FRIDAY, May 26, 14:30 – 16:00

DV_B1. Macroeconomics 2. Room: *Pere i Joan Coromines (IEC)*

THE VARIANCE-FREQUENCY DECOMPOSITION AS AN INSTRUMENT FOR THE IDENTIFICATION OF SVAR MODELS: AN APPLICATION TO TECHNOLOGY SHOCKS

Yuliya Lovcha
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Alejandro Perez-Laborda
Universitat Rovira-i-Virgili and CREIP

Abstract

This paper proposes a framework to study the identification of structural VAR models. The framework focuses on the contribution of the identified shock to the variance of the variables in the business cycle range. The discussion is organized around the identification of technology shocks since identification has attracted considerable attention in this literature. To begin with, we conduct a Monte-Carlo study to analyze the properties of a set of VAR identification schemes for technology shocks. After that, we propose a new identification method, based on the variance-frequency decomposition, which delivers a reliable estimate of the response of hours. The application of this scheme is illustrated in two real datasets. Finally, we show that, aside from its use as a pure identification scheme, the proposed method may likewise help to interpret the heterogeneity in the responses recovered with the different methods, or be employed to evaluate the consistency between parameterized models and the data.

Keywords: Business Cycle, Frequency Domain, RBC Model, DSGE Model, Vector Autoregressions.
JEL Classification: C1, E3.

DETECTING GRANULAR TIME SERIES IN LARGE PANELS

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Abstract

Large economic and financial panels often contain time series that influence the entire cross-section. We name such series “granular”. In this paper we introduce a panel data model that allows to formalize the notion of granular time series. We then develop methodology to detect and test the set of granulars in a panel when such set is unknown. The methods are based on the norms of the columns of the concentration matrix of the panel. We establish that the norms consistently identify a ranking and the number of granulars when the cross-section and time-series dimensions are sufficiently large. The distribution of the column norms is derived in order to conduct hypothesis tests. Importantly, we show that the methodology is unaffected when the series in the panel are influenced by common factors. A simulation study shows that the proposed detection and testing procedures perform satisfactorily in finite samples. We illustrate the methodology with applications in macroeconomics and finance.

Keywords: Granularity, Factor Models, Network Models, Hypothesis Testing.
JEL Classification: C32, C43.

HETEROGENEITY IN THE DEBT-GROWTH NEXUS: EVIDENCE FROM EMU COUNTRIES

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Simón Sosvilla-Rivero

Complutense Institute for International Studies, Universidad Complutense de Madrid

Abstract

The objective of this paper is to examine whether the marginal impact of public debt-to-GDP ratio on economic growth changes across euro area countries and over time in order to detect potential heterogeneities in that relationship in EMU countries during a time period that spans from 1961 until 2015. To that end, unlike previous studies, we do not make use of panel estimation techniques, but implement an empirical specification based on the empirical growth literature for each country in the sample. Then, we use the Bai and Perron tests in order to explore the existence of a time - varying behaviour of the estimated parameter relating public debt and economic growth. The results suggest that, in 3 out of the 11 countries under study, it exists a sub-period when the relationship between the two variables is positive. However in all the countries, but Spain, the negative impact became especially high in times of distress (coinciding with the global financial crisis), but both the associated debt ratio and the intensity of the negative impact clearly differ across countries.

Keywords: Public Debt, Economic Growth, Heterogeneity, Multiple Structural Breaks, Euro Area, Peripheral EMU Countries, Central EMU Countries.
JEL Classification: C22, F33, H63, O40, O52.

<u>DV_B2. Monetary Economics 2.</u> Room: *Nicolau d'Olwer (IEC)*

WHY ARE IMPORT PRICES MORE ELASTIC TO LOCAL CURRENCY DEVALUATIONS THAN REVALUATIONS?

