



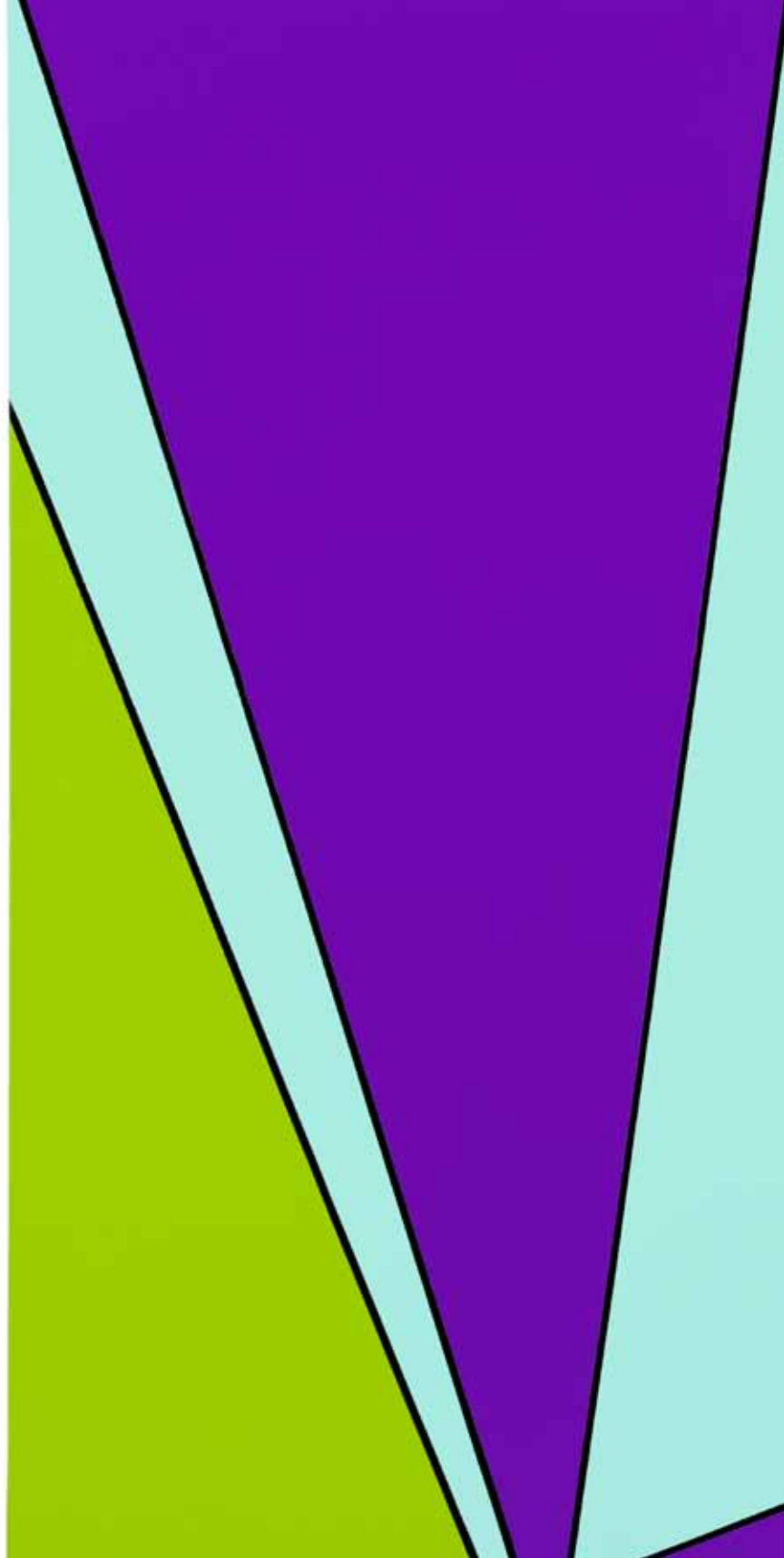
Stockholm
University

INSTITUTE FOR
INTERNATIONAL
ECONOMIC STUDIES

Annual Report

2013/2014

Research Activities
Staff and Organization
Publications



The Institute for International Economic Studies

Stockholm University

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HANNA WEITZ

Publications:

ANNIKA ANDREASSON

HANNA WEITZ

Visitors Program and Seminars:

ANNIKA ANDREASSON

TOBIAS BROER

KONRAD BURCHARDI

MASAYUKI KUDAMATSU

ROBERT ÖSTLING

Research Assistants:

SERENA COCCIOLO

MATHIAS IWANOWSKY

GEORG MARTIN

JAAKKO MERILÄINEN

JÓSEF SIGURDSSON

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

Research Fellows

ALMUT BALLEER
TESSA BOLD
TIMO BOPPART
TOBIAS BROER
KONRAD BURCHARDI
DAVID CESARINI
TOM CUNNINGHAM
GEORG DUERNECKER
SUSANNE FORSTNER
ANDERS FREDRIKSSON
SEBASTIAN KOEHNE
MASAYUKI KUDAMATSU
PETER NILSSON
JONATHAN DE QUIDT
MICHELE VALSECCHI
HAKKI YAZICI
ROBERT ÖSTLING

Graduate Students

AUDINGA BALTRUNAITTE
SAMAN DAROUGHEH
NIELS-JAKOB HARBO HANSEN
KARL HARMENBERG
MOUNIR KARADJA
SHUHEI KITAMURA
NATHANIEL LANE
HANNES MALMBERG
ETTORE PANETTI
ERIK PRAWITZ
THORSTEN ROGALL
ALEX SCHMITT
MIRI STRYJAN
ERIK ÖBERG

Visiting Graduate Student

ANDREA GUARISO

Visiting Fellows

ZSOFIA BARANY, Sciences Po
PAUL KLEIN, Simon Fraser University
NILS-PETTER LAGERLÖF, York University
STEPHEN PARENTE, University of Illinois
PETRA PERSSON, Stanford University
DANIEL SPIRO, University of Oslo

News at the Institute 2013/2014

ANNA AEVARSDOTTIR, RICHARD FOLTYN and MATTHIAS IWANOWSKY (all from Stockholm University) have been admitted as graduate students at the Institute from September 1 2014.

PHILIPPE AGHION received the honor of 2014 Thomson Reuters Citation Laureate for Contributions to Schumpeterian Growth Theory as well as an election to the Economics Chair at College de France.

INGVILD ALMÅS at the Norwegian School of Economics and Business Administration will join the IIES as visiting associate professor for 3 years, starting September 1 2014.

TIM BESLEY was elected president of the International Economic Association, 2014-2017.

KONRAD BURCHARDI was elected Affiliate of BREAD (Bureau for Research and Economic Analysis of Development). He also secured funding with Tim Besley and Maitreesh Ghatak of 335 000 GBP from the ESRC for a joint research program entitled “Micro-credit, Financial Access, and Growth”.

LARS CALMFORS was appointed chair of the Evaluation Committee for the Swedish Foundation for Strategic Research (SSF) set up by the Royal Swedish Academy of Sciences (KVA) and the Royal Swedish Academy of Engineering Sciences (IVA).

TOM CUNNINGHAM will spend most of the academic year 2014/2015 visiting Caltech.

SAMAN DAROUGHEH will spend the academic year 2014/2015 as a visiting graduate student at Princeton University.

SUSANNE FORSTNER will join the Chair of Applied Economics at RWTH Aachen as a post-doctoral researcher in October 2014.

ANDREA GUARISO is a visiting graduate student at the IIES in the period May-October 2014 within the framework of the PODER (Marie Curie) program.

KARL HARMENBERG will spend the academic year 2014/2015 as a visiting graduate student at New York University.

JOHN HASSLER was elected chairman of the Swedish Fiscal Policy Council on September 1, 2013.

KASPER KRAGH-SØRENSEN and BENEDETTA LERVA will join the IIES as research assistants on September 1 2014.

NATHANIEL LANE will spend the academic year 2014/2015 as a visiting graduate student at Harvard University.

ALEXANDRE KOHLHAS (University of Cambridge), KURT MITMAN (University of Pennsylvania), ARASH NEKOEI (Harvard University) and KATHRIN SCHLAFMANN (University of Munich) have accepted tenure track positions at the IIES starting in the fall of 2014.

ETTORE PANETTI successfully defended his thesis *Essays on the Economics of Banks and Markets* in October 2014.

Former graduate student, ETTORE PANETTI, has taken up a position as research economist at the Research Department of the Bank of Portugal as of January 2014.

TORSTEN PERSSON was elected secretary of the prize committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. He was also appointed to chair the Scientific Council of the Toulouse School of Economics. Finally, he was appointed co-director of the Institutions, Organizations and Growth program of CIFAR (the Canadian Institute For Advanced Research).

ANNA SANDBERG (Stockholm School of Economics) will be joining the Institute for a three-year post doc position in the fall of 2014.

