DS_F1. Macroeconomics 6. Room: *Pere i Joan Coromines (IEC)*

COUNTERCYCLICAL ELASTICITY OF SUBSTITUTION

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Abstract

We empirically show that the short-run elasticity of substitution between capital and labor, σ_t, is countercyclical. That is, capital and labor are less substitutable in expansions than in recessions. We explore the effects of this cyclical behavior of σ_t on the labor market in the context of an otherwise standard-competitive business cycle model. We find that the countercyclicality of σ_t resolves four main labor market puzzles at once: Dunlop-Tarshis phenomenon, labor productivity puzzle, labor share puzzle, and hours-productivity puzzle.

A DEMAND THEORY OF THE PRICE LEVEL

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Abstract

In this paper I show that the price level is globally determinate in incomplete market models. I base my argument on the simple idea that the price equates demand with supply in the goods market. Monetary policy works through setting nominal interest rates, e.g. an interest rate peg, while fiscal policy is committed to satisfying the present value budget constraint at all times (in contrast to the FTPL). Together, these determine the unique price level, as well as consumption and employment, jointly. In particular, the model predicts a unique equilibrium in response to a fiscal stimulus if the nominal interest is pegged, whereas there is a continuum of equilibria in the standard New Keynesian model. In contrast to the conventional view the long-run inflation rate is, in the absence of output growth, equal to the growth rate of nominal government spending, which is controlled by fiscal policy. This new theory where nominal government spending anchors aggregate demand, and therefore current and future prices, offers a different perspective on a range of important issues including the fiscal and monetary transmission mechanism, policy coordination, policies at the zero-lower

bound, U.S. inflation history and recent attempts to stimulate inflation in the Euro area.

ASSET PRICE BUBBLES AND MONETARY POLICY IN A NEW KEYNESIAN MODEL WITH OVERLAPPING GENERATIONS

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Abstract

I develop an extension of the basic New Keynesian model with overlapping generations, finite lives and retirement. In contrast with the standard model, the proposed framework allows for the existence of rational expectations equilibria featuring asset price bubbles. I examine the conditions under which bubbly equilibria may emerge and the implications for the design of monetary policy.

ESCAPING EUROPE: HEALTH AND HUMAN CAPITAL OF HOLOCAUST REFUGEES

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Abstract

The large-scale persecution of European Jews during the Second World War generated massive refugee movements. We study the last wave of Holocaust refugees with a newly compiled dataset of mostly Jewish passengers from several European countries traveling from Lisbon to New York between 1940 and 1942. We find most countries experienced substantial losses in human and health capital, especially from women. In spite of the unique circumstances of this historical setting, this episode of migration displays well-known selection features: early migrants were taller than late migrants, a large migrant stock reduces migrant selectivity, and economic barriers to migration apply.

Keywords: Migration, Refugees, World War II, Holocaust, New York.
JEL Classification: N32, N34, N42, N44, F22, J24, O15.

THE IMPACT OF INVESTMENT IN HUMAN CAPITAL ON ECONOMIC DEVELOPMENT: AN EMPIRICAL EXERCISE BASED ON HEIGHT AND YEARS OF SCHOOLING IN SPAIN (1881 - 1998) IN A COMPARATIVE PERSPECTIVE

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Abstract

Throughout the 19th century and until the mid-20th century, in terms of long-term investment in human capital and, above all, in education, Spain lagged far behind the international standards and, more specifically, the levels attained by its neighborurs in Europe. In 1900, only 55% of the population could read; in 1950, this figure was 93%. This paper provides evidence that these conditions contributed to a pattern of slower economic growth in which the physical strength required for agricultural work, measured here through height, had a larger impact than education on economic growth. It was not until the 1970s, with the arrival of democracy, that the Spanish education system was modernized and the influence of education on economic growth increased.

CAN SCHOOL CENTRALIZATION FOSTER HUMAN CAPITAL ACCUMULATION? A QUASI-EXPERIMENT FROM EARLY-20TH-CENTURY ITALY

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Abstract

This article shows that a shift towards a more centralized school system can benefit low-income countries characterized by poor levels of human capital and large regional disparities in education. In 1911, Italy shifted from a fully decentralized primary-school system towards centralization through the Daneo-Credaro Reform. The Reform design allows us to compare treated municipalities with the provincial and district capitals, which retained school autonomy. Treated municipalities were characterized by a +0.42 percent premium on the annual growth of literacy. Our quasi-natural experiment, based on Propensity Score Matching (PSM), shows that this link was significant, and we discuss some of the channels through which the new legislation affected primary schooling and literacy.

