



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

Newsletter No. 9

September 2014

SFB/TR 15 Seminars

Bonn		
Date	Speaker (Institution)	Title
July 2	Carmit Segal (University of Zurich)	Gender Differences in Competitiveness: The Role of Prizes
July 4	George Loewenstein (Carnegie Mellon University)	Revelation Utility
July 8	Daniel Awrey (Oxford University)	Hardwired Conflicts: The Big Bang Protocol. Libor and the Paradox of Private Ordering
July 9	Vasiliki Skreta (UCL)	Selling under Product and Taste Heterogeneity
July 10	Uwe Sunde (LMU)	Dynamic Incentive Effects of Heterogeneity in Multi-Stage Promotion Contests
July 15	Christian Traxler (Hertie School)	Compliance Behavior in Networks: Evidence from a Field Experiment
Mannheim		
Date	Speaker (Institution)	Title
September 2	Sanghmitra Gautam University College London	Quantifying Welfare Effects of a Conditional Subsidy in the Presence of Social Interactions: An Ex-Ante Policy Evaluation of a Healthcare Intervention
September 9	Laurent Lamy Paris School of Economics	Optimal allotment design

Conferences Organized by SFB/TR15 Members

B8 (Adam)		
Name	Topic	Dates
Tim Adam	"Recent Advances in Mutual Fund and Hedge Fund Research"; ESMT Berlin-Mitte	August 25.-26.

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

A2 (Konrad)		
Name	Topic	Dates
Luisa Herbst	“Balance of Power and the Propensity of Conflict”, PET Conference, Seattle	July 11
Florian Morath	“The taxation of bilateral trade with endogenous information”, PET Conference, Seattle	July 13
Nadja Dwenger	“Economic and Social Incentives for Tax Compliance. Evidence from a Randomized Field Experiment in Germany”, NBER Summer Institute, Boston	July 22
Florian Morath	“The taxation of bilateral trade with endogenous information”, IIPF Conference, Lugano	August 21
A4 (Schmidt)		
Name	Topic	Dates
Klaus Schmidt	“Loss Aversion and Inefficient Renegotiation”, Verein für Socialpolitik	September 9
Klaus Schmidt	“You Owe Me”, Keynote Lecture, CEPR Workshop on Management, Incentives and Organization	September 25.-26
Joachim Winter	Interdisciplinary Center for Social Sciences, (ICES), George Mason University, Arlington, VA	September 12.-16.
Joachim Winter	Schaeffer Center for Health Policy and Economics, University of Southern California, Los Angeles, CA	September 25.-30.
A7 (Strausz/Wolfstetter)		
Name	Topic	Dates
Elmar Wolfstetter	Compact course on Auctions and Market Design, Shanghai University of Finance and Economics	July 2014
Matthias Lang	First-Order and Second-Order Ambiguity Aversion, EEA-ESEM, Toulouse	August 2014
B5 (Eckel/Schnitzer)		
Name	Topic	Dates
Iris Kesternich	„Professional norms and physician behavior: homo oeconomicus or homo hippocraticus?“, ASHECON Conference in Los Angeles, USA	June 23
B7 (Marin)		
Name	Topic	Dates
Alexander Tarasov	presented his paper “Trade and the Spatial Distribution of Transport Infrastructure” (joint with Gabriel Felbermayr) at the Annual Meeting of the European Economic Association in Toulouse	August 27
Jan Schymik	presented his paper “Trade, Technologies, and the Evolution of Corporate Governance” at the Annual Meeting of the European Association for Research in Industrial Economics in Milan	August 29