Justas Dainauskas

Department of Economics and Related Studies, University of York

Abstract

A number of recent empirical studies established that exchange rate pass-through into import prices tends to be greater following a devaluation of the local currency compared to a revaluation. Unlike the majority of linear business cycle models with time-dependent nominal rigidity that are ill-equipped to explain such phenomenon, this paper models ex-change rate pass-through endogenously in the context of state-dependent frictions inducing downward rigidity of wages, prices and investment as observed in many OECD economies. In a US-UK general equilibrium model, it is shown that the primary source of this asymmetry is the excessive stickiness of UK export prices in the downward direction combined with high dependence of UK exporters on imported raw materials (around 60% of total imports) such that US dollar devaluations, on average, lead to a unit-elastic response of US import prices with a slight overshoot in the short-run, unlike revaluations that give rise to around 30-80% lower pass-through at the border. By contrast, US consumer prices are less elastic to exchange rate changes, because around 40-50% of their composition is attributed to the remuneration for local distribution services that UK exporters hire to transport goods from the US docks to the retail sector. However, US retail prices do inherit some of the tendency from import prices to rise faster and by more than to fall justifying a more 'hawkish' monetary policy when the US dollar devalues than it would otherwise be 'doveish' in case of a revaluation.

Keywords: Exchange Rate Pass-Through Asymmetry, Import Prices, Menu Costs, Wage Bargaining, LINEX, Distribution Costs.

JEL Classification: E31, E52, F310, F410, J230.

TERM STRUCTURE, FORECAST REVISION AND THE INFORMATION CHANNEL OF MONETARY POLICY

Donghai Zhang
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Abstract

Recent studies showed that monetary policy announcements have an impact on interest rates at long horizons (10 years or more). And a contractionary monetary policy has expansionary effect on agents' expectations. These facts challenge the theories prevailing in academic and policy circles, which are based on the paradigm that monetary policy has little long-run effects and a contractionary monetary policy should depress agents' belief. The first half of the paper reproduces those facts and complements the empirical literature by providing impulse responses. In the second half of the paper, I propose a novel theory to rationalize those facts, based on the information channel of monetary policy. I consider a framework where the central bank has private information about future economic conditions. Policy actions partially reveal that information to the public, and may thus have an impact on both short- and long-term interest rates. And in the model, a contractionary monetary surprise is perceived as a good news shock. The ability of the model to match the empirical facts is tested through a Bayesian estimation exercise. Using posterior estimates, the model produces the following results. First, my model fits well the aforementioned facts. Second, the information channel of monetary policy dampens the effect of monetary policy substantially. Third, the model generates hump shape impulse responses without introducing habit formation or capital adjustment.

MONETARY POLICY IMPLICATIONS OF STATE-DEPENDENT PRICES AND WAGES

James Costain
Banco de España
Anton Nakov
European Central Bank and CEPR
Borja Petit Zarzalejos
CEMFI

Abstract

This paper studies the dynamic general equilibrium effects of monetary policy shocks in a "control cost" model of state-dependent retail price adjustment and state-dependent wage adjustment. Both suppliers of retail goods and suppliers of labor are monopolistic competitors subject to idiosyncratic productivity shocks and nominal rigidities. Nominal rigidity arises because precise choice is costly: decision-makers tolerate errors both in the timing of price and wage adjustments, and in the new level at which the price or wage is set, because achieving perfect precision in these decisions would be excessively costly. The model is calibrated to data on the size and frequency of price and wage adjustments. We find that sticky wages by themselves account for much of the nonneutrality that occurs in the model where both sticky wages and sticky prices are present. Hence, a model in which both prices and wages are sticky implies substantially larger real effects of monetary shocks than does a model with sticky prices only.

Keywords: Sticky Prices, Sticky Wages, State-Dependent Adjustment, Logit Equilibrium, Near Rationality, Control Costs.
JEL Classification: E31, D81, C73.

DV_B3. Finance 2. Room: *Pi i Sunyer (IEC)*

ON CHINESE STOCK MARKETS: HOW HAVE THEY EVOLVED ALONG TIME?

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José-Manuel Giménez-Gómez
Departament d´Economia and GRODE, Universitat Rovira i Virgili

Abstract
China is the largest emerging capital market with a unique setup: it issues simultaneously both (i) Class A shares addressed to Chinese domestic investors, and (ii) Class B Shares addressed to foreign investors. After Chinese stock resumed the operation, they feature dramatic fluctuations due to policy changes and over-speculative activity of individual investors. This paper aims to analyse the evolution of both the Shanghai A and B Markets through a Markov-Switching asymmetric GARCH in four different time frames.

