



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. 6

## June 2013

### SFB/TR 15 Seminars

<b>Munich</b>		
<b>Date</b>	<b>Speaker (Institution)</b>	<b>Title</b>
May 13	Veronica Rappoport (LSE)	Visited project B7 and gave a seminar on "Horizontal versus Vertical Foreign Direct Investment: Revisiting Evidence from U.S. Multinationals"
June 4	Arnaud Costinot (MIT)	"Evolving Comparative Advantage and the Impact of Climate Change on Agricultural Markets: Evidence from a 9-Million Field Partition of the Earth"
June 10	Ben D'Exelle (University of East Anglia)	tba
June 11	Yan Chen (U Michigan)	"Social Identity in Online Microfinance: A Field Experiment on Kiva"
June 17	Elena Cettolin (Maastricht University)	"Investment Behavior, Risk Pooling and Social Distance: Experimental Evidence from Rural Uganda"
June 17	Hartmut Egger	"Offshoring Domestic Jobs" joint work with Udo Kreickemeier and Jens Wrona
June 18	Nico Voigtlaender (UCLA)	"A List of Bacon's Legacy: Enlightenment, Industrialization, and Growth"
June 24	Aniol Llorente-Sauger (MPI Bonn)	"Divided Majority and Information Aggregation: Theory and Experiment"
<b>Mannheim</b>		
<b>Date</b>	<b>Speaker (Institution)</b>	<b>Title</b>
May 14	Sigrid Suetens (Tilburg University)	Heterogeneous stake-sensitive guilt aversion
May 21	Suzanne Scotchmer (University of California, Berkeley)	Scarcity of Ideas and R&D Options: Use It, Lose It, or Bank It
May 28	Uli Doraszelski (Wharton/University of Pennsylvania)	Measuring the Bias of Technological Change
<b>Berlin</b>		
<b>Date</b>	<b>Speaker (Institution)</b>	<b>Title</b>
May 27	Stéphane Gauthier (Paris School of Economics)	On the Value of Randomization
June 3	Peter Vida (Uni Mannheim)	Commitments, Intentions, Truth and Nash Equilibria
June 10	Gustavo Manso (MIT)	Experimentation and the Returns to Entrepreneurship

<b>Bonn</b>		
<b>Date</b>	<b>Speaker (Institution)</b>	<b>Title</b>
09.04.2013	Raúl López-Pérez (Universidad Autónoma de Madrid)	On Envious Damaging
17.04.2013	Ian Jewitt (University of Oxford)	Adverse Selection with Multidimensional Heterogeneity of Types and Information
23.04.2013	Theodore Eisenberg (Cornell University)	When Courts Determine Fees in a System with a Loser Pays Norm: Fee Award Denials to Winning Plaintiffs and Defendants
24.04.2013	Daniel Garrett (Toulouse School of Economics)	Competitive Screening and Search
26.04.2013	Piet Eichholtz (Maastricht University)	That's What We Paid for it: The Spell of the Home Purchase Price Through the Centuries
08.05.2013	Kohei Kawamura (University of Edinburgh)	Biasing Contests for Selection
14.05.2013	Avraham Tabbach (Tel Aviv University)	More Manipulation Less Risk Taking?
15.05.2013	Jeanne Hagenbach (Universität Mannheim)	Certifiable Pre-Play Communication: Full Disclosure
24.05.2013	Erik Sørensen (NHH Norwegian School of Economics)	Edutainment for entrepreneurship: Evidence from a field experiment in Tanzania
28.05.2013	Horst Eidenmüller (LMU Munich)	Regulating Group Insolvencies

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

<b>A2 (Konrad)</b>		
<b>Name</b>	<b>Topic</b>	<b>Dates</b>
Kai Konrad	Alliances in the shadow of conflict, University of York	May 1
Luisa Herbst	Endogenous group formation in experimental contests, Behavioural and Experimental Economics Workshop, Florence	May 2
<b>A7 (Strausz/Wolfstetter)</b>		
<b>Name</b>	<b>Topic</b>	<b>Dates</b>
Elmar Wolfstetter	Visiting Professorship at Korea University (Seoul)	3.5. - 10.6.
Matthias Lang	Risk, Uncertainty and Decision Conference (RUD), Paris, "The Distinction between First-Order and Second-Order Ambiguity Aversion"	29.5. - 31.5.
Andreas Asseyer	Conference on Private Information, Interdependent Preferences and Robustness: Theory and Applications, Bonn	30.5. - 1.6.
Roland Strausz	Conference on Private Information, Interdependent Preferences and Robustness: Theory and Applications, Bonn, "The benefits of sequential screening"	30.5. - 1.6.
Roland Strausz	Cowles Foundation Conference: Dynamic Mechanism Design, Yale University, New Haven (USA), "Ex Post Information Rents and disclosure in Sequential Screening"	3.6. - 4.6.

