



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. 2

February 2010

SFB/TR 15 Seminars

Berlin		
Date	Speaker (Institution)	Title
January 4	Sven Seuken, Harvard University	"Market Design & Analysis for a P2P Backup System (contd.)"
January 11	Ludwig Ensthaler, HU Berlin	"Knapsack Procurement"
January 11	Kohei Kawamura, University of Edinburgh	"Eliciting Information from the Public"
January 18	Fabrizio Gilardi, University of Zurich	"Delegation to independent regulatory agencies and its consequences"
January 25	Jos Jansen, Max Planck Institute	"tba"
January 25	Geza Sapi, DIW	"Multidimensional Price Discrimination and Partial Information Sharing"
February 1	Flavio Toxvaerd, University of Cambridge	"tba"
February 8	Armin Schmutzler, University of Zurich	"tba"
Munich		
Date	Speaker (Institution)	Title
February 2	Martin Peitz, University of Mannheim	"Pricing and Information Disclosure in Markets with Loss-Averse Consumers"
February 3	Liam Delaney, University College Dublin	"tba"
February 3	Ted Temzelides, Temzelides	"tba"
February 9	Thomas Crossley, University of Cambridge	"New Evidence on Taxes and Portfolio Choice"

Conferences Organized by SFB/TR 15 Members

B5 (Marin/Schnitzer)		
Name	Topic	Dates
Monika Schnitzer	A session at the AEA/ASSA meeting on "Financial Constraints and the Internationalization Strategies of Firms" AEA/ASSA Annual Meeting 2010, Atlanta, USA	

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

A1 (Bester/Strausz)		
Name	Topic	Dates
Roland Strausz	OECD Conference on Regulation: Political Economy, Measurement and Effects on Performance, Ifo / CESifo / Munich (talk: "The political economy of regulatory risk")	January 29 - 30
A2 (Konrad)		
Name	Topic	Dates
Kai A. Konrad	The lifeboat problem, LMU Munich, Germany	January 20
A4 (Rady/Schmidt)		
Name	Topic	Dates
Markus Resinger	Collusion via Exclusive Territories, Germany	January 1
Joachim Winter	Geary Institute, University College Dublin, UK	February 22 - 23
Joachim Winter	Regulation of private health insurance markets: Lessons from enrollment, plan type choice, and adverse selection in Medicare Part D, Birbeck College, London, UK	February 25
B6 (Maug)		
Name	Topic	Dates
Ernst Maug,	Singapore Management University (talk: "Stealth Trading by Corporate Insiders")	December 9
Ernst Maug	Hong Kong University of Science and Technology (talk: "How Do Executives Exercise Their Stock Options?")	December 11
Ernst Maug	National University of Singapore (talk: "Stealth Trading by Corporate Insiders")	December 14
Jörn van Halteren	University of Maastricht, Netherlands (talk: "Evaluating Methods to Estimate the Implied Cost of Equity Capital: A Simulation Study")	January 12
Jörn van Halteren	Campus for Finance Research Conference, WHU - Otto Beisheim School of Management (talk: "Evaluating Methods to Estimate the Implied Cost of Equity Capital: A Simulation Study")	January 13
Ernst Maug	University of Karlsruhe (talk: "Stealth Trading by Corporate Insiders")	January 21
Jörn van Halteren	Financial Accounting and Reporting Section Midyear Conference, San Diego, United States (talk: "Evaluating Methods to Estimate the Implied Cost of Equity Capital: A Simulation Study")	January 23
C2 (Harhoff/Stahl)		
Name	Topic	Dates
Dietmar Harhoff	Stanford University, Visiting Professor at Stanford Institute of Economic Policy Research	January - August

C5 (Kamecke/Röller)

Name	Topic	Dates
Tomaso Duso	University Paris-Nanterre , France (talk: "Competition Policy and Productivity Growth: An empirical Assessment")	January 25
Tomaso Duso	University of Leuven, Belgium (talk: "Do Research Joint Ventures Networks lead to Product Market Collusions?")	February 4

Publications**A2 (Konrad)**

Name	Topic	Dates
Kai. A. Konrad (joint with Wolfgang Leininger (NA))	"Self-enforcing norms and efficient non-cooperative collective action in the provision of public goods", Public Choice	forthcoming

A4 (Rady/Schmidt)

Name	Topic	Dates
Gregor Zöttl	"A Framework of Peak Load Pricing with Strategic Firms", Operations Research, Scientific journals, Informs	forthcoming
Florian Englmaier	"Managerial Optimism and Investment Choice", Managerial and Decision Economics, Scientific journals	forthcoming
Florian Englmaier (joint with Achim Wambach (NA))	"Optimal incentive contracts under inequity aversion", Games and Economic Behaviour, Scientific journals, Elsevier	forthcoming

