



Stockholm  
University

INSTITUTE FOR  
INTERNATIONAL  
ECONOMIC STUDIES

# Annual Report

## 2011/2012

Research Activities  
Staff and Organization  
Publications



# The Institute for International Economic Studies

Stockholm University

Mail Address: S-106 91 Stockholm

Street Address: Universitetsvägen 10 A, 8th floor

Telephone: +46 8 16 20 00

Facsimile: +46 8 16 14 43

## Director:

HARRY FLAM

## Deputy Director:

JAKOB SVENSSON

## Board of Governors:

ANDERS BJÖRKLUND, Professor

GUÐRUN DAHL, (Deputy Chairman)  
Professor

HARRY FLAM, Professor

LARS O GRÖNSTEDT

LARS HEIKENSTEN, Executive Director of  
the Nobel Foundation

KARL O. MOENE, Professor

ULRIKA MÖRTH, Professor

MICHAEL SOHLMAN

JAKOB SVENSSON, Professor

ASTRID SÖDERBERGH WIDDING, (Chairman)  
Professor

## Administration:

CHRISTINA LÖNNBLAD (Head)

ANNIKA ANDREASSON

HANNA CHRISTIANSSON

KARL ERIKSSON (IT Support)

ÅSA STORM

ASTRID WAKE

## Publications:

ANNIKA ANDREASSON

HANNA CHRISTIANSSON

## Visitors Program and Seminars:

ANNIKA ANDREASSON

ALMUT BALLEER

TESSA BOLD

TOBIAS BROER

## Research Assistants:

NIELS-JAKOB HARBO HANSEN

MOUNIR KARADJA

NATHANIEL LANE

# Research Staff

## Professors

LARS CALMFORS  
HARRY FLAM  
JOHN HASSLER  
PER KRUSELL  
ASSAR LINDBECK  
MATS PERSSON  
TORSTEN PERSSON  
DAVID STRÖMBERG  
PETER SVEDBERG  
JAKOB SVENSSON

## Affiliated Professor

LARS E.O. SVENSSON

## Visiting Professors

PHILIPPE AGHION  
TIM BESLEY  
DIRK NIEPELT  
FABRIZIO ZILIBOTTI

## Research Fellows

ALMUT BALLEER  
TESSA BOLD  
TOBIAS BROER  
KONRAD BURCHARDI  
SEBASTIAN KOEHNE  
MASAYUKI KUDAMATSU  
HELÉNE LUNDQVIST  
PETER NILSSON  
CONNY OLOVSSON  
ROBERT ÖSTLING

## Graduate Students

DAVID VON BELOW  
PAMELA CAMPA  
JOHAN GARS  
JINFENG GE

JENS HENRIKSSON  
CHRISTINA HÅKANSON  
RUIXUE JIA  
YINAN LI  
ETTORE PANETTI  
BEI QIN  
THORSTEN ROGALL  
ALEX SCHMITT  
DAVID SEIM  
ABDULAZIZ SHIFA  
DANIEL SPIRO

## Visiting Graduate Students

TIMOTHÉE DEMONT  
ANDREA GUARISO  
NICK RYAN  
BILAL SIDDIQI

# Visiting Fellows

DAVID YANAGIZAWA DROTT, Harvard  
University  
PAUL KLEIN, Simon Fraser University  
NILS-PETTER LAGERLÖF, York University  
MONIKA MERZ, University of Vienna  
ERIK MOHLIN, University College London  
STEPHEN PARENTE, University of  
Minnesota  
TIEFENG QIAN, Virginia Tech  
XAVIER RAGOT, Paris School of  
Economics  
ROBERT SHIMER, University of Chicago  
CHRISTIAN TRAEGER, University of  
California, Berkeley  
LI-AN ZHOU, Peking University  
DILAN ÖLCER, Sciences Po Paris

# News at the Institute 2011/2012

DAVID VON BELOW defended his doctoral thesis in December 2011. In January 2012, he took up a post doctoral position at University of Oxford.

ALMUT BALLEER has accepted a professorial position at RWTH Aachen University. She will be on partial leave from the Institute in the academic years 2012/2013 and 2013/2014.

TIM BESLEY gave the Harris Lecture, Harvard University, March 2012.

TESSA BOLD holds a professorship at University of Frankfurt and will be on partial leave from the Institute in the academic year 2012/2013.

TIMO BOPPART, University of Zürich, has accepted a tenure track position at the Institute, starting in January 2013.

TOM CUNNINGHAM, Harvard University, has accepted a tenure track position at the Institute starting in February 2013.

SUSANNE FORSTNER, EUI, will spend the period October 15 2012 - October 15 2013 as a post doc at the Institute.

JOHAN GARS accepted a position at the Beijer Institute, starting in the fall of 2011. He defended his doctoral thesis in June 2012.

NIELS-JAKOB HARBO HANSEN, MOUNIR KARADJA, HANNES MALMBERG and ERIK PRAWITZ will join the Institute as graduate students in September 2012.

CHRISTINA HÅKANSON accepted a position as economist in the Forecasting Division at the Monetary Policy Department at the Riksbank starting in June 2012.

MATHIAS IWANOWSKY and GEORG MARTIN will join the Institute as research assistants in September 2012.

PER KRUSELL was elected Wallenberg Scholar by the Knut and Alice Wallenberg Foundation, which involves a research grant of 15M SEK.

HELÉNE LUNDQVIST spent the academic year 2011/2012 as a post doc at the Institute. She was awarded the Distinguished CESifo Affiliate Award in Public Sector Economics

and the 2012 Benzelius Award for her paper “Is It Worth It? On the Returns to Holding Political Office”. Heléne also accepted an assistant professor position at the Department of Economics, Stockholm University, starting in the fall of 2012.

PETER NILSSON has been awarded the 2011 Benzelius Award for his thesis work by The Royal Society of Sciences in Uppsala. He is also affiliated with the Uppsala Center for Labor Studies.

TORSTEN PERSSON was appointed Honorary Doctor of Economics at Mannheim University, in October 2011, elected Member of the The Royal Swedish Academy of Letters, History and Antiquities in October 2011, appointed Associate of BREAD (Bureau of Research in Economic Analysis of Development) in April 2012, and elected Corresponding Fellow of the British Academy in June 2012.

NICK RYAN, MIT, was affiliated with the Institute June - September 2011 through the AMID program.

RIIKKA SAVOLAINEN, Aalto University, will spend the academic year 2012/2013 as a visiting graduate student at the Institute.

DANIEL SPIRO defended his doctoral thesis in June 2012. He has accepted a tenure track position at Oslo University, starting in September 2012.

JAKOB SVENSSON was appointed Visiting Professor at Norwegian School of Economics (NHH), Bergen.

LARS E.O SVENSSON has been appointed Foreign Honorary Member of the American Economic Association.

ROBERT ÖSTLING, together with several collaborators, received a research grant of SEK 5 628 000 from the Swedish Research Council (Vetenskapsrådet) for the research project “A Novel Approach to Estimating the Effect of Wealth on Lifetime Outcomes, Behavior and Attitudes”. The same project also received a grant of 500 000 from the Swedish Council for Working Life and Social Research (FAS).

