



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 2014

SFB/TR 15 Seminars

| Berlin | | |
|----------|---|---|
| Date | Speaker (Institution) | Title |
| June 2 | Hannu Vartiainen (University of Helsinki) | Mechanism Design without Commitment; General Solution and Application to Bilateral Bargaining |
| June 16 | Giancarlo Spagnolo (Tor Vergata, Rome) | Optimal Memory in Credit Market: Reputation vs Screening |
| June 23 | Ulf von Lilienfeld-Toal (Stockholm School of Economics) | How Did the US Housing Slump Begin? Role of the 2005 Bankruptcy Reform |
| June 30 | Nenad Kos (Bocconi University) | Just Enough or All: Selling a firm |
| Munich | | |
| Date | Speaker (Institution) | Title |
| June 2 | Vai-Lam Mui (Monash University) | Tba |
| June 3 | Georg Weizsäcker (HU Berlin und DIW) | "The standard portfolio choice problem in Germany" |
| June 17 | Nicholas Bloom (Stanford) | "Management as a technology" |
| June 23 | Florian Zimmermann (University of Zurich) | Tba |
| June 24 | Antoinette Schoar (MIT) | Tba |
| Mannheim | | |
| Date | Speaker (Institution) | Title |
| May 13 | Timofiy Mylovanov, University of Pennsylvania | Bayesian Persuasion with Heterogeneous Audience |
| May 20 | Thomas Otter, Goethe-Universität Frankfurt | Attention and Utility - a structural model of consideration |
| Bonn | | |
| Date | Speaker (Institution) | Title |
| May 3 | Gyöngyi Lóránth (University of Vienna) | Regulating Bank CEO Compensation with Active Boards |
| May 9 | Devesh Rustagi (Goethe University Frankfurt) | Behavioral Origins of Institutions: Evidence from Ethiopia |
| May 16 | Jose Apesteguia (Universitat Pompeu Fabra) | Random Choice under Risk |
| May 23 | Roman M. Sheremeta (Case Western Reserve University) | Behavior in Contests |

Conferences Organized by SFB/TR15 Members

| Name | Topic | Dates |
|---------------|--|---------|
| Kai A. Konrad | CESifo Area Conference on Employment and Social Protection, CESifo, Munich | May 2-3 |

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

| A2 (Konrad) | | |
|---------------------------------|---|--------|
| Name | Topic | Dates |
| Florian Morath | "Endogenous Group Formation in Experimental Contests", 2014 Political Economy Workshop, Catholic University of Milan | May 12 |
| Kai A. Konrad | "Deception Choice and Audit Design", Meeting on experimental economics/neuro and social science, Hanse-Wissenschaftskolleg, Delmenhorst | May 13 |
| Kai A. Konrad | "Staatsschuldenabbau wie im Schlaf?", WELT Währungskonferenz 2014, Berlin | May 14 |
| A4 (Schmidt) | | |
| Name | Topic | Dates |
| Matthias Fahn (with H. Hakenes) | "Teamwork as a Self-Disciplining Device", University of Hannover | May 7 |
| Florian Englmaier | "The Role of Communication of Performance Schemes: Evidence from a Field Experiment" (with A. Roeder and U. Sunde) Konferenz: Sitzung des Ausschuss für Unternehmenstheorie des Vereins für Sozialpolitik in Bendorf/Koblenz | May 9 |
| Klaus Schmidt | Theoretischer Ausschuss des Vereins für Socialpolitik, Günzburg, "Loss Aversion and Inefficient Renegotiation" | May 22 |
| Klaus Schmidt | Bavarian Micro Day, Bayreuth, "Auctions vs. Negotiations" | June 6 |
| A7 (Strausz/Wolfstetter) | | |
| Name | Topic | Dates |
| Elmar Wolfstetter | Optimal Bid Disclosure in License Auctions with Downstream Interaction, Universität Nürnberg | May 7 |
| Roland Strausz | The effectiveness of taxation and feed-in tariffs, Universität Kiel | May 19 |
| B4 (Kräkel) | | |
| Name | Topic | Dates |
| Petra Nieken | Gender Differences in Competition and Sabotage, Seminar in Economics and Finance, University of Stavanger | June 4 |

