



GESY

Governance and The Efficiency of Economic Systems

Newsletter

Sonderforschungsbereich Transregio 15 • A cooperation of: FU Berlin • HU Berlin • Universität Bonn • Universität Mannheim • ZEW Mannheim • LMU München

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December 2010



SFB/TR 15 Seminars

Bonn		
Date	Speaker (Institution)	Title
October 12	Evgenia Motchenkova, University of Amsterdam	"The Effects of Leniency on maximal Cartel Pricing"
October 14	Michèle Tertilt, Mannheim University	"An Equilibrium Model of the African HIV/AIDS Epidemic"
October 21	Thomas Laubach, Frankfurt University	"Long-run Growth Expectations and "Global Imbalances""
October 27	Stefan Reichelstein, Stanford University	"Carbon Capture by Fossil Fuel Power Plants: An Economic Analysis"
October 28	Lutz Weinke, HU Berlin	"Lumpy Investment and State-Dependent Pricing in General Equilibrium"
November 4	Tommaso Monacelli, Bocconi University	"Financial Markets and Unemployment"
November 9	Paolo Buonanno, University of Bergamo	"Advocatus, et non Latro? Testing the Supplier-Induced Demand Hypothesis for Italian Courts of Justice"
November 11	Achim Wambach, Cologne University	"A game theoretic foundation for the Wilson equilibrium in competitive insurance markets with adverse selection"
November 17	Zvika Neeman, Tel Aviv University	"Prisoner's Dilemma with Talk"

November 18	Leopold von Thadden, European Central Bank	"When do cooperation and commitment matter in a monetary union?"
November 23	Klaus Mathis, University of Lucerne	"Consequentialism in Law"
November 25	Carlos Alós-Ferrer	"Job Market Signaling and Employer Learning"
Mannheim		
Date	Speaker (Institution)	Title
October 2	David Genesove, Hebrew University of Jerusalem	"Search and Matching in the Housing Market"
November 9	Tobi Klein, Tilburg University	"Narrow Framing and Impatience"
November 16	Ali Hortacsu, University of Chicago	"Market Crisis Through the Lens of European Central Bank Auctions for Short-Term Funds"
November 25	Leonardo Felli, LSE	"Child Adoption Matching: Preferences for Gender and Race"
November 30	Thomas Tregouet, Ecole Polytechnique	"Competition in Matching Technologies "
Munich		
Date	Speaker (Institution)	Title
December 7	Dezső Szalay , University of Bonn	"Incomplete Language as an Incentive Device"
December 13	Johannes Spinnewijn, London School of Economics	"Information Search and Revelation in Groups"
December 14	Francis Kramarz, INSEE	tba
December 20	Thomas Tangerås, Institute for Industrial Economics Stockholm	"Optimal Transmission Regulation in an Integrated Energy Market"
December 21	Ralph Ossa, University of Chicago	tba

Conferences Organized by SFB/TR15 Members

A1 (Bester/Strausz)		
Name	Topic	Dates
Roland Strausz	Credit Rating Agencies and the Certification Process Tim Adam, Joachim Gassen, HU Berlin Berlin	November 19-20
A4 (Rady/Schmidt)		
Name	Topic	Dates
Joachim Winter	Experiments and Games in Surveys, Thomas Crossley, Institute for Fiscal Studies, London	December 3

A5 (Schweizer/von Hagen)

Name	Topic	Dates
Urs Schweizer	8th Annual Conference of the German Law and Economics Association, Wiesbaden, Vicarious Liability, Implementation Costs, and Optimal Damages Regimes, Wirtschaftspolitische Abteilung, EBS in Wiesbaden	December 3-4

External Research Visits, Lectures and Seminars of SFB/TR 15 Members**A1 (Bester/Strausz)**

Name	Topic	Dates
Roland Strausz	"Hierarchical Structures and Dynamic Incentives", Universität Frankfurt, Germany	November 3
Roland Strausz	Workshop on Patents, Toulouse School of Economics, France (talk: "Certification & Patents")	November 10-11
Johannes Münster	Young Researchers Workshop on Contests and Tournaments, Universität Magdeburg (talk: "Rational Self-Sabotage")	November 12

A2 (Konrad)

Name	Topic	Dates
Florian Morath	"Brothers in arms - an experiment on the alliance puzzle", Young Researchers Workshop on Contests and Tournaments, University of Magdeburg, Germany	November 13
Kai A. Konrad	"Fighting Multiple Tax Havens", Johann Wolfgang Goethe-Universität Frankfurt, Germany	November 17
Kai A. Konrad	"Social Mobility and Redistributive Taxation", Rheinisch-Westfälisches Institut (RWI), Germany	November 18

A4 (Rady/Schmidt)

Name	Topic	Dates
Stefan Vetter	George Mason University (USA)	October 29 - December 14
Joachim Winter	"Fairness and cheating", University of Innsbruck, Austria	November 10
Klaus Schmidt	"You Owe Me", University of Toulouse, France	December 9
Joachim Winter	"Do they know what's at risk? An empirical analysis of health risk perception among the obese", Institute for Fiscal Studies, London, UK	December 20