Keywords: China Stock Market, Markov-Switching Asymmetric GARCH, Volatility.

INTERNATIONAL PORTFOLIO DIVERSIFICATION AND MACROECONOMIC FLUCTUATIONS WHEN PREFERENCES ARE TIME-VARYING

Giuliano Curatola
Goethe Universität Frankfurt
Ilya Dergunov
Goethe Universität Frankfurt

Abstract

We propose a 2-country asset pricing model where agents' preferences change endogenously as a function of the popularity of internationally traded goods. When agents are more sensitive to changes in the popularity of domestic goods than to changes in the popularity of foreign goods, the local stock market reacts more to changes in preferences of local agents than to changes in preferences of foreign agents. Therefore, the home bias arises because the home-country stock represents a better investment opportunity to hedge against future preference fluctuations. We test our model and find that preference evolution is a plausible driver of key macroeconomic variables and stock returns.

Keywords: Asset Pricing, General Equilibrium, Heterogeneous Agents, Interdependent Preferences, Portfolio Choice.
JEL Classifications: D51-53; E20-21; F21; G11-12.

THE EFFECT OF THE FINANCIAL CRISIS ON DEFAULT BY SPANISH HOUSEHOLDS

Carlos Aller
Universitat de les Illes Balears
Charles Grant
Brunel University London

Abstract

We analyse the default behaviour of Spanish households immediately before and after the recent financial crisis. Using several waves of the Survey of Household Finances (a tri-annual survey of financial position of Spanish households), we show that younger, poorer and less well educated households are most likely to default, but that while there were substantial changes in default over time, the response was different across household types. Since households separately report information on credit applications and acceptances, we can decompose the changes in default into a borrower and a lender effect. We find most of the changes in arrears can be attributed to changes in the default behaviour of borrowers. Nevertheless, there is also some evidence that lenders restricted credit to some groups during the crisis, attenuating the rise in default among poorer households.

Keywords: Spanish Financial Crisis, Household-Debt, Default, Rationing.
JEL Classification: D14, G21.

DV_B4. Labour Economics 1. Room: *Puig i Cadafalch (IEC)*

FRICTIONAL LABOR MARKETS, EDUCATION CHOICES AND WAGE INEQUALITY

Manuel Macera
Colorado State University
Hitoshi Tsujiyama
Goethe University Frankfurt

Abstract

This paper develops a model of schooling investment and labor search that generates a distribution of skills and frictional wage differentials as equilibrium objects. We use the model to shed light on how education choices and labor market uncertainty interact in shaping wage inequality. We provide a novel decomposition of wage inequality into the variation driven by returns to education, unobservable productivity differences and matching frictions. Moreover, we are able to distinguish the role of education as a process that merely enhances worker's productivity from one that sorts workers by their productivity into the labor market. We calibrate our model to the U.S. data in 1980 and 2005 and quantify the contribution of each component to the change in standard measures of between- and within-group inequality. We find that the increase in the college wage gap is largely explained by an increase in unobserved worker heterogeneity. Moreover, this increase is mostly due to better educational sorting prior to labor market entry. As for within-group measures of inequality, worker heterogeneity and between-firm wage differentials explain most of the increase in wage dispersion for college educated workers, accounting for 63% and 37% of the change, respectively. In contrast, for high school graduates and college dropouts, between- and within- firm wage differentials explain 50% and 30% of the increase in wage dispersion, respectively.

ORGANIZATIONS, SKILLS, AND WAGE INEQUALITY

Roberto Pinheiro
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Murat Tasci
Federal Reserve Bank of Cleveland

Abstract

We extend an on-the-job search framework in order to allow firms to hire workers with different skills and skills to interact with firm's total factor Productivity (TFP). Skills impact not only workers' productivity but how likely they are able to adapt to changing tasks. Consequently, firms' skill composition also impact labor turnover. Moreover, the model allows us to discuss not only within- firm and between-firm wage inequality, but also within-skill and between-skill wage inequality. We calibrate the model using five educational attainment levels as proxies for skills and estimate non-parametrically firm-skill productivity from the wage distributions for different educational levels. We calibrate the model for two periods in time (1980 and 2009) and consider three counter-factual economies in which we evaluate how the wage distribution would have evolved if we kept one of the following key characteristics at its 1980's levels: firm-skill productivity distribution, labor market frictions, and skill distribution. Our preliminary results show that most of the differences between the 1980's and 2009's distributions are mostly due to changes in firm-skill productivity.