<b>B5 (Eckel/Schnitzer)</b>		
<b>Name</b>	<b>Topic</b>	<b>Dates</b>
Kesternich, Iris	"Us & Them: Distributional Preferences in small and large Groups", Applied Economics and Econometrics Seminar , Mannheim	April 10, 2013
Kesternich, Iris	"Us & Them: Distributional Preferences in small and large Groups", IAB Colloquium on Labour Market and Occupational Research, Nürnberg	May 2, 2013
<b>C5 (Nocke)</b>		
<b>Name</b>	<b>Topic</b>	<b>Dates</b>
Andras Niedermayer	"Predatory Fee Setting", presentation at the Competition Law and Economics European Network in Bergen	May 13-14
Andras Niedermayer	"Predatory Fee Setting", presentation at the International Industrial Organization Conference, Boston	May 17-19
Andras Niedermayer	Research visit at Concordia University, Montreal, topic: "Foreclosure Auctions", host: Artyom Shneyerov	May 19 - June 7
<b>C6 (Peitz/Stahl)</b>		
<b>Name</b>	<b>Topic</b>	<b>Dates</b>
Yuya Takahashi	Research visit to the University of Western Ontario, host: Salvador Navarro	January - April
Yuya Takahashi	Seminar Talk at University of Western Ontario	February 12
Yuya Takahashi	Seminar Talk at Carnegie Mellon University	February 19
Yuya Takahashi	Seminar Talk at Johns Hopkins University	February 22
Yuya Takahashi	Seminar Talk at University of Toronto	March 26
Yuya Takahashi	Seminar Talk at University of Michigan	April 5
Yuya Takahashi	Seminar Talk at University of British Columbia	April 16
Yuya Takahashi	Seminar Talk at Bank of Canada	April 25
Yuya Takahashi	Seminar Talk at University of Wisconsin	May 1
<b>C8 (Falk)</b>		
<b>Name</b>	<b>Topic</b>	<b>Dates</b>
Matthias Wibrál	Workshop on Behavioral and Experimental Economics, Florence, "Myopic Loss Aversion and Changing Feedback Institutions	May, 2 - 4
Armin Falk	Keynote lecture on ESPE conference at Aarhus University	June, 12 - 15

## Internal Research Visits of SFB/TR 15 Members

A7 (Strausz/Wolfstetter)		
Name	Topic	Dates
Daniel Krähmer (Project A5)	visits project A7	25.2. - 1.3.
Daniel Krähmer (Project A5)	visits project A7	21.5. - 25.5.

## New Discussion Papers

B7 (Marin)		
Name	Title	Number
Dalia Marin Linda Rousova Thierry Verdier	<p><b>Do Multinationals Transplant their Business Model?</b></p> <p><b>Abstract:</b> What determines whether or not multinational firms transplant their mode of organisation to other countries? We embed the theory of knowledge hierarchies in an industry equilibrium model of monopolistic competition to examine how the economic environment may affect the decision of a multinational firm about transplanting its business organisation to other countries. We test the theory with original and matched parent and affiliate data on the internal organisation of 660 Austrian and German multinational firms and 2200 of their affiliate firms in Eastern Europe. We find that three factors stand out in promoting the multinational firm's decision to transplant the business model to the affiliate firm in the host country: a competitive host market, the corporate culture of the multinational firm, and when an innovative technology is transferred to the host country. These factors increase the respective probabilities of organisational transfer by 18.5 percentage points, 37, and 31 percentage points.</p> <p><i>JEL Codes:</i> D23 F12 F23 F61 <i>Keywords:</i> organisational economics of multinational firms, trade and organisations, the theory of the firm, organisational transfer between countries</p>	398

