



Stockholm
University

INSTITUTE FOR
INTERNATIONAL
ECONOMIC STUDIES

Annual Report

2007/2008

Research Activities
Staff and Organization
Publications

The Institute for International Economic Studies

Stockholm University

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Deputy Director:

HARRY FLAM, (from July 1, 2008)

MATS PERSSON, (until June 30, 2008)

Board of Governors:

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Stockholm University

GUDRUN DAHL, Professor

HARRY FLAM, Professor (from July 1, 2008)

LARS HEIKENSTEN, Member of the
European Court of Auditors

LEIF LINDFORS, University Director

KARL O. MOENE, Professor

LARS-GÖRAN NILSSON, Professor

MATS PERSSON, Professor (until June 30,
2008)

TORSTEN PERSSON, Professor

MICHAEL SOHLMAN, Executive Director
of the Nobel Foundation

ESKIL WADENSJÖ, Professor

Administration:

CHRISTINA LÖNNBLAD (Head)

ANNIKA ANDREASSON

ÅSA BORNSTRÖM

ASTRID WÅKE

Publications:

ANNIKA ANDREASSON

Visitors Program and Seminars:

ANNIKA ANDREASSON

DAVID STRÖMBERG

JAKOB SVENSSON

Research Assistants:

JINFENG GE

ETTORE PANETTI

DAVID SEIM

Research Staff

Professors

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

Visiting Professor

DIRK NIEPELT

Research Fellows

NICOLA GENNAIOLI
ETHAN KAPLAN
MASAYUKI KUDAMATSU
CONNY OLOVSSON
MIKAEL PRIKS
PAUL SEGERSTRÖM
EMILIA SIMEONOVA
ROBERT ÖSTLING

Graduate Students

DAVID VON BELOW
ERIKA FÄRNSTRAND
DAMSGAARD
DARIA FINOCCHIARO
OLLE FOLKE
ANDERS FREDRIKSSON
JOHAN GARS
VIRGINIA QUEIJO VON
HEIDEKEN
JENS HENRIKSSON

MARTIN BECH HOLTE
CHRISTINA HÅKANSON
JAN KLINGELHÖFER
ANDREAS MUELLER
MARIA PERROTTA
MIRCO TONIN
GISELA WAISMAN
DAVID YANAGIZAWA

Visiting Graduate Students

MARTIN HALLA
ROINE VESTMAN

Visiting Fellows

CHRIS BLATTMAN
Yale University
PABLO FAJGELBAUM
Princeton University
PAOLA GIULIANO
Harvard University
REMA HANNA
New York University
PAUL KLEIN
University of Western Ontario
ANTON KORINEK
University of Maryland
ROCCO MACCHIAVELLO
Oxford University
FILIP MATEJKA
Princeton University
ALISDAIR MCKAY
Princeton University
NIKU MÄÄTTÄNEN
ETLA
JOHN PAPP
Princeton University
ALEH TSYVINSKI
Harvard University
JUSTIN WOLFERS
University of Pennsylvania

News at the Institute 2007/2008

MARTIN BERLIN and PAMELA CAMPA joined the Institute as research assistants in September 2008.

DARIO CALDARA, JINFENG GE, ERIK MEYERSSON and ETTORE PANETTI were admitted as graduate students at the Institute in September 2008. Ettore Panetti spends the academic year 2008/2009 as a special student at University of Minnesota. Dario Caldara will have an internship at Bank of England from July 1 – October 31.

LARS CALMFORS was appointed chair of the newly established Swedish Fiscal Policy Council, which is a government agency with the task of evaluating the government's fiscal policy, from 1 August 2007. He resigned as chair of EEAG (the European Economic Advisory Group) on 1 April 2008.

DARIA FINOCCHIARO successfully defended her doctoral thesis in October 2007. She now has a position in the Research Department at Sveriges Riksbank.

HARRY FLAM became the new Deputy Director of the Institute on July 1, 2008.

OLOF FOLKE was admitted to the Institute as a graduate student in January 2008.

VIRGINIA QUEIJO VON HEIDEKEN successfully defended her doctoral thesis in September 2007. She now has a position in the Research Department at Sveriges Riksbank.

MARTIN BECH HOLTE successfully defended his doctoral thesis in May 2008. He has now taken up a position as a consultant at McKinsey, Oslo.

PER KRUSELL was appointed to “The Savings Banks Foundations and Swedbank Chair in Macroeconomics” at the Institute on July 1, 2008. This new professorial chair has been created with the aid of a generous donation by Swedbank. In August 2008, Per was also awarded an Advanced ERC Grant from the European Research Council.

The Swedish Economic Association initiated a new medal – The Assar Lindbeck Medal – to be awarded a leading economist, not older than 45, every other year. The first medal was given to Tore Ellingsen at a prize ceremony in June 2008.

CONNOR OLOVSSON joined the Institute as a visiting researcher in the Mistra-SWECIA project.

MATS PERSSON stepped down from the position as Deputy Director of the Institute on June 30, 2008.

EMILIA SIMEONOVA with a Ph.D. from University of Columbia will join the Institute as an Assistant Professor in September 2008.

DAVID STRÖMBERG was promoted to professor in June 2008. He was also awarded an ERC Starting Grant from the European Research Council in the spring of 2008.

From January 2008 and onwards a number of IIES researchers participate in a new large and long-run research program, SWEDish research program on Climate Impacts and Adaptation SWECIA. The SWECIA program is supported by the Swedish research foundation Mistra and pursued together with meteorologists at Stockholm University and SMHI (The Swedish Met Office), biologists/ecologists at Lund University, and other social scientists at SEI, Stockholm University.