Keywords: Multi-Agent Firms, Skill Distributions, Wage Inequality.
JEL Classification: D02, D21, J2, J3.

VALUING ALTERNATIVE WORK ARRANGEMENTS

Alexandre Mas
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Amanda Pallais
Department of Economics, Harvard University

Abstract

We use a field experiment to study how workers value alternative work arrangements. During the application process to staff a national call center, we randomly offered applicants choices between traditional M-F 9 am – 5 pm office positions and alternatives. These alternatives include flexible scheduling, working from home, and positions that give the employer discretion over scheduling. We randomly varied the wage difference between the traditional option and the alternative, allowing us to estimate the entire distribution of willingness to pay (WTP) for these alternatives. We validate our results using a nationally-representative survey. The great majority of workers are not willing to pay for flexible scheduling relative to a traditional schedule: either the ability to choose the days and times of work or the number of hours they work. However, the average worker is willing to give up 20% of wages to avoid a schedule set by an employer on a week's notice. This largely represents workers' aversion to evening and weekend work, not scheduling unpredictability. Traditional M-F 9 am – 5 pm schedules are preferred by most jobseekers. Despite the fact that the average worker isn't willing to pay for scheduling flexibility, a tail of workers with high WTP allows for sizable compensating differentials. Of the worker-friendly options we test, workers are willing to pay the most (8% of wages) for the option of working from home. Women, particularly those with young children, have higher WTP for work from home and to avoid employer scheduling discretion. They are slightly more likely to be in jobs with these amenities, but the differences are not large enough to explain any wage gaps.

JEL Classification: J16, J24, J31, J38, M50.

<u>DV_B5. Political Economy 2.</u> Room: *Prat de la Riba (IEC)*

WOULD YOU VOTE FOR ME IF I LOWER YOUR TAXES?

Matteo Alpino
University of Oslo

Abstract
Can politicians gain votes by means of economic policy promises made during the election campaign? I tackle this question empirically by investigating voters' behavior in response to a a specific electoral announcement: Silvio Berlusconi's promise to abolish the property tax on main residences during the last days of campaign for the 2006 Italian election. As homeowners would have been directly affected by the policy change, while renters would have not, I am able to estimate the electoral effect of the announcement using a Difference-in-Differences approach in two independent datasets: an electoral survey, and a panel of municipalities. Both exercises suggest that Silvio Berlusconi's promise increased his vote share by a significant amount.

JEL Classification: D72, H20, H31, H71.

GENERALIZED COMPARATIVE STATICS FOR VOTING MODELS

Valerio Dotti
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Abstract
I investigate the equilibrium properties of a deterministic voting model in which the policy space is multidimensional and politicians have limited ability to commit to platforms. Specifically, a politician running alone can only offer his ideal policy. Voters can form coalitions to increase the commitment ability of politicians. Coalition structures are required to be stable in any equilibrium. This analysis is useful to answer

a large class of Political Economy questions in which the multidimensional nature of the policy is crucial to model voters' trade-offs. I show that, under suitable restrictions on voter preferences, a Median Voter Theorem holds. The main result consist of two monotone comparative statics results for the equilibrium policy outcome. Moreover, I characterize the types of coalitions that can be stable in an equilibrium. Lastly, I show how this model relates to popular alternatives in the literature, and that the main result is robust to a variety of different assumptions about the notion of stability.

Keywords: Multidimensional Policy Space, Coalitions, Median Voter.
JEL Classification: D72, C71.

MAFIA, ELECTIONS AND VIOLENCE AGAINST POLITICIANS

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Gemma Dipoppa
Department of Political Science, University of Pennsylvania

Abstract

Organized crime uses political violence to influence politics in a wide set of countries. This paper exploits a novel dataset of attacks directed towards Italian local politicians to study how (and why) criminal organizations use violence against them. We test two competing theories to predict the use of violence i) before elections, to affect the electoral outcome and ii) after elections, to influence politicians from the beginning of their term. We provide causal evidence in favor of the latter hypothesis. The probability of being a target of violence increases in the weeks right after an election in areas with a high presence of organized crime, especially when elections result in a change of local government.