ERIK ÖBERG will spend the period September 2014-January 2015 as a visiting graduate student at MIT.

ROBERT ÖSTLING was appointed member of the Swedish Consumer Agency's Scientific Advisory Board.

Staff Research Activities 2013/2014

PHILIPPE AGHION published (1) “What Do We Learn from Schumpeterian Growth Theory?” in Aghion, P. and Durlauf, N. (eds.), *Handbook of Economic Growth*, Vol. 2, Elsevier B.V., 2014 (with Ufuk Akcigit and Peter Howitt); (2) “Cyclical Fiscal Policy, Credit Constraints, and Industry Growth”, *Journal of Monetary Economics* 62, 2014 (with David Hemous and Enisse Kharroubi); and (3) “Incomplete Contracts and the Internal Organization of Firms”, *Journal of Law, Economics, and Organizations* 30:1, 2014 (with Nicholas Bloom and John Van Reenen). He also completed (4) “Industrial Policy and Competition” (with Jing Cai, Mathias Dewatripont, Luosha Du, Ann Harrison and Patrick Legros), forthcoming in *American Economic Journal: Macroeconomics*; and (5) “Patent Rights, Product Market Reforms and Innovation” (with Peter Howitt and Susanne Prantl), forthcoming in *Journal of Economic Growth*. He is also currently revising (6) “Of Mice and Academics: Examining the Effect of Openness on Innovation” (with Mathias Dewatripont, Julian Kolev, Fiona Murray and Scott Stern) for *American Economic Journal*; as well as (7) “Carbon Taxes, Path Dependency, and Directed Technical Change: Evidence from the Auto Industry” (with Antoine Dechezleprêtre, David Hemous, Ralf Martin and John Van Reenen) for *Journal of Political Economy*. Apart from this he continued work on the following papers: (8) “Education and Military Rivalry” (with Xavier Jaravel, Torsten Persson and Dorothee Rouzet); (9) “Capital vs Labor Taxation with Innovation-Led Growth”, NBER Working Paper No. 19086 (with Ufuk Akcigit and Jesús Fernández-Villaverde); (10) “Subgame Perfect Implementation under Approximate Common Knowledge: Evidence from a Laboratory Experiment” (with Ernst Fehr, Richard Holden and Tom Wilkening); (11) “Creative Destruction and Subjective Well Being” (with Ufuk Akcigit, Angus Deaton and Alexandra Roulet); (12) “Inducing Leaders to Take Risky Decisions: Dismissal, Tenure, and Term Limits”, NBER Working Paper No. 20301 (with Matthew Jackson); (13) “The Causal Effects of Competition on Innovation: Experimental Evidence” (with Stefan Bechtold, Lea Cassar and Holger Herz); and (14) “Never Waste a Good Crisis? Growth and Decentralization in the Great Recession” (with Nicholas Bloom, Raffaella Sadun and John Van Reenen). Furthermore he was co-editor of *Handbook of Economic Growth*, Vol 2, Elsevier B.V., 2014 (with Steven N. Durlauf). He also received the honor of 2014 Thomson Reuters Citation Laureate for Contributions to Schumpeterian Growth Theory as well as an election to the Economics Chair at College de France.

ALMUT BALLEER has worked on the following seminar papers: (1) “Financial Market Imperfections and the Pricing Decision of Firms: Theory and Evidence” (with Nicholay Hristov and Dominik Menno); (2) “Some Surprising Facts about Working Time Accounts and the Business Cycle Analysis” (with Britta Gehrke and Christian Merkl); (3) “Does

Short-Time Work Save Jobs? A Business Cycle Analysis”, CESifo Working Paper No. 4640 (with Britta Gehrke, Wolfgang Lechthaler and Christian Merkl); (4) “What Drives Labor Market Dynamics in Germany and the US?” (with Ronald Bachmann); (5) “Expansionary and Contractionary Technology Improvements” (with Zeno Enders); and (6) “Time Allocation between Spouses” (with Monika Merz and Tamas Papp). She also presented (7) “Expansionary and Contractionary Technology Improvements” at the Annual Meeting of the German Economic Association (Verein fuer Socialpolitik), Düsseldorf, Germany, in September 2013; and “Does Short-Time Work Save Jobs? A Business Cycle Analysis” at a seminar at Dortmund University in October of the same year.

TIM BESLEY published (1) “Implementation of Anti-Discrimination Policy: Does Judicial Selection Matter?”, *American Law and Economics Review* 15:1, 2013 (with Abigail Payne); (2) “Weak States and Steady States: The Dynamics of Fiscal Capacity”, *American Economic Journal: Macroeconomics* 5:4, 2013 (with Ethan Ilzetki and Torsten Persson); (3) “Bailouts and the Optimal Taxation of Bonus Pay”, *American Economic Review: Papers and Proceedings*



The IIES professors. Clockwise from top left: Per Krusell, Torsten Persson, David Strömberg, John Hassler, Jakob Svensson, Harry Flam, Assar Lindbeck, Lars Calmfors and Mats Persson.

103:3, 2013 (with Maitreesh Ghatak); (4) “Taxation and Development”, in Auerbach, A., Chetty, R., Feldstein, M., and Saez, E. (eds.), *Handbook of Public Economics*, Vol. 5, Elsevier, 2014 (with Torsten Persson); (5) “What’s the Good of the Market? A Review Essay on Michael Sandel’s What Money Can’t Buy”, *Journal of Economic Literature* 51:2, 2013; (6) “Investing for Prosperity: Skills, Infrastructure and Innovation”, *National Institute Economic Review* 224, F51-F70, 2013 (with Miguel Coelho and John Van Reenen); and (7) “Making and Breaking Tax Systems” (the 2012 Geary Lecture), *Economic and Social Review* 44:3, 2013. He also wrote (8) “The Legacy of Historical Conflict: Evidence from Africa”, forthcoming in *American Political Science Review* (with Marta Reynal-Querol); (9) “The Causes and Consequences of Development Clusters: State Capacity, Peace and Income”, forthcoming in *Annual Reviews of Economics* (with Torsten Persson); (10) “The Welfare Cost of Lawlessness: Evidence from Somali Piracy”, forthcoming in *Journal of the European Economic Association* (with Hannes Mueller and Thiemo Fetzer); and (11) “The Incidence of Transaction Taxes: Evidence from a Stamp Duty Holiday”, forthcoming in *Journal of Public Economics* (with Neil Meads and Paolo Surico).

TESSA BOLD has held a part-time position with IIES while being on maternity leave during which she has been working on two papers related to risk-sharing (1) “Insurance Companies of the Poor” (with Stefan Dercon); and (2) “Testing Coalition-proof Dynamic Risk-sharing” (with Tobias Broer). She presented her work at Oslo, Heidelberg, International Growth Week and the German Economic Association Meeting. In addition, she published (3) “Can Free Provision Reduce Demand for Public Services? Evidence from Kenyan Education”, *World Bank Economic Review* January, 2014 (with Mwangi Kimenyi, Germano Mwabu and Justin Sandefur).

TIMO BOPPART has been working on the papers (1) “Non-homothetic Preferences and Industry Directed Technical Change”, University of Zurich Working Paper No. 123 (with Franziska J. Weiss); and (2) “Online Accessibility of Scholarly Literature, and Academic Innovation”, University of Zurich Working Paper No. 75 (with Kevin E. Staub). He published the paper (3) “Protestantism and Education: Reading (the Bible) and Other Skills”, *Economic Inquiry* 52:2, 2014 (with Josef Falkinger and Volker Grossmann). Moreover, Timo successfully revised the paper (4) “Structural Change and the Kaldor Facts in a Growth Model with Relative Price Effects and Non-Gorman Preferences”, which has been accepted for publication in *Econometrica*. He presented his work at the conference on structural change in Pisa, the macro workshop in Cologne, the workshop on macro dynamics in Paris, the MadMac at CEMFI, the annual meeting of Swiss Economists abroad, University of Oslo and the 8th Nordic Macro Symposium.

TOBIAS BROER published his article (1) “Domestic or Global Imbalances? Rising Inequality and the Fall in the US Current Account”, *Journal of Monetary Economics* 64, 2014. His work

in progress includes (2) “The Great Moderation and the Great Leverage: Financial Trade and Asset Prices when Investors Disagree about Risk” (with Afroditi Kero); (3) “Great Moderation or Great Mistake: Can Overconfidence in Low Macro-risk Explain the Boom in Asset Prices?” (with Afroditi Kero); (4) “The Home Bias of the Poor: Foreign Asset Portfolios across the Wealth Distribution”; (5) “Monetary Policy with Heterogeneous Agents” (with Niels-Jakob Harbo Hansen, Per Krusell and Erik Öberg), (6) “Risk-Sharing in Village Economics Revisited” (with Tessa Bold); and (7) “Consumption Risk Sharing with Private Information when Earnings are Persistent” (with Marek Kapicka and Paul Klein). He presented his work at Banque de France, the Institute for Advanced Studies Vienna, the Greater Stockholm Macro Group, the European Summer Symposium in International Macroeconomics 2014 and the Nordic Macro Conference 2014 in Smögen.