# Staff Research Activities 2011/2012

PHILIPPE AGHION published the paper (1) “The Environment and Directed Technical Change” in *American Economic Review*, 102:1, 2012 (with Daron Acemoglu, Leonardo Bursztyn and David Hemous); and the book (2) *Repenser l’Etat*, Editions du Seuil, 2011 (with Alexandra Roulet). During the academic year he has also written (3) “Innovation and Institutional Ownership”, forthcoming in the *American Economic Review* (with John Van Reenen and Luigi Zingales); (4) “Subgame Perfect Implementation under Value Perturbation”, forthcoming in the *Quarterly Journal of Economics* (with Drew Fudenberg, Richard Holden, Takashi Kunimoto and Olivier Tercieux); and (5) “Revisiting the Relationship Between Competition, Patenting and Innovation”, forthcoming in *Advances in Economic Theory*, Econometric Society World Congress (with Peter Howitt and Susanne Prantl). Furthermore he has undertaken the following working papers (6) “Industrial Policy and Competition”, revised for the *American Economic Journal* (with Mathias Dewatripont, Luosha Du, Ann Harrison and Patrick Legros); (7) “Monetary Policy, Liquidity and Growth” (with Emmanuel Farhi and Enisse Kharroubi); (8) “Education and Military Rivalry” (with Torsten Persson and Dorothee Rouzet); (9) “Subgame Perfect Implementation under Approximate Common Knowledge: Evidence from a Laboratory Experiment” (with Ernst Fehr, Richard Holden and Tom Wilkening); (10) “On the Complementarity Between Patent Protection and Product Market Competition in Inducing Innovation” (with Peter Howitt and Susanne Prantl); (11) “Carbon Taxes, Path Dependency and Directed Technical Change : Evidence from the Auto Industry” (with Antoine Dechezleprêtre, David Hemous, Ralf Martin and John van Reenen); and (12) “Capital versus Labor Taxation with Innovation-Led Growth” (with Ufuk Akcigit and Jesús Fernández-Villaverde).

ALMUT BALLEER worked on (1) “New Evidence, Old Puzzles: Technology Shocks and Labor Market Fluctuations”, forthcoming in *Quantitative Economics*, and the seminar papers (2) “Labour Force Participation in the Euro Area: A Cohort-Based Analysis”, to revise and resubmit to *Empirical Economics* (with Jarkko Turunen); and (3) “Time Allocation Between Spouses” (with Monica Merz). She also wrote and presented (4) “Skill-Biased Technological Change and the Business Cycle”, forthcoming in *Review of Economics and Statistics* (with Thijs van Rens), presented at the CESifo conference on Macroeconomics and Survey Data, Munich, Germany, November 2011; (5) “What Drives Labor Market Dynamics in Germany and the US?” (with Ronald Bachmann) presented at the Annual Meeting of the German Economic Association (Verein fuer Socialpolitik), Göttingen, Germany, September 2012; (6) “Expansionary and Contractionary Technology Shocks” (with Zeno Enders), presented at NORMAC, Smögen, August 2011, EEA Annual Meeting, Oslo, Norway, August 2011, and SED Annual Meeting, Limassol, Cyprus, June 2012;

(7) “Short-time Work and the Macroeconomy” (with Britta Gehrke, Christian Merkl and Wolfgang Lechthaler), presented at a seminar at University of Konstanz, Germany, October 2011, a seminar at University of Cologne, Germany, November 2011, ECB/CEPR Workshop on Labor Markets, Frankfurt, Germany, December 2011, CeMENT workshop, ASSA Meetings, Chicago, USA, January 2012, a workshop on Short-time Work at IAB Nuremberg, Germany, February 2012, Greater Stockholm Macro Group, Riksbank, March 2012, NORMAC Strömstad, August 2012, and at the CEPR/IZA European Summer Symposium on Labor Economics (ESSLE), Buch am Ammersee, Germany, September 2012.

During the academic year TIM BESLEY published (1) “Incentives and the de Soto Effect”, *Quarterly Journal of Economics*, 127:1, 2011 (with Konrad Burchardi and Maitreesh Ghatak); (2) “Estimating the Peace Dividend: Evidence from Northern Ireland House Prices”, *American Economic Review*, 102:2, 2012 (with Hannes Mueller); (3) *Tax by Design: The Mirrlees Review: Vol I*, Oxford University Press, 2011; (4) “Do Democracies Select More Educated



*(From left) Jean Tirole, Richard Blundell and Torsten Persson as they were appointed Honorary Doctors of Economics at Mannheim University, in October 2011.*

Leaders?”, *American Political Science Review*, 105:3, 2011 (with Marta Reynal-Querol); (5) *Pillars of Prosperity: The Political Economics of Development Clusters*, The Yrjö Jahnsson Lectures, Princeton University Press, 2011 (with Torsten Persson); (6) “Do Educated Leaders Matter for Growth?”, *Economic Journal (Features)*, 121:5, 2011 (with Jose Montalvo and Marta Reynal-Querol); (7) “Pathologies of the State”, *Journal of Economic Behavior and Organization*, 80, 2011 (Special issue in honour of Professor James Buchanan); (8) “Poor Choices: Poverty from the Ground Level”, (Review Essay), *Foreign Affairs*, January/February, 91:1, 2012; and (9) “Just Rewards: Local Politics and Public Resource Allocation in South India”, *World Bank Economic Review*, 26:2, 2011 (with Rohini Pande and Biju Rao). He also wrote (10) “Risk Heterogeneity and Credit Supply: Evidence from the Mortgage Market”, forthcoming in the *NBER Macro Annual*, 2012 (with Neil Meads and Paolo Surico); (11) “Taxation and Development” (with Torsten Persson); (12) “Regulating Bonuses” (with Maitreesh Ghatak); (13) “Profit with Purpose: Mission Integrity and Social Enterprise” (with Maitreesh Ghatak); (14) “Political Instability and Institutional Reform: Theory and Evidence,” (with Marta Reynal-Querol and Torsten Persson); and (15) “The Welfare Cost of Lawlessness: Evidence from Somali Piracy” (with Hannes Mueller and Thiemo Fetzer). Apart from this he also wrote an opinion piece: “A Canny Way to Revive Our Moribund Housing Sector”, *Financial Times*, June 12, 2012 (with Tim Leunig).

TESSA BOLD has been on leave from the Institute in 2011/2012 to take up the Chair in Development and International Economics at the Goethe University in Frankfurt. She has been working on three projects related to education in developing countries. She has produced two working papers entitled (1) “The High Return to Private Schooling in a Low-Income Country”, Center for Global Development Working Paper No. 279 (with Mwangi Kimenyi, Germano Mwabu and Justin Sandefur) and (2) “Why did Abolishing Fees Not Increase Public School Enrolment in Kenya?”, Center for Global Development Working Paper No. 271 (with Mwangi Kimenyi, Germano Mwabu and Justin Sandefur), which is currently revised and resubmitted at the *World Bank Economic Review*. She has completed a draft of a paper entitled (3) “Interventions and Institutions: Experimental Evidence from Scaling up Education Reforms in Kenya”. She has also been working on two papers related to risk-sharing (4) “Insurance Companies of the Poor” and (5) “Testing Coalition-proof Dynamic Risk-sharing”. Furthermore, Tessa has presented her work at the CSAE Annual Conference at Oxford University, the Nordic Summer Symposium in Macroeconomics, the European Economic Association Conference at Malaga University, at Bocconi University, at Göttingen University and at the emeritus professors association of the Goethe University in Frankfurt.

TOBIAS BROER completed and submitted new drafts of several articles: (1) “The Home Bias of the Poor: Terms of Trade Effects and Portfolios Across the Wealth Distribution”; (2) “Domestic or Global Imbalances? Wising Inequality and the Fall in the US Current



Account”; (3) “The Wrong Shape of Insurance? What Cross-Sectional Distributions Tell Us About Models of Consumption-Smoothing”; and (4) “Great Moderation or Great Mistake: Can Overconfidence in Low Macro-Risk Explain the Boom in Asset Prices?” (with Afroditi Kero). He also presented his work at the 2nd Joint French Macro Workshop (Paris May 2012), the European Summer Symposium in International Macroeconomics 2012 in Taragona, the Nordic Macro Conference 2012 in Smøgen as well as the University College London Macro Seminar (April 2012), the Bank of England Financial Stability Seminar (April 2012), the Paris School of Economics Macro Seminar (October 2011), and the Greater Stockholm Macro Group (Fall 2011). Furthermore, he also published (5) “Crowding Out and Crowding In: When Does Redistribution Improve Risk-Sharing in Limited Commitment Economies?”, *Journal of Economic Theory*, 146:3, 2011.

KONRAD BURCHARDI has been working on a project which aims at measuring the incentive effects of sharecropping contracts, as well as a project which aims at understanding the endogenous choice of microcredit and its impact on credit markets and other credit contracts. He has given seminars at SITE (Stockholm), Humboldt University (Berlin), Uppsala University and University of Gothenburg. Upcoming Seminars are at Columbia University, University of Sterling, University of Edinburgh and Tinbergen Institute. He also published the paper (1) “Incentives and the de Soto Effect”, *Quarterly Journal of Economics*, 127:1, 2012 (with Timothy Besley and Maitreesh Ghatak).