<u>DV_B6. Public Finance.</u> Room: *Auditori (Residència d'Investigadors)*

DOES FISCAL RESPONSIBILITY MATTER?
EVIDENCE FROM PUBLIC AND PRIVATE FORECASTERS IN ITALY

Laura Carabotta
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Elisenda Paluzie
Department of Economics and CAEPS-BEAT (Barcelona Economic Analysis Team), Universitat de Barcelona
Raul Ramos
AQR-IREA, Universitat de Barcelona

Abstract
Fiscal forecasts are nowadays a centerpiece of macroeconomic policy decisions, particularly in highly indebted European Union countries such as Italy. The Stability and Convergence Programs and the new Fiscal Compact seem to have improved fiscal responsibility, but have they facilitated a better accuracy of fiscal forecasters? We have compiled a new data set on fiscal forecast data for Italy covering the last two decades 1992-2014 and we have checked whether the improvement in fiscal responsibility has reduced forecasts errors. Neither the improvement in fiscal responsibility neither the political reforms reduced the optimistic bias of fiscal projections of public and private forecasters.

Keywords: Fiscal Forecasting, Fiscal Responsibility, Forecast Accuracy, Public and Private Forecasters.
JEL Classification: C53, E62, H62, H68.

EDUCATION AND TAX MORALE

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Bernd Theilen
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Abstract
While the determinants of tax morale have been widely studied in the literature, surprisingly, the fundamental influence of education on tax morale has yet to be investigated. Given the insights in the psychological and political science literature about the role of education in the formation of social values, in this paper, we analyze two

channels through which education shapes tax morale. We find that while the tax morale of individuals that are net receivers of welfare state benefits increases with their educational level, it decreases with educational level among those who are net contributors. Furthermore, our results indicate that the more highly educated, who have been shown to be better able to assess information in the media on public affairs, exhibit higher levels of tax morale in countries that have better quality public services, a fairer tax system and more transparent institutions.

Keywords: Tax Morale, Tax Compliance, Education, Welfare State Benefits, Trust in Public Institutions.
JEL Classification: H26, H52, I25.

FISCAL RULES AND THE INTERGENERATIONAL WELFARE EFFECTS OF PUBLIC INVESTMENT

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Abstract

A common argument against balanced-budget fiscal rules has it that the costs of durable public capital fall entirely on current generations while its benefits also accrue to future generations. This paper proposes an additional reason why balanced-budget rules imply uneven welfare effects of public investment across generations. Using an overlapping generations model of a small open economy, I show that, when subject to a balanced-budget constraint, public investment causes a negative financial wealth effect on the welfare of current generations. Numerical simulations of the model show that this negative effect more than offsets the productivity gains of higher public investment spending, leaving current generations worse-off. A golden rule exempting net public investment from the balanced-budget requirement over-turns this effect and allows for welfare gains to both current and future generations.

Keywords: Balanced-Budget Rule, Golden Rule, Intergenerational Welfare, Public Investment, Public Capital.
JEL Classification: E62, F41, H54

DV_B7. Social Choice. *Room: Sala de Reunions (Residència d'Investigadors)*

CONFLICTING CLAIMS PROBLEM ASSOCIATED WITH COST SHARING OF A NETWORK

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Josep E. Peris
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Begoña Subiza
Mètodes Quantitatius i Teoria Econòmica (MQiTE), Universitat d'Alacant and Institut Interuniversitari Desenvolupament Social i Pau (IUDESP),

Abstract

A minimum cost spanning tree provides a way to efficiently connect individuals to a source when they are located at different places. Once the efficient tree is obtained, the question of how to allocate the total cost among the agents is solved by applying some sharing rules. Our contribution to this literature consists of associating a conflicting claims situation with each minimum cost spanning tree problem. Then, a resolution of this problem might be found in the rich literature on conflicting claims problems, which originated with the analysis of the Babylonian Talmud of the 12th century. Depending on the status quo considered, we define two models. The pessimistic model takes individuals' direct costs to the source as the starting point, whereas the optimistic model starts from the individuals' minimum connection costs. As we prove, both approaches provide the same family of allocations in every minimum cost spanning tree problem. We also analyse properties of this family of cost allocations, in particular the core stability, a central concern in the literature on minimum cost spanning tree problems.