During the academic year, KONRAD BURCHARDI presented work at MPI Bonn and Trinity College Dublin. He initiated a randomized control trial in Tanzania which seeks to understand how well investment goods are allocated through a market mechanism, and how credit market imperfections impact the effectiveness of the market mechanism for allocation investment goods (with Selim Gulesci and Jonathan de Quidt). He also worked on an empirical project which investigates the effects of publication ranking on researcher behavior and research quality (with Timo Boppart), and on a project that researches the role of ethnic networks in international trade (with Tarek Hassan and Thomas Chaney). Furthermore, he published (1) “Out of Your Mind: Eliciting Individual Reasoning in One Shot Games”, *Games and Economic Behavior* 84, 2014 (with Stefan Penczynski). He also served on the IIES job market committee and as IIES seminar co-organizer.

LARS CALMFORS published (1) “Why Do People Dislike Low-Wage Trade Competition with Posted Workers in the Service Sector?”, *Journal of Socio-Economics* 2013:4 (with Girts Dimdins, Marie Gustafsson Sendén, Henry Montgomery and Ulrika Stavlöt); (2) “Sweden: Watchdog with a Broad Remit”, in Kopits, G. (ed.), *Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions*, Oxford University Press, 2013; (3) “How Well Is the Nordic Model Doing? Recent Performance and Future Challenges”, in Valkonen, T. and Vihriälä, V. (eds.), *The Nordic Model: Challenged but Capable of Reform*, Tema Nord 2014:531, Nordic Council of Ministers; (4) “Eurokrisen och EU:s finanspolitiska regelsystem” (The Euro Crisis and EU Fiscal Rules), in Persson, M. and Skult, E., *Tillämpad makroekonomi*, 5th edition, Studentlitteratur, 2013; (5) “Överlever euron?” (Will the Euro Survive?), in Söderström, H.T. (ed.), *Överlever euron*, Fores, 2013; (6) “Skattereform kräver tryck i välfärdsfrågan” (Tax Reform Requires Demand for Higher Public Expenditure), in Bergstrand, M. (ed.), *En skattereform för 2000-talet*, pmj, 2014. He also wrote or substantially revised: (7) “Earned Income Tax Credits, Unemployment Benefits and Wages” (with Helge Bennis and Anna Seim); (8) “The Swedish Macroeconomic Policy Framework”, forthcoming in Pierre,

J. (ed.), *Handbook in Swedish Politics*, Oxford University Press; (9) “The Roles of Fiscal Rules, Fiscal Councils and Fiscal Union in EU Integration”, forthcoming in Badinger, H. and Nitsch, V. (eds.). *Handbook in the Economics of European Integration*, Routledge; and (10) “Reflektioner om RUT” (Riksdagens utredningstjänst) (Reflections on the Research Office of the Swedish Parliament).

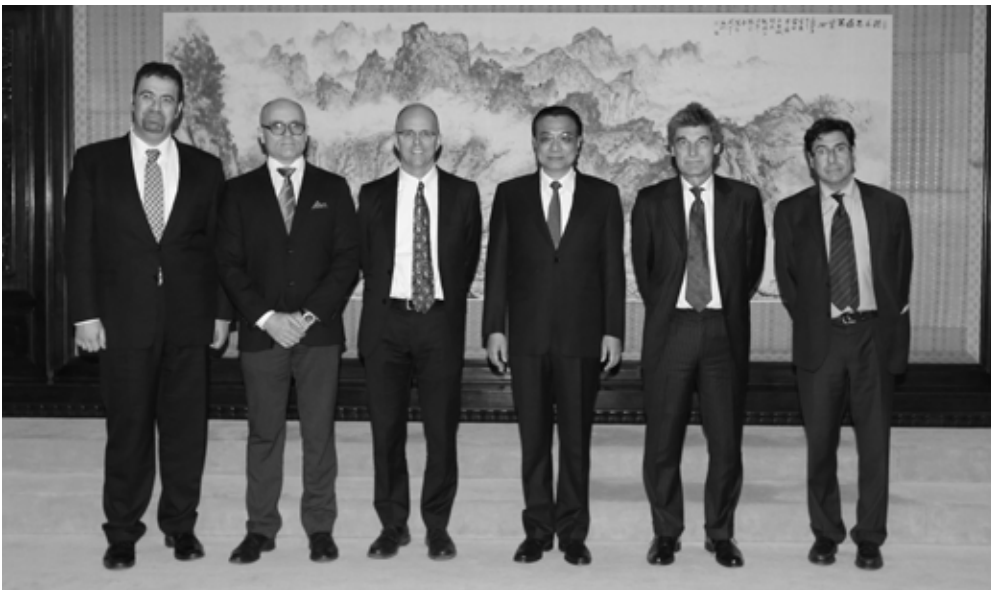
Assistant professor DAVID CESARINI visited the IIES during the academic year. During his stay, he continued his research on social-science genetics, much of which is conducted under the auspices of the Social Science Genetic Association Consortium, an organization he co-founded and co-directs with Daniel Benjamin and Philipp Koellinger. He also worked closely with Robert Östling on a project that uses Swedish data on administrative lottery winners to estimate the causal impact of wealth on health outcomes. He published (1) “Common Genetic Variants Associated with Cognitive Performance Identified Using Proxy-Phenotype Method”, *Proceedings of the National Academy of Sciences* 111, 2014 (with coauthors from the SSGAC); (2) “Replicability and Robustness of GWAS for Behavioral Traits”, forthcoming in *Psychological Science* (with coauthors from the SSGAC); (3) “Co-Twin Methodology and the Return to Schooling: Testing a Critical Assumption”, *Labour Economics* 26, 2014 (with Örjan Sandewall and Magnus Johannesson); and (4) “Pre-Birth Factors, Post-Birth Factors and Voting: Evidence from Swedish Adoption Data”, *American Political Science Review* 108, 2014 (with Sven Oskarsson and Magnus Johannesson). He also gave seminars at NBER Summer Institute, Health Care Group, (Cambridge, Massachusetts, July 2014), the 26th Annual Convention of the Association for Psychological Science (San Francisco, California, May 2014), the Toulouse Workshop on Biological Economics (Toulouse, France, May 2014), the Conference on Genetics and Behavior (Chicago, USA, May 2014) and was the Plenary Speaker at 4th Annual Xiamen University International Workshop on Experimental Economics (Xiamen, China, November 2013). Finally, he organized the Annual Workshop of the Social Science Genetic Association Consortium.

TOM CUNNINGHAM principally worked on his project on (1) “Biases and Implicit Knowledge”, an attempt to explain why people make inconsistent decisions. He also continued work on (2) “Thresholds and Effort” (with Ines Moreno de Barreda); and (3) “Judgements of Preference and Judgements of Fact” (with Jonathan de Quidt). He also published (4) “The Incumbency of Signalling”, *Economica* 81:323, 2014 (with Francesco Caselli, Ines Moreno de Barreda and Massimo Morelli). He presented his work at seminars at Harvard University, USC Marshall, WZB Berlin and PSE Paris.

JONATHAN DE QUIDT wrote the paper (1) “Your Loss Is My Gain: A Recruitment Experiment with Framed Incentives”, EOPP Working Paper No. 52, and presented his work at

the WZB-TU colloquium in behavioral economics (Berlin), IEA World Congress 2014, FUR annual congress 2014, and at EEA/ESEM annual congress 2014.

GEORG DUERNECKER published (1) “Technology Adoption, Turbulence and the Dynamics of Unemployment”, *Journal of the European Economic Association* 12, 2014 and wrote the following papers: (2) “On the Allocation of Time”, University of Mannheim Working Paper, ECON 14-09, 2014 (with Berthold Herrendorf) a draft version of which was presented at IIES, SITE Stockholm School of Economics, NORMAC, 5th Ifo Conference on Macroeconomics and Survey Data, 2014 Meeting of the Canadian Macro Study Group, EUI Alumni Conference; and (3) “Home Production in OECD Countries” (with Benjamin Bridgman and Berthold Herrendorf), a project which commenced in the spring of 2014. He revised the following articles to be resubmitted to journals: (4) “Informational Frictions and the Life-Cycle Dynamics of Job Mobility” for *Journal of Labor Economics*; (5) “The Network Origins of Economic Growth” (with Moritz Meyer and Fernando Vega-Redondo) for *Journal of Economic Growth*; and (6) “Social Networks and the Process of Globalization” (with Fernando Vega-Redondo) for *Review of Economic Studies*. He was also a co-organizer of the 2nd Mannheim Workshop in Quantitative Macroeconomics. The workshop took place at University of Mannheim on May 22-23, and in May 2014 he visited Arizona State University for two weeks.



