

# Newsletter



GOVERNANCE AND THE EFFICIENCY  
OF ECONOMIC SYSTEMS

**GESY**

SFB/TR 15

May 2008

No. 05

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

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## 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

5	Julia Schmid	tba
5	Achim Czerny (Berlin Institute of Technology)	"Airport Regulation, Lumpy Investments and Slot Limits"
5	Thomas Gall (University of Bonn)	"A Tale of Markets and Jungles in a Simple Model of Growth"
12	Elmar Wolfstetter	tba
19	Jenny Kragl	"Group vs. Individual Performance Pay in Relational Employment Contracts when Workers are Envious"
19	Stanley Winer (Carleton University)	tba
19	Georg Gebhardt (University of Munich)	"Does Relationship Specific Investment Depend on Asset Ownership? Evidence from a Natural Experiment in the Housing Market"
26	Dorothea Kübler	tba
26	Daniel Treisman (UCLA)	tba

26	Thomas Jeitschko (Michigan State University)	tba
<b>Mannheim</b>		
5	Elisabeth Schulte (Mannheim University)	Better Information Generation Through Inaccurate Signaling Devices
5	Massimo Motta (European University Institute)	Take few to take all: Exclusion of a more efficient entrant
6	Timofiy Mylovanov (University of Bonn)	Indifferent Public, Passionate Advocates, and Strategic Media
7	Patrick Gagliardini (University of Lugano)	Nonparametric Instrumental Variable Estimation of Quantile Structural Effects
13	Philipp Kircher (University of Pennsylvania)	Sorting and Decentralized Price Competition
13	Jean-Pierre Danthine (Universite de Lausanne)	Executive Compensation: A General Equilibrium Perspective
14	Andreas Thams (Free University Berlin)	Inflation Transmission in the EMU: A Markov-Switching VECM Analysis
19	Felix Kübler (Mannheim University)	tba
20	Elisabeth Müller (ZEW)	To be Financed or not - The Role of Patents for Venture Capital Financing
20	Jim Markusen (University of Colorado, Boulder)	Large Firms, Foreign Firms, and Domestic Wages
21	Petter Lundberg (Free University Amsterdam)	tba
26	Moritz Kuhn (Mannheim University)	tba
27	Markus Reisinger (LMU Munich)	tba
27	Philip Mirowski (University of Notre Dame, Indiana)	Markets come to bits: Evolution, computation, and markomata in economic science
28	Jiri Slacalek (European Central Bank)	tba
30	Georg Gebhardt (LMU Munich)	tba

## Munich

5	Harald Fadinger (University Pompeu Fabra)	tba
6	Mario Jametti (York University)	Does tax competition tame the Leviathan
19	Gregory Corcos (Norwegian School of Economics)	tba
20	Urs Schweizer (Universität Bonn)	tba
26	Vikas Kumar (Universität Hamburg)	tba
27	Jörg Baten (Universität Tübingen)	Long-run human capital formation and the onset of modern economic growth
	Harald Fadinger (ECARES)	Productivity Differences in an Interdependent World

## Internal Research Visits of SFB/TR 15 Members

### A1 (Bester)

**Georg Gephardt**, (University of Munich; A4) visits Hemut Bester and Daniel Krämer (both Free University Berlin; A1) and Tomaso Duso (WZ Berlin; C5), May 19-22

### C5 (Kamecke/Röller)

**Tomaso Duso**, (HU Berlin) visited Bonn (TP A5, A8, B3, C8) and gave a course on Empirical Industrial Organization, April 22-25.

## Visitors

### B5 (Marin/Schnitzer)

**Harald Fadinger**, European Centre for Advanced Research in Economics and Statistics (ECARES) and Universitat Pompeu Fabra, May 5

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

### A4 (Rady/Schmidt)

**Georg Gephardt**, WZ Berlin, "Does Relationship Specific Investment Depend on Asset Ownership? Evidence from Natural Experiment in the Housing Market", May 19

**Georg Gephardt**, University of Bonn, "Does Relationship Specific Investment Depend on Asset Ownership? Evidence from Natural Experiment in the Housing Market", May 23

**Joachim Winter**, Faculty Seminar Universität Osnabrück, "Mind the Gap! Consumer Perceptions and Choice of Medicare Part D Prescription Drug Plans", May 20

### A8 (Heidhues/Rady)

**Sven Rady**, HEC Paris, France, "Negatively Correlated Bandits" (with Nicolas Klein), May 13

### B5 (Marin/Schnitzer)

**Dalia Marin** presented her paper "The 'New Corporation' in Europe" at a Bruegel Policy Brief Press Conference in Brussels, April 24

**Dalia Marin** presents her paper (joint with T. Verdier) "Corporate Hierarchies and the Size of Nations: Theory and Evidence" at the Egon-Sohmen Symposium 'The Economic Consequences of Globalization' at CREI, Universitat Pompeu Fabra, Barcelona, May 27

**Francesca Fabbri** presents her paper "Intermarriage and the Economic Performance of Ethnic Minority Immigrants in Britain" at the workshop "Labor Market Impacts of Immigration – Who Are the Winners and Who Stand to Lose?" at the Norwegian Institute for Social Research, May 22-23

**Christa Hainz** presented her paper: "Integrating with their Feet: Cross-Border Lending at the German-Austrian Border" (joint with Jarko Firdrmuc), at the Finance Seminar, Johann Wolfgang Goethe Universität Frankfurt, April 15

**Christa Hainz** presented her paper: "Integrating with their Feet: Cross-Border Lending at the German-Austrian Border" (joint with Jarko Firdrmuc), at the SFB Meeting in Gummersbach, April 28

