

Newsletter



GOVERNANCE AND THE EFFICIENCY
OF ECONOMIC SYSTEMS

GESY

SFB/TR 15

March 2008

No. 03

Please notice that the website of the SFB TR 15 has changed its URL to <http://www.sfbtr15.de>.

The new e-mail address of the SFB TR 15 is info@sfbtr15.de.

SFB/TR 15 Seminars

Concerning the actual time and locations at the nodes please consult the links in <http://www.sfbtr15.de/veran.php>

Bonn

March

26	Jos Jansen (MPI Bonn)	tba
----	--------------------------	-----

Mannheim

March

3	Claudia Klüppelberg (Munich University of Technologie)	Modelling Dependence in Operational Risk Cells by Lévy Processes
4	Chris Telmer (Carnegie Mellon University)	Microeconomic Sources of Real Exchange Rate Variability
11	Wouter Dessen (University of Chicago)	tba
12	Govert Bijward (Erasmus University Rotterdam)	tba

Internal Research Visits of SFB/TR 15 Members

A5 (Schweizer/von Hagen)

Tymofiy Mylovanov visits project A1 (FU Berlin), March 25-28

Visitors

B3 (Hellwig)

Juan José Ganuza, Universitat Pompeu Fabra, Feb. 18-20

C5 (Kamecke/Röller)

Klaus Gugler, University of Vienna, "Competition Policy", March 10-22

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

A1 (Bester)

Roland Strausz gives a talk on "Implementation Errors and Information Acquisition in Public Procurement" at the CESifo Area Conference on Applied Microeconomics, March 7-8

Roland Strausz gives a talk on "Implementation Errors and Information Acquisition in Public Procurement" at the meeting of the IO-Ausschuss of the Verein, March 9-11

A4 (Rady/Schmidt)

Sandra Ludwig visits the George Mason University, USA, March-April

Klaus Schmidt University of Bern, Switzerland, "Licensing Complementary Patents", March 3

Klaus Schmidt, International Meeting on Experimental and Behavioral Economics, Alicante, Spain, keynote lecture on "Fairness, Incentives, and Contract Design", March 27

Klaus Schmidt, 4th European Symposium on Economics and Psychology, Amsterdam, "Reputation and Contract Design", March 8

Ferdinand von Siemens, 11. Kolloquium zur Personalökonomie, Bonn, "Competition, Cooperation, and Corporate Culture", March 6

Ferdinand von Siemens, 4th European Symposium on Economics and Psychology, Amsterdam, "The Intensity of Incentives in Firms and Markets: Moral Hazard with Envious Agents", March 8

Joachim Winter visits the University of California, Berkeley, to work on a joint project on insurance demand, March 5-12

Joachim Winter participates in a RAND workshop on the new US social security program "Medicare Part D" in Santa Monica. He then works there on a joint project on the measurement of individual expectations, March 13-19

A8 (Heidhues/Rady)

Sven Rady, University of Pennsylvania, Philadelphia, USA, "Negatively Correlated Bandits" (with Nicolas Klein), March 4

Sven Rady, Yale University, USA, "Negatively Correlated Bandits" (with Nicolas Klein), March 24

B5 (Marin/Schnitzer)

Christa Hainz, Conference "The Political Economy of International Organizations", Ascona, presented her paper "The Politician and his Banker" (with Hendrik Hakenes), Feb. 5

Dalia Marin, University of Mannheim, presents her paper (joint with Thierry Verdier) "Corporate Hierarchies and the Size of Nations: Theory and Evidence", April 1

C6 (Stahl)

Konrad Stahl, ECARES, Universite Libre de Bruxelles, Belgium, Prof. Patrick Legros, "Global vs. Local Markets", Feb. 27 - March 1

Konrad Stahl, Tel Aviv University, Israel, Prof. Yossef Spiegel, "Entry, Predation and Exit", March 11 - April 11

C8 (Falk/Heidhues)