Keywords: Minimum Cost Spanning Tree Problem; Conflicting Claims Problem; Core.
JEL Classification: C71, D63, D71.

LIMITED BUDGETS AND EQUALITY OF OPPORTUNITY: AN APPLICATION TO HEALTH

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Universitat Pompeu Fabra and Barcelona GSE
Héctor Pifarré i Arolas
Max Plank Institute for Demographic Research
Frederic Udina
Universitat Pompeu Fabra and IDESCAT

Abstract

Roemer's theory of equality of opportunity (EOp) makes a crucial distinction between fair and unfair inequalities, based on the assumption that groups experiencing unfair forms of inequality should be compensated. We argue that when there are insufficient resources to fully compensate groups or individuals for existing unfair inequalities — a very real concern when applying EOp to actual policies — it is equally important to decide which of the groups facing illegitimate inequalities should receive public compensation. In our work we focus on inequalities arising from uneven access to resources, both public and private. In the case of healthcare, these kinds of inequalities can be driven by both untargeted public provisions, such as universal healthcare systems, and by private spending on health. To guide public choice in these important situations, we propose a novel framework that extends social deliberation to cover the application of equality of opportunity.

NOT ALL MAJORITY-BASED SOCIAL CHOICE FUNCTIONS ARE OBVIOUSLY STRATEGY-PROOF

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Alejandro Neme

Instituto de Matemática Aplicada San Luis, Universidad Nacional de San Luis and CONICET

Abstract

We consider three families of strategy-proof social choice functions, all based on the majority principle: extended majority voting rules on the universal domain of preferences over two alternatives, generalized median voter schemes on the domain of single-peaked preferences over a finite and linearly ordered set of alternatives, and voting by committees on the domain of additive or separable preferences over a set of alternatives composed by all subsets of a given set of objects. For the first two families we characterize their subclasses of obviously strategy-proof social choice functions, which are substantially smaller than their corresponding strategy-proof classes. We also show that no voting by committees is onto, non-dictatorial and obviously strategy-proof, even on the restricted domain of additive preferences.

Keywords: Obviously Strategy-Proofness, Majority Voting, Median Voters, Voting By Committees.

JEL Classification: D71.

DV_B8. Econometrics. Room: *Aula 0 (MACBA)*

TIME-VARYING COINTEGRATING REGRESSION ANALYSIS WITH AN APPLICATION TO THE LONG-RUN INTEREST RATE PASS-THROUGH IN THE EURO AREA

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María Santana-Gallego
Department of Applied Economics, Universitat de les Illes Balears

Abstract

This paper study the mechanism of transmission between the money and the retail credit markets stated in terms of the long-run relationship between the harmonized interest rates for different credit categories and for a subset of countries of the EMU (European Monetary Union). This mechanism, known as the interest rate pass-through (IRPT) phenomenon, has been analyzed in many empirical studies using a variety of econometric techniques, for different samples of countries and periods of time, and the general conclusion is that the pass-through seems to be incomplete in the long-run. Except for a few recent works, the analysis is performed on the basis on a time-invariant long-run relationship which may not be appropriate in this case and could condition this result. To evaluate the robustness of these findings we extend the analysis through a non-linear model for the long-run relationship between the money and the retail markets that incorporates in a very flexible form, and with minimum requirements on tuning parameters, the nonlinearity in the form of time-varying parameters. To that end we follow the approach initiated in Bierens (1997) and also propose some new tools to test for the existence of a stable time-varying cointegration relationship. The results obtained seems to support the former evidence of an incomplete pass-through.

Keywords: Retail Interest Rates, Monetary Policy, Cointegration Analysis, Structural Instability, Time-Varying Cointegration.
JEL Classification: E52, F36, C22.