INATTENTIVE IMPORTERS

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Abstract

Information frictions prevent importers from observing the price of a good in every market. In this paper, we seek to explain how the presence of such frictions shape the flow of goods between countries. To this end, we introduce rationally inattentive importers in a multi-country Ricardian trade model. The amount of information importers process about each country is endogenous and reacts to changes in observable trade costs. Unlike traditional trade costs, changes in information processing costs have non-monotonic and asymmetric effects on bilateral trade flows. We go on to show quantitatively how small differences in distance generate large differences in trade flows, thereby shedding light on the distance elasticity puzzle. The model also generates a novel prediction regarding the relationship between information processing costs and the concentration of import distributions that finds support in the data.

Keywords: Rational Inattention, Incomplete Information, Distance Elasticity.
JEL Classification: D83, F10, F19, L15.

EVERYTHING ALL THE TIME? ENTRY AND EXIT IN U.S. IMPORT VARIETIES

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Abstract

We propose a new theory of the extensive margin of trade based on a standard random-utility, discrete choice model for import demand. Crucially, there are only a finite number of independent purchase decisions each period. Whereas traditional demand systems predict market shares, our model yields instead the probability that a purchase for a given good is supplied by any given country. The model has a rich set of predictions regarding the extensive margin across goods, countries, and time. The model naturally reconciles two commanding observations in the data: there is a large fraction of varieties that are not traded yet the entry and exit rates of commodities are very high. We purse an exhaustive evaluation of the model's quantitative performance with data on U.S. imports at the HS10 product level over the period 1990-2001. The model reproduces faithfully the cross-section distribution of varieties traded per product along several dimensions. Regarding dynamic facts, the model is spot on with its predictions on the net change, gross entry and exit of commodities, both by count and weighted by value; as well as survival probabilities and hazard rates. We briefly explore the model's implications for price changes, using NAFTA as a case study, and welfare gains from new varieties.

GLOBALIZATION AND POLITICAL STRUCTURE

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Abstract

The first wave of globalization (1830-1914) was accompanied by a decline in the number of countries from 125 to 54. The second wave of globalization (1950-present) has led instead to an increase in the number of countries to a record high of more than 190. This paper develops a theoretical framework to study the interaction between globalization and political structure. We show that political structure adapts to expanding trade opportunities in a non-monotonic way. Borders hamper trade. In its early stages, the political response to globalization consists of removing borders by increasing country size. In its later stages, however, the political response to globalization is to remove the cost of borders by creating international economic unions, and this leads to a reduction in country size.

MULTI-SIDED ASSIGNMENT GAMES ON *M*-PARTITE GRAPHS

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Abstract

We consider a multi-sided assignment game with the following characteristics: (a) the agents are organized in m sectors that are connected by a graph that induces a weighted m-partite graph on the set of agents, (b) a basic coalition is formed by agents from different connected sectors, and (c) the worth of a basic coalition is the addition of the weights of all its pairs that belong to connected sectors. We provide a sufficient condition on the weights to guarantee balancedness of the related multi-sided assignment game. Moreover, when the graph on the sectors is cycle-free, we prove the game is strongly balanced and the core is described by means of the cores of the underlying two-sided assignment games associated with the edges of this graph. Moreover, once selected a spanning tree of the cycle-free graph on the sectors, the equivalence between core and competitive equilibria is established.

Keywords: Cooperative Games, Multi-Sided Assignment Games, Core, Competitive Equilibria.
JEL Classification: C71, C78.