A5 (Schweizer/von Hagen)

Name	Topic	Dates
Klaas Staal (joint with Ernesto Crivelli (NA))	"Nationalizations and Efficiency", International Advances in Economic Research, Scientific journals	forthcoming

A7 (Wolfstetter)

Name	Topic	Dates
Elmar Wolfstetter (joint with Jianpei Li (NA))	"Partnership Dissolution, Complementarity, and Investment Incentives", Oxford Economic Papers, Scientific journals, Oxford University Press, ISBN:ISSN 0030-7653	forthcoming

B4 (Kräkel)

Name	Topic	Dates
Matthias Kräkel (joint with Oliver Gürtler (NA))	"Optimal Tournament Contracts for Heterogeneous Workers", Journal of Economic Behavior and Organization	forthcoming

C2 (Harhoff/Stahl)

Name	Topic	Dates
Cockburn, I./ Wagner, S.	"Patents and the survival of internet-related NASDAQ-IPOs", Research Policy	forthcoming

C5 (Kamecke/Röller)

Name	Topic	Dates
Robert C. Schmidt (joint with Robert Marschinski (NA))	"A model of technological breakthrough in the renewable energy sector", Ecological Economics	forthcoming
Tomaso Duso (joint with Klaus Gugler (NA), Burcin Yurtoglu (NA))	"Is the Event Study Methodology Useful for Merger Analysis? A Comparison of Stock Market and Accounting Data", International Review of Law and Economics	forthcoming

New Discussion Papers**A1 (Bester/Strausz)**

Name	Title	Number
Daniel Krähmer (A5), Roland Strausz	<p>Optimal Procurement Contracts with Pre-Project Planning</p> <p><i>Abstract:</i> The paper studies procurement contracts with pre - project investigations in the presence of adverse selection and moral hazard. To model the procurer's problem, we extend a standard sequential screening model to endogenous information acquisition with moral hazard. The optimal contract displays systematic distortions in information acquisition. Due to a rent effect, adverse selection induces too much information acquisition to prevent cost overruns and too little information acquisition to prevent false project cancelations. Moral hazard mitigates the distortions related to cost overruns yet exacerbates those related to false negatives. The optimal mechanism is a menu of option contracts that achieves the dual goal of providing incentives for information acquisition and truthful information revelation.</p> <p>JEL classification: D82, H57</p>	303

A4 (Rady/Schmidt)

Name	Title	Number
Klaus Schmidt	<p>Social Preferences and Competition, <i>Abstract:</i> There is a general presumption that social preferences can be ignored if markets are competitive. Market experiments (Smith 1962) and recent theoretical results (Dufwenberg et al. 2008) suggest that competition forces people to behave as if they were purely self-interested. We qualify this view. Social preferences are irrelevant if and only if two conditions are met: separability of preferences and completeness of contracts. These conditions are often plausible, but they fail to hold when uncertainty is important (financial markets) or when incomplete contracts are traded (labor markets). Social preferences can explain many of the anomalies frequently observed on these markets. JEL classification: C9, D5, J0</p>	298
Klaus Schmidt (joint with Björn Bartling (NA), Ernst Fehr (NA))	<p>Screening, Competition, and Job Design Economic Origins of Good Jobs <i>Abstract:</i> In recent decades, many firms offered more discretion to their employees, often increasing the productivity of effort but also leaving more opportunities for shirking. These high-performance work systems are difficult to understand in terms of standard moral hazard models. We show experimentally that complementarities between high effort discretion, rent-sharing, screening opportunities, and competition are important driving forces behind these new forms of work organization. We document in particular the endogenous emergence of two fundamentally distinct types of employment strategies. Employers either implement a control strategy, which consists of low effort discretion and little or no rent-sharing, or they implement a trust strategy, which stipulates high effort discretion and substantial rent-sharing. If employers cannot screen employees, the control strategy prevails, while the possibility of screening renders the trust strategy profitable. The introduction of competition substantially fosters the trust strategy, reduces market segmentation, and leads to large welfare gains for both employers and employees. JEL classification: C91, D86</p>	297
Christina Strassmair	<p>Can intentions spoil the kindness of a gift? - An experimental study <i>Abstract:</i> Consider a situation where person A undertakes a costly action that benefits person B. This behavior seems altruistic. However, if A expects a reward in return from B, then A's action may be motivated by expected rewards rather than by pure altruism. The question we address in this experimental study is how B reacts to A's intentions. We vary the probability that the second mover in a trust game can reciprocate and analyze effects on second mover behavior. Our results suggest that expected rewards do not spoil the perceived kindness of an action and the action's rewards. JEL classification: C91, D03, D64</p>	302

