

Newsletter



GOVERNANCE AND THE EFFICIENCY
OF ECONOMIC SYSTEMS
GESY



SFB/TR 15

April 2008

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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.

The preliminary program, papers, and a list of participants of the SFB TR 15 conference in Gummersbach (April 27-29) are available at http://www.sfbtr15.de/tagung_gumm.php.

We have installed a new e-mailing system for the newsletter. If you would like to unsubscribe, simply send an e-mail with "unsubscribe sfbtr15-news [e-mail address] end" in the body to majordomo@listserv.uni-bonn.de. If you have any questions, please send an e-mail to 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>.

Berlin

- | | | |
|----|---|---|
| 14 | Jean Hindriks (CORE and Itinera) | tba |
| 21 | Dorothea Kübler
HU Berlin
Thomas Rixen
(WZB)
Thibaud Vergé
(CREST-LEI) | Brown Bag Seminar

Bargaining over the Avoidance of
Double Taxation: Evidence from
German Tax Treaties

Buyer Power and Intra-brand
Coordination |
| 28 | Jakob De Haan (University of
Groningen) | tba |

Mannheim

- | | | |
|---|--------------------------------------|---|
| 1 | Dalia Marin
(Universität München) | "Corporate Hierarchies and the Size
of Nations: Theory and Evidence" |
|---|--------------------------------------|---|

2	Markus Frölich (Mannheim University)	Unconditional Quantile Treatment Effects under Endogeneity
8	Elisabeth Müller (ZEW)	To be Financed or not - The Role of Patents for Venture Capital Financing
8	Peter Neary (Oxford University)	Multi-Product Firms and Flexible Manufacturing in the Global Economy
8	Peter Neary (Oxford University)	"Multi-Product Firms and Flexible Manufacturing in the Global Economy"
9	Murat Kirdar (Middle East Technical University)	Estimating the Impact of Immigrants on the Host Country Social Security System when Return Migration is an Endogenous Choice
15	Paul Heidhues (University of Bonn)	Exploiting Naïveté about Self-Control in the Credit Market
15	Rajnish Mehra (UC Santa Barbara)	tba
15	Rajnish Mehra (UC Santa Barbara)	tba
16	Anders Rygh Swensen (University of Oslo)	tba
22	Susanne Prantl (WZB)	Firm Entry Regulation, Labor Supply Shocks and Labor Market Outcomes
23	Rafael Lalive (University of Lausanne)	tba
28	Tom Krebs (Mannheim University)	Human Capital Risk and Limited Commitment
29	Ayse Imrohoroglu (University of Southern California)	tba
29	Ayse Imrohoroglu (University of Southern California)	tba
30	Melanie Arntz (ZEW Mannheim)	tba

Munich

14	Marie-Laure Breuillé (Wissenschaftszentrum Berlin)	tba
15	Erik Eyster (LSE)	tba
21	George Baker (HBS)	tba
22	Axel Ockenfels (University of Cologne)	tba
28	Mikael Priks (University of Stockholm)	tba

Visitors

A4 (Rady/Schmidt)

George Baker (Harvard Business School) visits project A4, April 20-26

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

A1 (Bester)

Helmut Bester gives a seminar talk on Delegation and Incentives at the University of Zurich, April 10

Klaus Schmidt, University of Edinburgh, UK, "Reputation and Contract Design", April 22

Joachim Winter, Johannes-Kepler University, Linz, Research Seminar, Department of Economics, "Mind the Gap! Consumer Perceptions and Choice of Medicare Part D Prescription Drug Plans", April 9

Sandra Ludwig, George Mason University, ICES, "Do you know that I am biased? An Experiment", March 7

B5 (Marin/Schnitzer)

Monika Schnitzer, presented her paper "A Model of vertical oligopolistic Competition", joint with Markus Reisinger at the Annual Industrial Organizations Meeting of the Verein für Sozialpolitik, Karlsruhe, March 10

Basak Akbel, presented her paper „Creditor Rights and Debt Allocation within Multinational Corporations“, at the annual meeting of the Royal Economic Society in Warwick, Coventry, GB, March 17

C2 (Harhoff/Stahl)

Stefan Wagner: Reisenburg/Günzburg, “How Cost, Complexity and Technological Opportunity Affect the Rate of Patenting“, March 3

Georg von Graevenitz: Reisenburg/Günzburg, “Internet Citations and Trade Mark Value“, March 3