FREQUENCY-DOMAIN ESTIMATION AS AN ALTERNATIVE TO PRE-FILTERING EXTERNAL CYCLES IN STRUCTURAL VAR ANALYSIS

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Alejandro Perez-Laborda
Universitat Rovira-i-Virgili and CREIP

Abstract

This paper shows that the frequency domain estimation of VAR models over a frequency band can be a good alternative to pre-filtering the data when a low-frequency cycle contaminates some of the variables. As stressed in the econometric literature, pre-filtering destroys the low-frequency range of the spectrum, leading to substantial bias in the responses of the variables to structural shocks. Our analysis shows that if the estimation is carried out in the frequency domain, but employing a sensible band to exclude (enough) contaminated frequencies from the likelihood, the resulting VAR estimates and the impulse responses to structural shocks do not present significant bias. This result is robust to several specifications of the external cycle and data lengths. An empirical application studying the effect of technology shocks on hours worked is provided to illustrate the results.

Keywords: Impulse-Response, Filtering, Identification, Technology Shocks.
JEL Classification: C32, C51, E32, E37.

STRUCTURAL BREAKS AND INSTABILITIES AT THE END OF SAMPLE

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Dukpa Kim
Department of Economics, Korea University

Abstract

The paper focuses on cointegration relationships that are affected by the presence of parameter instabilities that can appear in the whole time period. Usually, the estimation of structural breaks for cointegrated relationships requires excluding some observations at the extremes of the time period, avoiding the possibility of capturing parameter instabilities at the end-of-sample (EOS). In this paper we propose a procedure to estimate both structural breaks at the non-end-of-sample (NEOS) and parameter instabilities at the EOS. The new procedure is designed to improve the performance of the existing EOS instabilities tests that are proposed by Andrews (2002), Andrews and Kim (2006) and Kim (2010).

DV_B9. Economics of Education 1. Room: *Auditori Convent (MACBA)*

GRADING ON A CURVE: WHEN HAVING GOOD PEERS IS NOT GOOD

Caterina Calsamiglia
CEMFI and Barcelona GSE
Annalisa Loviglio
Universitat Autònoma de Barcelona and Barcelona GSE

Abstract
Student access to education levels, tracks or majors is usually determined by their previous performance, measured either by internal exams, designed and graded by teachers in school, or external exams, designed and graded by central authorities. We say teachers grade on a curve whenever having better peers harms the evaluation obtained by a given student. We use rich administrative records from public schools in Catalonia to provide evidence that teachers indeed grade on a curve, leading to negative peer effects. We find suggestive evidence that school choice is impacted only the year when internal grades matter for future prospects.

Keywords: Grading on a Curve, Negative Peer Effects, School Choice.
JEL Classification: I21, I28, H75.

OVER-EDUCATION AND CHILDCARE TIME

Aleksander Kucel
ESCET, Tecnocampus, Universitat Pompeu Fabra and CREB
Montserrat Vilalta-Bufí
Departament d’Economia, CREB, and BEAT, Universitat de Barcelona

Abstract
Over-education has negative effects on individuals in terms of their wage and job satisfaction. In this paper, we study the inter-generational implications of over-education via childcare time. We analyze whether being over-educated affects the time devoted to take care of children. We use the American Time Use Survey from 2004 to 2014. We find that over-educated mothers devote less time to primary childcare than they would do were they matched. The effect of being a college graduate mother on primary childcare time during weekdays is 30% lower when she is over-educated. Over-educated fathers devote less time on childcare during the weekend.

Keywords: Childcare, Over-Education, ATUS.
JEL Classification: D13, J13, J22, J24.

FALLING OFF THE CLIFF: DOMESTIC VIOLENCE AND CHILDREN'S EDUCATIONAL ATTAINMENT

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Rossello-Roig, M.
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Abstract

This paper studies the spill-over effect on children's educational attainment of living in a household in which mothers are subject to domestic violence. To do so, we exploit the Millennium Cohort Study, a longitudinal survey following up around 19,000 children born in the UK in 2000-01. We use measurements of the child's educational performance in English, Science, Maths, Physical Education, Creativity, and Information and Technology by the age of 7 and 11. We perform our analysis using two definitions of domestic violence: Contemporaneous and Ever. Our results suggest that living in a family where there is domestic violence has a negative impact throughout all educational outcomes. Our results are robust and hold when addressing several potential sources of sample selection bias. Children from domestically abused mothers lose around 0.20 standard deviations in English scores and 0.30 standard deviations in Math scores at an age as early as 11 years. The cumulative negative effect is heterogenous across academic areas being more pronounced for those subjects where past knowledge acquisition is fundamental (i.e., Maths and Science).