MIRCO TONIN successfully defended his doctoral thesis in September 2007. He now holds a tenure-track position at University of Southampton.

ROINE VESTMAN, graduate student from New York University, visits the Institute in the period April 2008 – June 2009.

GISELA WAISMAN successfully defended her doctoral thesis in January 2008. She took up a position as a researcher at the Department of Economics, Stockholm University in May 2008. Gisela is financed by a grant from the Swedish Council for Working Life and Research.

DAVID YANAGIZAWA spends the year 2008 at Harvard University.

FABRIZIO ZILIBOTTI has formally left the Institute for a position as Professor at University of Zurich.

ROBERT ÖSTLING with a Ph.D. from Stockholm School of Economics will join the Institute as an Assistant Professor in September 2008.

Staff Research Activities 2007/2008

LARS CALMFORS focused his research on four areas: the labor market effects of globalisation; psychological attitudes to different types of trade; Swedish fiscal policy; and wage bargaining systems. As chair of EEAG (the European Economic Advisory Group) he wrote the chapter (1) “The Effects of Globalisation on Western European Jobs: Curse or Blessing” in the group’s report *The EEAG Report on the European Economy 2008: Europe in a Globalised World*, CESifo, Munich and also served as the main editor of the report. As chair of the Swedish Fiscal Policy Council he wrote large parts of the council’s first annual report (2) *Svensk finanspolitik – Finanspolitiska rådets rapport 2008* (Swedish Fiscal Policy – the Report of the Swedish Fiscal Policy Council 2008), Stockholm. He also published (3) “Finanspolitiken i EU-länderna och stabilitetspakten” (Fiscal Policy in the EU Countries and the Stability Pact), in Persson, M. and E. Skult, (eds.), *Tillämpad makroekonomi*, SNS Förlag, Stockholm 2007; (4) “Flexicurity - an Answer or a Question”, *European Policy Analysis* 2007:6, Sieps; (5) *Knowledge-driven Growth: An Initial Report by the Globalisation Council* (together with other members of the Swedish Globalisation Council), Ds 2007:38, Stockholm 2007; and (6) “Kris i det svenska avtalssystemet?” (Crisis in the Swedish Collective Bargaining System), *Ekonomisk Debatt* 2008:1. In addition, he wrote (7) “Pattern Bargaining and Wage Leadership in a Small Open Economy” (together with Anna Larsson); (8) “Globaliseringen – hot eller räddning för jobben” (Globalisation – Threat to or Saver of Jobs), forthcoming as a report from the Swedish Globalisation Council; and (9) “Fiscal Policy Councils – Can They Be Loved: Comment to Charles Wyplosz”, forthcoming in *Swedish Economic Policy Review*.

HARRY FLAM published (1) “The Euro and Foreign Trade: How Much Trade Does Sweden Lose Annually?” (Euron och utrikeshandeln: Hur mycket handel förlorar Sverige årligen?), *Ekonomisk Debatt* 2007:5 (with Håkan Nordström). He revised the paper (2) “Explaining Large Euro Effects on Trade: The Extensive Margin and Vertical Specialization” and wrote the papers (3) “The Euro and Single Market Impact on Trade and FDI” and (4) “Gravity Estimation of the Intensive and Extensive Margin: An Alternative Procedure”, (all jointly with Håkan Nordström).

MARTIN HALLA, from University of Linz, spent the fall of 2007 at the IIES. During his visit he worked on three different empirical projects. In his first project he explores the effect of environmental policies and environmental quality on satisfaction with democracy among OECD member countries. His second project highlights differences between benefit fraud and tax evasion due to differing social norms. In his third, project he investigates the causal effect of joint custody law on the incidence of marriage and divorce in the United States.

JOHN HASSLER is participating in the large project on climate change financed by Mistra. The first focus has been on optimal corrective taxation with climate externalities. The paper (1) “On Optimal Timing of Capital Taxation” (with Per Krusell, Kjetil Storesletten, and Fabrizio Zilibotti) was published in *Journal of Monetary Economics* 55:4, 2008. The paper (2) “Unemployment Insurance Design: How to Induce Moving and Retraining” (with José V. Rodríguez Mora) was published in *European Economic Review* 52:5, 2008.

PER KRUSELL spent four months at the IIES (the rest being spent at Princeton University) and worked on a variety of research topics within macroeconomics broadly defined: inequality, growth, labor-market theory, financial economics, political economy, and public economics. Moreover, in a joint venture with natural scientists and economists at the IIES, he began an ambitious research project, Mistra-SWECIA, on economics and global climate change. He published (1) “Aggregation and Aggregation” in the *Journal of the European Economic Association* 6:2-3, 2008 (with Marina Azzimonti Renzo and Eva de Francisco); (2) “Time-Consistent Public Expenditures” in the *Review of Economic Studies* 75:3, 2008 (with Paul Klein and Jose-Victor Rios-Rull); (3) “On the Optimal Timing of Capital Taxes” in *Journal of Monetary Economics* 55:4, 2008 (with John Hassler, Kjetil Storesletten, and Fabrizio Zilibotti), and (4) “The Aggregate Implications of Indivisible Labor, Incomplete Markets, and Frictions” in *Journal of Monetary Economics* 55:5, 2008 (with Toshihiko Mukoyama, Richard Rogerson and Aysegul Sahin).

