



Stockholm
University

INSTITUTE FOR
INTERNATIONAL
ECONOMIC STUDIES

Annual Report

2009/2010

Research Activities
Staff and Organization
Publications

The Institute for International Economic Studies

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TORSTEN PERSSON (until Dec 31, 2009)

Deputy Director:

HARRY FLAM (until Dec 31, 2009)

JAKOB SVENSSON (from Jan 1, 2010)

Board of Governors:

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KÄRE BREMER (Chairman), Professor and
Rector

GUDRUN DAHL, Professor and Dean

HARRY FLAM, Professor

LARS O GRÖNSTEDT

LARS HEIKENSTEN, Member of the
European Court of Auditors

KARL O. MOENE, Professor

ULRIKA MÖRTH (from May 1, 2010), Professor

LARS GÖRAN NILSSON (until Dec 31, 2009),
Professor

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TORSTEN PERSSON (until Dec 31, 2009), Professor

MICHAEL SOHLMAN, Executive Director of the
Nobel Foundation

JAKOB SVENSSON, Professor

ESKIL WADENSJÖ (until Dec 31, 2009), Professor

Administration:

CHRISTINA LÖNNBLAD (Head)

ANNIKA ANDREASSON

HANNA CHRISTIANSSON

KARL ERIKSSON (IT Support)

ÅSA STORM

ASTRID WÅKE

Publications:

ANNIKA ANDREASSON

HANNA CHRISTIANSSON

Visitors Program and Seminars:

ANNIKA ANDREASSON

ALMUT BALLEER

TESSA BOLD

TOBIAS BROER

DAVID STRÖMBERG

JAKOB SVENSSON

Research Assistants:

MARTIN BERLIN

PAMELA CAMPA

ERIK PRAWITZ

Research Staff

Professors

LARS CALMFORS

HARRY FLAM

JOHN HASSLER

PER KRUSELL

ASSAR LINDBECK

MATS PERSSON

TORSTEN PERSSON

DAVID STRÖMBERG

PETER SVEDBERG

JAKOB SVENSSON

Affiliated Professor

LARS E.O. SVENSSON

Visiting Professors

PHILIPPE AGHION

TIM BESLEY

DIRK NIEPELT

FABRIZIO ZILIBOTTI

Research Fellows

ALMUT BALLEER

TESSA BOLD

TOBIAS BROER

KARIN EDMARK

ETHAN KAPLAN

PAUL KLEIN

SEBASTIAN KOEHNE

MASAYUKI KUDAMATSU

ANDREAS MADESTAM

CONNY OLOVSSON

EMILIA SIMEONOVA

ROBERT ÖSTLING

Graduate Students

DAVID VON BELOW

DARIO CALDARA

DAVID YANAGIZAWA DROTT

OLLE FOLKE

JOHAN GARS

JINFENG GE

JENS HENRIKSSON

CHRISTINA HÅKANSON

JAN KLINGELHÖFER

ERIK MEYERSSON

ANDREAS MUELLER

ETTORE PANETTI

MARIA PERROTTA

DAVID SEIM

Visiting Graduate Students

LUCIA CORNO

SOFYA KRUTIKOVA

Visiting Fellows

ABHIJIT BANERJEE, MIT

CHRISTIAN GOLLIER, University of Toulouse

PAOLA GIULIANO, UCLA

BERNARDO GUIMARAES, LSE

TAREK HASSAN, University of Chicago

Booth School of Business

MAREK KAPIČKA, University of California,
Santa Barbara

MARC MEREDITH, University of Pennsylvania

ANTONIO MERLO, University of Pennsylvania

MONIKA MERZ, Bonn University

TOSHIHIKO MUKOYAMA, University of Virginia

KRISTOFFER NIMARK, Universitat Pompeu Fabra

GUILLERMO ORDONEZ, Yale University

ELENA PALTSEVA, University of Copenhagen

THIJS VAN RENS, CREI

JUSTIN SANDEFUR, University of Oxford

TONY SMITH, Yale University

JOSEPH ZEIRA, Hebrew University

News at the Institute 2009/2010

ANNIKA ANDREASSON accepted an offer as Journal Manager for the *Review of Economic Studies* starting in December 2009. Annika spends 50% working for the Review and 50% for the IIES. The editorial office of the Review is now hosted by the IIES.

MARTIN BERLIN has joined the Swedish Institute for Social Research where he will pursue his graduate studies.