In December 2013 Daron Acemoglu, John Hassler, Per Krusell, Torsten Persson, and Philippe Aghion visited China. Among the activities there was a private meeting with China's Premier Li Keqiang.

HARRY FLAM and Roine Vestman finished the working paper (1) “Swedish Equity Mutual Funds: Performance, Persistence and Presence of Skill”, Swedish House of Finance Research Paper No. 14-04. He also wrote the chapter (2) “Economics of the Single Market”, forthcoming in Badinger, H. and Nitsch, V. (eds.), *Handbook of the Economics of European Integration*, Routledge.

Over the past academic year, SUSANNE FORSTNER has continued her work on (1) “The Effects of Moral Hazard on Wage Inequality in a Frictional Labor Market” (with Arpad Abraham and Fernando Alvarez-Parra); and (2) “Job-to-job Mobility and Wage Inequality: A Quantitative Assessment”. She also started new work with Arpad Abraham on the welfare effects of progressive income taxation in labor markets with performance pay and search frictions. Her most recently initiated project (with Teodora Borota) examines the relation between housing investments, savings behavior and capital income inequality in Sweden. Since last fall, Susanne has presented her work at the Cologne Workshop on Macroeconomics, the Department of Economics at Stockholm University, BI Norwegian Business School in Oslo, Humboldt University in Berlin, the Search and Matching Annual Conference in Edinburgh and the Annual Conference of the Austrian Economic Association in Vienna.

ANDERS FREDRIKSSON is an International Post Doc at the IIES, University of São Paulo, and University of Namur. During the academic year of 2013/2014 he has been working on two different projects related to Poupatempo, a Brazilian bureaucracy reform, and one project related to informal firms in developing countries - research that he has presented at the Research Workshop on Institutions and Organizations (RWIO) in Riberirão Preto, Brazil in October 2013, and at the CRED workshop in Namur, Belgium in June 2014. Furthermore he published (1) “Bureaucracy Intermediaries, Corruption, and Red Tape”, *Journal of Development Economics* 108, 2014.

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. His research on climate change is done in collaboration with Per Krusell, Conny Olofsson and colleagues at other universities in Europe and the U.S. He published the paper (1) “Optimal Taxes on Fossil Fuel in General Equilibrium”, *Econometrica* 82:1, 2014 (with Mikhail Golosov, Per Krusell and Aleh Tsyvinski) and produced (2) “The Climate and The Economy”, Report No. 5, 2014, Mistra-SWECIA, (with Per Krusell). In December 2013, John together with Philippe Aghion, Per Krusell, Torsten Persson and Daron Acemoglu visited China. Among the activities there was a private meeting with China’s Premier Li Keqiang. Among the topics discussed were climate change, downward political account-

ability and free press. The visit was organized by John's former PhD student Yinan Li. A Swedish textbook in macroeconomics is being produced together with Lars Calmfors, Harry Flam and Per Krusell which will be launched in the spring of 2015.

SEBASTIAN KOEHNE revised and resubmitted the research papers: (1) "Should Unemployment Insurance Be Asset-tested" (with Moritz Kuhn); and (2) "Optimal Taxation in a Habit Formation Economy" (with Moritz Kuhn). He started new research projects on disability insurance, commodity taxation and the tax treatment of non-pecuniary job characteristics. He also presented his work at University of Cambridge, European University Institute, Ecole Polytechnique, and at the Taxation Theory Conference, as well as presented a paper and organized a session 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 a project on economics and global climate change, which involved cooperation with other scientists through Mistra-SWECIA and abroad. Several of his recent papers were accepted for publication, or published, during this period. Apart from the papers mentioned in last year's Annual Report, he published (1) "Optimal Taxes on Fossil Fuel in General Equilibrium", *Econometrica* 82:1, 2014 (with Michael Golosov, John Hassler and Aleh Tsyvinski).

MASAYUKI KUDAMATSU'S research has been focused on two projects: (1) "Political Selection in China: Complementary Roles of Connections and Performance", forthcoming in *Journal of the European Economic Association* (with Ruixue Jia and David Seim); and (2) "Weather and Infant Mortality in Africa" (with Torsten Persson and David Strömberg). He was invited to present research at the ICSID 2014 Conference in St Petersburg "Regional Heterogeneity and Incentives for Governance", organized by the Higher School of Economics in Moscow.

Throughout the year ASSAR LINDBECK has been working on a number of papers on social norms and income insurance, partly in cooperation with Mats Persson, one of which has been published: (1) "A Continuous Model of Income Insurance", *International Tax and Public Finance* 20:6, 2013 (with Mats Persson). He also worked on a paper on the distribution of rewards and risks between principals and agents, with Jörgen Weibull. Apart from this he also recently finished a paper on (2) "Piketty - the Phenomenon".

DIRK NIEPELT served on the organizing committee of several conferences in Switzerland. With his co-authors Harris Dellas and Martin Gonzalez-Eiras, he worked on research projects in international finance and macroeconomic theory. He presented this work at

seminars and conferences in Europe, Korea and the United States and he contributed to the policy debate in Switzerland.

During the academic year PETER NILSSON revised his work on the effects of early life conditions on long-term economic outcomes in (1) “Alcohol Availability, 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”; and (3) “Lead Exposure and Criminal Behavior: Lessons from the Swedish Phase-Out of Leaded Gasoline” (with Hans Grönqvist and Per-Olof Robling); (4) “Congestion Charges and Children’s Health” (with Janet Currie, Emilia Simeonova and Reed Walker); (5) “Economic Status, Air Quality, and Child Health: Evidence from Inversion Episodes”, IZA Discussion Paper No. 7928 (with Jenny Jans and Per Johansson); and finally peer effects in the workplace (6) “Businesses, Buddies, and Babies: Fertility and Social Interactions at Work” (with Lena Hensvik and Magne Krogstad Asphjell); and (7) “Gender Differences in Shirking: Monitoring or Social Preferences? Evidence from a Field Experiment”, IZA Discussion Paper No. 8133. He presented his work at Princeton University and at Statistics Norway.

MATS PERSSON was co-editor of (1) *Tillämpad makroekonomi*, 5:e upplagan (Applied Macroeconomics, 5th edition), Studentlitteratur, Lund 2013 (with Eva Skult) and published (2) “2013 års Ekonomipris till Eugene Fama, Robert Shiller och Lars Peter Hansen” (The 2013 Economics Prize to Eugene Fama, Robert Shiller and Lars Peter Hansen), *Ekonomisk Debatt* 8, 2013 (with Peter Englund, Per Krusell, Torsten Persson and Per Strömberg); (3) “A Continuous Model of Income Insurance”, *International Tax and Public Finance* 20:3, 2013 (with Assar Lindbeck); and (5) “Lärlönerna” (Teachers’ Salaries), *Ekonomisk Debatt* 4, 2014 (with Eva Skult).

TORSTEN PERSSON published (1) “The Causes and Consequences of Development Clusters: State Capacity, Peace and Income”, *Annual Review of Economics* 6, 2014 (with Tim Besley); and wrote (2) “Why Do Developing Countries Tax So Little”, forthcoming in *Journal of Economic Perspectives* (with Tim Besley); (3) “Ethnicity of Children in Mixed Marriages: Theory and Evidence from China” (with Ruixue Jia); (4) “Norms, Enforcement and Tax Evasion” (with Tim Besley and Anders Jensen); and (5) “Resilient Leaders and Institutional Reform: Theory and Evidence” (with Tim Besley and Marta Reynal-Querol). During the academic year he also gave a number of seminars and participated in academic conferences in Sweden, Europe, the US and China. In October/November 2013, he visited the London School of Economics (in his capacity as a Centennial Professor) where he gave series of lectures to PhD students.

DAVID STRÖMBERG has been working on the papers (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); (3) “The Determinants of Media Capture in China” (with Bei Qin and Yanhui Wu); (4) “Media and Politics”, (5) “Social Media in China”(with Bei Qin and Yanhui Wu); and (6) “The Effect of Education on Innovation” (with David Seim).

PETER SVEDBERG published the article (1) “Bent Hansen” in Jonung, C. and Ståhlberg, A. (eds.), *Svenska Nationalekonomer under 400 år* (Swedish Economists during 400 years) Dialogos, 2014 (with Lars Matthiessen and Claes-Henric Siven). His work in progress mainly focuses on a paper entitled (2) “World Food Price Inflation 2008-2014 and Child Malnutrition”. The paper aims at providing estimates of how much the drastic raise of prices of wheat and rice since 2008 in the world markets has affected the incidence of child malnutrition in developing countries.



IIES Research Assistants (from left) Jaakko Meriläinen, Jósef Sigurdsson and Benadetta Lerva sporting the traditional outfit for the Swedish crayfish celebrations that take place each year in the fall.