B5 (Eckel/Schnitzer)

| Name | Topic | Dates |
|------------------|--|--------|
| Iris Kesternich | "Professional norms and physician behavior: Homo oeconomicus or homo hippocraticus" (joint with Heiner Schumacher and Joachim Winter), Applied Micro Seminar, University of Köln | May 26 |
| Monika Schnitzer | "Germany: The Home of Smart Innovation & Manufacturing Prowess", IWF World Cornerstone Conference, Berlin | May 16 |

C5 (Nocke)

| Name | Topic | Dates |
|----------------|--|------------------|
| Nicolas Schutz | Presentation of "Information and Price Dispersion: Evidence from Retail Gasoline" (joint with Dieter Pennerstorfer, Philipp Schmidt-Dengler, Christoph Weiss and Biliana Yontcheva) at the CEPR Applied IO Workshop (Athens) | May 23 |
| Volker Nocke | Research Visit to Harvard University, Department of Economics (Host: Ariel Pakes) | January 1-May 31 |
| Volker Nocke | Research Seminar (Talk "Internal vs. External Growth in Industries with Scale Economies: A Computational Model of Optimal Merger Policy"), UCLA | January 13 |
| Volker Nocke | Research Visit to New York University (Collaboration with Luis Cabral) | January 19-31 |
| Volker Nocke | Research Seminar (Talk "Exclusive Dealing and Vertical Integration in Interlocking Relationships"), Harvard University | February 4 |
| Volker Nocke | Research Seminar (Talk "Merger Policy in a Quantitative Model of International Trade"), University of Pennsylvania | March 28 |
| Volker Nocke | Research Seminar (Talk "Merger Policy in a Quantitative Model of International Trade"), Yale University | April 2 |
| Volker Nocke | Research Visit to University of Virginia (Collaboration with Simon Anderson) | April 3-6 |
| Volker Nocke | Research Seminar (Talk "Internal vs. External Growth in Industries with Scale Economies: A Computational Model of Optimal Merger Policy"), University of North Carolina & Duke University | April 7 |
| Volker Nocke | International Industrial Organization Conference, Chicago (Talk "Internal vs. External Growth in Industries with Scale Economies: A Computational Model of Optimal Merger Policy") | April 11-13 |
| Volker Nocke | Research Seminar (Talk "Merger Policy in a Quantitative Model of International Trade"), Harvard University | April 21 |
| Volker Nocke | Research Seminar (Talk "Merger Policy in a Quantitative Model of International Trade"), Princeton University | May 1 |
| Volker Nocke | Research Seminar (Talk "Merger Policy in a Quantitative Model of International Trade"), Northwestern University | May 12 |

C8 (Falk)

| Name | Topic | Dates |
|---------------------------|---|---------------|
| Hannah Schildberg-Hörisch | Reducing overconfidence – causal evidence from intention-to-treat estimates, University of Portsmouth | May 15 |
| Hannah Schildberg-Hörisch | How does parental socio-economic status shape a child's personality?, Conference Rethinking Barker, University Duisburg-Essen | May 30-June 1 |
| Hannah Schildberg-Hörisch | How does parental socio-economic status shape a child's personality?, Conference MBEES, University of Maastricht | June 2 |

New Discussion Papers**A4 (Schmidt)**

| Name | Title | Number |
|--------------------------------|--|--------|
| Sandra Ludwig, Carmen Thoma | <p>Do Women Have More Shame than Men? An Experiment on Self-Assessment and the Shame of Overestimating Oneself</p> <p>Abstract:</p> <p>We analyze how subjects' self-assessment depends on whether its accuracy is observable to others. We find that women downgrade their self-assessment given observability while men do not. Women avoid the shame they may have if others observe that they overestimated themselves. Men, however, do not seem to be similarly shame-averse. This gender difference may be due to different societal expectations: While we find that men are expected to be overconfident, women are not. Shame-aversion may explain recent findings that women shy away from competition, demanding jobs and wage negotiations, as entering these situations shows a certain confidence of one's ability.</p> <p><i>Keywords:</i> Gender, Shame, Self-confidence, Overconfidence, Experiment <i>JEL-Classification:</i> C91, D03, J16</p> | 457 |