MASAYUKI KUDAMATSU continued working on the papers (1) “Has Democratization Reduced Infant Mortality in Sub-Saharan Africa? Evidence from Micro Data”; and (2) “Ethnic Favoritism: Micro Evidence from Guinea”. His forthcoming publication includes (3) “Making Autocracy Work” in Helpman, E. (ed.), *Institutions and Economic Performance*, Harvard University Press (with Timothy Besley). In addition, he started working on a follow-up study to this forthcoming book chapter (with Timothy Besley) and a Mistra-SWECIA research project on the impact of climate change (with Torsten Persson and David Strömberg). He presented his work at the IIES, Bocconi University, NEUDC 2007 Conference at Harvard, UC Berkeley Workshop on Endogenous Institutions and Political Conflict, and the Department of Economics at Stockholm University. He also served as a member of the organizing committee for the Nordic Conference on Development Economics 2008.

ASSAR LINDBECK has finished his project on socioeconomic interaction in China in connection with the country’s economic development shifting from central planning to market economy. His last paper on this issue is (1) “Economic-Social Interaction in China”, *Economics of Transition* 16, 2008 (also in Kanbur, R. and X. Zhang (eds.), *Governing Rapid Growth in China*, Routledge, 2008; and in *Journal of Comparative Studies* 33, 2007 (in Chinese). Other work has focused on welfare-state issues. Publications in this field include: (2)



John Hassler presenting at a Mistra-SWECLA seminar held at the IIES

“Welfare State”, the *Palgrave Dictionary*, 2008, as well as (3) “Prospects for the Welfare State”, CeALCI, Fundación Carolina, Madrid, March 2008 (in English and Spanish), and (4) “A Continuous Model of Income Insurance” (IIES Seminar Paper No. 756 with Mats Persson). Health care insurance and health care systems, and their financing, are new areas of research. Assar has also published a number of popular papers in international newspapers through the Project Syndicate.

DIRK NIEPELT worked on papers about (1) “Debt-Maturity without Commitment” (2) “Population Ageing, Government Budgets, and Productivity Growth in Politico-Economic Equilibrium” (with Martín Gonzalez-Eiras); and (3) “Economic and Politico-Economic Equivalence of Fiscal Policies” (with Martín Gonzalez-Eiras). He published the paper (4) “The Future of Social Security”, *Journal of Monetary Economics* 55:2, 2008 (with Martín Gonzalez-Eiras) and presented his work at various occasions.

CONNOR OLOVSSON spent the fall revising the paper (1) “Why Do Europeans Work so Little”, which now is forthcoming in *International Economic Review*. He also worked on the paper (2) “On the Possibility of Political Change”, which is joint work with Jesper Roine. In the spring, Per Krusell, John Hassler and Conny Olovsson started working on a dy-

dynamic model on the interaction between the economy and the climate, which is a project within Mistra-SWECIA.

MATS PERSSON published (1) *Tillämpad makroekonomi*, 3rd edition updated (with Eva Skult); and (2) “A Continuous Model of Income Insurance”, (IIES Seminar Paper No. 756, with Assar Lindbeck).

TORSTEN PERSSON wrote the new papers (1) “Uncertainty, Climate Change and the Global Economy”, mimeo 2008 (with David von Below); (2) “State Capacity, Conflict and Development”, paper underlying his Presidential Address to the Econometric Society, 2008 (with Tim Besley). During the year, he published (3) “Wars and State Capacity”, *Journal of the European Economic Association*, 2008 (with Tim Besley); (4) “The Growth Effect of Democracy: Is it Heterogenous and How Can it Be Estimated?” in Helpman, E. (ed.), *Institutions and Economic Performance*, Harvard University Press, 2008 (with Guido Tabellini); (5) “Economic Approaches to Political Institutions”, in Blume, L. and S. Durlauf, (eds.), *The New Palgrave*, McMillan, 2007 (with Tim Besley), while a revision of the paper (6) “The Origins of State Capacity: Property Rights, Taxation, and Politics” was accepted by the *American Economic Review*, 2008 (with Tim Besley). During the year, Persson gave a number of seminars and lectures in Sweden, Europe and the US. As the 2008 President of the Econometric Society, he gave plenary lectures in a number of regional congresses of the Society all across the world. In October/November, he visited the London School of Economics, where he gave a series of lectures to graduate students.

MIKAEL PRIKS spent nine months at the IIES. He finished his book *Hooliganomics*, which for the first time analyzes how hooligans respond to external influence and incentives. Mikael finds that hooligans are possible to influence as police, surveillance cameras, frustration, weather and unemployment affect their behavior. The chapter “The Effect of Police Intelligence on Group Violence: Evidence from Reassignments in Sweden” is forthcoming in *Journal of Public Economics*. He also started to study the effects of surveillance cameras in the Stockholm subway. Preliminary results show that the cameras substantially reduce crime in the subway.

PAUL SEGERSTROM spent five months at the IIES in the fall of 2007 as part of a sabbatical leave from the Stockholm School of Economics. During this time, he worked on 2 research projects with Peter Gustafsson and two research projects with Elias Dinopoulos. These research projects are: (1) “North-South Trade with Increasing Product Variety”; (2) “Trade Liberalization and Productivity Growth”; (3) “Intellectual Property Rights, Multinational Firms and Economic Growth”; and (4) “North-South Trade and Economic Growth”.



Per Krusell The Savings Banks Foundations and Svedbank Chair in Macroeconomics

DAVID STRÖMBERG published (1) “How the Electoral College Influences Campaigns and Policy: The Probability of Being Florida”, *American Economic Review* 98:3, 2008, (2) “The Media’s Influence on Public Policy Decisions” in *Information and Public Choice*, Islam, R. (ed.), World Bank, (3) “Naturkatastrofer, ekonomisk utveckling och humanitär hjälp”, *Ekonomisk Debatt* 2008:6.