**Monika Schnitzer** presented her paper: "Who is afraid of political risk? Multinational firms and their choice of capital structure" (joint with Iris Kesternich), at the SFB Meeting in Gummersbach, April 28

### C2 (Harhoff/Stahl)

**Georg von Graevenitz**, "Which Reputations Does a Brand Owner Need? Evidence from Trade Mark Opposition", 18th Annual Meeting American Law and Economics Association (ALEA), New York, May 16-17

**Dietmar Harhoff**: "Empirical Methodologies for the Valuation (and Diffusion) of Technology Using Patent Data", WIPO National Roundtable on the Economics of Intellectual Property, Seoul National University, April 7

**Dietmar Harhoff**: "IP Rights and Knowledge Transfer from Public Research Organizations and Universities to Industry", WIPO National Roundtable on the Economics of Intellectual Property, Seoul National University, April 8

**Dietmar Harhoff**: "Incidence and Growth of Patent Thickets - The Impact of Technological Opportunities and Complexity", Research Institute for Economics, Technology and Industry (RIETI), Tokyo, April 11

**Dietmar Harhoff:** research stay at the Research Institute for Economics, Technology and Industry (RIETI), Tokyo, April 9-15

### C5 (Kamecke/Röller)

**Joseph Clougherty,** presents "Domestic Rivalry and Export Performance: Theory and Evidence from International Airline Markets" (with Anming Zhang) at the Ninth CEPR Conference on Applied Industrial Organisation, Paris, May 22-24

**Joseph Clougherty,** presents "Domestic Rivalry and Export Performance: Theory and Evidence from International Airline Markets" (with Anming Zhang), Department of Economics, Copenhagen Business School, May 26.

**Tomaso Duso,** presents "How Effective is European Merger Control?" (with Burcin Yurtoglu and Klaus Gugler), Economics Seminar, Department of Economics, University of Padua, May 8

**Tomaso Duso,** gives a series of lectures on "Merger Simulations and Merger Control," Department of Economics, University of Padua, May 8

## New Discussion Papers

### B4 (Kräkel)

**Matthias Kräkel, Petra Nieken, Judith Przemecik** Risk Taking in Winner-Take-All Competition SFB TR 15 discussion paper No. 233

**Abstract:** We analyze a two-stage game between two heterogeneous players. At stage one, common risk is chosen by one of the players. At stage two, both players observe the given level of risk and simultaneously invest in a winner-take-all competition. The game is solved theoretically and then tested by using laboratory experiments. We find three effects that determine risk taking at stage one - an effort effect, a likelihood effect and a reversed likelihood effect. For the likelihood effect, risk taking and investments are clearly in line with theory. Pairwise comparison shows that the effort effect seems to be more relevant than the reversed likelihood effect when taking risk. Keywords: Tournaments, Competition, Risk-Taking, Experiment

JEL classification: M51, C91, D23

### B4 (Kräkel)

**Jörg Budde, Matthias Kräkel** Limited Liability and the Risk-Incentive Relationship SFB TR 15 discussion paper No. 232

**Abstract:** Several empirical findings have challenged the traditional view on the trade-off between risk and incentives. By combining risk aversion and limited liability in a standard principal-agent model the empirical puzzle on the positive relationship between risk and incentives can be explained. Increasing risk leads to a less informative performance signal. Under limited liability, the principal may optimally react by increasing the weight on the signal and, hence, choosing higher-powered incentives.

Keywords: moral hazard, limited liability, risk-incentive relationship

JEL classification: D82, D86

## A5 (Schweizer/von Hagen)

**Susanne Ohlendorf** Expectation Damages, Divisible Contracts, and Bilateral Investment SFB TR 15 discussion paper No. 231

**Abstract:** This paper examines the efficiency of expectation damages as a breach remedy in a bilateral trade setting with renegotiation and relationship-specific investment by the buyer and the seller. As demonstrated by Edlin and Reichelstein (1996), no contract that specifies only a fixed quantity and a fixed per-unit price can induce efficient investment if marginal cost is constant and deterministic. We show that this result does not extend to more general payoff functions. If both parties face the risk of breaching, the first best becomes attainable with a simple price-quantity contract.

Keywords: breach remedies, renegotiation, hold-up

JEL classification: K12, D86, L14

## New/Leaving Staff

### A8 (Heidhues/Rady)

**Piers Trepper** has joined project A8 as of April 1<sup>st</sup>

## Publications

### A1 (Bester)

**Helmut Bester, Daniel Krämer (2008):** "Delegation and Incentives", accepted by RAND Journal of Economics

### A4 (Rady/Schmidt)

**Georg Gebhardt and Achim Wambach (2008):** "Auctions to Implement the Efficient Market Structure," International Journal of Industrial Organization 26(3), 846-859

### A7 (Wolfstetter)

**Radosveta Ivanova-Stenzel:** "Robustness of Bidder Preferences Among Auction Institutions (with Tim Salmon), Economic Inquiry, forthcoming

**Abstract:** Ivanova-Stenzel and Salmon (2004a) found that bidders strongly prefer the ascending to the first price sealed bid auction on a ceteris paribus basis but perhaps surprisingly they are not willing to pay up to an entry price for the ascending auction that would equalize the profits. Risk aversion was proposed as an explanation. In this study we examine two competing explanations for the observed behavior; loss aversion and aversion to the dynamic bidding process. We find that neither alternative explanation can account for bidders' auction choice behavior leaving risk aversion as the only un-falsified hypothesis.

JEL Codes: C91, D44