A4 (Schmidt)

| Name | Title | Number |
|---------------------------------|--|--------|
| Miriam Schütte, Carmen Thoma | <p>Promises and Image Concerns</p> <p>Abstract:</p> <p>According to several psychological and economic studies, non-binding communication can be an effective tool to increase trust and enhance cooperation. This paper focuses on reasons why people stick to a given promise and analyzes to what extent image concerns of being perceived as a promise breaker play a role. In a controlled laboratory experiment, we vary the ex post observability of the promising party's action in order to test for social image concerns. We observe that slightly more promises are kept if the action is revealed than if it is not, yet the difference is not significant. However, a variation in the selection of pre-defined messages across treatments delivers another interesting finding. While most of the promises are kept, statements of intent tend to be broken.</p> <p><i>Keywords:</i> Promises, communication, social image concerns, guilt, shame, behavioral economics, experiment <i>JEL-Classification:</i> C70, C91, D03, D82</p> | 458 |

A4 (Schmidt)

| Name | Title | Number |
|----------------------------------|---|--------|
| Sebastian Stoll, Gregor Zöttl | <p data-bbox="445 349 1262 409">Transparency in Buyer-Determined Auctions: Should Quality be Private or Public?</p> <p data-bbox="445 427 555 454">Abstract:</p> <p data-bbox="445 456 1262 1032">We study non-binding procurement auctions where both price and non-price characteristics of bidders matter for being awarded a contract. The outcome of such auctions critically depends on how information is distributed among bidders during the bidding process. As we show theoretically, whether it is in the buyer's interest to conceal or to disclose non-price information most importantly depends on how important the quality aspects of the good to be procured are to the buyer: The more important the quality aspects are to the buyer, the more interesting concealment becomes. We then empirically study the impact of a change in the information structure using data from a large European online procurement platform for different categories of goods. In a counterfactual analysis we analyze the reduction of non-price information available to the bidders. In the data we find that the choice of information structure indeed matters. Confirming the hypothesis obtained in our theoretical framework, we find that in auction categories where bidders' non-price characteristics are of little importance for the decisions of the buyers, concealment of non-price information decreases buyers' welfare by up to 6% due to reduced competitive pressure leading to higher bids. In contrast, for categories where bidders' non-price characteristics strongly influence buyers' decisions concealment of non-price information increases buyers' welfare by up to 15%.</p> <p data-bbox="445 1061 1262 1090"><i>Keywords:</i> Procurement, Non-Binding Auctions, Supply Chain Management</p> | 459 |

A4 (Schmidt)

| Name | Title | Number |
|--|--|--------|
| Veronika Grimm, Alexander Martin, Martin Weibelzahl and Gregor Zoettl | <p data-bbox="445 1216 1262 1276">Transmission and Generation Investment in Electricity Markets: The Effects of Market Splitting and Network Fee Regimes</p> <p data-bbox="445 1294 555 1321">Abstract:</p> <p data-bbox="445 1323 1262 1765">In this paper we propose a three-level computational equilibrium model that allows to analyze the impact of the regulatory environment on transmission line expansion (by the regulator) and investment in generation capacity (by private firms) in liberalized electricity markets. The basic model analyzes investment decisions of the transmission operator (TO) and private firms in expectation of an energy only market and cost-based redispatch. In different specifications we consider the cases of one versus two price zones (market splitting) and analyze different approaches to recover network cost, in particular lump sum, capacity based, and energy based fees. In order to compare the outcomes of our multi-stage market model with the first best benchmark, we also solve the corresponding integrated planer problem. In two simple test networks we illustrate that energy only markets can lead to suboptimal locational decisions for generation capacity and thus, imply excessive network expansion. Market splitting heals those problems only partially. Those results obtain for both, capacity and energy based network tariffs, although investment slightly differs across those regimes.</p> <p data-bbox="445 1794 1262 1870"><i>Keywords:</i> Electricity markets, Network Expansion, Generation Expansion, Investment Incentives, Computational Equilibrium Models, Transmission Management</p> | 460 |