During the year, JAKOB SVENSSON published (1) “Power to the People: Evidence from a Randomized Field Experiment of Community-Based Monitoring in Uganda”, *Quarterly Journal of Economics* (forthcoming) (with M. Bjorkman); (2) “Absorption Capacity and Disbursement Constraints”, 2008, in Easterly, W. (ed.), 2008, *Reinventing Foreign Aid*, The MIT Press, Cambridge, MA. In addition, the paper (3) “Foreign Aid and Rent-Seeking”, *Journal of International Economics*, 2000, was reprinted in Congleton, R.D., A.L. Hillman and K.A. Konrad (eds.), 2008, *Forty Years of Research on Rent Seeking 2*, Springer Heidelberg. The following three papers have been revised during the year: (4) “The Returns from Reducing Corruption: Evidence from Education in Uganda” (with R. Reinikka); (5) “From Corruption to Lobbying and Economic Growth” (with B. Harstad); (6) “Working for God? Evidence from a Change in Financing of Not-for-profit Health Care Providers in Uganda” (with R. Reinikka). During the year Jakob has also worked on the papers (7) “Getting Prices Right: The Impact of the Market Information System in Uganda”, presented in an invited session at the 2008 European Economic Association Meeting in Milano (with D. Yanagizawa); (8) “Tuning in the Market Signal: Contracting and Efficiency under Asymmetric Price Information in Uganda Maize Markets”, mimeo, (with D. Yanagizawa); (9) “Free Education: Evidence from a Policy Experiment in Cambodia, mimeo, (with M. Cheung and A. Madestam); and (10) “Impact Evaluation of Service Delivery Programs: Methods and Concepts for Impact Assessments in Basic Education, Health, Water and Sanitation”, a paper prepared for the African Economic Research Consortium (with P. Pettersson-Lidbom). He has also, jointly with Martina Björkman, initiated a field experiment on incentivizing community healthy workers in Uganda, joint with BRAC-Uganda and Living Goods, USA. Together with Masa Kudamatsu and Annika Andreasson (administration), Jakob organized the 2008 Nordic Conference in Development Economics in Stockholm in June 2008.

PETER SVEDBERG wrote the following papers: (1) “Child Malnutrition in India and China: A Comparison”, published as a Focus Brief by the International Food Policy Research Institute in connection with the conference “Taking Action for the World’s Poor and Hungry People”, held in Beijing in October 2007. At this conference, he also presented the paper (2) “Can Indicators of Child Malnutrition be Improved – and for What Purposes?”. The paper (3) “Why Malnutrition in Shining India Persists” was presented at the Nordic Conference in Development Economics in June; a revised version will be presented at the Growth and Development Conference in New Delhi in the fall. The paper (4) “Notes of Food Price Vulnerability: A Nutritional Perspective” was discussed at the workshop “Policies for the Effective Management of Sustained Food Price Increases”, hosted by the FAO in Rome in July. He also worked on the manuscripts (5) “Child Malnutrition, Income Distribution and Economic Growth in China 1982-2005”; and (6) “Concentration of Child Malnutrition: Consequences for Policy Choice”.

Articles Published or Accepted in Leading Journals by IIES Staff 2007/2008

NICOLA GENNAIOLI, “The Evolution of Common Law”, *Journal of Political Economy*, 115, 2007 (with Andrei Shleifer).

PER KRUSELL, “Technology-Policy Interaction in Frictional Labor Markets”, *Review of Economic Studies*, 74:4, 2007 (with Andreas Hornstein and Giovanni Violante).

PER KRUSELL, “Time-Consistent Public Expenditure”, *Review of Economic Studies*, 75:3, 2008 (with Paul Klein and José-Víctor Ríos-Rull).

TORSTEN PERSSON, “The Origins of State Capacity: Property Rights, Taxation, and Politics”, *American Economic Review*, forthcoming (with Timothy Besley).

DAVID STRÖMBERG, “How the Electoral College Influences Campaigns and Policy: The Probability of Being Florida”, *American Economic Review*, 98:3, 2008.

JAKOB SVENSSON and MARTINA BJÖRKMAN, “Power to the People: Evidence from a Randomized Field Experiment of Community-Based Monitoring in Uganda”, *Quarterly Journal of Economics*, forthcoming.

FABRIZIO ZILIBOTTI, “Occupational Choice and the Spirit of Capitalism”, *Quarterly Journal of Economics*, 123:2, 2008 (with Matthias Doepke).

FABRIZIO ZILIBOTTI, “Technology, Information and the Decentralization of the Firm”, *Quarterly Journal of Economics*, 122:4, 2007 (with Daron Acemoglu, Philippe Aghion, Claire Lelarge and John Van Reenen).

FABRIZIO ZILIBOTTI, “The Unequal Effects of Liberalization: Evidence from Dismantling the License Raj in India”, *American Economic Review*, 98:4, 2008 (with Philippe Aghion, Robin Burgess and Stephen Redding).

Visiting Fellows 2007/2008

PABLO FAJGELBAUM and JOHN PAPP visited the IIES in July and August of 2007. They worked with Per Krusell on a project modeling the African economy's response to the AIDS epidemic. Specifically, the goal of the project was to incorporate demographic and behavioral responses to changes in mortality and life expectancy which were then used to make predictions about the growth path of GDP per capita.

PAOLA GIULIANO visited the IIES in the spring of 2008. She worked on and presented a paper on the importance of macroeconomic volatility in the determination of economic and political beliefs. The paper shows that individuals who are subject to macroeconomic volatility especially during early adulthood support more government redistribution, believe that individual success depends more on luck than effort and are less confident in several institutions. She received very useful comments that were included in the paper.