INFORMAL RISK SHARING WITH LOCAL INFORMATION

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Abstract

This paper considers the effect of local information constraints in risk- sharing networks. We assume individuals only observe the endowment realizations of their neighbors, and risk-sharing arrangements between two individuals can only depend on commonly observed information. We derive necessary and sufficient conditions for Pareto efficiency subject to these constraints. We provide an explicit characterization of Pareto efficient arrangements under CARA utilities and normally distributed endowments. With independent endowments, local equal sharing rules are shown to be optimal. For correlated endowments, the optimal sharing rule is characterized in closed-form as a function of a network measure of centrality. Contrary to other models of informal insurance in networks, more central individuals are likely to become quasi insurance providers to more peripheral individuals, and attain more volatile consumption. We argue that the current framework has important implications for empirical tests of risk-sharing, and that standard estimates of risk-sharing tests may be decomposed into an underlying heterogeneity of insurance opportunities that can be interpreted economically in terms of consumption volatility.

Keywords: Social Network, Risk Sharing, Pareto Efficiency, Local Information.

ON THE EFFICIENCY PROPERTIES OF THE ROY'S MODEL UNDER ASYMMETRIC INFORMATION

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Abstract

We consider Roy's economies with perfectly competitive labor markets and asymmetric information. Firms choose their investments in physical capital before observing the characteristics of the labor markets they will face. We provide conditions under which equilibrium allocations are con- strained Pareto efficient, i.e., such that it is impossible to improve upon the equilibrium allocation by changing agents' investments and letting the other endogenous variables adjust to restore market clearing. We also pro- vide a robust example of a class of economies where these conditions fail and where equilibria are characterized by overinvestments in high skills.

THE CATALAN HEALTH BUDGET RATIONING PROBLEM

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Abstract

The financial and economic crisis in Spain during recent years has induced public budget adjustments. The crisis has caused a great social impact due to the way the austerity measures have been implemented, affecting mainly key economic sectors such as the civil service, justice, education and health. Among all of these sector, the current paper focuses on the health budget distribution, since the changes in the provision of the health services induce faster and clearer impacts in the social welfare. Spain is divided into 17 regions, and each region manages its own health system. Specifically, we analyse the Catalan health budget assignment since Catalonia is one of the most populated regions and one where the restrictions have been more evident. We study the health budget distribution for the period 1998-2014, from the point of view of the conflicting claims problem (O'Neill, 1982). Accordingly, alternative allocations of the health budget are proposed by using some of the most used solutions in the body of literature. Finally, in order to choose the most appropriate solution, we require the fulfilment of (i) some commonly accepted social constraints, (ii) some criteria of fairness and stability, and (iii) low inequality indexes.

Keywords: Distribution problems, Health, Axiomatic analysis, Public budget.

COGNITIVE LOAD AND MIXED STRATEGIES: ON BRAINS AND MINIMAX

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Abstract

It is well-known that laboratory subjects often do not play mixed strategy equilibrium games according to the equilibrium predictions. In particular, subjects often mix with the incorrect proportions and their actions often exhibit serial correlation. However, little is known about the role of cognition in these observations. We conduct an experiment where subjects play a repeated hide and seek game against a computer opponent programmed to play either a strategy that can be exploited by the subject (a naive strategy) or designed to exploit suboptimal play of the subject (an exploitative strategy). The subjects play with either fewer available cognitive resources (under a high cognitive load) or with more available cognitive resources (under a low cognitive load). While we observe that subjects do not mix in the predicted proportions and their actions exhibit serial correlation, we do not find strong evidence these are related to their available cognitive resources. This suggests that the standard laboratory results on mixed strategies are not associated with the availability of cognitive resources. Surprisingly, we find evidence that subjects under a high load earn more than subjects under a low load. However, we also find that subjects under a low cognitive load exhibit a greater rate of increase in earnings across rounds than subjects under a high load.

THE EARNINGS AND EMPLOYMENT LOSSES BEFORE ENTERING THE DISABILITY SYSTEM

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Abstract

Although a number of papers in the literature have shown the employment and wage differences between disabled and non-disabled individuals, not much is known about the potential employment and wage losses that disabled individuals suffer before being officially accepted into the disability insurance system (DI). Therefore, in this paper we distinguish between individuals that enter the DI system due to a working accident (sudden health shock) and individuals that become disabled due to an ordinary illness to identify the differences in employment and wages between these two groups before they are officially accepted into the DI system. We combine matching models and difference-in-difference and we find that the wage (employment) growth patterns of both groups of workers become significantly different three (six) years before entering the DI system. More specifically, our estimates suggest that one year before entering the system, there is a difference of between 27 and 56 Euros/month in the wages of the two groups (3 to 6% of average wage) as well as a 7.8-10 percentage point difference in employment probabilities.