LARS CALMFORS was awarded the Thuréus Prize by the Royal Society of Science (Kungl. Vetenskaps societeten) in Uppsala and the Félix Neubergh Prize by University of Gothenburg.

PAMELA CAMPA will spend the academic year 2010/2011 at University of California, Berkeley.

ESTER DUFLO gave the bi-annual Myrdal lecture on May 28, 2010. The event was hosted by the Institute.

NIELS-JAKOB HARBO HANSEN and MOUNIR KARADJA joined the Institute as research assistants in September 2010.

DAVID YANAGIZAWA DROTT defended his doctoral thesis in June 2010 and has accepted a tenure track position at John F. Kennedy School of Government, Harvard University, starting on September 1, 2010.

HARRY FLAM was appointed Scientific Adviser for the Torsten Söderberg Foundation. Also, as of January 1, 2010, Harry became the new Director of the IIES.

OLLE FOLKE defended his doctoral thesis in May 2010. He has accepted a tenure track position at SIPA/Columbia University starting on September 1, 2010.

RUIXUE JIA, YINAN LI, BEI QIN, DANIEL SPIRO and ALEX SCHMITT joined the Institute as graduate students in September 2010.

PAUL KLEIN has accepted a position as professor at University of Southampton, starting in the fall of 2010.

JAN KLINGELHÖFER has accepted a one year position at European University Institute in Florence, Italy. He takes up the position on September 1, 2010.

SOFYA KRUTIKOVA, University of Oxford, was a visiting graduate student at the Institute within the AMID program in the period December 2009 – May 2010.

SEBASTIAN KOEHNE, University of Mannheim, will join the Institute as assistant professor in September 2010.

ERIK MEYERSSON has accepted a tenure-track position at SITE at Stockholm School of Economics, starting in the autumn of 2010. The first year he will be on leave of absence and spend as a postdoc at London School of Economics and Political Science.

From January 1, 2010, DIRK NIEPELT is the Director of Study Center Gerzensee, Switzerland. He is taking over from Ernst Baltensperger.

SIMON QUINN, University of Oxford, will spend the period July 1 – December 30 at the Institute as a visiting graduate student within the AMID program.

TORSTEN PERSSON was appointed the Torsten and Ragnar Söderberg Chair in Economic Sciences by the Royal Swedish Academy of Sciences from January 2010. This is a new research professorship where the holder is competitively selected every four years. Persson was also awarded an Advanced Grant by the ERC (European Research Foundation) for the five-year research program “State Capacity, Conflict, Development, and Climate Change”. He was elected member of the Faculty Board of Social Sciences, at Stockholm University from September 2009. During the year, he gave the 2009 Manchot Lecture (at University of Bonn), the 2010 Agnar Sandmo Lecture (at the Norwegian Business School, Bergen), a keynote address at the World Bank’s ABCDE conference (an annual research conference on development, this year in Stockholm) and the 2010 Yrjö Jahnsson Lectures (in Helsinki, together with Tim Besley).

EMILIA SIMEONOVA received the NIH grant for the project “Nudging Doctors to Address Medication Adherence” from Sept 2010 – Sept 2013. She also received a Swedish Research Council grant for the project “The Long-Term Determinants of Infant Health” for the period January 2010 – December 2012. Furthermore, she will spend the autumn of 2010 at Tuft’s University

The 2009 Assar Lindbeck Medal was awarded to DAVID STRÖMBERG and JAKOB SVENSSON.

JAKOB SVENSSON became the new Deputy Director of the Institute as of January 1, 2010.

FABRIZIO ZILIBOTTI has been awarded the Italian prize “Premio Ciliegia d’Oro 2009”. The prize has been awarded annually since 1981 to a person born in Emilia-Romagna who has distinguished herself/himself in social, cultural, industrial, humanitarian or sport fields. The Yrjö Jahnsson award is given to the best European economist under the age of 45. This year it was shared between Fabrizio Zilibotti and John van Reenen, London School of Economics.

Staff Research Activities 2009/2010

During the academic year PHILIPPE AGHION has continued researching theories on economic growth and contract theory and has written the following papers (1) “The Environment and Directed Technical Change”, forthcoming in the *American Economic Review* (with Daron Acemoglu, Leonardo Bursztyn and David Hemous); (2) “Subgame Perfect Implementation under Value Perturbation” (with Drew Fudenberg, Richard Holden, Takashi Kunimoto and Olivier Tercieux); and (3) “Cyclical Fiscal Policy, Credit Constraints, and Industry Growth” (with David Hemous and Enisse Kharroubi). Philippe has also held seminars at Harvard (“Contract Theory, Growth Theory, Intermediate Macro and Media”), IIES (“Institutions, Technology and Growth”), SSE, College de France, IMF and Simon Fraser University, as well as presentations at the ESWC and the EEA Meeting.