LARS CALMFORS wrote (1) the chapter “The Swedish Model” in the *2012 European Economic Advisory Group (EEAG) Report on the European Economy* published by the CESifo Institute in Munich (with Giancarlo Corsetti, John Hassler, Gilles Saint-Paul, Hans-Werner Sinn, Jan-Egbert Sturm, Akos Valentinyi and Xavier Vives). He also published (2) “What Should Fiscal Councils Do?”, *Economic Policy*, October 2011 (with Simon Wren-Lewis); (3) “Hur bör arbetslöshetsförsäkringen utformas?” (How Should Unemployment Insurance Be Constructed?), *Ekonomisk Debatt*, 2011:6 (with Georg Marthin); (4) Uppfattas tjänstehandel som mindre rättvis än varuhandel? En studie av attityder till låglönekonkurrens i utrikeshandel (Is Services Trade Seen as Less Fair than Goods Trade? A Study of Attitudes to Low-wage Competition in Foreign Trade), *IFAU Rapport* 2011:8 (with Girts Dimdins, Marie Gustafsson Sendén, Henry Montgomery and Ulrika Stavlöt); (5) Hur kan eurokrisen hanteras? (How Can the Euro Crisis Be Handled?), *Europapolitisk analys*, Sieps, 2011:9; (6) “Can the Eurozone Develop into a Well-functioning Fiscal Union?”, *CESifo Forum* 2012:1; (7) “Svezia: il cambio di con le riforme”, in *Cambia Italia, Come fare le riforme e tornare a crescere*, Centre Studi, Confindustria (English version with title “Sweden – from Macroeconomic Failure to Macroeconomic Success” as IIES Seminar Paper No. 770 and CESifo Working Paper No. 3790). He also wrote (8) “Why Do People Dislike Low-wage

Trade Competition with Posted Workers in the Service Sector?”, IIES Seminar Paper No. 771 and CESifo Working Paper No. 3842; and (9) “The Swedish Fiscal Policy Council -Watchdog with a Broad Remit”, CESifo Working Paper No. 3725.

HARRY FLAM worked on a project on the performance of Swedish equity mutual funds with Roine Vestman. The project estimates historical performance, performance persistence, and whether exceptional performance is due to skill or luck. He also led a government commission investigating the financial independence of the Riksbank, due to report its findings in 2013.

The main focus of JOHN HASSLER’S research this year has remained on the economics of climate change. He is a member of the management group of the climate project Mistra-SWECIA, run jointly with the Swedish meteorological office SMHI and Lund University. John’s research on climate change is done in collaboration with Per Krusell, Conny Olovsson and colleagues at other universities in Europe and the US. It has been presented at various seminars and conferences, including the annual meeting of the American Economic Association and the congress of the European Economic Association. He also published the paper (1) “Economics and Climate Change: Integrated Assessment in a Multi-Region World”, *Journal of the European Economic Association*, 10:5, 2012 (with Per Krusell).

SEBASTIAN KOEHNE revised two research papers: (1) “Optimal Income Taxation With Asset Accumulation” (with Arpad Abraham and Nicola Pavoni); and (2) “Should Unemployment Insurance be Asset-tested” (with Moritz Kuhn). Moreover, he started two new projects. The first, titled (3) “Optimal Capital Taxation for Time-Nonseparable Preferences”, is joint work with Moritz Kuhn and builds on earlier work from one of his thesis chapters. The second project investigates the optimal tax treatment of nondurable and durable goods and is currently in progress. Sebastian also presented his work at Sveriges Riksbank and at the meetings of German Economists Abroad in Berlin, the International Institute of Public Finance, and at the annual meeting of the German Economic Association.

PER KRUSELL worked on a variety of research topics within macroeconomics broadly defined (inequality, growth, labor markets, financial economics, political economy, and public economics) and on the project on economics and global climate change, which involves cooperation with other scientists through Mistra-SWECIA and abroad. Several of his recent papers were accepted for publication, or published, during this period. (1) “Constrained Efficiency in the One-Sector Neoclassical Growth Model with Uninsurable Idiosyncratic Shocks”, forthcoming in *Econometrica* (with Julio Davila, Jay Hong and José-Víctor Ríos-Rull); (2) “Economics and Climate Change: Integrated Assessment in a Multi-Region World”, *Journal of the European Economic Association*, 10:5, 2012 (with John Has-

slar); and (3) “Frictional Wage Dispersion in Search Models: A Quantitative Assessment”, *American Economic Review*, 101:7, 2011 (with Andreas Hornstein and Gianluca Violante). Aside from this he completed a number of papers and submitted them for publication.

MASAYUKI KUDAMATSU has been working on two research projects: (1) “Weather and Infant Mortality in Africa” (with Torsten Persson and David Strömberg); and (2) “Connections and Political Selection in China” (with Ruixue Jia and David Seim). He also gave seminar talks at the CEPR Conference on Development Economics (work-in-progress session), Gothenburg, Zurich, Pennsylvania, European Bank for Reconstruction and Development, Edinburgh, and Strathclyde.

During the last year ASSAR LINDBECK has devoted nearly all his working time to a book, initiated by Riksbankens Jubileumsfond, on his life-long experiences in economic research and economic-policy debate after World War II. The title of the book is (1) *Ekonomi är*



*At the thesis defense of Johan Gars in June, 2012. Rick van der Ploeg, Oxford University, acted as opponent.*

*att välja* (*Economics is an Issue of Choosing*), Albert Bonniers Förlag, 2012. He has also been working on a number of papers on income insurance. Furthermore, Assar has written (2) “A Continuous Model of Income Insurance”, forthcoming in *International Tax and Public Finance* (with Mats Persson).

Following the successful defense of her thesis *Empirical Essays in Political and Public Economics* whilst a visiting graduate student at the Institute in the fall of 2011, HELÉNE LUNDQVIST took up a post doctoral position at the IIES and published (1) “Ethnic Diversity and Preferences for Redistribution”, *Journal of Political Economy*, 120:1, 2012 (with Matz Dahlberg and Karin Edmark). She also continued to work on her paper (2) “Is It Worth It? On the Returns to Holding Political Office”. She presented her work at several seminars, workshops and conferences at various universities and research institutes in Europe, including Barcelona, Copenhagen, Mannheim, Munich, Oslo and Stockholm.

DIRK NIEPELT was a member of the organizing committee, or co-organizer for the European Summer Symposium in Financial Markets, Gerzensee, July 2012, European Summer Symposium in Economic Theory, Gerzensee, July 2012, Young Swiss Economists’ Meeting, Bern, February 2012, and the Study Center Gerzensee Conference with the *Journal of Money, Credit and Banking*, the Swiss National Bank and University of Bern, Gerzensee, October 2011. He worked on the papers (1) “Credibility for Sale” (with Harris Dellas); (2) “Debt Maturity without Commitment”; and “Economic and Politico-Economic Equivalence” (with Martin Gonzalez-Eiras). Apart from this he also published (4) “Ageing, Government Budgets, Retirement and Growth”, *European Economic Review*, 56, 2012 (with Martin Gonzalez-Eiras), as well as various articles in German newspapers.

During the academic year PETER NILSSON continued his work on the role of early life conditions in determining economic outcomes later in life in the paper (1) “Alcohol Policy, Prenatal Conditions, and Long-term Economic Outcomes”; the effects of air pollution in (2) “The Long-run Effects of Early-Childhood Lead Exposure: Evidence from the Phase out of Leaded Gasoline”; (3) “Congestion Charges and Children’s Health” (with Janet Currie, Emilia Simeonova and Reed Walker); (4) “Air Pollution and Productivity: Evidence from Inversion Episodes” (with Jenny Jans and Per Johansson); and finally peer effects in the workplace (5) “Businesses, Buddies, and Babies: Fertility and Social Interactions at Work” (with Lena Hensvik and Magne Krogstad Asphjell). During the spring he spent one week at Princeton University, two weeks at Cemmap at University College London, and one week at Seoul National University. He also presented work at the European Association of Labour Economists Meeting in Cyprus, Tinbergen Institute, Amsterdam, the INED Conference on Economics of the Family, in Paris, University College London, and Seoul National University.

