Workers Revisited

- American Economic Review---2010---Kenneth Couch,Dana W. Placzek

Earnings losses of Connecticut workers affected by mass layoff are calculated using administrative data. Estimated reductions are initially more than 30 percent and six years later, as much as 15 percent. The Connecticut estimates are smaller than comparable ones from Pennsylvania administrative data but similar to those from the Panel Study of Income Dynamics (PSID) and Department of Workforce Services (DWS). Earnings reductions in Connecticut and Pennsylvania are concentrated among Unemployment Insurance recipients.

An unusually high proportion of Unemployment Insurance beneficiaries in Pennsylvania explains the larger estimated losses relative to other studies. Fixed-effects, random growth, and matching estimators produced similar earnings loss estimates suggesting each is relatively unbiased in this context. (J31, J 63, J65, R23)

The Effect of Medicare Part D on Pharmaceutical Prices and Utilization

- American Economic Review---2010---Mark Duggan,Fiona Scott Morton

Medicare Part D began coverage of prescription drugs in 2006. Rather than setting pharmaceutical prices, the government contracted with private insurers to provide drug coverage. Theory suggests that additional insured consumers will raise the optimal price of a branded drug, while the insurer's ability to move demand to substitute treatments may lower prices. We estimate the program's effect on the price and utilization of pharmaceutical treatments. We find that Part D enrollees paid substantially lower prices than while uninsured, and increased their utilization of prescription drugs. We find relative price declines only for drugs with significant therapeutic competition. (L18, L11, L65)

Generalizing the Taylor Principle: Comment

- American Economic Review---2010---Roger Farmer,Daniel Waggoner,Tao Zha

Troy Davig and Eric Leeper (2007) have proposed a condition they call the generalized Taylor principle to rule out indeterminate equilibria in a version of the new-Keynesian model where the parameters of the policy rule follow a Markov-switching process. We show that although their condition rules out a subset of indeterminate equilibria, it does not establish uniqueness of the fundamental equilibrium. We discuss the differences between indeterminate fundamental equilibria included by Davig and Leeper's condition and fundamental equilibria that their condition misses. (E12, E31, E43, E52)

Generalizing the Taylor Principle: Reply

- American Economic Review---2010---Troy Davig,Eric Leeper

Farmer, Waggoner, and Zha (2009) (FWZ) show that a new Keynesian model with regime-switching monetary policy can support multiple solutions, appearing to contradict findings in Davig and Leeper (2007) (DL). The explanation is straightforward: FWZ derive solutions using a model that differs from the one to which the DL conditions apply. The FWZ solutions also require that the exogenous driving process is a function of private and policy parameters. This undermines the sharp distinctions among "deep parameters" typical of optimizing models and makes it difficult to ascribe economic interpretations to FWZ's additional solutions. (E12, E31, E43, E52)

All-or-Nothing Monitoring: Comment

- American Economic Review---2010---Bo Chen

Zhao (2008) presents an interesting "all-or-nothing monitoring" result for a multitask moral hazard agency problem with partial effort observation. We argue that the optimal contract based on the non-verifiable observation of the agent's effort in Zhao (2008) can be regarded as a limitation on the incentive schemes available to the principal. I then propose some arguably more appropriate approaches for analyzing such agency problems. (D82, D86, M54)

Betrayal Aversion: Evidence from Brazil, China, Oman, Switzerland, Turkey, and the United States: Comment

- American Economic Review---2010---Gary Bolton,Axel Ockenfels

In a series of binary choice problems, we investigate how a chooser's risk taking changes when others share in their personal risk, either equally or unequally. We find that when the safe option yields inequality, the risky option is taken significantly more often. On the other hand, the inequality resulting from the risky choice does not affect risk taking. We also find that choosers tend to be less risk-averse in a one-person context compared to when the risk also affects the payoff of another. (C72, D81, Z13)