Keywords: Intimate Partner Abuse; Spill-Over Effects; School Outcomes.
JEL Classification: I21, I24.

DV_B10. Development Economics 1. Room: *Fontserè (IEC)*

THE POLITICAL ECONOMY OF FOREIGN AID EFFECTIVENESS

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Abstract

Recent empirical literature implies that the power of local elites can undermine the effectiveness of foreign aid. We show that this effect can occur because of the economic inequality between the local elite and the rest of the population. We model the aid donor's optimal decision assuming that the recipient country is characterised by a rich local elite and poor masses that compete over economic resources. The model implies that foreign aid is more effective in raising the welfare of the poor when there is a lower economic inequality. This finding is supported by empirical evidence: analysing 65 recipient countries over 1960- 2000 it is estimated that increasing the aid/GDP ratio by one standard deviation boosts recipient growth by 0.25 points in the most equal aid recipients but reduces growth by 2.30 points in the least equal recipients; similarly, it decreases the Gini coefficient by 0.35 points in the most equal recipients but increases it by 1.45 points in the least equal recipients.

Keywords: Foreign aid, Aid effectiveness, Growth, Inequality, Contest, Elite.

TRANSITIONS IN DEPRIVATIONS AND POVERTY

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Abstract

This paper explores a novel way to analyse poverty dynamics that are specific to certain measures of multidimensional poverty, such as the "adjusted head-count ratio" proposed by Alkire and Foster (2011a). Assuming there is panel data available, I show that a simultaneous and comprehensive account of transitions in deprivations and poverty allows complex interdependencies between dimensions in a dynamic context to be handled and, at the same time, allows for several advanced types of analyses. These analyses include (i) a decom-position of changes in multidimensional poverty, which reveals why poverty decreases or increases; (ii) a framework to examine and understand the relationship between the dashboard approach and dimensional contributions and multidimensional poverty in a dynamic setting; (iii) a presentation of methods that illuminate the process of the accumulation of deprivations. The suggested types of analyses are illustrated using German panel data. The implications for monitoring, policy evaluation and strategies for analyses using repeated cross-sectional data are discussed.

Keywords: Multidimensional Poverty; Poverty Dynamics, Alkire-Foster Method, Dimensional Breakdown, Dashboard Approach, SOEP.
JEL Classification: I32.

EXPORT PRICES, SELECTION INTO EXPORTING AND MARKET SIZE:
EVIDENCE FROM CHINA AND INDIA

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Abstract

This paper empirically analyses the export pricing behaviour of Chinese and Indian exporters when there is selection into exporting. Previous pass-through estimates that did not take selection into account could be biased if selection into exporting is correlated with the pricing strategy. We use 6-digit product-level data across high- and low-income export destinations over the period 1994-2007 and assess a number of determinants of the degree of pass-through of exchange rates to export prices, such as the level of external demand, exporter's wage cost, degree of competition in export markets, currency volatility and the direction of currency movements. We find systematic differences in the pricing strategies of Chinese and Indian exporters while uncovering a selection bias in exports to high-income markets, although the pricing of exports to low-income markets is independent of the decision to export. Export prices do not increase systematically with the destination market per capita income, and tend to be less sensitive in shipments to advanced nations. Export prices of India are sensitive to the volatility of the trade-weighted nominal effective exchange rate (NEER), indicating heterogeneity in prices to maintain competitiveness, but not in China as volatility is insignificant given a fixed currency system. It is also revealed that a country with a relatively flexible currency regime and arms-length trade such as India is more likely to exhibit incomplete pass-through, whereas a country with an inflexible currency system and involved in outward processing trade is more likely to have full pass-through as shown in the case of China.

Keywords: Exchange-Rate Pass-Through, Pricing-To-Market, Selection into Exporting, Product Differentiation, India, China.
JEL Classification: F14, F41, O11.