JAKOB SVENSSON has worked on a number of projects, including (1) “Quality Uncertainty and Technology Adoption: Evidence from the Market for Fertilizers in Uganda” (with David Yanagizawa Drott); (2) “Tuning in the Market Signal: Estimating Impact of Access to Market Prices in Partial vs. General Equilibrium” (with David Yanagizawa Drott); (3) “The Market for (Fake) Antimalarial Medicine: Evidence from Uganda” (with Martina Björkman Nyqvist and David Yanagizawa Drott); (4) “Evaluating the Impact of the Living Goods Entrepreneurial Model of Health Delivery in Uganda: A Cluster-randomized Controlled Trial” (with Martina Björkman Nyqvist, Andrea Guariso and David Yanagizawa Drott); (5) “Information is Power: Experimental Evidence of the Long-Run Impact of Community Based Monitoring” (with Martina Björkman Nyqvist and Damien de Walque); (6) “Safe Sex for a Chance to Win: Evidence from an HIV Prevention Intervention in Lesotho” (with Martina Björkman Nyqvist, Lucia Corno and Damien de Walque); and (7) “Evaluating the Impact of Short Term Financial Incentives on HIV Incidence among Youth in Lesotho: A Randomized Trial” (with Martina Björkman Nyqvist, Lucia Corno and Damien de Walque). In addition, he is currently managing two large field experiments in health and agriculture in Uganda. Jakob also organized the CEPR and PODER Development Conference in Stockholm in June 2014.

LARS E.O. SVENSSON has worked on several projects on the theory and practice of monetary policy, stimulated by his experience May 2007-May 2013 as Deputy Governor and member of the Executive Board of Sveriges Riksbank (the central bank of Sweden). During the academic year, he was a Visiting Professor at SIFR-The Institute for Financial Research, Swedish House of Finance, Stockholm School of Economics. He completed first drafts of the papers (1) “Forward Guidance in Theory and Practice: The Swedish Experience”; (2) “Resilience, Debt, and Net Worth: Has Resilience Increased with Higher Debt-to-Income Ratios?”; (3) “‘Leaning Against the Wind’ Increases (Not Reduces) the Household Debt-to-GDP Ratio”; and (4) “The Effect of Housing Prices of Changes in Mortgage Rates and Taxes”. The following papers were published or accepted for publication: (5) “The Possible Unemployment Cost of Average Inflation below a Credible Target”, forthcoming in *American Economic Journal: Macroeconomics*; (6) “Some Lessons from Six Years of Practical Inflation Targeting”, *Sveriges Riksbank Economic Review* 3, 2013; (7) “De senaste årens penningpolitik: ‘leaning against the wind’” (Monetary Policy During the Last Few Years – ‘Leaning against the Wind’), *Ekonomisk Debatt* 3, 2014; (8) “Inflation Targeting and Leaning against the Wind”, *International Journal of Central Banking* June, 2013; and (9) “Riksbanken, måluppfyllelsen och den demokratiska kontrollen” (The Riksbank, Target Achievement, and the Democratic Control), *Ekonomisk Debatt* 4, 2014.

MICHELE VALSECCHI was a visiting post doc at IIES during the spring of 2014. During this time he published (1) “Land Property Rights and International Migration: Evidence from

Mexico”, *Journal of Development Economics* 110, 2014. He also worked on several articles: (2) “Resource Windfalls and Local Public Goods: Evidence from a Policy Reform in Indonesia” (with Ola Olsson); (3) “Local Elections and Corruption during Democratization: Evidence from Indonesia”; and (4) “Ethnic Favoritism” (with Giacomo De Luca, Roland Hodler and Paul Raschky). His work was presented at Norwegian University of Science and Technology (NTNU) in Trondheim (Norway), the IIES Brown Bag Seminar, University of Gothenburg, and the ASWEDE meeting.

In the spring of 2014, HAKKI YAZICI was a visiting assistant professor at the IIES during which he published: (1) “Machines, Buildings, and Optimal Dynamic Taxes”, *Journal of Monetary Economics* 66, 2014 (with Ctirad Slavik); and revised (2) “Present-Biased Preferences and Optimal Taxation of Parental Transfers” (with Nicola Pavoni) for *Review of Economic Studies*; and (3) “Optimal Life-cycle Capital Taxation under Self-Control Problems” (with Nicola Pavoni) for *Economic Journal*. He also worked on (4) “On the Consequences of Eliminating Capital Tax Differentials” (with Ctirad Slavik); and (5) “On the Provision of Parental Rights” (with Nicola Pavoni). Furthermore, he presented “On the Consequences of Eliminating Capital Tax Differentials” (with Ctirad Slavik) at Stockholm Institute for Transition Economics, Institute for International Economic Studies, Mannheim Workshop in Quantitative Macroeconomics, Sveriges Riksbank GSMG Meetings, and 20th International Conference Computing in Economics and Finance.

ROBERT ÖSTLING’S main focus has been on a project about wealth effects on lifetime outcomes. He has primarily focused on the papers (1) “The Effect of Wealth on Household Labor Supply: Evidence from Swedish Lotteries” (with David Cesarini, Erik Lindqvist and Matthew Notowidigdo); and (2) “Wealth, Health and Child Development: Evidence from Administrative Data on Swedish Lottery Player” (with David Cesarini, Erik Lindqvist and Björn Wallace). Robert has also continued working on some experimental projects related to communication in games (with Tore Ellingsen and Erik Wengström), generosity and political preferences (with Erik Lindqvist and others), unique bid games (with Erik Mohlin and Joseph Tao-yi Wang) and learning in a minimum effort game (with Manja Gärtner and Erik Mohlin).

Articles Published or Accepted in Leading Journals by IIES Permanent Staff 2013/2014

TIMO BOPPART, “Structural Change and the Kaldor Facts in a Growth Model with Relative Price Effects and Non-Gorman Preferences”, forthcoming in *Econometrica*.

MICHAEL GOLOSOV, JOHN HASSLER, PER KRUSELL and ALEH TSYVINSKI, “Optimal Taxes on Fossil Fuel in General Equilibrium”, *Econometrica* 82:1, 2014.

Visiting Fellows 2013/2014

ZSOFIA BARANY (Sciences Po) spent two weeks at the IIES in September 2013. She presented her project “Tax Schemes and Evasion: The Self-employment Margin”, which empirically investigates whether people respond to tax schemes along the intensive margin of tax evasion, i.e. by becoming self-employed. Zsofia also worked on another project, “Job Polarization and Structural Change” (with Christian Siegel, University of Exeter), which documents that polarization started as early as the 1950s in the US, and that this process is closely linked to the shift from manufacturing to both low- and high-skilled services. Based on these observations they propose a structural change driven explanation for polarization.

PAUL KLEIN (Simon Fraser University) visited the Institute from May 1 to August 31 2014, during which time he worked mostly to complete old projects, including one on dynamic tax competition (with Miltiadis Makris) and another on consumption smoothing under private information and limited commitment (with Marek Kapička and Tobias Broer). In addition he continued work on a project (with David Domeij) aiming at understanding two-way labor movements across regions. He also wrote a policy paper in Swedish (with Conny Olovsson) examining the history of indirect taxation in Sweden and to what extent policy and its official justification have been consistent with past and recent findings in the academic literature on optimal taxation, including Conny’s own recent work in this area. They hope to publish this paper in the working paper series of SNS, Sweden’s leading non-partisan policy think tank.

NILS-PETTER “NIPPE” LAGERLÖF’S home affiliation is York University in Toronto. He spent most of his 2013-14 sabbatical at the Institute, interrupted by a January-April sojourn at University of Western Ontario. During the year he worked on the following projects: (1) “Statehood, Democracy and Preindustrial Development”; (2) “Time Since What? (Re) interpreting the Neolithic Transition in a Malthusian Environment”; (3) “Borders and Geography” (with Shuhei Kitamura). “Nippe” also presented at several conferences, for example the Annual Conference on Economic Growth and Development at the Indian Statistical Institute in Delhi, the Annual Public Economic Theory Conference at University of Washington, Seattle, the CESifo Summer Institute on Demographic Change and Long-Run Development (Venice, Italy) and the EEA/ESEM Meetings in Toulouse. He also gave invited seminars or workshop presentations at University of Bologna, University of Copenhagen, Southern Denmark University, University of Gothenburg, the Institute

for Advanced Study at University of Toulouse, and at the IIES itself. In addition, he published (4) “Population, Technology and Fragmentation: The European Miracle Revisited”, *Journal of Development Economics* 108, 2014 and wrote (5) “Malthus in Sweden”, forthcoming in *Scandinavian Journal of Economics*.