CONNOR OLOVSSON wrote the paper (1) “Optimal Taxation with Home Production”, which has been submitted to *Journal of Monetary Economics* where it waits for a decision. The paper (2) “How Does a Pay-As-You-Go System Affect Asset Returns and the Equity Premium?” has been revised two times and now awaits a decision from the *Review of Economic Dynamics*. In September, he presented work in progress (3) “Energy-Saving Technical Change” in Mannheim in a workshop about the substitution between clean and dirty energy. Conny also wrote a book chapter on technological progress which will appear in an anthology about the climate and the economy. The chapter is jointly written with Ulrika Stavlöt.

MATS PERSSON published (1) “Vetenskapliga sanningar och feministiska myter” (Scientific Truths and Feminist Myths), *Ekonomisk Debatt* 2011:7 (with Anne Boschini, Astri Muren and Mårten Palme); (2) “2011 års Ekonomipris till Thomas Sargent och Christopher Sims” (The 2011 Prize in Economics to Thomas Sargent and Christopher Sims), *Ekonomisk Debatt* 2011:8 (with John Hassler, Per Krusell and Torsten Persson); (3) *Den europeiska skuldkrisen* (*The European Debt Crisis*), SNS Förlag, 2012; and (4) “A Continuous Model of Income Insurance”, forthcoming in *International Tax and Public Finance* (with Assar Lindbeck).

TORSTEN PERSSON wrote the new papers (1) “Political Instability and Institutional Reform: Theory and Evidence”, 2012 (with Tim Besley and Marta Reynal-Querol); (2) “Taxation and Development”, 2012 (with Tim Besley); and (3) “Education and Military Rivalry”, 2012 (with Philippe Aghion and Dorothee Rouzet). He also published the book (4) *Pillars of Prosperity: The Political Economics of Development Clusters*, Princeton University Press, 2011 (with Tim Besley) and the article (5) “The Logic of Political Violence”, *Quarterly Journal of Economics*, 126, 2011 (with Tim Besley). During the academic year, Torsten gave a number of seminars in Sweden, Europe and the US. In October/November 2011, he visited the London School of Economics, in his capacity as a Centennial Professor, where he gave a series of lectures to Ph. D. and Masters students.

During the academic year DAVID STRÖMBERG has worked on (1) “The Judge, the Politician and the Press” (with Claire Lim and James Snyder); (2) “Weather and Infant Mortality in Africa” (with Masayuki Kudamatsu and Torsten Persson); and (3) “The Determinants of Media Capture in China” (with Bei Qin and Yanhui Wu).

PETER SVEDBERG published the articles (1) “How Many People are Malnourished?”, *Annual Review Nutrition*, 31, 2011; (2) “The Composite Index of Anthropometric Failure (CIAF): An Alternative Indicator of Malnutrition in Young Children”, in Preedy, V. (ed.), *Handbook of Anthropometry: Physical Measures of Human Form in Health and Disease*, Springer Verlag, 2012 (with Shailen Nandy); and (3) “Reforming or Replacing the Public Distribution System

with Cash Transfers?”, *Economic and Political Weekly* XLVII(7), Feb 18, 2012. The paper (4) “Poverty in India Can be Halved in a Few Years”, presented at the 6th Conference on Growth and Development at the Indian Statistical Institute in New Delhi in December 2010, was revised. The paper (5) “The Global Hunger Millennium Development Goal is Attainable”, was presented at the conference Health, Development, Inequality - Economic Modelling of How Health and Inequalities Shape Development, University of Darmstadt, Germany (June 1-3 2012).

JAKOB SVENSSON has published (1) “The Power of Information in Public Services: Evidence from Education in Uganda”, *Journal of Public Economics*, 95(7-8), 2011 (with Ritva Reinikka); and (2) ”Policies and Institutions for Effective Service Delivery: The Need of a Microeconomic and Micropolitical Approach”, forthcoming in *Journal of African Economies* (with Tessa Bold). During the year Jakob also worked on the papers (3) “Estimating Impact in Partial vs. General Equilibrium: A Cautionary Tale from a Natural Experiment in Uganda” (with David Yanagizawa Drott); (4) “Can Good Products Drive out Bad? Experimental Evidence from Local Markets for Antimalarial Medicine in Uganda” CEPR Working Paper 9114 (with Martina Björkman Nyqvist and David Yanagizawa Drott); (5) “Who Benefits from Free Education: Evidence from a Policy Experiment in Cambodia (with Maria Cheung and Andreas Madestam); and (6) “Power to the People in the Long Run: Evidence from a Randomized Field Experiment on Community-Based Monitoring in Uganda” (with Martina Björkman Nyqvist and Damien de Walque). He has also, jointly with Tessa Bold, Bernard Gauthier, and Ottar Maestad, designed a blueprint for a new cross-country index of the quality of health and education delivery in Africa (funded by the World Bank and the Hewlett foundation). In addition, he is currently co-managing three large field experiments: Incentivizing Community Health Workers in Uganda (with Martina Björkman Nyqvist and David Yanagizawa Drott); HIV Prevention in Lesotho (with Martina Björkman Nyqvist, Damien de Walque and Lucia Corno); and Market for Agricultural Inputs in Africa (with David Yanagizawa Drott).

LARS E.O. SVENSSON worked on several projects on the theory and practice of monetary policy, stimulated by his job as Deputy Governor and member of the Executive Board of Sveriges Riksbank (the central bank of Sweden). He completed a first draft of the paper (1) “The Possible Unemployment Cost of Average Inflation below a Credible Target”, available on his website, [www.larseosvensson.net](http://www.larseosvensson.net). He published the papers (2) “Practical Monetary Policy: Examples from Sweden and the United States”, *Brookings Papers on Economic Activity*, Fall 2011; (3) “Evaluating Monetary Policy,” in Koenig, E., Leeson, R. and Kahn, G. (eds.), *The Taylor Rule and the Transformation of Monetary Policy*, Hoover Institution Press, 2012; and (3) “Comment on Michael Woodford, ‘Inflation Targeting and Financial Stability’”, *Sveriges Riksbank Economic Review* 2012:1.

FABRIZIO ZILIBOTTI has continued his research on the economic growth of China, inter-ethnic conflicts and civil wars, and the economics of innovation. The following papers have been published or accepted for publication (1)“Structural Development Accounting”, forthcoming in Acemoglu, D., Arellano, M. and Dekel, E. (eds.), *Advances in Economics and Econometrics: Theory and Applications (Tenth World Congress of the Econometric Society)*, Cambridge University Press (with Gino Gancia and Andreas Mueller); (2)“Competing Engines of Growth: Innovation and Standardization”, *Journal of Economic Theory*, 147:2, 2012 (with Daron Acemoglu and Gino Gancia); and (3) “Rotten Parents and Disciplined Children: A Politico-Economic Theory of Public Expenditure and Debt”, forthcoming in *Econometrica* (with Zheng Song and Kjetil Storesletten). Fabrizio has also submitted the following articles for publication: (4) “Sharing High Growth Across Generations: Pensions and Demographic Transition in China” (with Zheng Song, Kjetil Storesletten and Yikai Wang), (the paper was also reviewed by *The Economist*, August 11, 2012); (5) “Seeds of Distrust: Conflict in Uganda”, CEPR Discussion Paper No. 8741 (with Dominic Rohner and Mathias Thoenig); (6) “War Signals: A Theory of Trade, Trust and Conflict” (with Dominic Rohner and Mathias Thoenig), (revision solicited by the *Review of Economic Studies*); and (7) “Innovation vs. Imitation and the Evolution of Productivity Distributions”, CEPR Discussion Paper No. 8843 (with Michael König and Jan Lorenz). Furthermore, he is currently working on (8) “Parenting with Style: Paternalism and Intergenerational Preference Transmission” (with Matthias Doepke); (9) “Offshoring and Directed Technical Change” (with Daron Acemoglu and Gino Gancia); (10) “The Effect of Economic Reform and Industrial Policy in a Panel of Chinese Cities” (with Simon Alder and Lin Shao); and (11) “Demand Forces of Technical Change Evidence from the Chinese Manufacturing Industry” (with Andreas Beerli, Franziska J. Weiss, and Josef Zweimueller).

