GESY Newsletter
Governance and The Efficiency of Economic Systems

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

# Newsletter No. 4 April 2012

## SFB/TR 15 Seminars

| Mannheim | | |
|---|---|---|
| Date | Speaker (Institution) | Title |
| April 24 | Marcus Asplund (Royal Institute of Technology, Stockholm) | Did the Swedish Tobacco Monopoly Set Monopoly Prices? |

| München | | |
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| Date | Speaker (Institution) | Title |
| April 17 | Scott Taylor (U Calgary) | Back to the Future of Green Powered Econ-omies |
| April 23 | Marion Ott (RWTH Aachen) | t.b.a. |
| April 24 | Steve Tadelis (U Berkeley) | t.b.a. |
| April 30 | James Tremewan (U Wien) | Social Preferences and Bounded Rationality in the Centipede Game |

## External Research Visits, Lectures and Seminars of SFB/TR 15 Members

| A2 (Konrad) | | |
|---|---|---|
| Name | Topic | Dates |
| Kai A. Konrad | Customs Compliance and the Power of Imagination, 1st FAU Workshop on Tax Compliance, Friedrich-Alexander-Universität Erlangen-Nürnberg | March 13 |

| A5 (Schweizer/Krähmer) | | |
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| Name | Topic | Dates |
| Urs Schweizer | Talk: Acquisition and Disclosure of Information Revisited, London School of Economics, UK | March 7 |
| Urs Schweizer | Talk: Acquisition and Disclosure of Information Revisited, University of Bologna, Italy | March 15 |

| A7 (Strausz/Wolfstetter) | | |
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| Name | Topic | Dates |
| Roland Strausz | Talk: “Benefits of Sequential Screening”, New York University, USA | March 19-23 |
| Roland Strausz | Talk: “Hierarchical Structures and Dynamic Incentives”, Columbia University, USA | March 26 |
| Roland Strausz | Talk: “Benefits of Sequential Screening”, Yale University, USA | March 27-29 |

| C8 (Falk) | | |
|---|---|---|
| **Name** | **Topic** | **Dates** |
| Armin Falk | Mini-Course: Behavioral Labor Economics, University of Zurich | March 19-27 |
| Armin Falk | Heterogeneity-Determinants of Risk Attitudes, University of Mannheim | April 26 |

## New Discussion Papers

| B7 (Marin) | | |
|---|---|---|
| **Name** | **Title** | **Number** |
| Dalia Marin (joint with Francesca Fabbri (NA)) | **What explains the Rise in CEO Pay in Germany? A Panel Data Analysis for 1977 – 2009**<br><br>**Abstract**:<br>The compensation of executive board members in Germany has become a highly controversial topic since Vodafone's hostile takeover of Mannesmann in 2000 and it is again in the spotlight since the outbreak of the financial crisis of 2009. Based on unique panel data evidence of the 500 largest firms in Germany in the period 1977-2009 we test two prominent hypotheses in the literature on executive pay: the manager power hypothesis and the efficient pay hypothesis. We find support for the manager power hypothesis for Germany as executives tend to be rewarded when the sector is doing well rather than the firm they work for. We reject, however, the efficient pay hypothesis as CEO pay and the demand for managers increases in Germany in difficult times when the typical firm size shrinks. We find further that domestic and global competition for managers has contributed to the rise in executive pay in Germany. Lastly, we show that CEOs in the banking sector are provided with incentives for performance and that the great recession of 2009 acted as a disciplining devise on CEO pay in Germany.<br>*JEL classification*: F23, J3, M12, M52 | 374 |