STEPHEN L. PARENTE (University of Illinois at Urbana-Champaign) visited the IIES in November and December 2013, where he worked on a number of projects in the area of economic growth and development. In one project, he and his co-authors Avner Greif, Stanford University, and Klaus Desmet, Southern Methodist University, attempt to understand the great divergence between Western Europe and China starting in the 17th Century, emphasizing differences in spatial competition within each region and its effect on technological change. In another project (with David Wiczer, St. Louis Federal Reserve) they try to embed a labor-search model into a multi-sector growth model in order to study the evolution of unemployment and agricultural productivity gaps as an



Frequent visitor Nils-Petter “Nippe” Lagerlöf of York University.

economy undergoes a structural transformation. A frequent visitor to the Institute, he enjoyed catching up with old friends and colleagues at the IIES as well getting to know the latest generation of bright economists there.

PETRA PERSSON (Stanford University) had another productive visit at the IIES in the spring of 2014. During her visit she presented a paper on how experiencing a parental death during pregnancy affects the unborn child's wellbeing and health. Petra greatly enjoyed presenting in the IIES seminar series and found the comments from the audience very helpful in the continued development of the paper. During her time at the Institute, she also laid the foundation for a new research project, joint with a member of the Institute.

DANIEL SPIRO (University of Oslo) spent three weeks in the summer of 2014 at the Institute. He mainly worked on finalizing the paper "From Peer Pressure to Biased Norms: Formation and Collapse" where he theoretically analyzes which societies can uphold a social norm, and which cannot, and when a norm may be biased compared to private preferences in society. He found that discussing this paper and other related research in informal meetings with faculty and PhD students was very valuable.

Teaching 2013/2014

PHILIPPE AGHION taught the PhD level course Economic Growth: Theory and Policy (with Timo Boppart) in the spring of 2014.

TESSA BOLD taught the PhD courses Development Economics I and II (with Konrad Burchardi, Masayuki Kudamatsu, Andreas Madestam and Jakob Svensson) in the fall of 2013.

TIMO BOPPART taught Economic Growth: Theory and Policy (with Philippe Aghion) in the spring of 2014.

In the fall of 2013, TOBIAS BROER gave the PhD level courses Macroeconomics with Financial Frictions and Applied Macroeconomic Research (with Per Krusell). In the spring of 2014, he gave the first-year PhD course Macroeconomics II (with John Hassler).

KONRAD BURCHARDI taught Intermediate Development Economics on the undergraduate level and Development Economics I and II on the PhD level (with Tessa Bold, Masayuki Kudamatsu, Andreas Madestam and Jakob Svensson) in the fall of 2013.

In the fall of 2013, LARS CALMFORS taught Intermediate Macroeconomics on the undergraduate level, and in the spring of 2014 he gave the master's course Labor Economics and Wage-Setting Theory.

TOM CUNNINGHAM gave the PhD courses Behavioral Economics I and II (with Robert Östling) in the spring of 2014.

HARRY FLAM taught the undergraduate course Macroeconomics in the fall of 2013 (with John Hassler and Mats Persson).

JOHN HASSLER gave the master's level course Climate and the Economy (with Per Krusell) and the first-year PhD level course Macroeconomics II (with Tobias Broer), both in the spring of 2014, and the first-year course in Macroeconomics on the undergraduate level, with over 600 students, in the fall of 2013 (with Harry Flam and Mats Persson).

SEBASTIAN KOEHNE taught the PhD courses Mathematics III in the fall of 2013 and Public Economics (with Dirk Niepelt) in the spring of 2014.

PER KRUSELL gave the PhD level courses Applied Macroeconomic Research (with Tobias Broer) in the fall of 2013 and Macroeconomics I (with Lars Ljungqvist) as well as the master's level course Climate and the Economy (with John Hassler) in the spring of 2014. He also gave the courses Macroeconomics I (first-year PhD course) at London School of Economics, as well as Macroeconomics and Inequality (second-year PhD course) at Yale University

In the fall of 2013 MASAYUKI KUDAMATSU gave the PhD courses Development Economics I and II (with Tessa Bold, Konrad Burchardi, Andreas Madestam and Jakob Svensson) and Topics in Applied Microeconometrics. He also gave a three-day intensive course on ArcGIS 10 for Social Science Research at University of Copenhagen.

DIRK NIEPELT taught Public Economics, a course at the PhD level, in the spring of 2014 (with Sebastian Koehne), as well as MA level courses at University of Bern.



The IIES' new co-workers. From left: Arash Nekoei, Anna Sandberg, Kurt Mitman, Ingvild Almås and Kathrin Schlafmann.

MATS PERSSON taught Macroeconomics at the undergraduate level in the spring of 2014, as well as a course in Macroeconomics in the fall of 2013 (with Harry Flam and John Hassler).

TORSTEN PERSSON gave the PhD courses Political Economics II and III in the spring of 2014 (with David Strömberg). At the London School of Economics, he gave a PhD course in Political Economics (with Gilat Levy). He also gave a week-long course on Political Economics and Development Economics in the Barcelona Summer School in Economics.

DAVID STRÖMBERG taught the PhD courses Political Economics II and III in the spring of 2014 (with Torsten Persson) and Econometrics II (with Per Pettersson-Lidbom).

In the fall of 2013, JAKOB SVENSSON gave the master's level course Development Economics as well as the PhD courses Development Economics I and II (with Tessa Bold, Konrad Burchardi, Masayuki Kudamatsu and Andreas Madestam).

LARS E.O. SVENSSON taught (with Nils Gottfries, Uppsala University, and Johan Söderberg, Stockholm University) the second-year PhD course Monetary Economics organized by the Riksbank, Stockholm University, and Uppsala University in the spring of 2014. He also gave guest lectures in undergraduate and master's courses at Stockholm School of Economics and Stockholm University.

MICHELE VALSECCHI gave the course Development Economics in the spring of 2014 at University of Gothenburg.

ROBERT ÖSTLING taught Behavioral Economics I and II at the PhD level (with Tom Cunningham) and an undergraduate course in applied game theory called Economic Strategic Thinking, both in the spring of 2014.

Extramural Activities

TIM BESLEY was chair of Council of Management, National Institute of Economic and Social Research, steering group member, International Growth Centre, The Gluskin-Granovsky CIFAR Fellow (and member of the Institutions, Organizations and Growth Program). He was also chair of the board of *Economica*, associate editor, *Quarterly Journal of Economics*, editorial advisor, *Journal of Economic Perspectives*, associate editor, *Journal of Development Economics*, associate editor, *International Tax and Public Finance*, associate editor, *Review of Development Economics*, and associate editor, *European Journal of Political Economy*.

TOBIAS BROER continued his regular visits to Sveriges Riksbank's Research Department, and started consulting for the Swedish Ministry of Finance.

KONRAD BURCHARDI served as associate editor of *Journal of Development Economics*, and as co-organizer of the CEPR/PODER conference at Stockholm University in June 2014.

LARS CALMFORS served as a columnist in *Dagens Nyheter* (the leading Swedish morning daily). He also gave lectures and speeches on the euro, wage setting, economic reforms, employment and the tax system in various places. They included Fores, the Swedish Senior University (Senioruniversitetet), the Nordic Council of Ministers, the Swedish Ministry of Finance, the Swedish Fiscal Policy Council, the Research Office of the Swedish Parliament (Riksdagens utredningstjänst), Almega (the Employer and Trade Organisation for the Swedish Service Sector), the Confederation of Swedish Enterprise (Svenskt Näringsliv), the Swedish Trade Union Congress (LO), and the JKL Management Group. He also worked as a Member of the Research Policy Committee of the Royal Swedish Academy of Sciences and as a Member of the Council for Government Grants to Activities Highlighting Issues for the Future in the European Union at the Swedish Agency for Youth and Civil Society (Myndigheten för ungdoms- och civilsamhällesfrågor). Finally, he served as the chair of a joint committee set up by the Swedish Royal Academy of Sciences (KVA) and the Royal Academy of Engineering Sciences (IVA) to evaluate the Swedish Foundation for Strategic Research (Stiftelsen för Strategisk Forskning).

DAVID CESARINI was co-director of the Social Science Genetic Association Consortium (ssgac.org).

HARRY FLAM served as chairman of the Scientific Council at the Center for Business and Policy Studies (SNS), member of the foreign minister's strategic council, and 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).

JOHN HASSLER was elected chairman of the Swedish Fiscal Policy Council on September 1, 2013. In May, the council presented its first report with John as the chairman. 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*.

PER KRUSELL served on the prize committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. He served as program director of the Climate and Economics Initiative of the Centre of Economic Policy Research (CEPR), on several scientific advisory boards, on the senior grant evaluation panel of the European Research Council, as well as the Women in Economics Committee of the EEA. Per also served as a scientific consultant to Sveriges Riksbank. In addition, Per gave a number



Soccer is a popular sport at the Institute. Professor Torsten Persson shows the rest of the IIES staff how it's done.

of lectures, 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.

DIRK NIEPELT served as director of the Study Center Gerzensee, Foundation of the Swiss National Bank, and professor at University of Bern. He wrote a report for the Swedish Fiscal Policy Council.