PAUL KLEIN visited from the University of Western Ontario between May 10 and August 20, 2008. He worked on a project with David Domeij that looks at the consequences of subsidizing daycare for small children, especially the impact it would have on welfare and female labor supply in Germany.

ANTON KORINEK spent one week as a visiting scholar at the IIES in June 2008. He found it an extremely productive research environment. He had lots of interesting discussions and conversations with colleagues and other visitors, and a week free of the distractions of regular faculty life. At the end of his stay, he was surprised to find that he had written an entire new paper within a week.

ROCCO MACCHIAVELLO was very pleased to enjoy the special atmosphere at the IIES for the three weeks he spent visiting in September 2007. During his visit he presented a paper on the organization of exports in the Chilean wine industry. The paper explores how developing countries break into established markets where quality is important. It analyzes the organization of exports in a fast growing industry through the lens of long term relationships between exporters and agents in foreign markets. Data on relationships between Chilean wineries and British agents reveal that characteristics of these relationships correlate with export performance. Agents' effects on export performance are highly heterogeneous and economically significant. Observable agents' characteristics do not explain these effects and do not correlate with exporters characteristics, however. The paper also exploits exogenous exchange rate variation to analyze the economic forces



Leena Rudanko enjoyed some time on horseback during her visit. Here with Stjarni.

beyond the formation and maintenance of these relationships. Because of imperfect contracting, parties find it hard to adapt to observable shocks. As a result, trust, reputation and search costs are important determinants of export performance. The paper also discusses a number of policy implications. Rocco is currently working on including many of the very useful comments received during the seminar in the new draft of the paper. He also took some time to visit Stockholm and its beautiful archipelago in the company of his parents, and tried his best to maintain the reputation of Italian football during challenging indoor matches. On all accounts, the visit has been very successful!

FILIP MATEJKA visited his advisor Per Krusell and the IIES in August 2007. He got to meet good friends, play soccer, go watch soccer, visit numerous bars (for tourist purposes, of course) and know Stockholm with its generally nice people. Filip simply had a great few weeks. In the remaining 99% of his time spent in Stockholm, Filip worked on several problems concerning rigidity of pricing in the framework of rational inattention. The work partially resulted in a paper “Rational Inattention: Sales and Discrete Pricing”, which Filip presented at NorMac2008.

ALISDAIR MCKAY visited the IIES in July and August of 2007. He worked under the supervision of Per Krusell on “Household Saving Behavior, Wealth Accumulation, and Social Security Privatization.” The paper explores the consequences of privatizing Social Security when households have difficulties making sound financial choices by using a model of household saving in which households must exert effort to allocate savings to high return assets.

NIKU MÄÄTTÄNEN visited the Institute for a week in November 2007. He presented “The Optimal Tax Treatment of Housing Capital in the Neoclassical Growth Model” (with Essi Eerola). The paper studies how the tax treatment of housing capital should depend on how business capital and consumption are taxed. The paper shows that, in general, the optimal tax treatment of housing capital can be very different from the tax treatment of business capital. The optimal tax on housing should also be higher, the higher is the tax on non-durable consumption. Niku received very helpful comments during the seminar. He was also very interested in learning about the current political debate around tax status of housing in Sweden.



Current and former IIES affiliates at the Assar Lindbeck medal award ceremony: Back row from the left: Per Wijkman, Jan Herin, Stefan Lundgren, Martin Flodén, David Domeij. Middle row: Mats Persson, Staffan Viotti, Assar Lindbeck, Harry Flam, Carl B. Hamilton, Jörgen Weibull. Front row: Christina Lönnblad, Lars Nyberg, Nils Lundgren.

Tenure Track Assistant Professor Position

The Institute for International Economic Studies, Stockholm University, seeks to fill two positions at the tenure-track assistant professor level, in any field, beginning in the academic year 2009/10. 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) with a competitive salary. Applicants must submit a CV, three letters of recommendation, and samples of research such as thesis chapters or publications. To ensure full consideration, applications should be submitted at <http://econjobmarket.org> by November 28, 2008.

Candidates on a shortlist will be interviewed at the ASSA Annual Meetings in San Francisco, January, 2009. Other arrangements may be possible for short-listed candidates not based in the US and not planning to attend the Meetings.

For questions please contact: Prof. Per Krusell, e-mail: per.krusell@iies.su.se

Teaching 2007/2008

LARS CALMFORS taught an undergraduate course in Intermediate Macroeconomics in the autumn of 2007 and a master course in Labour Economics and Wage-setting Theory in the spring of 2008.

JOHN HASSLER taught the Ph.D. course Non-standard Preferences in Macroeconomics and together with Per Krusell, he gave Macroeconomics II in the Ph.D. Program.

PER KRUSELL taught the second part of Macroeconomics II, a first-year graduate course; John Hassler taught the first part of the same course.

ASSAR LINDBECK has given a number of lectures in Micro- and Macroeconomics for first-year students (10 hours).

Joint with Lars Ljungqvist, DIRK NIEPELT taught the Ph.D. course Macroeconomics I.

Together with Kelly Ragan, CONNY OLOVSSON taught the course Quantitative Methods in Macro Economics.

MATS PERSSON taught the undergraduate first year Macroeconomics course.

TORSTEN PERSSON taught the second year graduate courses Political Economics II and Political Economics III (with David Strömberg). He also taught a Masters/Ph.D. course on the same topic at the London School of Economics (with Ronny Razin)

DAVID STRÖMBERG taught the Ph.D. courses Econometrics II (together with Per Pettersson-Lidbom), Political Economics II (together with Torsten Persson) and III (together with Torsten Persson).

PETER SVEDBERG taught the course Intermediate Development Economics in the fall as well as the spring semester.