ROBERT ÖSTILING has mainly focused on working on a new project about the wealth effects on lifetime outcomes. He has also worked on an experimental paper entitled “How Does Communication Affect Beliefs?” (with Tore Ellingsen). Robert has presented the paper in Bergen, Umeå, Munich and Milan during the academic year.

## Articles Published or Accepted in Leading Journals by IIES Permanent Staff 2011/2012

TIM BESLEY, KONRAD BURCHARDI and MAITREESH GHATAK, “Incentives and the de Soto Effect”, *Quarterly Journal of Economics*, 127:1, 2011.

TIM BESLEY and TORSTEN PERSSON, “The Logic of Political Violence”, *Quarterly Journal of Economics*, 126, 2011.

MATZ DAHLBERG, KARIN EDMARK and HELÉNE LUNDQVIST, “Ethnic Diversity and Preferences for Redistribution”, *Journal of Political Economy*, 120:1, 2012.

JULIO DAVILA, JAY HONG, PER KRUSELL and JOSÉ-VÍCTOR RÍOS-RULL, “Constrained Efficiency in the One-Sector Neoclassical Growth Model with Uninsurable Idiosyncratic Shocks”, *Econometrica* (forthcoming).

ANDREAS HORNSTEIN, PER KRUSELL and GIANLUCA VIOLANTE, “Frictional Wage Dispersion in Search Models: A Quantitative Assessment”, *American Economic Review*, 101:7, 2011.



# Visiting Fellows 2011/2012

During his visit DAVID YANAGIZAWA DROTT worked with Jakob Svensson on “Can Good Products Drive Out Bad? Evidence from Local Markets for (Fake?) Antimalarial Medicine in Uganda”, which investigates the determinants of counterfeit and substandard medicines in developing countries. They also started up a new project that examines whether fake agricultural inputs in low-income countries have implications for technology adoption and agricultural productivity. Overall, David also had a great time interacting with the faculty and staff.

PAUL KLEIN visited the IIES from May 1 until August 31, 2012. During this time he put the finishing touches to the paper “Should Day Care be Subsidized?” (with David Domeij) which is now forthcoming in the *Review of Economic Studies*. He worked with Tobias Broer on “Consumption Risk Sharing with Persistent Earnings” (also with Marek Kapicka) and on a revision of “Measuring High-Frequency Income Risk from Low-Frequency Data” (with Irina Telyukova). He also started work on a project (with David Domeij) whose purpose is to advance our understanding of gross migration flows across regions.

NILS-PETTER “NIPPE” LAGERLÖF spent 10-16 April 2012 at the Institute revising an old paper applying a Malthusian growth model to explain a declining trend in interpersonal violence in preindustrial Europe (“Violence and Property Rights”, forthcoming in *Journal of Economic Dynamics and Control*). He also enjoyed talking to several IIES graduate students.

ERIK MOHLIN enjoyed a productive week in the friendly atmosphere at the IIES in April 2012. During his visit he worked on a joint paper with Robert Östling, titled “Learning by Imitation in Theory, Field, and Lab”. Erik also had stimulating conversations with other members of the Institute, and visited the departmental seminar.

STEPHEN PARENTE from University of Illinois visited the Institute from June 7 to July 7. With a wife who hails from Stockholm, Stephen is a frequent visitor to the Institute in the early part of summers. During this visit, he worked with Anna Larsson, a 2007 IIES graduate now at the Economics Department at Stockholm University, to revise a paper on economic and political development. As in all his visits, Stephen enjoyed reacquainting with the IIES faculty and discussing their work. He also enjoyed meeting some of the new faculty and doctoral students and exchanging ideas with them. And, of course,

he was most happy to play in an indoor soccer match with the faculty and students and to leave that match uninjured. He also admits to having enjoyed all the cookies in the kitchen.

ROBERT SHIMER visited the IIES for two weeks in September 2011. During his visit, he presented “Job Search, Labor Force Participation, and Wage Rigidities”, a new research paper that seeks to explain the mild procyclicality of labor force participation in the context of a job search model. He attended several other seminars and participated in many stimulating lunchtime discussions. He enjoyed his one-on-one discussions with several researchers at the Institute and also took advantage of the opportunity to perform new research on adverse selection and illiquidity in asset markets.



*One of the many spectacular views from the Institute!*

# Tenure Track Assistant Professor Position

The Institute for International Economic Studies, Stockholm University, seeks to fill one or two positions at the tenure-track, assistant-professor level, in any field, beginning in the academic year 2013/2014. Applicants should have a Ph.D. in economics (or be near completion of the doctorate). A commitment to excellence in research is a prerequisite. The position offers a low teaching load (primarily at the Ph.D. level) and a competitive salary. Applicants should submit a CV, at least three letters of recommendation, and samples of research such as thesis chapters or publications. To ensure full consideration, applications must be submitted at <http://econjobmarket.org> by November 29, 2012. Candidates on a shortlist will be interviewed at the ASSA Annual Meetings in San Diego, January 2013. Other arrangements may be possible for short-listed candidates not based in the US who do not plan to attend the meetings.

For questions, please contact: Prof. Torsten Persson, e-mail: [torsten.persson@iies.su.se](mailto:torsten.persson@iies.su.se)

# Teaching 2011/2012

DURING the spring term of 2012 PHILIPPE AGHION taught “Growth, Technical Change and Institutions” with Fabrizio Zilibotti.

ALMUT BALLEER taught the graduate courses “Labor-Market Macro and Quantitative Methods” and “Macro II” with Per Krusell.

TOBIAS BROER taught “International Macroeconomics” in the spring and autumn, he also supervised a master’s thesis and took part in the supervision of IIES graduate students in the framework of the IIES Macro-Group.

KONRAD BURCHARDI taught “Intermediate Development Economics” at the undergraduate level and the graduate “mini” course “Development Economics III”.

LARS CALMFORS taught the undergraduate course in “Intermediate Macroeconomics” in the autumn of 2011 and the master’s course in “Labour Economics and Wage-setting Theory” in the spring 2012.

HARRY FLAM taught the first-year undergraduate course in “Macroeconomics”.

JOHN HASSLER gave the first-year undergraduate course in Macroeconomics with over 600 students, a master’s course in “The Economics of Climate Change” and graduate courses in “Dynamic Public Finance”.

SEBASTIAN KOEHNE taught the graduate courses “Mathematics II” (together with Conny Olovsson) and “Public Economics” (together with John Hassler and Dirk Niepelt).

PER KRUSELL taught various graduate courses at Stockholm University and elsewhere: “Macro II” (first year) and “Macro-Labor” (second year) at Stockholm University, “Macro II” (first year) at London School of Economics, and “Macro and Inequality” (second year) at Yale University. Per also taught a master’s course at Stockholm University called “The Climate and the Economy”. In addition, he taught “Modern Macroeconomics” at LO (the largest trade union in Sweden).

MASAYUKI KUDAMATSU taught the second year graduate courses “Development Economics I and II” with Jakob Svensson and “Topics in Applied Microeconometrics”.

DIRK NIEPELT taught the graduate course “Public Economics” with John Hassler and Sebastian Koehne in the spring of 2012. He also taught other courses at the bachelor’s and master’s level at University of Bern.

CONNY OLOVSSON taught the master’s course “The Climate and the Economy” together with John Hassler and Per Krusell. He also taught the graduate course “Mathematics II” with Sebastian Koehne.

TORSTEN PERSSON taught the second year graduate courses “Political Economics II and III” at Stockholm University (with David Strömberg). At the London School of Economics, he gave a master’s course on the same topic (with Ronny Razin and Ethan Ilzetzi) and a graduate course in “Development Economics” (together with Oriana Bandiera, Greg Fischer and Gerard Padro-i-Miquel).