A1 (Träger/Bester)		
Name	Title	Number
Helmut Bester Johannes Münster	<p><b>Subjective Evaluation versus Public Information</b></p> <p><b>Abstract:</b> This paper studies a principal-agent relation in which the principal's private information about the agent's effort choice is more accurate than a noisy public performance measure. For some contingencies the optimal contract has to specify ex post inefficiencies in the form of inefficient termination (firing the agent) or third-party payments (money burning). We show that money burning is the less efficient incentive device: it is used at most in addition to firing and only if the loss from termination is small. Under an optimal contract the agent's wage may depend only on the principal's report and not on the public signal. Nonetheless, public information is valuable as it facilitates truthful subjective evaluation by the principal.</p> <p><i>Keywords:</i> Subjective evaluation, moral hazard, termination clauses, third-party payments <i>JEL Classification No.:</i> D23, D82, D86, J41, M12</p>	399
A1 (Träger/Bester)		
Name	Title	Number
Helmut Bester Juri Demuth	<p><b>Signalling Rivalry and Quality Uncertainty in a Duopoly</b></p> <p><b>Abstract:</b> This paper considers price competition in a duopoly with quality uncertainty. The established firm (the 'incumbent') offers a quality that is publicly known; the other firm (the 'entrant') offers a new good whose quality is not known by some consumers. The incumbent is fully informed about the entrant's quality. This leads to price signalling rivalry because the incumbent gains and the entrant loses if observed prices make the uninformed consumers more pessimistic about the entrant's quality. When the uninformed consumers' beliefs satisfy the 'intuitive criterion' and the 'unprejudiced belief refinement', prices signal the entrant's quality only in a two-sided separating equilibrium and are identical to the full information outcome.</p> <p><i>Keywords:</i> Quality uncertainty, Signalling, Oligopoly, Price competition <i>JEL Classification No.:</i> D43, D82, L15</p>	400

A1 (Tröger/Bester) / A5 (Schweizer/Krähmer)		
Name	Title	Number
Helmut Bester Daniel Krähmer	<p><b>Exit Options and the Allocation of Authority</b></p> <p><b>Abstract:</b> We analyze the optimal allocation of authority in an organization whose members have conflicting preferences. One party has decision-relevant private information, and the party who obtains authority decides in a self-interested way. As a novel element in the literature on decision rights, we consider exit option contracts: the party without decision rights is entitled to prematurely terminate the relation after the other party's choice. We show that under such a contract it is always optimal to assign authority to the informed and not to the uninformed party, irrespective of the parties' conflict of interest. Indeed, the first-best efficient solution can be obtained by such a contract.</p> <p><i>Keywords:</i> Authority, decision rights, exit options, incomplete contracts, asymmetric information. <i>JEL Classification No.:</i> D23, D82, D86.</p>	401
B7 (Marin)		
Name	Title	Number
Christian Hepenstrick Alexander Tarasov	<p><b>Trade Openness and Cross-country Income Differences</b></p> <p><b>Abstract:</b> Development accounting literature usually attributes the observed cross-country variation in per capita income to differences in countries' factor endowments and total factor productivity (the Solow residual). While the former can be relatively straightforward interpreted and measured, the latter remains at least partly a black box. In this paper, we provide a structural interpretation for differences in total factor productivity across countries and quantitatively explore the role of trade barriers in explaining cross-country income differences. In particular, we find that giving all countries the same market entry costs or giving all country-pairs the same variable trade costs reduces inequality by around 13%.</p> <p><i>Keywords:</i> General equilibrium, market access costs, development accounting, experiments <i>JEL Classification:</i> F11, F12, O10, O40</p>	402

## Publications

A4 (Schmidt)		
Name	Topic	Dates
Bartling, Björn, Ernst Fehr and Klaus M. Schmidt	"Use and Abuse of Authority: A Behavioral Foundation of the Employment Relation", Journal of the European Economic Association Vol. 11(4)	August 2013

**C8 (Falk)**

Name	Topic	Dates
Armin Falk	Morals and Markets, <i>Science</i> , 2013, 340, 707-711 (with Nora Szech)	

**Visitors****A7 (Strausz/Wolfstetter)**

Name	Speaker (Institution)	Date
Dongsoo Shin (Santa Clara University)	visits project A7	11.4. - 15.4.

**Miscellaneous****A4 (Schmidt)**

Name	Topic	Dates
Florian Englmaier, Georg Gebhardt, Klaus Schmidt, Joachim Winter	The Workshop „Natural Experiments and Controlled Field Studies“ (sponsored by the Fritz-Thyssen Stiftung, the SFB/TR-15, and the Economics Departments of the Universities of Ulm and Würzburg) will be held from June 14-16, 2013 at the BVS in Holzhausen/Ammersee. More information can be found at: <a href="https://sites.google.com/site/ammerseeworkshop/">https://sites.google.com/site/ammerseeworkshop/</a>	June 14 - 16

**New/Leaving Staff****A3 (Moldovanu)**

Name	Topic	Dates
Cédric Wasser	is leaving project A7 and joining project A3	

**B3 (Hellwig)**

Name	Topic	Dates
Felix Ketelaar	is joining project B3	as of April 1

SFB/TR 15 speaker: Prof. Dr. Klaus M. Schmidt. Editorial: Alexandra Frank, 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](mailto:sfb-tr15@vwl.lmu.de),  
 Editorial deadline for SFB/TR 15 Newsletter No. 7: Thursday, June 27<sup>th</sup>, 2013