Armin Falk will give a course on neuroeconomics in at the Interdisciplinary College (IK), organized by the Fraunhofer Gesellschaft, March 10-11

The Interdisciplinary College (IK) is an annual one-week spring school which offers a dense, intensive and state-of-the-art course program in neurobiology, neural computation, cognitive science/psychology, artificial intelligence, robotics and philosophy. It is aimed at students, postgraduates and researchers from academia and industry. By combining humanities, science and technology, the IK endeavours to intensify dialogue and connectedness between the various disciplines. Participants come mainly from European countries, lecturers from all over the world. Courses include up-to-date introductions to the four main fields of the IK, as well as in-depth discussions of focus topics.

Paul Heidhues, University of Zurich, Microeconomic Seminar, presents joint work with Botond Köszegi titled "Exploiting Naivete about Self-Control in the Credit Market", March 6

Conferences Organized by SFB/TR 15 Members

A2 (Konrad)

Kai A. Konrad, Johannes Münster, Stergios Skaperdas, Conference and Special Issue of Economics of Governance: Causes and Consequences of Conflict, Wissenschaftszentrum Berlin, March 28-29

Discussion Papers

A4 (Rady/Schmidt) and B5 (Marin/Schnitzer)

Markus Reisinger, Monika Schnitzer: A Model of Vertical Oligopolistic Competition. SFB/TR 15 Discussion Paper No. 228

Abstract: This paper develops a model of successive oligopolies with endogenous market entry, allowing for varying degrees of product differentiation and entry costs in both markets. Our analysis shows that the downstream conditions dominate the overall profitability of the two-tier structure while the upstream conditions mainly affect the distribution of profits. We compare the welfare effects of upstream versus downstream deregulation policies and show that the impact of deregulation may be overvalued when ignoring feedback effects from the other market. Furthermore, we

analyze how different forms of vertical restraints influence the endogenous market structure and show when they are welfare enhancing.

Keywords: Deregulation, Free Entry, Price Competition, Product Differentiation, Successive Oligopolies, Two-Part Tariffs, Vertical Restraints

JEL classification: L13, D43, L40, L50

A5 (Schweizer/von Hagen)

Valeriya Dinger, Jürgen von Hagen: Does Interbank Borrowing Reduce Bank Risk? SFB/TR 15 Discussion Paper No. 223

Abstract: In this paper we investigate whether banks that borrow from other banks have lower risk levels. We concentrate on a large sample of Central and Eastern European banks which allows us to explore the impact of interbank lending when exposures are long-term and interbank borrowers are small banks. The results of the empirical analysis generally confirm the hypothesis that long-term interbank exposures result in lower risk of the borrowing banks.

Keywords: interbank market, bank risk, market discipline, transition countries

JEL classification: G21, E53

Alexander Stremitzer: Plaintiffs exploiting Plaintiffs. SFB/TR 15 Discussion Paper No. 224

Abstract: We consider a model of a single defendant and N plaintiffs where the total cost of litigation is fixed on the part of the plaintiffs and shared among the members of a suing coalition. By settling and dropping out of the coalition, a plaintiff therefore creates a negative externality on the other plaintiffs. It was shown in Che and Spier (2007) that failure to internalize this externality can often be exploited by the defendant. However, if plaintiffs make sequential take-it-or-leave-it settlement offers, we can show that they will actually be exploited by one of their fellow plaintiffs rather than by the defendant. Moreover, if litigation is a public good as is the case in shareholder derivative suits, parties may fail to reach a settlement even having complete information. This may explain why we observe derivative suits in the US but not in Europe.

