8th Warwick Economics PhD Conference 2020

6th – 7th November

Programme

DAY 1 - Friday, 6 November

13:00-13:15 Welcome

13:15-14:15 Session 1 – Public Economics

Ander Iraizoz-Olaetxea (Paris School of Economics) - *Saving for Retirement Through the Public Pension System: Evidence from the Self-Employed in Spain*

Discussant: Gianni Marciante (Warwick)

Abstract:

Using the fact that the Spanish self-employed voluntarily choose their contributions to Social Security, I study the effect of financial incentives on public pension savings for self-employed workers in Spain. For this, I implement a difference-in-differences approach exploiting the change in public pension saving incentives induced by the 1997 pension reform. I find that the Spanish self-employed significantly respond to the financial incentives for public pension savings. However, the estimated response could be considered modest relative to the magnitude of the return to contributions provided by pension formulas in Spain. I provide evidence suggesting that the lack of salience of the return to contributions could be one of the main drivers of such a modest response, highlighting the importance of information and salience on the responsiveness of self-employed workers to saving incentives.

Tomas Dominguez-Iino (New York University) - *Climate Change, Incomplete Regulation, and Imperfect Competition: Evidence from South American Agriculture*

Discussant: Ander Iraizoz-Olaetxea (PSE)

Abstract:

This paper provides an equilibrium framework to evaluate environmental policy in imperfectly competitive industries producing tradable goods. The empirical application is to the South American agricultural sector, a global agricultural powerhouse accounting for 20% of the world's cattle stock, half its soybean production, and a major environmental impact. I build a quantitative trade model capturing key supply-side margins driving agricultural emissions: deforestation, commodity choice, and input substitution in livestock production. I innovate on the demand side by introducing monopsony power along the supply chain, requiring atomistic farmers to sell their output to large agribusiness firms to access consumer markets. Using firm-level customs data I document concentration among agribusiness multinationals such as JBS, Cargill, and ADM, and estimate mark-downs on farm-gate prices. Given the infeasibility of a global carbon tax, I use my framework to evaluate realistic alternatives, such as environmental tariffs on imports from South America. Unless all trading partners regulate their imports, emissions reductions achieved by regulated markets are offset by increased trade flows to non-regulated markets. Apart from inefficient, unilateral tariffs have regressive distributional effects across space, since farmers in the poorest regions disproportionately bear the burden of environmental regulation. Agribusiness monopsony power exacerbates this effect by passing through a larger share of the burden onto farmers from these regions, since this is where supply is most inelastic. Thus, in the presence of multiple market failures, correcting a single externality can exacerbate the other distortions—not only in terms of aggregate efficiency loss, but also in skewing the distribution of the remaining surplus.

14:15-14:30 Break

14:30-14:40 Poster Session 1

Oscar Soons (University of Amsterdam) - *The Safety Demand in a Diverse Monetary Union and the Effect of a Common Safe Asset*

Alexander Copestake (Oxford University) - *Multi-Product Firms, Networks and Quality-Upgrading: Evidence from China in India*

14:40-16:10 Session 2 – Macroeconomics

Timothy Munday (Oxford University) - *Monetary Policy Communication in the News*

Discussant: Diego Calderon (Warwick)

Abstract:
Central bank communication to the public is important. Not only do central banks need to influence wage and price-setters expectations to fulfill their objectives, the power that central banks wield creates a democratic obligation to communicate to the public. Despite its importance, communication to the general public is far less studied than communication to financial markets. This paper posits that a key channel through which the general public receives central bank communication is through the print media. We examine which features of central bank text are associated with increased reporting in the news. We write down a model of news production and consumption in which news generation is endogenous. We use our model to show that standard econometric techniques will likely (i) provide biased estimates and (ii) fail to deal with the high-dimensionality of the estimation problem. We use computational linguistics to measure the variables in our model for the case of the Bank of England, and double machine learning to estimate the model. We find that not only does the content of the what the Bank of England produce matter for its news coverage, but also the way in which the Bank of England says it.

Federico Kochen (New York University) – *Entrepreneurship, Financial Frictions, and the Market for Firms*

Discussant: Timothy Munday (Oxford)

Abstract:
We study the relation between financial frictions and the trade of privately held firms. In the U.S. one out of five entrepreneurs purchased their business, however, this number has decreased during the last 30 years. Further, in the cross section, younger, smaller, and high return to capital firms exhibit the highest probabilities of trade. We propose a general equilibrium model of entrepreneurship and frictional trade of firms that explains these findings. Gains from trading firms in our model arise from the presence of financial frictions with credit constrained firms, which tend to be young and small, being the ones most likely to be traded. Our quantitative exercises suggest that the better allocation of capital due to the trade of firms may account for 5 to 8% of entrepreneurial output. Moreover, we found that easier access to credit can explain 40% of the fall in the share of traded firms observed during the last decades.

Johannes Matschke (University of California, Davis) - *National Interests, Spillovers and Macroprudential Coordination*

Discussant: Federico Kochen (NYU)

Abstract:
This paper studies the strategic interactions between national regulators in a model of international prudential liquidity regulation. I find that international regulation is not necessarily a Pareto improvement over national regulation, even when joint regulation improves global welfare. Specifically, countries with a smaller banking sector do not internalize the benefits of regulation and prefer to free-ride. Empirical evidence based on the Basel framework supports this mechanism. In terms of policy recommendations, the model justifies capital controls if countries do not cooperate. Though capital controls improve the welfare of regulating economies, they also align the interest of free-riding countries with international regulation.