PETER NILSSON was a visiting associate research scholar at Center for Health and Well-being at Princeton University from January through May 2014.

MATS PERSSON served as a member of the prize committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel.

TORSTEN PERSSON has served as secretary of the prize committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel since January 2014. He served as the co-director of the Institutions, Organizations and Growth program of CIFAR (the Canadian Institute for Advanced Research). He also served on the board of trustees of the Nobel Foundation, on the advisory boards of Toulouse School of Economics and of CREI (University Pompeu Fabra), and was a member of the tenure committee at Bocconi University. He chaired the board of ENTER, a collaboration between some of the best PhD training programs in Europe.

JAKOB SVENSSON served as board member of the African Economic Research Consortium (AERC), board member of J-PAL's Governance Initiative, member of the Expert Group for Evaluation and Analysis of Swedish International Aid, as well as being visiting professor at Norwegian School of Economics (NHH), Bergen.

LARS E.O. SVENSSON gave several policy-oriented speeches, lectures, and presentations during the year; see the sections "New" and "Practical Monetary Policy" on his website, larseosvensson.se. He also became one of the bloggers at the Swedish blog Ekonomistas.se (most posts are translated into English on his website larseosvensson.se) and contributed to the Voxeu.org website.

ROBERT ÖSTLING was appointed member of the Swedish Consumer Agency's Scientific Advisory Board and has served on a Social Democratic unemployment research commission led by professor Mårten Palme. He has also continued writing blog posts about economics and economic policy for the Swedish blog [Ekonomistas](http://Ekonomistas.se). Robert was on parental leave during half the academic year 2013/2014.

Completed Theses 2013/2014

In October 2013 ETTORE PANETTI successfully defended his thesis *Essays on the Economics of Banks and Markets*, consisting of three essays: In the first essay, “A Theory of Bank Illiquidity and Default with Hidden Trades”, he develops a theory of financial intermediation to explore how the availability of trading opportunities affects the link between the liquidity of financial institutions and their default decisions. In this framework, banks hedge against liquidity shocks either in the interbank market or by using a costly bankruptcy procedure, and depositors trade in the asset market without being observed. In equilibrium, the competitive pressure from the asset markets makes the banks distort their asset portfolios. Three results are derived. First, illiquid banks default only in the presence of systemic risk, and when an unpredicted crisis hits the economy. Second, in contrast to the previous literature, the allocation at default is not constrained efficient. Third, the constrained efficient allocation can be decentralized with



*Ettore Panetti during the defense of his thesis *Essays on the Economics of Banks and Markets*. Elena Carletti, EUI, acted as opponent.*

the introduction of countercyclical liquidity requirements. In the second essay, “Financial Liberalization with Hidden Trades”, Ettore analyzes how the availability of unregulated market-based channels for the circulation of liquidity in the financial system affects the process of financial integration. To answer this question, he develops a two-country model of banking, where the banks have access to country-specific investment technologies, and agents can borrow and lend liquidity in a hidden market. He characterizes the competitive equilibria at different levels of integration (both in the banking system and in the hidden market) and shows that the only level of integration which the two countries are able to coordinate is the one where the two banking systems are autarkic, but international hidden trades are possible. In contrast to the previous literature, he also finds that the resulting consumption allocation is constrained efficient. In the third essay, “Bank Liquidity, Stock Market Participation, and Economic Growth”, Ettore (and his co-author, Elena Mattana) develops a dynamic growth model with fully microfounded banks and markets to reconcile the observed decreasing trend in the relative liquidity of many financial systems around the world with the increasing household participation in direct market trades. At low levels of economic development, the presence of fixed entry costs prevents the agents in the economy from accessing the market, and pushes them to open a bank account, which provides high relative liquidity. The authors characterize the threshold after which the agents are rich enough to access the market, where the relative liquidity is lower, and show that the relative liquidity of the whole financial system (banks and markets) drops because of the increasing market participation. They also provide some evidence consistent with this theoretical prediction: a one-unit increase in an index of securities market liberalization leads to a drop in the relative liquidity of between 13 and 22 percentage points.

Theses in Progress 2013/2014

AUDING BALTRUNAITE'S research interests lie in the field of political economics. During the past academic year, she has studied the value of political office in Lithuania by examining changes in income of parliamentary candidates. She uses their tax declarations' data and adopts the Regression Discontinuity Design. Her estimates show that political office yields large positive private monetary gains for elected candidates. She also started a project on the persistence of communist elites in Lithuanian politics (with Arturas Rozenas). Finally, with Piera Bello, Alessandra Casarico and Paola Profeta, she has revised the paper (1) "Gender Quotas and the Quality of Politicians", which was accepted for publication and is forthcoming in *Journal of Public Economics*. Furthermore she has worked on a related paper on the impact of gender quotas on the age profile of elected politicians (2) "Affirmative Action and the Power of the Elderly" (with Alessandra Casarico and Paola Profeta), which was accepted for publication in *CESifo Economic Studies*.



In Sweden, on Shrove Tuesday, we celebrate the day of the "Semla" (a bun filled with marzipan and whipped cream). Ahead of these celebrations Mathias Iwanowsky, Karl Eriksson, Åsa Storm and Christina Lönnblad had an unofficial tasting of the creamy treats!

SAMAN DAROUGHEH is interested in macroeconomics broadly. During the academic year, he took six courses and spent the remainder of his time on two projects in the areas of growth and the risk premium. The former connects the wage premium of educated workers to market powers; the hypothesis being that new sectors with high demand for skilled workers also benefitted from oligopoly profits that trickled down to their workers. The latter investigates the liquidity value of assets and to what extent this may explain the risk premium puzzle. He received the Hedelius grant for studies in the United States and will spend the next academic year at Princeton University. Moreover, he has received access to German micro data on employment which he will use during his stay in the U.S.

During the period April-October 2014 ANDREA GUARISO was a PODER fellow at the Institute. During his stay he worked with Jakob Svensson on a research project titled (1) “Effect of a Micro Entrepreneur-based Community Health Delivery Program on Child Mortality in Uganda: A Cluster-randomized Controlled Trial” (also with Martina Björkman Nyqvist and David Yanagizawa Drott). The project evaluates the impact of an innovative entrepreneurial model of community health delivery in Uganda, by which



Ettore Panetti's doctoral thesis "Essays on the Economics of Banks and Markets".

community health workers operate as micro-entrepreneurs with an implicit piece-rate compensation scheme. During the month of July, Andrea carried out some fieldwork in Rwanda to gain access to secondary data and to meet relevant stakeholders for a project on the impact of the 1994 genocide on schooling attainment. During his stay in Stockholm, Andrea also finalized the paper (2) “Food Price Shocks and the Political Economy of Global Agricultural and Development Policy”, *Applied Economic Perspectives and Policy* 36:3, 2014 (with Mara Squicciarini and Johan Swinnen).

NIELS-JAKOB HARBO HANSEN has spent his time working on a number of projects within the field of macroeconomics. In one project (with Hannes Malmberg and Georg Marthin) he tried to understand how flows in the labor market and demographical changes are driving changes in the unemployment and participation rate in Sweden. In another project (with Hans Henrik Sievertsen) he matched data for official job-openings with data for hiring on the plant level in Denmark. Information about this would help to better understand (i) how vacancies are translated into hires and (ii) how well official vacancy statistics measure the total amount of job-openings in the economy. Lastly, he worked on a project on monetary policy and inequality (with Tobias Broer, Per Krusell and Erik Öberg). Here the aim was to gauge how the aggregate effects of monetary policy depend on the initial wealth distribution in the economy.

KARL HARMENBERG’S research is within macroeconomics. In the previous year, he began a project on the effect of “assortative mating” (in this context, that educational attainments within marriages are correlated) on household income inequality. He constructed several counterfactual marriage formations and evaluated the effect on household inequality. E.g., what would household income inequality be if individuals only married within their educational level? What would household income inequality be if individuals married completely randomly? What would household income inequality be if individuals sorted perfectly with respect to income? He found that US 2005 income inequality is virtually the same for actual household data and a completely randomized counterfactual, while sorting with respect to education increases the Gini by 0.04. He is currently initiating a theoretical project on the skill premium and top income inequality.

MOUNIR KARADJA works in political and development economics. He spent the academic year as a visiting scholar at Columbia University, where he presented his work on the effects of relative income shocks on political preferences (with Johanna Möllerström and David Seim) at two seminars. The study’s main result was that when people learn that they are relatively richer than they thought they were, their political preferences shift toward the right. However, it is only people who were already on the right who respond to the treatment. The effect seems to be driven by the fact that those on the right have

different beliefs about the importance of effort for economic outcomes, rather than differences in moral values or altruism. The title of the paper is (1) “Richer (and Holier) than Thou? The Impact of Relative Income Improvements on Demand for Redistribution”. He has also been working on a project with Erik Prawitz on the effects of Swedish migration to the US in the 19th century. The study aims to investigate the impact of emigration on the sending communities in Sweden.