New Discussion Papers

C6 (Peitz/Stahl)		
Name	Title	Number
Raffaele Fiocco Mario Gilli	<p>Bargaining and collusion in a regulatory relationship</p> <p>Abstract: We investigate regulation as the outcome of a bargaining process between a regulator and a regulated firm. The regulator is required to monitor the firm's costs and reveal its information to a political principal (Congress). In this setting, we explore the scope for collusion between the regulator and the firm, which results in the manipulation of the regulator's report on the firm's costs to Congress. The firm's benefit of collusion arises from the higher price the efficient firm is allowed to charge when the regulator reports that it is inefficient. However, a higher price reduces the gains from trade the parties can share in the bargaining process. As a result of this trade-off, the efficient firm has a stake in collusion only if the regulator's bargaining power in the regulatory relationship is relatively high. Then, we derive the optimal institutional response to collusion and characterize the conditions under which allowing collusion is desirable.</p> <p>Keywords: asymmetric information, auditing, bargaining, collusion, regulation. JEL classification: D73, D82, L51.</p>	466
A7 (Strausz/Wolfstetter)		
Name	Title	Number
Cuihong Fan, Byoung Heon Jun, Elmar G. Wolfstetter	<p>Optimal bid disclosure in license auctions with downstream interaction</p> <p>Abstract: The literature on license auctions for process innovations in oligopoly assumed that the auctioneer reveals the winning bid and stressed that this gives firms an incentive to signal strength through their bids, to the benefit of the innovator. In the present paper we examine whether revealing the winning bid is optimal. We consider three disclosure rules: full, partial, and no disclosure of bids, which correspond to standard auctions. We show that more information disclosure increases the total surplus divided between firms and the innovator as well as social surplus. More disclosure also increases bidders' payoff. However, no disclosure maximizes the innovator's expected revenue.</p> <p>Keywords: Auctions, innovation, licensing, information sharing. JEL Classifications: D21, D43, D44, D45</p>	467
C6 (Peitz/Stahl)		
Name	Title	Number
Vikram Kumar, Robert C. Marshall, Leslie M. Marx and Lily Samkharadze	<p>Buyer Resistance for Cartel versus Merger</p> <p>Abstract: Procurement practices are affected by uncertainty regarding suppliers' costs, the nature of competition among suppliers, and uncertainty regarding possible collusion among suppliers. Buyers dissatisfied with bids of incumbent suppliers can cancel their procurements and resolicit bids after qualifying additional suppliers. Recent cartel cases show that cartels devote considerable attention to avoiding such resistance from buyers. We show that in a procurement setting with the potential for buyer resistance, the payoff to firms from forming a cartel exceeds that from merging. Thus, firms considering a merger may have an incentive to collude instead. We discuss implications for antitrust and merger policy.</p>	468

A8 (Rady)

Name	Title	Number
Johannes Hörner, Nicolas Klein, Sven Rady	<p>Strongly Symmetric Equilibria in Bandit Games</p> <p>Abstract: This paper studies strongly symmetric equilibria (SSE) in continuous-time games of strategic experimentation with Poisson bandits. SSE payoffs can be studied via two functional equations similar to the HJB equation used for Markov equilibria. This is valuable for three reasons. First, these equations retain the tractability of Markov equilibrium, while allowing for punishments and rewards: the best and worst equilibrium payoff are explicitly solved for. Second, they capture behavior of the discrete-time game: as the period length goes to zero in the discretized game, the SSE payoff set converges to their solution. Third, they encompass a large payoff set: there is no perfect Bayesian equilibrium in the discrete-time game with frequent interactions with higher asymptotic efficiency.</p> <p>Keywords: Two-Armed Bandit, Bayesian Learning, Strategic Experimentation, Strongly Symmetric Equilibrium. JEL Classification Numbers: C73, D83.</p>	469

C5 (Nocke)

Name	Title	Number
Anja Prummer, Jan-Peter Siedlarek	<p>Institutions and the Preservation of Cultural Traits</p> <p>Abstract: We offer a novel explanation for why some immigrant groups and minorities have persistent, distinctive cultural traits – the presence of a rigid institution. Such an institution is necessary for communities to not fully assimilate to the mainstream society. We distinguish between different types of institutions, such as churches, foreign-language media or ethnic business associations and ask what level of cultural distinction these institutions prefer. Any type of institution can have incentives to be extreme and select maximal cultural distinction from the mainstream society. If institutions choose positive cultural distinction, without being extremist, then a decrease in discrimination leads to reduced assimilation.</p>	470