WHO RESPOND TO CHANGES IN SICK LEAVE BENEFITS? EVIDENCE FROM SPAIN.

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Abstract

We analyze the effects on work absences of a change in the amount of money received in the temporary sick leave scheme in Spain in 2012. The reduction in the sick leave benefits affected only public sector employees and we apply a difference-in-difference method comparing the sick leave claiming behaviour of public versus private sector employees before and after the introduction of the reform in 2012. Furthermore, as the change in the benefits was different depending on the number of days of sick leave claimed, we also study the impact of the reform on the duration of the sick leave spells. We use both survey data (Labour Force Survey) as well as administrative records of the entire population of sickness absences in Spain from 2010 to 2014. Our results show a decrease in the number of temporary sick leave spells for public sector workers as a result of the reform. However, we also report an important increase in the duration of longer spells.

THE MARGINAL VOTER'S CURSE

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Abstract
Recent empirical evidence suggests that votes influence policy outcomes by contributing to electoral margins, even away from the 50% threshold. If the impact of a vote is frequent and small, rather than rare and huge, however, then the swing voter´s curse, useful for explaining patterns of voter participation, should not arise. Nevertheless, we show in this paper that this opposite voting calculus generates a new reason for abstention, to avoid the marginal voter's curse of nudging the policy outcome in the wrong direction. Surprisingly, the marginal voter's curse turns out to be stronger than the swing voter's curse. In fact, in a model with both incentives, marginal considerations come to completely dominate pivotal considerations as the electorate grows large, revealing that predictions based on the standard voting calculus are knife-edge.

ELECTORAL SYSTEMS AND ECONOMIC INEQUALITY: A TALE OF POLITICAL EQUALITY

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Abstract

Do electoral institutions have an effect on income inequality? Does political inequality play a role in the potential aftermath of electoral rules on income inequality? This paper provides a Downsian model of political competition in which electoral systems represent differently the individuals' preferences of income inequality. Empirically, I employ a panel data of 118 democracies during 1960-2015, and find that proportional systems might improve income inequality through its interaction with political equality. Unpacking this mechanism and understanding how it works is of crucial importance to the design of pro-equality electoral systems, and democratic institutions at large.

PREFERENCE SHOCKS THAT DESTROY PARTY SYSTEMS

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Abstract

I develop a two party electoral competition model in order to analyze the effects of an exogenous preference shock on the strategic policy choice of parties. I find that on the one hand, if the preference shock affects the issue that is currently most salient, then both parties strategically shift their policy choices in the direction of the shock, however the shifts are asymmetric: the policy shift of the party that is most favored by the preference shock is smaller. On the other hand, if the preference shock affects an issue that was not the most salient before and becomes salient because of the shock itself, then both parties strategically shift their policy choices towards the ideal point of the median voter of that issue. And again, the parties policy shift is asymmetric: the reaction of the party that is most favored by the preference shock is smaller. Finally, I show that the effects of a large policy shift that some parties perform when they are optimally reacting to a voters' preference shocks may break the party's internal equilibrium among its different factions, implying that exogenous preference shocks may cause important changes in a party system.

SEMIORDER PREFERENCES AND PRICE-ORIENTED BUYERS
IN A HOTELLING DUOPOLY MODEL

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Abstract

We endogenize the presence of price motivated buyers in a Hotelling duopoly model. To do this we assume that buyers have semiorder preferences with different levels of sensitivity to detect product differences. A buyer who does not notice product differences will be price motivated. As a consequence, the presence of price motivated buyers is decreasing in the degree of product differentiation. Differently to the Hotelling's original setup, subgame perfect equilibria in pure strategies can exist with linear transportation costs. In equilibrium, minimal differentiation does not arise but equilibria do not necessarily imply maximal differentiation. We also show that in the presence of asymmetric marginal production costs, the seller with a lower cost may end up fixing the highest price. Finally, our approach also provides a new way of extending the Hotelling model to combine vertical and horizontal differentiation.