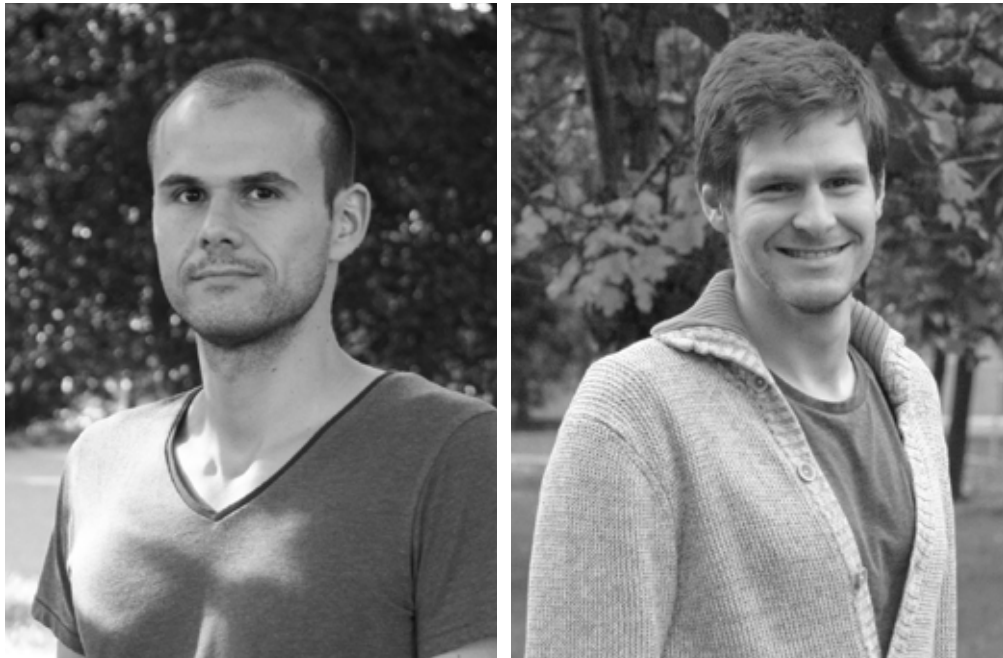
SHUHEI KITAMURA’S main research interests are economic development, political economy, and economic and political history. During the academic year, he mostly worked on three projects. His first project (co-authored with Yuhei Miyauchi) examined whether and how the information through newspapers propagated the rice riots of 1918 across Japan in a short period of time. In the second project (1) “Property, Primogeniture, and Development”, he studied whether owning land properties and primogeniture contributed to rural-urban migration during the rapid growth period of Japan. Shuheï’s third project (2) “Borders and Geography” (co-authored with Nils-Petter Lagerlöf) examined whether and how the location of borders in Europe has been historically determined by geography. He presented his projects at Kyoto University, Osaka University, and at Harvard University (which he also visited for half of the academic year).

HANNES MALMBERG spent the full academic year at Harvard University as a visiting graduate student working on macroeconomics and development economics. Firstly, he has tried to model the relation between tax requirements and the value of government issued money. Secondly, he attempted to explain why banks should have different insolvency procedures than non-financial companies. His hypothesis in this project was that traditional bankruptcy procedures damage liquidity provision, which is an important feature of the debt issued by financial companies. Finally, he tried to answer the question why few complex products such as high fashion and electronics are produced in Africa. Here, his hypothesis was that uncertain delivery times are more damaging for goods which have a high rate of obsolescence, difficult-to-replace inputs, and a complex supply chain. Papers in progress are: (1) “Price Level Determination When Money is Required to Pay Taxes” (with Erik Öberg); (2) “The Creditors’ Bargain with Financial Frictions” (with Maximilian Eber); and (3) “Supply Chain Uncertainty and Comparative Advantage” (with Maximilian Eber).

ERIK PRAWITZ’S main research areas have been in development, political economics and economic history. During the last academic year he worked mainly on two separate projects. Together with Mounir Karadja he worked on a project aiming at understanding the economic and political consequences of the transatlantic emigration from Sweden to the US in the 19th century, using a historical data set on emigration at the parish level. Together

with Laurence Malafry he worked on a project studying the effect of electrification in rural India on voting and other political outcomes. Moreover (together with Mounir Karadja and David Strömberg), he started a project concerned with understanding the effects of a housing privatization reform in Sweden on different political and economic outcomes.

THORSTEN ROGALL'S two main fields of interest are political economy and development economics with a special focus on the intersection of the two. In particular, he is interested in how political elites and institutions shape civilians' behavior and how they affect development and well-being. His job market paper, entitled (1) "Armed Groups, Civilians, and Muddy Roads: The Conduct of Political Mass Murder", examines how the political elites in Rwanda strategically used their armed groups, i.e. national army and various militia groups, to foster participation by ordinary Hutu civilians in the 1994 genocide against the Tutsi minority. In another paper, still somewhat work-in-progress, he shows that the same political elites successfully used the traditional institution of umuganda (mandatory community meetings) in the years prior to the genocide to sensitize the population to violence against the Tutsi (with Evelina Bonnier, Jonas Poulsen and Miri Stryjan). Finally, the third paper he has been working on shows that the elite's "rational" goal to kill as



Two of our new Graduate Students. From left: Richard Foltyn and Mathias Iwanowsky.

many Tutsi as possible indeed benefited the Hutu survivors. Villages with a great deal of violence are better off economically six years after the genocide (with David Yanagizawa Drott).

ALEX SCHMITT'S main research interests are in the fields of environmental macro-economics, climate-economy modeling and public finance. Over the past year, he continued working on his project on (1) "Optimal Carbon and Income Taxation", in which he analyzes carbon taxation while taking into account that taxes are set by national policy makers. He adds two features, namely distortionary income taxation and lack of commitment to future policies, to a standard climate-economy model and shows that the optimal time-consistent carbon tax is in general not at the Pigouvian level, due to the presence of costs and benefits of emitting carbon that only materialize in the presence of income taxes. Quantitatively, he finds a monotonic relationship between the size of this tax-interaction effect and the cost of climate change. In a related project, (2) "Climate Change Mitigation under Political Instability", he investigates climate policy in a setting where the policy maker is subject to probabilistic political turnover. He shows that an incumbent government that takes into account the possibility of losing power has an incentive to reduce emissions and invest more in clean energy relative to a corresponding myopic policy maker, independently of whether she derives more or less disutility from emitting carbon than a possible successor. Calibrating a model of the US, he finds that having a strategic government results in a reduction of cumulative carbon emissions until 2100 that is equivalent to emissions being permanently 10 percent lower than in a business-as-usual scenario.

MIRI STRYJAN does research in development economics and political economics. During the year she has been working on a study with Andreas Madestam and Selim Gulesci about hypothetical credit take up and investment behavior among small enterprises in urban Uganda, based on original data collected by the team in 2013. A popular summary of the findings was published as a PEDL Research Note (ERG project 683: Inside the Production Function: The Effect of Financial Contracts on Growing Firms' Technology Use). She has also spent much of her time preparing a randomized controlled trial based on the aforementioned study, which will also take place in Uganda together with the same co-authors. The experiment will investigate how credit contract structure impacts investment and growth in small enterprises taking loans, and the roll-out will start in October 2014. She has also worked on a project together with Evelina Bonnier, Jonas Poulsen and Thorsten Rogall investigating the role of mandatory community work meetings in the early 1990's in the participation in the subsequent Rwandan genocide.

ERIK ÖBERG's thesis concerns macroeconomics, especially monetary economics. In a theory project with Hannes Malmberg, (1) "Price Level Determination when Requiring Taxes in Money", they explore how requiring taxes to be paid with money can support a positive price level. They also show that this requirement eliminates the possibility of speculative hyperinflations that are inherent in models of fiat money. In another project, (2) "Monetary Policy under Income and Wealth Inequality" (with Tobias Broer, Niels-Jakob Harbo Hansen and Per Krusell), they try to uncover how household heterogeneity affects the aggregate impact of monetary policy in a dynamic stochastic general equilibrium model. The project is yet in the early stages, the main challenge ahead is to develop a computational strategy for solving the model. Finally, in (3) "Cross-Collateralization of Contracts: Revisiting the Role of Reputation in Sovereign Debt" (with Hannes Malmberg), they propose a new mechanism for how reputations can matter in sovereign debt relationships.

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. Tobias Broer, Konrad Burchardi, Masayuki Kudamatsu, Robert Östling and Annika Andreasson (administration) are responsible for all seminars during the academic year.

Information about seminars of past and current academic years can 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 PhD 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, YUAK, 1969, Oil on canvas.

Back Cover: The newly built "Studenthuset" which was completed in the fall of 2013. Photo: Hanna Weitz.

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