C5 (Nocke)		
Name	Title	Number
Jan-Peter Siedlarek	<p>Intermediation in Networks</p> <p>Abstract: I study intermediation in networked markets using a stochastic model of multilateral bargaining in which traders compete on different routes through the network. I characterize stationary equilibrium payoffs as the fixed point of a set of intuitive value function equations and study efficiency and the impact of network structure on payoffs. There is never too little trade but there may be an inefficiency through too much trade in states where delay would be efficient. With homogenous trade surplus the payoffs for players that are not essential to a trade opportunity go to zero as trade frictions vanish.</p> <p>JEL Classification: C73, C78, L14 Keywords: bargaining, financial networks, intermediation, matching, middlemen, networks, over-the-counter markets, stochastic games</p>	471
C9 (von Thadden/Schmidt-Dengler)		
Name	Title	Number
Kim P. Huynh, Philipp Schmidt-Dengler, Helmut Stix	<p>Whenever and Wherever: The Role of Card Acceptance in the Transaction Demand for Money</p> <p>Abstract: The use of payment cards, either debit or credit, is becoming more and more widespread in developed economies. Nevertheless, the use of cash remains significant. We hypothesize that the lack of card acceptance at the point of sale is a key reason why cash continues to play an important role. We formulate a simple inventory model that predicts that the level of cash demand falls with an increase in card acceptance. We use detailed payment diary data from Austrian and Canadian consumers to test this model while accounting for the endogeneity of acceptance. Our results confirm that card acceptance exerts a substantial impact on the demand for cash. The estimate of the consumption elasticity (0.23 and 0.11 for Austria and Canada, respectively) is smaller than that predicted by the classic Baumol-Tobin inventory model (0.5). We conduct counterfactual experiments and quantify the effect of increased card acceptance on the demand for cash. Acceptance reduces the level of cash demand as well as its consumption elasticity.</p> <p><i>Topics:</i> Bank notes; Econometric and statistical methods; E-money; Financial services. <i>JEL Codes:</i> E41, C35, C83.</p>	472

C9 (von Thadden/Schmidt-Dengler)

Name	Title	Number
Naoaki Minamihashi, Naoki Wakamori	<p>How Would Hedge Fund Regulation Affect Investor Behavior? Implications for Systemic Risk</p> <p>Abstract: We estimate an investors' demand model for hedge funds to analyze the potential impact of leverage limits in the industry. Our estimation results highlight the importance of heterogeneous investor preference for the use of leverage, i.e., 20% of investors prefer leverage usage while others do not. We then conduct a policy simulation in which regulators put a cap on allowable leverage, as proposed by the Financial Stability Board in 2012. Simulation results suggest that the 200% leverage limit would lower the total demand (assets under management) for hedge funds by 10%. In particular, the regulation would lead to lower investments in highly leveraged funds and to lower investments in risky strategies, which, in turn, would reduce systemic risk.</p> <p><i>Keywords:</i> hedge funds, demand estimation, leverage regulation, systemic risk <i>JEL Classification:</i> G38, G23, L52</p>	473

Publications**A4 (Schmidt)**

Name	Topic	Dates
Klaus Schmidt	„Loss Aversion and Inefficient Renegotiation“ (with Fabian Herweg), Review of Economic Studies, forthcoming.	
Paul Ruud, Daniel Schunk, Joachim Winter	"Uncertainty causes rounding: An experimental study." Experimental Economics, 17, 391-413 (2014).	
Martin Browning, Thomas F. Crossley, Joachim Winter	"The measurement of household consumption expenditures." Annual Review of Economics, 6, 475-501 (2014).	

A4 (Schmidt) / B5 (Eckel/Schnitzer)

Name	Topic	Dates
Iris Kesternich, Bettina Siflinger, James P. Smith, Joachim Winter	"Individual Behavior as a Pathway Between Early-Life Shocks and Adult Health Outcomes: Evidence from Hunger Episodes in Post-War Germany" ; Economic Journal, forthcoming	June 2014

Visitors

A4 (Schmidt)		
Name	Speaker (Institution)	Date
Sebastian Bauhoff	Bing Center for Health Economics, RAND Corporation, VA, Arlington	June 30 – July 15
A7 (Strausz/Wolfstetter)		
Name	Speaker (Institution)	Date
Cuihong Fan	Shanghai University of Finance and Economics	July 14 - August 10
B5 (Eckel/Schnitzer)		
Name	Speaker (Institution)	Date
Felix Tintelnot	University of Chicago	July 21 - 24

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