Keywords: litigation, settlement, bargaining, contracting with externalities, derivative suits, public goods

JEL classification: K41, C7, H4

Alexander Stremitzer: Opportunistic Termination. SFB/TR 15 Discussion Paper No. 226

Abstract: If a seller delivers a good non-conforming to the contract, Article 2 of the UCC as well as European warranty law allows consumers to choose between some money transfer and termination. Termination rights are, however, widely criticized, mainly for fear that the buyer resorts to "opportunistic termination", i.e. takes non-conformity as a pretext to get rid of a contract he no longer wants. We show that the possibility of opportunistic termination might actually have positive effects. Under some circumstances, it will lead to redistribution in favour of the buyer without any loss of efficiency. Moreover, by curbing the monopoly power of the seller, a regime involving termination increases welfare by enabling a more efficient output level in a setting with multiple buyers.

Keywords: contract law, warranties, breach remedies, termination, harmonization

JEL classification: K12, C7, L40, D30

B5 (Marin/Schnitzer)

Dalia Marin, Thierry Verdier: Corporate Hierarchies and the Size of Nations: Theory and Evidence. SFB/TR 15 Discussion Paper No. 227

Abstract: Corporate organization varies within a country and across countries with country size. The paper starts by establishing some facts about corporate organization based on unique data of 660 Austrian and German corporations. The larger country (Germany) has larger firms with flatter and more decentralized corporate hierarchies compared to the smaller country (Austria). Firms in the larger country change their organization less fast than firms in the smaller country. Over time firms have been introducing less hierarchical organizations by delegating power to lower levels of the corporation. We develop a theory which explains these facts and which links these features to the trade environment that countries and firms face. We introduce firms with internal hierarchies in a Krugman (1980) cum Melitz and Ottaviano (2007) model of trade. We show that international trade and the toughness of competition in international markets induce a power struggle in firms which eventually leads to decentralized corporate hierarchies. We offer empirical evidence which is consistent with the models predictions.

Keywords: international trade with endogenous firm organizations, endogenous congruence in the firm, corporate organization in similar countries, empirical test of the theory of the firm

JEL classification: F12, F14, L22, D23

C5 (Kamecke/Röller)

Joseph A. Clougherty, Anming Zhang: Domestic Rivalry and Export Performance: Theory and Evidence from International Airline Markets. SFB/TR 15 Discussion Paper No. 225

Abstract: The much-studied relationship between domestic rivalry and export performance consists of those supporting a national-champion rationale, and those supporting a rivalry rationale. While the empirical literature generally supports the positive effects of domestic rivalry, the national-champion rationale actually rests on firmer theoretical ground. We address this inconsistency by providing a theoretical framework that illustrates three paths via which domestic rivalry translates into enhanced international exports. Furthermore, empirical tests on the world airline industry elicit the existence of one particular path - an enhanced firm performance effect - that connects domestic rivalry with improved international exports.

JEL classification: L52, L40, L93

Publications

A8 (Heidhues/Rady)

Andreas Blume, Paul Heidhues (2008): "Modeling Tacit Collusion in Auctions," *Journal of Institutional and Theoretical Economics*, 164 (1), 163-184

B3 (Hellwig)

Jos Jansen (2008): "Information Acquisition and Strategic Disclosure in Oligopoly", *Journal of Economics & Management Strategy*

B4 (Kräkel)

Jörg Budde (2008): "Distorted Performance Measurement and Relational Contracts", *Schmalenbach Business Review*, forthcoming

Matthias Kräkel (2008): "Optimal Risk Taking in an Uneven Tournament Game with Risk Averse Players", *Journal of Mathematical Economics*, forthcoming

B5 (Marin/Schnitzer)

Dalia Marin, Thierry Verdier (2008): "Power inside the Firm and the Market: A General Equilibrium Approach", Journal of the European Economic Association JEEA Volume 6, Issue 4, June 2008

C8 (Falk/Heidhues)

Paul Heidhues, Botond Köszegi (2008): "Competition and Price Variation when Consumers are Loss Averse" American Economic Review, forthcoming

New/Leaving Staff

C8 (Falk/Heidhues)

Felix Marklein joins project C8, EA, part-time, Feb. 15