A7 (Wolfstetter)		
Name	Title	Number
Cédric Wasser (joint with Benedikt von Scarpatetti (NA))	<p>Signaling in Auctions among Competitors</p> <p><i>Abstract:</i> We consider a model of oligopolistic firms that have private information about their cost structure. Prior to competing in the market a competitive advantage, i.e., a cost reducing technology, is allocated to a subset of the firms by means of a multi-object auction. After the auction either all bids or only the prices to be paid are revealed to all firms. This provides an opportunity for signaling. Whether there exists an equilibrium in which bids perfectly identify the bidders' costs generally depends on the type and fierceness of the market competition, the specific auction format, and the bid announcement policy.</p> <p>JEL classification: D44, L13, D43, D82, C72</p>	293
Elmar Wolfstetter (joint with Cuihong Fan (NA), Byoung Heon Jun (NA))	<p>Auctioning Process Innovations when Losers' Bids Determine Royalty Rates</p> <p><i>Abstract:</i> We consider a licensing mechanism for process innovations that combines a license auction with royalty contracts to those who lose the auction. Firms' bids are dual signals of their cost reductions: the winning bid signals the own cost reduction to rival oligopolists, whereas the losing bid influences the beliefs of the innovator who uses that information to set the royalty rate. We derive conditions for existence of a separating equilibrium, explain why a sufficiently high reserve price is essential for such an equilibrium, and show that the innovator generally benefits from the proposed mechanism.</p> <p>JEL classification: D21, D43, D44, D45</p>	291
Elmar Wolfstetter (joint with Cuihong Fan (NA), Byoung Heon Jun (NA))	<p>Licensing a common value innovation when signaling strength may backfire</p> <p><i>Abstract:</i> This paper reconsiders the licensing of a common value innovation to a downstream duopoly, assuming a dual licensing scheme that combines a first-price license auction with royalty contracts for losers. Prior to bidding firms observe imperfect signals of the expected cost reduction; after the auction the winning bid is made public. Bidders may signal strength to their rivals through aggressive bidding, which may however backfire and mislead the innovator to set an excessively high royalty rate. We provide sufficient conditions for existence of monotone bidding strategies and for the profitability of combining auctions and royalty contracts for losers.</p> <p>JEL classification: D21, D43, D44, D45</p>	292

Radosveta Ivanova-Stenzel (joint with Tim Grebe (A7), Sabine Kröger (NA))	<p>Buy-It-Now prices in eBay auctions - The Field in the Lab</p> <p><i>Abstract:</i> Electronic commerce has grown extraordinarily over the years, with online auctions being extremely successful forms of trade. Those auctions come in a variety of different formats, such as the Buy-It-Now auction format on eBay, that allows sellers to post prices at which buyers can purchase a good prior to the auction. Even though, buyer behavior is well studied in Buy-It-Now auctions, as to this point little is known about how sellers set Buy-It-Now prices. We investigate into this question by analyzing seller behavior in Buy-It-Now auctions. More precisely, we combine the use of a real online auction market (the eBay platform and eBay traders) with the techniques of lab experiments. We find a striking link between the information about agents provided by the eBay market institution and their behavior. Information about buyers is correlated with their deviation from true value bidding. Sellers respond strategically to this information when deciding on their Buy-It-Now prices. Thus, our results highlight potential economic consequences of information publicly available in (online) market institutions.</p> <p>JEL classification: C72, C91, D44, D82</p>	294
Radosveta Ivanova-Stenzel (joint with Timothy C. Salmon (NA))	<p>The High/Low Divide: Self-Selection by Values in Auction Choice</p> <p><i>Abstract:</i> Most prior theoretical and experimental work involving auction choice has assumed bidders only find out their value after making a choice of which auction to enter. In this paper we examine whether or not subjects knowing their value prior to making an auction choice impacts their choice decision and/or the outcome of the auctions. The results show a strong impact. Subjects with low values choose the first price sealed bid auction more often while subjects with high values choose the ascending auction more often. The average number of bidders in both formats ended up being on average the same, but due to the self-selection bias the ascending auction raised as much revenue on average as the first price sealed bid auction. The two formats also generate efficiency levels that are roughly equivalent though the earnings of bidders are higher in the ascending auction.</p> <p>JEL classification: C91, D44</p>	295