DAVID STRÖMBERG taught “Econometrics” together with Per Pettersson-Lidbom, and “Political Economics II and III” with Torsten Persson.

JAKOB SVENSSON taught the graduate course in “Development Economics” (with Masayuki Kudamastu) and the master’s course in “Development Economics” in the fall of 2011.

LARS E.O. SVENSSON taught with Nils Gottfries and Johan Söderberg the second year graduate course “Monetary Economics” organized by the Riksbank, Stockholm University and Uppsala University in the spring of 2012.

FABRIZIO ZILIBOTTI taught “Growth, Technical Change and Institutions” with Philippe Aghion.

ROBERT ÖSTLING has developed and taught two new courses during the spring 2012: One graduate course in “Behavioral Economics” and an undergraduate course in applied game theory called “Economic Strategic Thinking”.

# Extramural Activities

TIM BESLEY was Trustee and Council Member of the British Academy, External Member of the World Bank Research Committee, held the Chair of Council of Management at the National Institute of Economic and Social Research, was Steering Group Member of the International Growth Centre, and Vice-President of the International Economics Association. He also held the Gluskin-Granovsky CIFAR Fellow (and member of the Institutions, Organizations and Growth Program) and the Co-Chair of the LSE Growth Commission. Furthermore he has functioned as the Associate Editor for *Quarterly Journal of Economics*, Editorial Advisor of *Journal of Economic Perspectives* and Associate Editor at *Journal of Development Economics*, *International Tax and Public Finance*, *Review of Development Economics*, and *European Journal of Political Economy*.

LARS CALMFORS worked as a member of the board of the Swedish Research Council. He wrote columns regularly on economics in *Dagens Nyheter* (the leading morning daily in Sweden). He did consultancy work for Confindustria in Italy on economic reforms and for McKinsey & Co in Sweden on growth policies. He gave lectures on topics such as the euro crisis, fiscal and monetary policy, employment policy and unemployment insurance at the Ministry of Finance, the Ministry of Foreign Affairs, the Government Offices, and the Prime Minister's Office in Sweden, the Finance Committee in the Swedish Parliament, the Swedish Government Commission on Social Insurance, the Royal Swedish Academy of Engineering Sciences (IVA), the Finnish Economic Association, the Stockholm School of Economics, the Pufendorf Institute for Advanced Studies in Lund, the Swedish Liberal Party, the Swedish Social Democratic Party, Almega (the employers' association in the service sector in Sweden), Jusek (Swedish Union of University Graduates of Law, Business Administration and Economics, Computer and Systems Science, Personell Management and Social Science), Europaforum in Hässleholm, Hässleholm Technical School, the Swedish Center for Business and Policy Studies (SNS), Svenska Handelsbanken, Executive Trust, ABG Sundal Collier and KPMG.

HARRY FLAM served as deputy chairman of the Expert Group on Public Economics at the Ministry of Finance, chairman of the Scientific Council at the Center for Business and Policy Studies (SNS), member of the Shadow Riksbank Executive Board at the business daily *Dagens Industri* (which takes mock decisions on monetary policy ahead of the Riksbank's decisions), as an expert on a government commission on Swedish official statistics, and as principal investigator on a government commission on the financial independence of the Riksbank.

JOHN HASSLER worked until mid spring in the European Economic Advisory Group (EEAG) and is vice chairman of the Swedish Fiscal Policy Council. He writes columns

in the business magazine *Affärsvärlden*. He is also a member of the Bellagio group of academics and central bankers led by Barry Eichengreen. John remains an adjunct member of the prize committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel and is associate editor of *Macroeconomic Dynamics* and *Scandinavian Journal of Economics*.

Throughout the year, PER KRUSELL served on the prize committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. He served as Programme Director of the Climate and Economics Initiative of the Centre of Economic Policy Research (CEPR), on several Scientific Advisory Boards, and on the Council as well as the Women in Economics committee of the EEA. Per also served as a scientific consultant to Sveriges Riksbank and as a board member of Riksgälden (Swedish National Debt Office). In addition, Per gave a number of plenary lectures and a large number of seminars and conference presentations in Europe and the United States and also participated in the public debate by appearing in various media outlets, including TV, radio, and newspapers.

ASSAR LINDBECK has contributed to the Swedish economic policy discussion in media. He has also given a number of lectures outside the University, such as “Nationalekonomi – vad är det?” (Economics - What Is It?), Kungliga Vitterhetsakademien (årsbok 2012).

DIRK NIEPELT served as the director of the Study Center Gerzensee, Foundation of the Swiss National Bank and was Associate Professor at University of Bern.

TORSTEN PERSSON was a member of the Prize Committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, and served on the Board of Trustees of the Nobel Foundation. He also served on the Advisory Boards of CREI (University Pompeu Fabra), the Paris School of Economics, and the Toulouse School of Economics, and was a member of the Tenure Committee at Bocconi University.

LARS E.O. SVENSSON, in his capacity as Deputy Governor and member of the Executive Board of Sveriges Riksbank (the central bank of Sweden), gave many policy-oriented speeches, lectures, and presentations during the year; see the section “Practical Monetary Policy” on his website, [www.larseosvensson.net](http://www.larseosvensson.net).

JAKOB SVENSSON served as board member of the African Economic Research Consortium, AERC as well as of J-PAL’s Governance Initiative.

ROBERT ÖSTLING’s extramural activities have largely been devoted to writing blog posts about economics and economic policy for the Swedish blog Ekonomistas.

## Completed Theses 2011/2012

In December 2011, DAVID VON BELOW defended his thesis *Essays in Climate and Labour Economics*, consisting of three papers in climate economics, and one in empirical labor economics. The first paper, “Optimal Carbon Taxes With Social and Private Discounting”, extends an analytically tractable climate-economy model to explore how optimal climate taxes are affected if the social planner discounts the future differently than private agents. The laissez-faire and the socially optimal rate of fossil-fuel depletion differ substantially, and this calls for optimal carbon taxes that fall over time, eventually turning into subsidies. The second paper, entitled “Temperature Feedbacks to the Carbon Cycle in Climate–Economy Models”, investigates the role of uncertainty about how much of future CO<sub>2</sub> emissions that will be absorbed by the biosphere for optimal taxes on fossil fuel consumption. The results suggest that DICE, a well-known climate-economy model, understates atmospheric CO<sub>2</sub>, particularly after fossil fuels have been phased out. In “Uncertainty, Climate Change and the Global Economy”, uncertainty about various natural and socio-economic processes, and how this feeds through to uncertainty about climatic and economic outcomes, is modelled. The 99-percent confidence interval for a global temperature increase in 2105 ranges from 3.4 to 7.3 °C. Uncertainty about socio-economic drivers lies behind a non-trivial part of this uncertainty about global warming. Finally, “Last In, First Out? Estimating the Effect of Seniority Rules in Sweden” studies the effect on a relaxation of the seniority rules in small firms. Both hires and separations increased in small firms relative to large firms by 5 percent. This also implies that there were no effects on firms’ net employment. Our results show that firms reacted to changes in the seniority rules, but that the effects are not overwhelmingly large.

Emissions of greenhouse gases through, e.g., the burning of fossil fuels affect the climate while the changing climate changes the conditions for the economy. In June 2012, JOHAN GARS defended his thesis *Essays on the Macroeconomics of Climate Change* consisting of three essays exploring macroeconomic aspects of this two-way interaction between the economy and the climate.

The first essay “Technological Trends and the Intertemporal Incentives for Fossil-Fuel Use” analyzes how technological change affects the intertemporal incentives for fossil-fuel use. One version of the so-called “Green Paradox” says that policies aimed at developing technology for alternative-energy generation may induce fossil-fuel resource owners to increase extraction in the short run since they fear that the resources will be less valuable in the future. However, investments in one type of technology will typically reduce investments in other types of technology, e.g. through crowding out. This



essay therefore extends the analysis by including a broader set of technologies (besides alternative-energy technology).