JAKOB SVENSSON taught the Ph.D. course Development Economics and the master course in Development Economics in the fall 2007.

Extramural Activities

LARS CALMFORS served as chairman of the European Economic Advisory Group (EEAG) and the Swedish Fiscal Policy Council. He also served as a member of the board of the Swedish Research Council and the Swedish Globalisation Council. He gave a large number of public lectures on issues like globalisation, fiscal policy, and wage bargaining arrangements. This included places like ECB, the European Policy Centre in Brussels, Bloomberg in London, the Swedish Ministry of Finance, the Finance Committee in the Swedish Parliament, the Committee for Budgetary and Financial Affairs of the State Parliament of Nordrhein-Westfalen, Riksdagens utredningstjänst (the Research Service of the Swedish Parliament), the Swedish Globalisation Council, the Swedish Fiscal Policy Council, the Economic Council of Sweden, the Danish Embassy in Stockholm, SNS (the Centre for Business and Policy Research in Stockholm) in both Stockholm and Brussels, SIEPS, Svenskt Näringsliv (Confederation of Swedish Enterprise), Almega (the Employers' Federation for Service Companies in Sweden), Svensk Handel (Swedish Trade Federation), Teknikföretagen (the Employers' Federation for the Swedish Engineering Industry), Medlingsinstitutet (the Swedish National Mediation Office), Stockholm School of Economics, the Club of Liberal Economists in Sweden, AGL Treasury Support and Riksrevisionen (the National Auditors in Sweden).

HARRY FLAM was appointed deputy chairman of the Expert Group on Public Economics at the Ministry of Finance and chairman of the Scientific Council at the Center for Business and Policy Studies (SNS). He joined the Shadow Riksbank Executive Board at the business daily *Dagens Industri*, which takes mock decisions on monetary policy ahead of the Riksbank's decisions.

During the year JOHN HASSLER became associate editor of *European Economic Journal* and continues to be an associate editor of *Scandinavian Journal of Economics* and a member of the Editorial Board of the *Review of Economic Studies*. John has also become a member of the European Economic Advisory Group, replacing Lars Calmfors.

Throughout the year, PER KRUSELL served on the Prize Committee for The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. He also served as an Associate Editor for *Econometrica* and as a Foreign Editor for the *Review of Economic Studies*. He served as Programme Director of the International Macroeconomics Programme at the Centre of Economic Policy Research (CEPR). In addition, he served on the Scientific Advisory Boards of CREI, Barcelona, and of the Institute for Advanced Studies, Vi-

enna. He gave a plenary lecture at the Annual Meetings of the Society for Economic Dynamics in Cambridge, Massachusetts.

ASSAR LINDBECK gave a lecture on “János Kornai’s Contributions to Economic Analysis” at the EEA Congress in Budapest, August 2007, and a lecture at the Royal Swedish Academy of Sciences on “The Welfare State” in September 2007.

DIRK NIEPELT is deputy director of Study Center Gerzensee and professor at University of Bern. He serves on the board of the Swiss Society for Economics and Statistics.

MATS PERSSON served as a member of the Preparatory Committee for Economics of the Riksbankens Jubileumsfond. He also served as a member of the Prize Committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel at the Royal Swedish Academy of Sciences.

TORSTEN PERSSON served as President (from January 2008) of the Econometric Society. He also chaired the panel (SH1) for Economics and other Social Sciences in the newly founded European Research Council.

JAKOB SVENSSON served as a member of the Board of Directors for the Swedish Agency for Development Evaluation (Sadev). He has been a member of the Panel of Experts for the U4 Helpdesk (Transparency International). He also served as a member of the Prize Committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel at the Royal Swedish Academy of Sciences.

Completed Theses 2007/2008

In October 2007, DARIA FINOCCHIARO defended her thesis *Essays on Macroeconomics*, which comprises three papers. The first, “Inattentive Consumers in General Equilibrium”, explores the effects of heterogeneity in planning propensity on wealth inequality, asset prices and welfare. The paper studies a simple model economy populated by “attentive” and “inattentive” agents. Attentive agents plan their consumption, savings, or stock holdings period by period, while inattentive ones plan every other period. In partial equilibrium with fixed asset prices, inattentive consumers face more uncertainty and save more for precautionary reasons. In general equilibrium, their savings are positively correlated with bond prices, but inattentive consumers still accumulate more wealth. Moreover, asset prices are much more volatile than in a representative agent model with full attention, because they must induce attentive consumers to voluntarily bear the entire burden of adjusting to aggregate shocks. In a simple two-period portfolio choice model driven by uncertain asset returns, however, infrequent revisions of portfolios can produce the opposite result: inattentive investors accumulate less wealth. The second paper, “Monetary Regime Change and Business Cycles”, analyzes how changes in monetary policy regimes can influence the economic dynamics in a small open economy. The authors estimate a DSGE model on Swedish data incorporating the change in 1993 from an exchange rate targeting to an inflation targeting regime. For each regime, the behavior of the monetary authority and the relative contribution to the business cycle of structural shocks are estimated. The results confirm that monetary policy indeed mainly reacted to exchange rate movements in the target zone and to inflation in the inflation targeting regime. Moreover, devaluation expectations were the main source of volatility in the target zone period. In the inflation targeting period, labor supply and preference shocks became relatively more important. Shocks to foreign variables were in general more destabilizing under the target zone regime than under inflation targeting. The third paper, “Central Banks React to House Prices?”, evaluates whether the U.S. Fed, Bank of Japan and Bank of England have reacted to house price inflation. The paper studies the responses of these central banks by estimating a structural model for each country where credit constrained agents borrow using real estate as collateral. The main result is that house price movements did play a separate role in the U.K. and Japanese central bank reaction functions in the last years, while they did not in the U.S.