16:10-16:25 Break

16:25-16:35 Poster Session 2

Georgia Thebault (Paris School of Economics) - *Students' Preferences, University Admission and Post-Secondary Trajectories in Non-selective System: A Study of the Impact of Random Allocation of Seats in French Oversubscribed Programs*

Vatsala Shreeti (Toulouse School of Economics) - *Explaining Smartphone Adoption in India*

Day 2 – Saturday, 7 November

13:00-13:15 – Welcome

13:15-14:45 Session 3 – Applied Economics

Iain Bamford (Columbia University) - *Monopsony Power, Spatial Equilibrium, and Minimum Wages*

Discussant: Rita Pereira (Erasmus)

Abstract:
What role does labor market competitiveness play in determining the spatial distribution of economic activity? We develop a model of monopsony power in spatial equilibrium. Workers and firms are free to locate in any labor market. The degree of market power a firm enjoys depends on the number of competing firms in its location. We show the model can rationalize the concentrations of economic activity and the city-size wage premium through an endogenous labor market competitiveness channel. We take the model to administrative data from Germany, and find the model can rationalize the spatial distribution of population and wages with significantly narrower productivity differences across space compared to traditional models. We discuss the implications of the model for national and spatially targeted minimum wage laws.

Maria Hernandez de Benito (Georgetown University) - *The Effect of Violent Crime on Intrahousehold Resource Allocation and Bargaining power*

Discussant: Apurav Yash Bhatiya (Warwick)

Abstract:
Exposure to violent crime has multiple effects on households' decisions and well-being. We may not expect these effects to be gender-neutral. Previous research has been limited due to the lack of panel data, and to self-selection of households into their place of residence. By exploiting the unexpected and geographically heterogeneous rise in violence in Mexico during the 2006–2012 Mexican drug war, I estimate the effects of violent crime on household expenditures, intrahousehold resource allocation, and bargaining power. I estimate a household demand model using a panel survey of Mexican households formed prior to the escalation in violence. I estimate that increases in homicides have led to increases in the share of household resources spent on male private assignable goods, at the expense of food and other household goods. Previous empirical evidence suggests these results are consistent with a deterioration in women's bargaining power. I provide multiple evidence of this mechanism. First, I estimate a worsening in female decision-making power with respect to household purchases. Second, I find women exposed to increased local violence lost intrahousehold bargaining power within a structural estimation of their consumption shares. Finally, I explore several channels that can explain the results.

Rita Pereira (Erasmus School of Economics) - *Inborn Ability and Equality of Opportunity in Education*

Discussant: Maggie Fok (Warwick)

Abstract:
The equality of opportunity framework traditionally distinguishes between 'circumstances' for which individuals are not accountable, leading to unfair inequalities; and 'effort' for which individuals are accountable, leading to fair inequalities. Further work has included 'luck' in the framework; differential luck is allowed as long as it is not influenced by circumstances. The framework nonetheless is silent regarding what should be considered a 'circumstances', 'effort' or 'luck'. In particular, no consensus exists on how to classify inborn ability. This paper proposes two definitions of equality of opportunity in education that explicitly address the role of inborn ability. The first definition considers inborn ability a standard circumstance, leading to the view that inequalities driven by inborn ability are unfair. The second acknowledges ability as a distinct factor for which we cannot hold individuals accountable, yet for which we do not wish to equalize or de-correlate educational outcomes from. The second definition allows absolute rather than relative ability to influence outcomes, a novel idea in the equality of opportunity literature. Testable empirical conditions of both definitions are derived and employed in the US Health and Retirement Study (HRS). Recent discoveries in the field of social science genetics are exploited to derive a genetic-based proxy for ability: the educational attainment polygenic risk score. Results suggest persistent and increasing inequality of opportunity for younger cohorts (1948-1953) as compared to older cohorts (1926-1930), irrespective of the definition adopted. This result contrasts with the increase in schooling observed in this period.

14:45 – 15:00 – Break

15:00-15:15 Poster Session 3

Joana Elisa Maldonado (KU Leuven) - *Parents as Teachers: Causal Evidence on Home-Based Parental Tutoring*

David Garces Urzainqui (VU Amsterdam) - *Does Market Access Weaken Community Networks? Evidence from Roads in Rural India*

Julian Ashwin (Oxford University) - *Indeterminacy, Neural Networks and Quasi-Rational Expectations Equilibria*

15:15-16:15 <u>Session 4 – Economic Theory</u>

Martino Banchio (Stanford GSB) - *Targeting in Tournaments with Dynamic Incentives*

Discussant: Raghav Malhotra (Warwick)

Abstract:

We study the problem of a planner who wants to reduce inequality by awarding prizes to the worst contestants in a tournament without incentivizing shirking. We prove that no ex-post targeting mechanism eliminates perverse incentives and show that the optimal dynamic rule is computationally infeasible. We design an approximately optimal, incentive-compatible mechanism that targets low-ranked contestants based on the tournament's history up to an endogenous stopping time. We describe applications to eligibility for remedial education, retraining benefits for the unemployed, and draft lotteries in sports. Using data from the NBA, we show how our mechanism aligns incentives and improves targeting.

Chong Shu (University of Southern California) - *Endogenous Risk-Exposure and Systemic Instability*

Discussant: Martino Banchio (Stanford GSB)

Abstract:

Most research on financial systemic stability assumes an economy in which banks are subject to exogenous shocks, but in practice, banks choose their exposure to risk. This paper studies the determinants of this endogenous risk exposure when banks are connected in a financial network. I show that there exists a network risk-taking externality: connected banks' choices of risk exposure are strategically complementary. Banks in financial networks, particularly densely connected ones, endogenously expose to greater risks. Furthermore, they choose correlated risks, aggravating the systemic fragility. Banks, however, do have incentives to form networks to protect their charter values. The theory yields several novel perspectives on policy debates.

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