B4 (Kräkel)		
Name	Topic	Dates
Petra Nieken	VHB Herbstworkshop Kommission Personal, Schloss Rauischholzhausen (talk: "Personality as Predictor of Occupational Choice: Empirical Evidence from Germany")	November 11-12
B5 (Marin/Schnitzer)		
Name	Topic	Dates
Monika Schnitzer	Department of Economics and School of International Studies, University of Trento, Italy (talk: "Financial Constraints and Innovation: Why Poor Countries Don't Catch Up")	November 28-29
C2 (Harhoff/Stahl)		
Name	Topic	Dates
Dietmar Harhoff	Maastricht University, The Netherlands (talk: "To Be Financed or Not - The Role of Patents for Venture Capital Financing")	November 24
C5 (Kamecke/Röller)		
Name	Topic	Dates
Volker Nocke	University of Virginia (USA), Host: Simon Anderson	December 2-5

New Discussion Papers

A4 (Rady/Schmidt)		
Name	Title	Number
Florian Englmaier (joint with Arno Schmöller (NA))	<p>“Determinants and Effects of Reserve Prices in Hatrick Auctions”</p> <p>Abstract: We use a unique hand collected data set of 6,258 auctions from the online football manager game Hatrick to study determinants and effects of reserve prices. We find that chosen reserve prices exhibit both very sophisticated and suboptimal behavior by the sellers. On the one hand, reserve prices are adjusted remarkably nuanced to the resulting sales price pattern. However, reserve prices are too clustered at zero and at multiples of e 50,000 as to be consistent with fully rational behavior. We recover the value distribution and simulate the loss in expected revenue from suboptimal reserve prices. Finally, we find evidence for the sunk cost fallacy as there is a substantial positive effect on the reserve price when the player has been acquired previously.</p> <p>JEL classification: D12, D44</p>	326
Florian Englmaier	<p>“Commitment in R&D Tournaments via Strategic Delegation to Overoptimistic Managers”</p> <p>Abstract: This paper shows that it is profitable for a firm to hire an overoptimistic manager to commit to a certain investment strategy in an R&D tournament situation. In the unique symmetric equilibrium, all firms delegate to overoptimistic managers, where the optimal degree of overoptimism depends on the riskiness of the tournament. In these situations a manager's type may serve as a substitute for delegation via contracts. By delegating to overoptimistic managers, firms can escape the rat race nature of R&D tournaments.</p> <p>JEL classification: J32, J33, M12</p>	328

Klaus Schmidt	<p>“Standards, Innovation Incentives, and the Formation of Patent Pools”</p> <p>Abstract: Technological standards give rise to a complements problem that affects pricing and innovation incentives of technology producers. In this paper I discuss how patent pools can be used to solve these problems and what incentives patent holders have to form a patent pool. I offer some suggestions how competition authorities can foster the formation of welfare increasing patent pools.</p> <p>JEL classification: L15, L24, O3</p>	342
Florian Englmaier (joint with Georg Gebhardt (NA))	<p>“Free Riding in the Lab and in the Field”</p> <p>Abstract: We run a public good experiment in the field and in the lab with (partly) the same subjects. The field experiment is a true natural field experiment as subjects do not know that they are exposed to an experimental variation. We can show that subjects' behavior in the classic lab public good experiment correlates with their behavior in the structurally comparable public good treatment in the field but not with behavior in any of two control treatments we ran in the field. This effect is also economically significant. We conclude that a) the classic lab public good experiment captures important aspects of structurally equivalent real life situations and b) that behavior in lab and field at least in our setting is driven by the same underlying forces.</p> <p>JEL classification: C91,C93,D01,D64</p>	344
Georg Gebhardt	<p>“The Impact of the Internet on Retail Competition: Evidence from Technological Differences in Internet Access”</p> <p>Abstract: Does the internet increase competition? To address this question, I exploit two institutional details unique to Germany: (1) Some municipalities received glass fibre cables that cannot be upgraded to DSL; I use these municipalities as a treatment group with reduced online competition. (2) German law mandates resale price maintenance for books; I compare three retailing sectors, electronics (price competition), books (no price competition), and food (no online sales), to identify the effect of price competition: The effect of price competition is highly significant. Full broadband access reduces offline electronics retailers' producer rents by 1.5 percent per year from 1999 to 2007.</p> <p>JEL classification: D43, L81, L13</p>	345

A5 (Schweizer/von Hagen)

Name	Title	Number
Jun Zhou	<p data-bbox="517 387 1179 421">“Jackpot Justice: The Value of Inefficient Litigation”</p> <p data-bbox="517 443 1179 857"><i>Abstract:</i> Litigation seems to be a Pareto-inefficient outcome of pretrial bargaining; however, this paper shows that litigation can be the outcome of rational behavior by a litigant and her attorney. If the attorney has more information than his client concerning the characteristics of the lawsuit, the client can use litigation as a way of extracting information. I show that, counterintuitively, litigation will occur only when the plaintiff is pessimistic about her prospects at trial. Even if the plaintiff could obtain a higher payoff from bargaining than from litigation-without-bargaining, bargaining may not occur in equilibrium. The plaintiff is more likely to sue if she is more pessimistic about winning damage in court and if litigation is more risky. Litigation is less likely to occur if the plaintiff receives third party financing for litigation.</p> <p data-bbox="517 880 1179 913">JEL classification: C78, D74, D86, K41</p>	346