In September 2007, VIRGINIA QUEIJO VON HEIDEKEN defended her thesis *Essays on Monetary Policy and Asset Markets*. The first paper, “Monetary Policy Regimes and the Volatility of Long-Term Interest Rates”, addresses two questions that have, so far, been studied separately in the literature. On the one hand, the paper aims at explaining the high volatility



Robert Östling joined the IIES as Assistant Professor in the fall of 2008.

of long-term interest rates observed in the data. Building a small-scale macroeconomic model and estimating it on U.S. and U.K. data, she shows empirically that the policy responses of a central bank that is uncertain about the natural rate of unemployment can explain this volatility puzzle. On the other hand, she shows that using yield curve data may facilitate the empirical discrimination between different monetary policy regimes. The second paper, “Do Central Banks React to House Prices?”, a joint essay with Daria Finocchiaro, studies the conduct of monetary policy by three major central banks over the last few decades. Using economic theory as well as statistical methods, they show that Bank of Japan and Bank of England have reacted to house price inflation increasing interest rates, while the U.S. Fed did not. The last paper, “How Important are Financial Frictions in the U.S. and the Euro Area?”, shows that both the U.S. and the Euro area have frictions in credit markets which affect the supply of credit and amplify business cycles.

In May 2008 MARTIN BECH HOLTE defended his thesis *Essays on Incentives and Leadership*. The first paper, “Taxation, Career Concerns and CEO Pay”, proposes a simple dynamic

model of equilibrium CEO compensation. Motivated by the strengthened career incentives stemming from the fall in the top income tax rates over the past decades, he studies the implications of a model where the quality of talent identification depends on how hard individuals work in order to be among the winners in the contest for managerial positions. In the second paper, “Incentives under Communism: The Value of Low-Quality Goods”, he studies how efficiently centrally planned regimes can provide incentives across different stages of economic development. The last paper, “The Business of Troubled Autocrats”, studies how autocrats behave in product and capital markets, in particular at times of financial distress. The main questions are: How does the asset position of an autocrat affect his behavior as a producer in a market with rents? From whom does the autocrat obtain financing in order to get out of difficulties?

In September 2007, MIRCO TONIN defended his Ph.D. thesis *Essays on Labour Market Structure and Policies*. The first paper, “Minimum Wage and Tax Evasion: Theory”, builds a model to analyze the interaction between minimum wage and tax evasion by employed labor. The minimum wage poses a constraint on the reporting decision and induces an increase in compliance by some agents. As a consequence, a spike at the minimum wage appears in the distribution of declared earnings. Moreover, a nominally neutral fiscal regime becomes regressive, while fiscal revenues may increase. The second paper, “Minimum Wage and Tax Evasion: Empirical Evidence”, tests the prediction that a minimum wage hike implies a fall in true income even for those workers who appear to benefit from it. It uses the massive increase in the minimum wage that took place in Hungary in 2001 as a quasi-natural experiment. A difference-in-difference approach is used, comparing food consumption before and after the minimum wage hike for households affected by it and for similar but unaffected households. The treatment effect is negative and significant, thus supporting the prediction of the model. The third paper, “In-Work Benefits in Search Equilibrium”, investigates the general equilibrium effects of in-work benefits in a search framework. Introducing in-work benefits reduces equilibrium unemployment, moderate wages, and boosts participation and search. Total employment increases as a result. Compared to a partial equilibrium analysis, accounting for general equilibrium effects reinforces the impact of benefits on labour market variables.

In January 2008 GISELA WAISMAN defended her thesis *Essays on Discrimination and Corruption*, which comprises four chapters. “Do Attitudes Towards Immigrants Matter?” analyzes the consequences of negative attitudes towards immigrants to Sweden. If attitudes changed from the average level to the most positive level, the wage earned by a well educated immigrant from a non developed country would increase by 12%. This change in attitudes would increase the welfare of immigrants from Africa and Asia, through their wage and local amenities, by an equivalent to one third of their wage and the welfare of immigrants

from South America and Eastern Europe by one fourth of their wage if they are well educated, and one tenth otherwise. In “Who is Hurt by Discrimination?”, the effects of discrimination of immigrants on the labor market are studied in a search and wage-bargaining setting, including a risk of losing skills during the experience of unemployment. The negative effects of discrimination in the form of higher unemployment and lower wages spread to all workers, immigrants and natives, in all sectors of the economy. An increase in the share of immigrants in the economy exacerbates the problem of discrimination. These two chapters are joint work with Birthe Larsen, from the Centre for Business Research (CEBR) and Copenhagen Business School, Department of Economics. In “Complementary Controls of Corruption”, a theoretical model shows that when the judiciary and the media are more dependent and the elections less competitive, corruption flourishes. The three institutions are shown to be complementary. The empirical analysis indicates that the dependence of the judiciary and the media has a positive effect on perceived corruption and that the media is complementary with both the judiciary and the electoral system. “Decision Making in the ECB’s Governing Council — Should Minutes and Forecasts be Published ?” analyses if the publication of forecasts and minutes of the meetings of the Governing Council could have a negative effect due to the influence of governments on their representatives’ votes. The information provided is shown to reduce their influence and benefit the Executive Board.