A4 (Schmidt)

| Name | Title | Number |
|------------------------------------|---|--------|
| Lukas Buchheim, Robert Ulbricht | <p data-bbox="443 360 1106 389">Emergence and Persistence of Extreme Political Systems</p> <p data-bbox="443 409 555 434">Abstract:</p> <p data-bbox="443 439 1265 875">We investigate the dynamics of political systems in a framework where transitions are driven by reforms and revolts, and where political systems are a priori unconstrained, ranging continuously from single-man dictatorships to full-scale democracies. The dynamics are governed by the likelihood of transitions and their outcome, which are both determined endogenously. We find that reforms and revolts result in extreme political systems - reforms by enfranchising the majority of the population leading to democracies, and revolts by installing autocracies. Reinforcing this polarization, extreme political systems are persistent across time: Democracies are intrinsically stable, leading to long episodes without political change. Autocracies, in contrast, are subject to frequent regime changes. Nevertheless they are persistent, since ensuing revolts lead to autocracies comparable to their predecessors. Taken together, our results suggest that the long-run distribution of political systems is bimodal with mass concentrated on the extremes. The dynamics are consistent with cross-country data.</p> <p data-bbox="443 904 1265 981"><i>Keywords:</i> Endogenous dynamics of political systems, invariant distribution, persistence of regime types, polarization, transition paths, unrestricted polity space.</p> | 461 |

A4 (Schmidt)

| Name | Title | Number |
|-----------------|--|--------|
| Robert Ulbricht | <p data-bbox="443 1120 1225 1149">Optimal Delegated Search with Adverse Selection and Moral Hazard</p> <p data-bbox="443 1169 555 1193">Abstract:</p> <p data-bbox="443 1198 1265 1471">The paper studies a model of delegated search. The distribution of search revenues is unknown to the principal and has to be elicited from the agent in order to design the optimal search policy. At the same time, the search process is unobservable, requiring search to be self-enforcing. The two information asymmetries are mutually enforcing each other; if one is relaxed, delegated search is efficient. With both asymmetries prevailing simultaneously, search is almost surely inefficient (it is stopped too early). Second-best remuneration is shown to optimally utilize a menu of simple bonus contracts. In contrast to standard adverse selection problems, indirect nonlinear tariffs are strictly dominated.</p> <p data-bbox="443 1500 1265 1576"><i>Keywords:</i> adverse selection, bonus contracts, delegated search, moral hazard, optimal stopping. <i>JEL Classification:</i> D82, D83, D86, C72.</p> | 462 |

A4 (Schmidt)

| Name | Title | Number |
|------------------------------------|---|--------|
| Caspar Siegert, Robert Ulbricht | <p>Dynamic Oligopoly Pricing: Evidence from the Airline Industry</p> <p>Abstract: We explore how pricing dynamics in the European airline industry vary with the competitive environment. Our results highlight substantial variations in pricing dynamics that are consistent with a theory of intertemporal price discrimination. First, the rate at which prices increase towards the scheduled travel date is decreasing in competition, supporting the idea that competition restrains the ability of airlines to price-discriminate. Second, the sensitivity to competition is substantially increasing in the heterogeneity of the customer base, reflecting further that restraints on price discrimination are only relevant if there is initial scope for price discrimination. These patterns are quantitatively important, explaining about 83 percent of the total within-flight price dispersion, and explaining 17 percent of the observed cross-market variation of pricing dynamics.</p> <p><i>Keywords:</i> Airline industry, capacity constraints, dynamic oligopoly pricing, intertemporal price dispersion, price discrimination. <i>JEL Classification:</i> D43, D92, L11, L93.</p> | 463 |