| A8 (Rady) | | |
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| **Name** | **Title** | **Number** |
| Philipp Strack (joint with Christian Seel (NA)) | **Gambling in Contests**<br><br>**Abstract:**<br>This paper presents a strategic model of risk-taking behavior in contests. Formally, we analyze an n-player winner-take-all contest in which each player decides when to stop a privately observed Brownian Motion with drift. A player whose process reaches zero has to stop. The player with the highest stopping point wins. Contrary to the explicit cost for a higher stopping time in a war of attrition, here, higher stopping times are riskier, because players can go bankrupt. We derive a closed-form solution of the unique Nash equilibrium outcome of the game. In equilibrium, the trade-off between risk and reward causes a non-monotonicity: highest expected losses occur if the process decreases only slightly in expectation.<br>*Keywords*: Discontinuous games; Contests; Relative performance pay; Risk-taking behavior<br>*JEL classification*: C72; C73; D81 | 375 |

| A8 (Rady) | | |
|---|---|---|
| **Name** | **Title** | **Number** |
| Philipp Strack (joint with Christian Seel (NA)) | **Continuous Time Contests**<br><br>**Abstract:**<br>This paper introduces a contest model in which each player decides when to stop a privately observed Brownian motion with drift and incurs costs depending on his stopping time. The player who stops his process at the highest value wins a prize. Applications of the model include procurement contests and competitions for grants. We prove existence and uniqueness of the Nash equilibrium outcome, even if players have to choose bounded stopping times. We derive the equilibrium distribution in closed form. If the noise vanishes, the equilibrium outcome converges to - and thus selects - the symmetric equilibrium outcome of an all-pay auction. For two players and constant costs, each player's profits increase if costs for both players increase, variance increases, or drift decreases. Intuitively, patience becomes a more important factor for contest success, which reduces informational rents.<br>*Keywords*: Contests, all-pay contests, silent timing games. | 376 |

| A7 (Strausz/Wolfstetter) | | |
|---|---|---|
| **Name** | **Title** | **Number** |
| Luke Hu | **Optimal Use of Rewards as Commitment Device When Bidding is Costly**<br><br>**Abstract:**<br>This paper considers procurement auctions with costly bidding when the auctioneer is unable to commit himself to restrict the number of bidders. The auctioneer can, however, offer a financial reward to be paid to every short-listed bidders as an indirect commitment device. Rewards for short-listed bidders are costly. Nevertheless, it is generally optimal for the procurer to credibly implement the same restriction of the number of bidders that is optimal under full commitment.<br>*Keywords*: Procurement, auctions, industrial organization, mechanism design.<br>*JEL classification*: D21, D43, D44, D45. | 377 |

| A4 (Schmidt) | | |
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| **Name** | **Title** | **Number** |
| Stefan Vetter | **Delegation and Rewards**<br><br>**Abstract:**<br>We study experimentally whether anti-corruption policies with a focus on bribery might be insufficient to uncover more subtle ways of gaining an unfair advantage. In particular, we investigate whether an implicit agreement to exchange favors between a decision-maker and a lobbying party serves as a legal substitute for corruption. Due to the obvious lack of field data on these activities, the laboratory provides an excellent opportunity to study this question. We find that even the pure anticipation of future rewards from a lobbying party suffices to bias a decision-maker in favor of this party, even though it creates negative externalities to others. Although future rewards are not contractible, the benefitting party voluntarily compensates decision-makers for partisan choices. In this way, both receive higher payoffs, but aggregate welfare is lower than without a rewards channel. Thus, the outcome mirrors what might have been achieved via conventional bribing, while not being illegal.<br>*Keywords*: delegation, gift exchange, corruption, lobbying, negative externalities<br>*JEL classification*: C91, D62, D63, D73, K42 | 378 |

## New/Leaving Staff

| A4 (Schmidt) | | |
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| **Name** | **Topic** | **Dates** |
| Sandra Ludwig | Is leaving project A4 and takes up a full professor position at the University of Ulm | April 1 |

SFB/TR 15 Newsletter speaker: Prof. Dr. Klaus M. Schmidt. Editorial: Tina Brinkmann, Ludwigstr. 28 RG, 80539 München. URL: http://www.sfbtr15.de, phone 089/2180-3405, fax 089/2180-3510, e-mail: sfb-tr15@vwl.lmu.de, editorial deadline for SFB/TR 15 newsletter No. 5: Friday, April 27th , 2012