Silvia Appelt: Reisenburg/Günzburg, “Pre-emptive use of Trademarks and Pseudo-Generics in the German Market for Generics“, March 3

Philipp Sandner: Reisenburg/Günzburg, “Tobin’s Q, Trademarks and Patents“, March 3

Elisabeth Müller: Reisenburg/Günzburg, “Patent Thickets and Markets for Technology“, March 4

Patrick Beschorner: Reisenburg/Günzburg, “Identifying the Relevant Technology Market Through Patent Oppositions“, March 4

Dietmar Harhoff: Presentations on “Empirical Methodologies for the Valuation and Diffusion of Technology Using Patent Data” and “IP Rights and Knowledge Transfer from Public Research Organizations and Universities to Industry” at the WIPO National Roundtable on the Economics of Intellectual Property, Seoul (Korea), April 7-8

Dietmar Harhoff: Presentation “How Cost, Complexity and Technological Opportunity Affect the Rate of Patenting” at the Research Institute of Economy, Trade and Industry (RIETI), Tokyo, April 11

C5 (Kamecke/Röller)

Tomaso Duso, ACLE 4th Annual Competition & Regulation Meeting “EC Competition Enforcement Data”, Amsterdam, “How effective is European Merger Control” (co-authored with Klaus Gugler and Burcin Yurtoglu), April 10-11

Tomaso Duso, SFB TR 15 meeting, Gummersbach, “How effective is European Merger Control” (co-authored with Klaus Gugler and Burcin Yurtoglu), April 27-29

Joseph Clougherty, ACLE 4th Annual Competition & Regulation Meeting “EC Competition Enforcement Data”, Amsterdam, “Remedy for Now but Prohibit for Tomorrow: The Deterrence Effects of Merger Policy Tools” (co-authored with Jo Seldeslachts and Pedro Barros), April 10-11

Konrad Stahl: Presentation on “Organization and Control in Differentiated Product Markets” (paper with Heiko Karle and Tobias Klein), Tel Aviv University, March 19

Michal Kowalik, Presentation of “How to Make the Banks Reveal Their Risks: the Case of Basel II” at Erice Conference on Corporate Governance, April 4

Conferences Organized by SFB/TR 15 Members

C2 (Harhoff/Stahl)

Dietmar Harhoff, Workshop on Intellectual Property, Appropriation of Innovation Rents and Competition, Reisensburg/Günzburg, March 3-4

SFB TR 15 conference 2008/1, "Governance and the Efficiency of Economic Systems", Theodor Heuss Akademie, Gummersbach, April 27-29

For more information (preliminary program, list of participants) check our website http://www.sfbtr15.de/tagung_gumm.php. Papers can be downloaded by clicking on the respective title in the program.

New Discussion Papers

A4 (Rady/Schmidt)

Hannah Hörisch, Christina Strassmair: "An experimental test of the deterrence hypothesis." SFB/TR 15 Discussion Paper No. 229

Abstract: Crime has to be punished, but does punishment reduce crime? We conduct a neutrally framed laboratory experiment to test the deterrence hypothesis, namely that crime is weakly decreasing in deterrent incentives, i.e. severity and probability of punishment. In our experiment, subjects can steal from another participant's payoff. Deterrent incentives vary across and within sessions. The across subject analysis clearly rejects the deterrence hypothesis: except for very high levels of incentives, subjects steal more the stronger the incentives. We observe two types of subjects: selfish subjects who act according to the deterrence hypothesis and fair-minded subjects for whom deterrent incentives backfire.

Keywords: deterrence, law and economics, incentives, crowding out, experiment

JEL classification: K42, C91, D63

Hannah Hörisch: "Is the veil of ignorance only a concept about risk? An experiment." SFB/TR 15 Discussion Paper No. 230

Abstract: We implement the Rawlsian veil of ignorance in the laboratory. Our experimental design allows separating the effects of risk and social preferences behind the veil of ignorance. Subjects prefer more equal distributions behind than in front of the veil of ignorance, but only a minority acts according to maximin preferences. Men prefer more equal allocations mostly for insurance purposes, women also due to social preferences for equality. Our results contrast the Utilitarian's claim that behind the veil of ignorance maximin preferences necessarily imply infinite risk aversion. They are compatible with any degree of risk aversion as long as social preferences for equality are sufficiently strong.