Climate change is expected to have a wide range of consequences. The second essay “The Role of The Nature of Damages” considers the choice of how to model the damages caused by climate change. Climate change is typically assumed to either decrease productivity or decrease welfare directly. This essay additionally considers climate change induced capital destruction. It turns out that if some simplifying assumptions are made, the different types of damages can be aggregated in a relatively simple way into a joint measure of all damages caused by climate change. If, however, more general (and, arguably, more realistic) assumptions are made, the economic agents can be expected to react in a qualitatively different way to capital destruction compared to the other types of damages.

The third essay “Indirect Effects of Climate Change” investigates the way that the effects of climate change in a country propagate to other countries through changing world market prices of goods and financial instruments. Generally, net sellers benefit from and net buyers are hurt by changes that increase the world market price of a good or a financial instrument and the other way around. It also seems to be the case that indirect effects going through trade in goods will tend to make countries’ interests more aligned while trade in financial instruments makes their incentives less aligned.

JENS HENRIKSSON completed his licentiate thesis *A Signaling Game Between a Fiscal Authority and a Central Bank* in March 2012.

When Sweden strengthened its public finances in the 1990’s, it was done through a frontloading of the reinforcement measures, i.e. a large part of the consolidation was implemented sooner rather than later.

The paper uses a simple theoretical model to look at a budget consolidation with and without central bank independency. In the case with central bank independency, and a fiscal authority with a strong determination to consolidate the public finances, a signaling game might arise that leads to a frontloading of the consolidation measures. Removing central bank independency solves this problem, but creates new strategic considerations for the incumbent government.

The price level will always be lower with an independent central bank. One reason for the strong frontloading of fiscal consolidation in Sweden in 1995 could be that the fiscal authority in power wanted to show the independent central bank that it was adamant in its focus on strong public finances. The model cannot exclude the possibility that if Sweden had had a non-independent central bank, the budget consolidation would have been less front loaded.

In June 2012 DANIEL SPIRO successfully defended his doctoral thesis *Some Aspects of Resource and Behavioral Economics*.

The thesis consists of four essays in resource and behavioral economics.

“Resource Extraction, Capital Accumulation and Time Horizon”. The paper shows that relaxing the standard infinite horizon assumption can explain the patterns of exhaustible resource extraction and prices for the last century. An empirical test proposes a time horizon of roughly 28 years to be most likely. Model calibration yields an oil price which fits the falling price after WWII and suggests that the sharply increasing price after 1998 is due to scarcity.

“Optimal Forest Rotation under Climate Change”. The scenario of forests growing faster over time, due to climate change, is analyzed. It is shown numerically that ignoring future changes is highly likely to be accurate in terms of harvesting and will cause insignificant profit losses.

“Tragedy of the Commons versus the Love of Variety”. The opposing effects of over-harvesting of renewable resources when property rights are missing and increased consumption variety, both due to trade, are analyzed. Trade increases welfare if the resource has strong regenerative power. If, instead, the resource regenerates slowly, then sufficient increases in the number of trade partners harm welfare and the stock may even collapse. Correcting policies may be very harsh and still improve upon *laissez faire*.

“The Distribution of Revealed Preferences under Social Pressure”. Stated preferences, such as declared political opinions, are studied when individuals make the trade off between being true to their real opinions and conforming to a social norm. In orthodox societies, individuals will tend to either conform fully or ignore the social norm while individuals in liberal societies will tend to compromise between the two extremes. The model sheds light on phenomena such as polarization, alienation and hypocrisy. Furthermore, it suggests that orthodoxy cannot be maintained under pluralism.

# Theses in Progress 2011/2012

PAMELA CAMPA completed her paper “Gender Quotas, Female Politicians and Public Expenditures”. In this paper she studies in a comprehensive way a policy change which occurred in Spain in March 2007, when candidate gender quotas for the election of female councilors were introduced. The main findings of this analysis are that gender quotas increased the percentage of women running for election, and also, but to a lower extent, that of women elected; this difference is due to the strategic positioning of candidates within the list, with women occupying systematically less favorable positions; the quotas had no effect on the election of female Mayors; no policy change occurred. Altogether the results suggest that male elites invest in de facto power, once their de jure power is threatened. Pamela also worked on a project on how newspapers affect corporate decisions on environmental issues, writing the first draft of a paper titled “Press Leaks and Toxic Leaks: How Newspapers Make Firms Accountable”. The main finding of this paper is that plants that are located in areas with a higher concentration of newspapers report lower toxic emissions; this relationship does not seem to be driven by unobserved selection, and it is consistent with a model in which there is asymmetric information between a firm and local consumers who bear the health and environmental cost of emissions; if newspapers have commercial incentives to cover the plant, and they are not captured by the firm, they fill this informational gap. Firms anticipate the large “threat of coverage” implied by the concentration of newspapers and reduce their emissions pro-actively, so that coverage does not arise in equilibrium. Indeed, in a sample of top polluters, the probability of coverage of toxic emissions is in general low, and it is larger, the larger the newspaper density in the area around the plant.

JINFENG GE worked on “A Ricardian Model of the Labor Market with Directed Search”. In this paper, Jinfeng analyzed how search friction affects the allocation in a Ricardian model of the labor market. The equilibrium shows that the matching pattern is partially mixed: some tasks are only performed by skilled workers; some are only performed by unskilled workers; the remaining tasks are performed by both skilled and unskilled workers. The mixed matching pattern implies a mismatch in equilibrium. It turns out that the reason for the mismatch has its roots in search friction. In another paper, “A Dynamic Analysis of the Free-rider Problem”, he argues that special interest groups overcome their free-rider problem thanks to distorted government policy. As policy confers monopoly privileges on a group, it can also preserve and promote the group’s organization. The key to sustaining the organization of the group is a dynamic incentive: when distorted policy generates rents for a group, each member of the group wishes to make contributions not just to raise their rents today; they want to sustain their cooperation so that they will be able to influence policy in the future.

During the academic year 2011-2012 ANDREA GUARISO was a visiting graduate student at the Institute. During his stay he attended some courses and worked on four research projects. Firstly, he finalized a paper entitled “What Type of Foreign Direct Investment is Attracted by Bilateral Investment Treaties” (with Liesbeth Colen). The paper looks at the heterogeneous impact of Bilateral Investment Treaties on the inflow of FDIs in different sectors of the economy and will be published as a chapter of the book *Foreign Direct Investment and Human Development*, published by Routledge and edited by Olivier De Schutter, Johan Swinnen and Jan Wouters. Second, Andrea started and completed a paper entitled “The Rwandan Coffee Sector: Out of the Ordinary” (with Marijke Verpoorten). The paper relies on some secondary data accessed by Andrea during his field trip to Rwanda in May to analyze the evolution of the coffee sector in post-genocide Rwanda. It has been accepted for publication in the *Annuaire des Grands Lacs*. Third, Andrea worked on the design and programming of a lab experiment, which adapts the standard public good game to test an application of the negative bias hypothesis to charity donation decisions: do negative messages attract more donations? The actual experiment is expected



*The three doctoral theses published by graduate students at the IIES in the academic year 2011/2012. From left that of David von Below, Johan Gars and Daniel Spiro.*

to take place in Belgium in the coming months. Finally, Andrea worked on a paper titled “Kill Thy Neighbor: The Effects of Militia Presence on Civilian Participation in the Rwandan Genocide” together with Thorsten Rogall. The paper resorts to an innovative instrumentation strategy to estimate the effects of organized violence by the army and militia on civilian genocide participation in the Rwandan Genocide in 1994.