A7 (Strausz/Wolfstetter) / C6 (Peitz/Stahl)

| Name | Title | Number |
|-----------------------------------|--|--------|
| Raffaele Fiocco and Dongyu Guo | <p>Mergers between regulated firms with unknown efficiency gains</p> <p>Abstract: In an industry where regulated firms interact with unregulated suppliers, we investigate the welfare effects of a merger between regulated firms when cost synergies are uncertain before the merger and their realization becomes private information of the merged firm. The optimal merger policy trades off potential cost savings against regulatory distortions from informational problems. We show that, as a consequence of this trade-off, more intense competition in unregulated segments of the market induces a more lenient merger policy. The regulated firms' diversification into a competitive segment of the market can lead to a softer merger policy when competition is weaker.</p> <p><i>Keywords:</i> asymmetric information, competition, efficiency gains, mergers, regulation. <i>JEL Classification:</i> D82, L43, L51.</p> | 464 |

| C8 (Falk) | | |
|-----------------|---|--------|
| Name | Title | Number |
| Matthias Wibrál | <p>Identity changes and the efficiency of reputation systems</p> <p>Abstract: Reputation systems aim to induce honest behavior in online trade by providing information about past conduct of users. Online reputation, however, is not directly connected to a person, but only to the virtual identity of that person. Users can therefore shed a negative reputation by creating a new account. We study the effects of such identity changes on the efficiency of reputation systems. We compare two markets in which we exogenously vary whether sellers can erase their rating profile and start over as new sellers. Buyer trust and seller trustworthiness decrease significantly when sellers can erase their ratings. With identity changes, trust is particularly low towards new sellers since buyers cannot discriminate between truly new sellers and opportunistic sellers who changed their identity. Nevertheless, we observe positive returns on buyer investment under the reputation system with identity changes, and our evidence suggests that trustworthiness is higher than in the complete absence of a reputation system.</p> <p><i>Keywords:</i> trust; reputation; identity changes <i>JEL classification:</i> C91, D02, L14</p> | 465 |

Publications

| C5 (Nocke) | | |
|--|--|-------|
| Name | Topic | Dates |
| Volker Nocke (with John Thanassoulis) | "Vertical Integration under Credit Constraints", Journal of the European Economic Association, 2014, vol. 12(2), 337-367 | 2014 |

Miscellaneous

| C5 (Nocke) | | |
|--------------|--|------------|
| Name | Topic | Dates |
| Volker Nocke | 7th Annual Robert F. Lanzilotti Prize for the Best Paper in Antitrust Economics, International Industrial Organization Conference, Chicago 2014 (for the paper "Internal vs. External Growth in Industries with Scale Economies: A Computational Model of Optimal Merger Policy" with Mermelstein, Satterthwaite & Whinston) | April 2014 |

New/Leaving Staff

| B5 (Eckel/Schnitzer) | | |
|----------------------|---------------|--------|
| Name | Topic | Dates |
| Irlacher Michael | New Staff | June 1 |
| Unger Florian | New Staff | June 1 |
| Lisandra Flach | Leaving Staff | May 31 |

Visitors

| A4 (Schmidt) | | |
|---------------------------------|---|-------------------|
| Name | Speaker (Institution) | Date |
| Theresa Kuchler | NYU Stern | May 18.- June 15 |
| Johannes Stroebel | NYU Stern | May 18.- June 15 |
| Katja Kaufmann | Bocconi | June 20 – July 20 |
| Matthias Messner | Bocconi | June 20 – July 20 |
| A7 (Strausz/Wolfstetter) | | |
| Name | Speaker (Institution) | Date |
| Shmuel Zamir | Center for the Study of Rationality, Hebrew University of Jerusalem, Israel | May 14-20 |
| Eloisa Campioni | Tor Vergata University, Rome, Italy | April 24-June 5 |
| Tilman Börgers | University of Michigan, USA | June 9-20 |

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,