Igor Sloev	<p data-bbox="518 271 831 300">Strategic Vertical Separation</p> <p data-bbox="518 327 1166 846"><i>Abstract.</i> The paper explores incentives for strategic vertical separation of firms in a framework of a simple duopoly model. Each firm chooses either to be a retailer of its own good (vertical integration) or to sell its good through an independent exclusive retailer (vertical separation). In the latter case a two-part tariff is applied. Retailers compete in quantities, goods are perfect substitutes and firms' cost functions are quadratic. I show that the equilibrium outcome crucially depends on the degree of (dis)economies of scale and asymmetry of costs. Two asymmetric equilibria arise, in which one firm separates while another integrates, under conditions that both firms' cost functions exhibit a sufficiently high diseconomies of scale, or extreme asymmetry of costs. Under a moderate asymmetry of costs a unique equilibrium exists in which the firm with the lower degree of diseconomies of scale separates, while its rival integrates. With the degree of diseconomies of scale low for both firms in the unique equilibrium both firms separate. JEL classification: L22; L42</p>	296
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B5 (Marin/Schnitzer)

Name	Title	Number
Maria Lehner	<p data-bbox="518 999 1129 1028">Group Lending versus Individual Lending in Microfinance</p> <p data-bbox="518 1055 1153 1440"><i>Abstract.</i> Microfinance is typically associated with joint liability of group members. However, a large part of microfinance institutions rather offers individual instead of group loans. We analyze the incentive mechanisms in both individual and group contracts. Moreover, we show that microfinance institutions offer group loans when the loan size is rather large, refinancing costs are high, and competition between microfinance institutions is low. Otherwise, individual loans are offered. Interestingly, our analysis predicts that individual lending in microfinance will gain in importance in the future if microfinance institutions continue to get better access to capital markets and if competition further rises. JEL classification: G21, L13, O16</p>	299

Basak Akbel (joint with Monika Schnitzer (B5))	<p>Creditor Rights and Debt Allocation within Multinationals</p> <p><i>Abstract:</i> We analyze the optimal debt structure of multinational corporations choosing between centralized or decentralized borrowing. We identify how this choice is affected by creditor rights and bankruptcy costs, taking into account managerial incentives and coinsurance considerations. We find that partially centralized borrowing structures are optimal with either weak or strong creditor rights. For intermediate levels of creditor rights fully decentralized (centralized) borrowing structures are optimal if managers have strong (weak) empire building tendencies. Decentralized borrowing is more attractive for companies focussing on short-term profitability. Credits are rather taken in countries with better creditor rights and more efficient insolvency systems. JEL classification: G32, F23</p>	304
C5 (Kamecke/Röller)		
Name	Title	Number
Robert C. Schmidt	<p>Carbon leakage: Grandfathering as an incentive device to avert relocation</p> <p><i>Abstract:</i> Emission allowances are often distributed for free in an early phase of a cap-and-trade scheme (grandfathering) to reduce adverse effects on the profitability of firms. If the grandfathering scheme is phased out over time, firms may nevertheless relocate to countries with a lower carbon price once the competitive disadvantage of their home industry becomes sufficiently high. We show that this is not necessarily the case. A temporary grandfathering policy can be a sufficient instrument to avert relocation in the long run, even if immediate relocation would be profitable in the absence of grandfathering. A necessary condition for this is that the permit price triggers investments in low-carbon technologies or abatement capital. JEL classification: Q55, Q58, L51</p>	300
Robert C. Schmidt	<p>Market Share Dynamics in a Model with Search and Word-of-Mouth Communication</p> <p><i>Abstract:</i> This paper analyzes price competition in an infinitely repeated duopoly game. In each period, consumers remember the existence and location of their previous supplier. New information is gathered via search or word-of-mouth communication. Market outcomes are history-dependent, and the Markov perfection refinement is used to narrow the set of equilibria. Firms are shown to use mixed pricing strategies in equilibrium. The resulting price dispersion generates non-trivial market share dynamics. The goal of the paper is to characterize these dynamics, and to reveal the driving forces behind them. JEL classification: D43, D83, L11</p>	301

New/Leaving Staff

A1 (Bester/Strausz)		
Name	Topic	Dates
Benno Bühler	Dipl.-Ing.; Dipl.-Kfm., is joining project A1, EA part-time	January 1 - September 30
C2 (Harhoff/Stahl)		
Name	Topic	Dates
Nicolas Klein	is taking a leave of absence to visit the Economics Department at Yale University	January 1 – September 30

Visitors

C6 (Peitz/Stahl)		
Name	Topic	Date
Jo Seldeslachts	University of Amsterdam (Netherlands), Topic: "RJVs and collusion"	January 3 - 17

Miscellaneous

A3 (Moldovanu)		
Name	Topic	Date
Benny Moldovanu	Winner of the „Advanced Investigators Grants“ of the European Research Council (ERC) Please find more information on the following website: http://www3.uni-bonn.de/Pressemitteilungen/009-2010	January
A4 (Rady/Schmidt)		
Name	Topic	Date
Florian Englmaier	Call for Papers for the Workshop "Natural Experiments and Controlled Field Studies", June 11-13, 2010. Please find more information on our website: http://www.sfbtr15.de/285.html	Deadline: February 14

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