B3 (Hellwig)

Name	Title	Number
Jos Jansen	<p data-bbox="517 1059 1179 1115">“On Competition and the Strategic Management of Intellectual Property in Oligopoly”</p> <p data-bbox="517 1137 1179 1473"><i>Abstract:</i> An innovative firm with private information about its indivisible process innovation chooses strategically whether to apply for a patent with probabilistic validity or rely on secrecy. By doing so, the firm manages its rivals' beliefs about the size of the innovation, and affects the incentives in the product market. A Cournot competitor tends to patent big innovations, and keep small innovations secret, while a Bertrand competitor adopts the reverse strategy. Increasing the number of firms gives a greater (smaller) patenting incentive for Cournot (Bertrand) competitors. Increasing the degree of product substitutability increases the incentives to patent the innovation.</p> <p data-bbox="517 1496 1179 1529">JEL classification: D82, L13, O31, O32</p>	339

B5 (Marin/Schnitzer)		
Name	Title	Number
Claudia M. Buch, Iris Kesternich, Alexander Lipponer, Monika Schnitzer	<p>“Exports Versus FDI Revisited: Does Finance Matter?”</p> <p>Abstract:</p> <p>This paper explores the impact of financial constraints on the internationalization strategies of firms. It contributes to the literature by focusing on three aspects: First, the paper studies the impact of financial constraints on exporting relative to FDI. Consistent with theory, the empirical results confirm that the impact of financial constraints is stronger for FDI than for exporting. Second, the paper analyzes the extensive and the intensive margins and finds that financial frictions matter for both. Third, the paper explores the impact on manufacturing as compared to service industries and shows that firms in service industries are affected more than firms in manufacturing. The paper also identifies a threshold effect: Financial constraints do not matter for small firms whose productivity seems to be too low to consider international expansions.</p> <p>Keywords: Multinational firms, exports versus FDI, financial constraints, heterogeneity, productivity</p> <p>JEL classification: F2, G2</p>	340
Yuriy Gorodnichenko, Monika Schnitzer	<p>“Financial constraints and innovation: Why poor countries don't catch up”</p> <p>Abstract:</p> <p>We examine micro-level channels of how financial development can affect macroeconomic outcomes like the level of income and export intensity. We investigate theoretically and empirically how financial constraints affect a firm's innovation and export activities, using unique firm survey data which provides direct measures for innovations and firm-specific financial constraints. We find that financial constraints restraint heability of domestically owned firms to innovate and export and hence to catch up to the technological frontiers. This negative effect is amplified as financial constraints force export and innovation activities to become substitutes although they are generally natural complements.</p> <p>JEL classification: O3, O16, F1, G3</p>	341

C5 (Kamecke/Röller)

Name	Title	Number
Tomaso Duso (joint with Lars-Hendrik Röller (C5), Jo Seldeslachts (NA))	<p>Collusion through Joint R&D: An Empirical Assessment, Tinbergen Institute Discussion Papers,</p> <p><i>Abstract:</i> This paper tests whether upstream R&D cooperation leads to downstream collusion. We consider an oligopolistic setting where firms enter in research joint ventures(RJVs) to lower production costs or coordinate on collusion in the product market. We show that a sufficient condition for identifying collusive behavior is a decline in the market share of RJV-participating firms, which is also necessary and sufficient for a decrease in consumer welfare. Using information from the US National Cooperation Research Act, we estimate a market share equation correcting for the endogeneity of RJV participation and R&D expenditures. We find robust evidence that large networks between direct competitors — created through firms being members in several RJVs at the same time — are conducive to collusive outcomes in the product market which reduce consumer welfare. By contrast, RJVs among non-competitors are efficiency enhancing.</p> <p>JEL classification: K21, L24, L44, D22, O32</p>	343

Publications**C8 (Falk)**

Name	Topic	Dates
Fabian Herweg (joint with Daniel Müller (NA), Philipp Weinschenk (B3))	<p>"Binary Payment Schemes: Moral Hazard and Loss Aversion"</p> <p>American Economic Review, December, 2453—2479, Peer-reviewed: yes, Kind of outlet: Scientific journals</p>	

New/Leaving Staff**B3 (Hellwig)**

Name	Topic	Dates
Philipp Weinschenk	<p>joining project B3 (Max Planck Institute for Research on Collective Goods Kurt-Schumacher-Str. 10, D-53113 Bonn, Grundausstattung (GA), full time member)</p>	as of July 1

Miscellaneous

A4 (Rady/Schmidt)		
Name	Topic	Date
Klaus Schmidt	Klaus Schmidt was elected Fellow of the Econometric Society	November 22