Theses in Progress 2007/2008

DAVID VON BELOW spent the academic year at the London School of Economics, where he continued to work on a thesis on the economics of climate change. He is also a participant in the SWEdish research programme on Climate, Impacts and Adaptation (Mistra-SWECIA), which started up in January 2008. The paper “Uncertainty, Climate Change and the Global Economy” (with Torsten Persson) uses Monte Carlo methods to explore the various sources of uncertainty about future climate change, and finds that socio-economic forces account for a substantial proportion of this uncertainty. Current projects include a study on land use, in particular how deforestation and biofuel production affect the climate and global welfare, and also a collaboration with meteorologists within Mistra-SWECIA aimed at mapping how the distribution of weather outcomes can be determined by climatic state variables.

OLLE FOLKE’s research interests are mainly within the fields of applied political economics and applied environmental economics. During the past academic year Olle has mainly been working on the paper “Estimating the Effect of Political Parties in Proportional Election Systems”. The aim of the paper is to develop a method for measuring the causal effect of the seat distribution between political parties on policy outcomes. The method is applied to Swedish municipalities where the effect of the seat distribution on the municipal tax rate and the annual placement of refugee immigrants are examined. Other research projects include a study of how political parties can influence the proportionality of the seat distribution in Swedish municipalities and an estimation of the effect of education on car choice.

ANDERS FREDRIKSSON is working on two projects, both of which relate to the informal economy, government bureaucracy and corruption in developing countries. The geographical focus of his work is Latin America, although the work is theoretical and more generally applicable. The first project, “Informal Firms and Migration to Formality”, tries to answer the question what determines whether small informal firms in developing countries become formal or not. In the second project, he studies a specialized service sector, “dispatchers”, that has emerged in many developing countries in order to help individuals and firms deal with government bureaucracy. This project was presented at three conferences in June/July 2008.

JOHAN GARS is mainly working within the macroeconomic modeling part of the Mistra-SWECIA project. In particular, he is looking at the role of technical change. There are many interesting questions to analyze. How will actual and expected climate change affect



IIES crayfish party

the rate and direction of technical change? To what extent will markets provide the right incentives for investments in R&D and what policies can be used to improve the market outcome? He is also working on a model for analyzing the strategic interaction between countries sharing common fishing waters.

CHRISTINA HÅKANSON joined the IIES in September 2007. Christina is writing her thesis on topics related to macroeconomics and labor. She has been working on a paper investigating the interactions between organizational change and choice of technology and its effect on firm productivity growth. In a new project, joint with Jonas Vlachos and Erik Lindqvist, the aim is to gain further understanding about the causes for the increasing within industry productivity and wage dispersion, using matched employer - employee data including time consistent measures of human capital, indicators of firm organizational change and process innovations.

JAN KLINGELHÖFER is writing a thesis on the interaction of lobbying and elections. The focus is especially on the adjustment of voting decisions if lobbies are expected to influence implemented policy after elections have taken place. He is considering the differ-

ences of special interest and general interest lobbying as well as the differences of interest group influence on individual Members of Parliament compared to influence on political parties. The latter can potentially shed some light on differences in lobbying of US-style presidential systems in comparison with a Parliamentary European political system. Another focus is on indirect effects of lobbying in one policy dimension on implemented policy in other policy dimensions. He presented a paper with the title “A Voting Model with Greedy Politicians” at conferences in Dresden and Madrid. In this paper, the voters predict the interaction of lobbying and the size of the parliamentary majority of the Government. Because larger majorities lead to lower rent payments for politicians, multiple equilibria in elections become possible.

ANDREAS MUELLER spent the academic year 2007/08 at Princeton University, where he attended several graduate courses in Macroeconomics, Labor Economics and Econometrics. He also started working with Alan B. Krueger on a project that looks at how much time the unemployed spend on job search activities. In their paper “Job Search and Unemployment Insurance: New Evidence from Time Use Data” they analyze how differences in the unemployment benefit systems across the U.S. states affect the time devoted to job search. The major findings are that time devoted to job search is inversely related to unemployment benefit generosity and strongly increases at the time before benefits are exhausted. In a second paper “The Lot of the Unemployed: A Time Use Perspective” they compare job search activities and other time use patterns across different countries and find that wage dispersion is the strongest predictor of time devoted to job search. Moreover, Andreas spent the summer of 2008 at the Research Department of the Central Bank of Iceland (Sedlabanki).

MARIA PERROTTA joined the IIES in September 2007. She continued to work on topics in development economics and political economics. This year, she has mainly been working on one project about the effect of constitutions on the growth elasticity of poverty. Maria’s other projects are related to foreign aid: the first is about the political economy implications of different types of aid financing; the second, with Emmanuel Frot at SITE/Stockholm School of Economics, is an instrumental variable approach to assess aid effectiveness.

DAVID YANAGIZAWA has continued to work on his thesis in development economics and political economics. Together with Jakob Svensson he has worked on a project that evaluates the impact of price information dissemination through radio on farmers’ bargaining power and crop supply in rural Uganda. In addition, he has been working with Nancy Qian on the strategic determinants of U.S. human rights reporting. Finally, David has continued to work on investigating the effects of ethnic radio propaganda on genocide participation in the 1994 Rwanda genocide.



David Seim, Pamela Campa and Martin Berlin, Research Assistants at the IIES

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. The people in charge of the seminars are David Strömberg, Jakob Svensson and Annika Andreasson (administration).

Information about seminars of past and current academic years is to be found on our web: www.iies.su.se/seminars.htm. Invitations and papers presented at seminars can be received electronically or by regular mail (most papers can be downloaded from the web).

Publications

A list of the IIES Seminar Papers is found on our web, where all papers from SP No. 600 are downloadable as pdf-files.

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

The theses of our Ph.D. students are published in our Monograph Series, where all monographs from Monograph No. 46 are downloadable as pdf-files.

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, KSLAK 1976, Oil on canvas.
Back Cover: Assar Lindbeck medal, Photo: Karl Gabor.*