Keywords: law and economics, incentives, crowding out, experiment

JEL classification: D63, D64, C99

New/Leaving Staff

A4 (Rady/Schmidt)

Hannah Hörisch has left project A4 to join the Federal Ministry of Economics and Technology.

A5 (Schweizer/von Hagen)

Andreas Roider leaves project A5 to take over the professorship "Behavioral Finance/Vertragstheorie " at the University of Heidelberg, March 31

Z (Schweizer)

Corinna Lehmann joins the office of the SFB TR 15, part-time, EA, March 3. Amongst other office work, she will collect information for the SFB TR 15 newsletter and send it out.

Project of the Month

Project A2 (Konrad):

Conflicts in organizational and management problems

Project A2 studies the role of resource consuming conflicts in economic structures. In addition to questions of the design of contests, the main focus of the second project stage is on the analysis of the interaction of appropriation contests with strategic decisions that emerge in the specific context in which the contest takes place. In the following, we report on a recent research project of Kai A. Konrad which he carried out together with Derek J. Clark (University of Tromsø, Norway).

Fragmented property rights and incentives for R&D

This project takes up a serious concern in the discussion about incentives for R&D that has been expressed by Heller and Eisenberg (1998, Can patents deter innovation? The anticommons in biomedical research. *Science* 280, p.699):

Foreseeable commercial products, such as therapeutic proteins or genetic diagnostic tests, are more likely to require the use of multiple fragments. A proliferation of patents on individual fragments held by different owners seems inevitably to require costly future transactions to bundle licenses together before a firm can have an effective right to develop these products.

In their paper entitled "Fragmented property rights and incentives for R&D" that is forthcoming in *Management Science*, Derek J. Clark and Kai A. Konrad take this observation as a starting point for analysing firms' incentives to undertake patentable R&D. Cornerstones of their analysis are the following elements that are well documented in the empirical literature on R&D:

Innovation of products may require application of several patents, making these complementary inputs.

Acquisition of each single patent may be the outcome of an independent patent race, in which firms invest in R&D to try to get hold of the research output that is required to obtain a patent, and to pre-empt other firms who also try to acquire this information. Technological constraints may require that a substantial probability of attaining the research output needed for obtaining the patent requires research effort above some threshold level.

Each patent may be important for the particular innovation which combines several patents, and may also have some independent value. The relative importance of these two aspects describes the degree of complementarity of the set of patents under consideration.

Firms may manage to invent around existing patents, once they have acquired almost all patents needed for an innovation.

Firms may trade patents with each other.

Firms need not compete starting from a symmetric situation with zero patents, but some firms may already hold some relevant patents at the outset of the patent race under consideration.

Clark and Konrad discuss that the complementarity of patents may generate a potential for hold-up: if one firm gains one or several essential patents, it can hold-up another firm from production and can gain high profits from selling these rights. They show that managers' innovative policy may react to this problem in two different ways. They may compete for all patents, with the final allocation of patents settled by trading them with each other. They find that the overall R&D effort is low in a symmetric equilibrium of this type. Intuitively, the marginal benefit of acquiring an additional patent is small, as it is unlikely that this additional patent changes the bargaining power of a firm: a firm can hold up the other firm by owning k patents almost equally well as by owning $k+1$ patents. Equilibria of a different nature are also feasible, in which each firm may target non-overlapping subsets of patents. These non-cooperative equilibria require coordination, however, which saves on costly duplication. The results derived from the formal analysis suggest that the symmetric, low effort equilibrium emerges if patent success may result even if R&D effort is small. The option to invent around some single patents may enhance the equilibrium R&D effort in such symmetric equilibria, in opposition to the common result from considering isolated races for single patents. If technological constraints cause a high threshold that needs to be passed for successful innovation, the coordinated, targeted equilibrium may emerge.

The Project's members:

The project A2 has already been introduced in the newsletter 11/2006. With the beginning of the second project stage, two new members joined the project: Áron Kiss and Florian Morath.

Áron Kiss studied at the Budapest University of Economic Science, at the Humboldt University, Berlin, and at the Central European University, Budapest. Since 2004, he is a Ph.D. student in the research group of Kai Konrad.

Florian Morath studied Business Engineering at the University of Karlsruhe and at the University of Lausanne. In 2006, he joined Kai Konrad's team as a Ph.D. student.