CHRISTINA HAKANSON worked on “Trading off to Have it All-hours Constraint, Technical Change and Female Labor Supply”. The possibilities of a more flexible working life have developed rapidly. The emergence and increasing use of email, remote access, video conference etc have decreased the need for face time, increased the possibility to be productive in different locations and have thus allowed individuals that are time constrained to supply more hours by shifting hours during the day to make room for necessary commitments at home, for instance by doing some work at night, early mornings, weekends etc from home. Over the last two decades, in Sweden, women with small children have increased their career commitment substantially in terms of labor supply on the intensive margin. This movement has come in parallel with these women also entering into more complex jobs. This paper analyzes the role of flexibility and time constraints to explain these changes. Setting up a life cycle model where labor supply depends on a family constraint (caring for children), minimum hours requirements in different types of jobs and variations in the flexibility of organizational technology, she shows that as technology allows workplaces to become more flexible, time constrained individuals can supply more hours and may therefore find it attractive to opt for a more demanding career. She has also been working on the paper “Skill Segregation in the Swedish Economy” (with Erik Lindqvist and Jonas Vlachos). A theoretical literature argues that technological change and globalization increase the sorting of workers by skill to firms. In this paper, they match information on cognitive and non-cognitive skills from the military enlistment for 28 cohorts of Swedish men with employer-employee data. Since the military enlistment takes place at the age of 18, their skill measures are unaffected by changes in the demand or supply of higher education and labor market conditions in general. Using this data, they document a significant increase in sorting by cognitive and non-cognitive skill from 1986 to 2008. The increase in sorting is caused by larger between-firm differences in the skill-intensity of technology following the expansion of the IT industry, and by a stronger positive assortative matching of workers within firms. Their evidence does not suggest that outsourcing explains changes in the aggregate level of sorting.

RUIXUE JIA’S field is political economics and development. During the past academic year, she has been working on her job market paper, “Pollution for Promotion”. This paper provides a political-economics explanation for China’s pollution, where pollution is endogenous to provincial governors’ political careers. In the process of working on

this project, she developed her interest in energy and natural resources. She continues to work on a related project on political selection of politicians in China (with Masayuki Kudamatsu and David Seim). In addition, she has revised her existing submissions to journals. She presented her research at Warwick, RES Annual Meeting and BREAD-Guanghua Summer School amongst others.

YINAN LI continued to work on his thesis on the dynamics of government. In his main paper, “China’s Political Business Cycle”, he finds the facts of the political business cycle in China since the Economic Reform, constructs a theory to explain the mechanism of the cycle and tests the theory with panel data. His main result shows that the cycle will continue to repeat unless there is a fundamental change in China’s institutions. This paper has been presented at the 2011 Econometric Society European Winter Meeting and is covered by the media including the *Financial Times*.

During the year, ETTORE PANETTI has worked on two different projects, both regarding the economics of the banking system. In the first, “A Theory of Bank Illiquidity and Default with Hidden Trades”, he explores how the availability of markets, for both the banks and their depositors, affects the connection between illiquidity and default in the financial system. He shows that bankruptcy emerges in equilibrium only when the economy is hit by unforeseen systemic-wide shocks. Moreover, he analyzes optimal regulation, and provides the rationale for the introduction of countercyclical liquidity requirements. In his second work (with Elena Mattana), “Bank Liquidity, Stock Market Participation, and Economic Growth”, Ettore instead reports evidence of decreasing liquidity ratios in the financial system during the process of economic development. In order to explain this stylized fact, he then develops a growth model with banks and financial markets, and shows that it is the increasing competition from the second that leads the first to lower the relative liquidity of their asset portfolios.

BEI QIN spent most of her time working on a number of topics in political economy and development economics. Her job market paper “More Weibo Use, Fewer Bad Drugs” discusses how the most popular Chinese microblog, Sina Weibo, helps reduce the number of bad drugs in the market by pushing the administrator to work harder and deterring the producer from producing more bad drugs. Her paper “Political Connection, Government Patronage and Firm Performance: Evidence from Chinese Manufacturing Firms” finds that once Chinese top leaders are in power, firms in the industry and city they once worked in will receive more resources from the government while big firms receive more. Her coauthored Chinese media project (with David Strömberg, Yanhui Wu and Tomas Larsson) now focuses on two topics, “The Determinants of Media Capture

in China-newspaper Perspective” and “The Power of the Chinese Microblog: the Effect of Sina Weibo on Accidents Report”.

THORSTEN ROGALL’S area of work is development economics and political economics. His research focuses on the determinants and effects of conflicts in Africa. Together with David Yanagizawa-Drott, he has been working on a project investigating the effects of the genocide in Rwanda on human capital, consumption and income. Together with Andrea Guariso, he has worked on a project estimating the effects of violence by armed groups such as the militia on civilian participation in the Rwandan Genocide. Thorsten has also worked on a project on the effects of income inequality on conflict in Africa.

ALEX SCHMITT spent the academic year 2011/2012 at Yale University. During his stay in New Haven, he continued working on topics in environmental economics, climate-economy modeling and public finance. In a current project on “Second-Best Environmental Taxation in Dynamic Models without Commitment”, he looks at the interaction between environmental and other taxes, and its implications for optimal environmental policy. He finds that a Pigouvian tax, equating the marginal benefit of pollution to its marginal social cost, is neither optimal nor time-consistent. In a related project, he considers a different source of time inconsistency, namely a stochastic change in governmental preferences, and investigates its quantitative implications on optimal climate policy in an integrated assessment model of climate change. He analyzes how the investment behavior of an incumbent government changes compared to the first-best case, if it can invest in different types of energy, and to what extent a “green” government uses investment in the low-emission energy source to reduce CO2 emissions in the future.

DAVID SEIM has been working on topics in public finance, labor economics and political economics. In his paper “Tax Rates, Tax Evasion and Cognitive Skills”, he analyzes the responsiveness of tax evasion to tax changes. Moreover, he investigates the role of cognitive ability in understanding the tax system and whether cognitively able people respond more to the incentives provided by the government’s policy. He finished the paper “Does the Demand for Redistribution Rise or Fall with Cognitive Ability?” together with Johanna Möllerström, Harvard University, in which the relationship between cognitive ability and preferences for redistribution is investigated. He also continued his work on the effects of job loss on various outcome variables.

Throughout the academic year, ABDULAZIZ SHIFA has been working on the following projects: “The Dual Policy in the Dual Economy – the Political Economy of Urban Bias in Dictatorial Regimes” which investigates how in many developing countries, public resource allocation is often biased against the rural population. Since a vast majority of the

poor live in rural areas, the bias is highlighted as one of the most important institutional factors contributing to poverty. The paper develops a dynamic political economy model of urban bias in a dictatorial regime. He shows (theoretically and empirically) that urban bias can emerge in predominantly agrarian economies even if there is no bias in political power toward urban residents. In “Trade in Human Capital and Growth” Abdulaziz has researched how over a few decades, many Asian countries narrowed their income gap to the US through rapid economic growth. The paper extends the Lucas (JME 1988) model of human capital accumulation to take into account the role of knowledge transfer from frontier economies in the catch-up process. A specific channel for knowledge transfer is endogenized based on the idea that foreign residents with higher human capital (e.g., Korean and Taiwanese returnees from the US) may play a crucial role. He shows that: (1) this channel for human capital transfer can explain a substantial portion of the catch-up, and (2) a growth pattern featuring rapid growth in factor accumulation along with a relatively small increase in total factor productivity, a pattern that is observed in many East Asian economies, can be explained by the channel for human capital transfer.



*Following the success of David von Below's thesis defense, everyone at the Institute gathered in the seminar room to celebrate with a glass of champagne!*



# Seminars and Publications

## Seminars

Seminars at the IIES normally take place on Tuesdays and Thursdays between 15.00 and 16.30. Most speakers (about 85% of the total) are non-Swedish. Almut Balleer, Tessa Bold, Tobias Broer and Annika Andreasson (administration) are responsible for all seminars during the academic year.

Information about seminars of past and current academic years is to be found on our web: <http://www.iies.su.se/about-us/seminars-other-academic-events>. Invitations and papers presented at seminars can usually be received electronically.

## Publications

A list of the IIES Seminar Papers can be found on our website. Should you wish to download PDF versions of the papers, please refer to <http://su.diva-portal.org/smash/search.jsf>

For the most exhaustive information on the publications of individual IIES researchers, visit their respective personal web pages.

The theses of our Ph.D. students are published in our Monograph Series, a list of which is available via our website. For PDF downloads, do a search of the thesis on <http://su.diva-portal.org/smash/search.jsf>

The IIES Reprint Series was discontinued at the end of 2001. Our web contains a list of previous and recent publications.



*Front Cover: Olle Baertling, ARDO, 1963, Oil on canvas.*

*Back Cover: Sunset over Stockholm University. Photo: Hanna Christiansson, 2012.*

ISSN 1104-4195