DELEGATION WITH A RECIPROCAL AGENT

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Abstract

We consider a model in which a principal may delegate the choice of a project to a better informed agent. The preferences of the agent and the principal about which project should be undertaken can be discordant. Moreover, the agent benefits from being granted more discretion in the project choice and may be motivated by reciprocity. We find that the impact of the agent's reciprocity on the discretion he receives crucially depends on the conflict of interest with the principal. If the agent's and the principal's preferences are very discordant, the principal is more likely to retain authority about the choice of the project when the agent is more reciprocal. Hence, reciprocity exacerbates a severe conflict of interest. In contrast, if the principal's and the agent's preferences are more congruent, discretion is broader when the agent is more reciprocal. Hence, reciprocity mitigates a mild conflict of interest. In addition, we find that the possibility of being able to offer monetary payments to the agent can make the principal worse off when the agent reciprocates. We also empirically test the predictions of our model using the German Socio-Economic Panel finding some support for our theoretical results.

Keywords: Authority, Delegation, Reciprocity.
JEL Classification: D03, D82, D83, D86.

THE INTERPLAY BETWEEN PROCUREMENT
AND THE ORGANIZATIONAL STRUCTURE OF THE FIRM

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Abstract

When procurement is an essential firm's decision, we see how it fosters firm's organizational structure. In particular, we show when transfer pricing must be coupled with decentralization of the procurement decision to the factory of the firm. A firm may obtain benefits from decentralizing sourcing to its factory because it increases its bargaining power against suppliers. Moreover, Headquarters may intentionally introduce a distorted (too low) transfer price that create inefficiencies but also increase the bargaining power of the factory against suppliers. We also rationalize the existence of central purchasing as an intermediate centralized organization. In the presence of strategic transfer pricing, we can predict the optimal organizational structure: decentralization of procurement to the factory if it has authority on the production decision; whereas in the case that the sales division has authority on production, Headquarters must centralize procurement. The dominance of one organizational structure over the other depends on the incentives to use local information on demand. Finally, we expect a more centralized structure when there exists risks that supplier may behave strategically.

A TWO-FACED COIN: DISENTANGLING THE ECONOMIC EFFECTS OF THE WAR ON DRUGS IN MEXICO

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Abstract

Mexican President Felipe Calderón came into office in December of 2006. At the beginning of his administration, the government deployed an aggressive security policy to fight drug trafficking organizations, more commonly known as the Mexican War on Drugs. The policy earned a lot criticism due to the unintended casualties as consequence of the frontal fight against drug criminals. In this article we evaluate the economic effects of the War on Drugs. To disentangle the economic effects of this policy, we study the effects of the growth of homicides and the changes of state level military expenditure on economic growth. Using spatial econometrics we find that while the growth of homicides had no significant effect on state GDP growth, the state-approximated military expenditure to fight drug trafficking organizations had a positive and significant effect on the per capita economic growth rate.

Keywords: Drug Trafficking Organizations, Militarized Disputes, Security Policy, Homicides, Mexico, War on Drugs.
JEL Classification: H56, K42, R11.

HUMAN CAPITAL AND MARKET SIZE

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Abstract

This paper studies how the size of the labour market affects workers' decision to invest in human capital. We consider a model of mismatch where firms rank workers according to their level of skills. The matching process operating in the market has the Property that the job finding probability of workers depends on market size, market tightness and their ranking. An interesting feature is that, while the job finding probability of workers with a given rank differs with market size, the probability of workers with a given level of human capital is constant with the size of the market. The model is consistent with several facts highlighted in empirical studies: In bigger markets the distribution of human capital is more unequal and the returns to skill are higher. We find numerically that the mean level of human capital increases with market size.

RESIDENTIAL SEGREGATION, DISCRIMINATION, AND AFRICAN-AMERICAN THEATER ENTRY DURING JIM CROW

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Abstract

We examine the role of residential segregation and racial discrimination in determining the entry of movie theaters serving African-American customers in the 1950s. These theaters provided an alternative to the segregated theaters of the Jim Crow era. Consistent with preference externalities in racial and ethnic enclaves, we find that a greater degree of residential segregation leads to more African-American theater entry. Using estimates from a Bresnahan and Reiss model of theater entry, we find that this effect is due to higher variable profits in residentially segregated cities rather than lower fixed costs of entry. The effect of racial bias among whites is found to be complex. Using several measures of racial discrimination, we conclude that bias leading to a taste for segregation leads to greater entry, while more generally racial bias results in fewer theaters.