ALMUT BALLEER has continued working on the role of technological progress for labor market fluctuations over the business cycle in the papers (1) “New Evidence, Old Puzzles: Technology Shocks and Labor Market Dynamics”; (2) “Expansionary and Contractionary Technology Shocks” (with Zeno Enders); and (3) “What Drives Labor Market Dynamics in Germany?” (with Ronald Bachmann). In a project with Thijs van Rens, Almut further investigates the implications of skill-biased technological change for the business cycle. Together with Monika Merz, Almut has worked on the interactive time allocation of spouses.

TIM BESLEY’S main research themes are: “State Building and Economic Development: Forces that Drive State Effectiveness: Particular Dynamics of State Capacities and Relationship to Conflict”, “Political Selection: How Institutions Shape Leadership Turnover, Selection and Characteristics of Leaders who are Chosen” and “Property Rights and Incentives: How do Political Structures Support the Creation of Property Rights?”. He has been developing approaches to allow one to quantitatively estimate the effects of improving property rights security in general equilibrium, and public organization: what is distinctive about organizations that provide public goods and services? He has a general framework and a number of papers which fit together around these themes. During the academic year Tim, together with Torsten Persson, have pushed ahead in developing a unified approach for thinking about state capacity and economic development. This approach was presented in their Yrjö Jahnsson lectures from June 2010, to be developed in a book called *Pillars of Prosperity: State Capacity and Economic Development*. He has also written the following working papers (1) “The Logic of Political Violence (with Torsten Persson); (2) “Do Democracies Select More Educated Leaders?” (with Marta Reynal-Querol); (3) “Estimating the Peace Dividend” (with Hannes Mueller); (4) “Weak States and Steady States: The Dynamics of Fiscal Capacity” (with Ethan Ilzetzki and Torsten Persson); (5) “From Trade Taxes to Income Taxes: Theory and Evidence on Economic Development and State Capacity” (with Torsten Persson) and (6) “Bonuses and Bailouts” (with Maitreesh Ghatak).

TESSA BOLD worked on the papers (1) “Testing Coalition-Proof Dynamic Risk-Sharing” and (2) “Did Abolishing School Fees Reduce the Quality of Primary Education in Kenya?” with Justin Sandefur. She also continued working on a randomized impact evaluation (with Justin Sandefur, Germano Mwabu and Mwangi Kimenyi) together with the government of Kenya and World Vision Kenya, which examines the impact of contract teachers on learning achievement. The project, entitled (3) “Scaling-up Education Reforms in Kenya: An Evaluation of the Nationwide Teacher Internship Programme”, was awarded a research grant from the International Growth Centre. She revised her paper with Stefan Dercon (4) “Contract Design in Insurance Groups”. She presented her work at IIES, Bergen University, Gothenburg University, Frankfurt University, at the CSAE Annual Conference and at the MOVE Conference “Structure and Field” in Barcelona.

TOBIAS BROER defended his PhD thesis *Heterogeneous Individuals in the International Economy* in December 2009 at European University Institute in Florence, Italy. Apart from refining its chapters for publication, he has recently finished a completely new paper, entitled (1) “Incentive Effects of Redistributive Taxes on Private Consumption Insurance beyond the Simple Endowment Economy”, which is currently under review. During the year Tobias has presented his paper (2) “Domestic or Global Imbalances: Rising Inequality and the Fall in the US Current Account” in seminars at the Universities of Toulouse and Uppsala, Hong Kong University, the Chinese University of Hong Kong, Trinity College Dublin, the Riksbank, Stockholm School of Economics, and the Econometric Society World Congress 2010 in Shanghai. (3) “Stationary Equilibrium Distributions in Economies with Limited Commitment” was presented at IIES, the National University of Singapore, and the Nordic Macroeconomic Workshop in Mustio, Finland.

LARS CALMFORS, as chairman of the Swedish Fiscal Policy Council, was the main author of three chapters “How Will the Budget Deficits Be Phased Out?”, “The Fiscal Framework” and “Tax Policy” in the council’s annual report and also edited it. The report was published in both Swedish and English: (1) “Svensk finanspolitik – Finanspolitiska rådets rapport 2010” and “Swedish Fiscal Policy – the 2010 Report of the Fiscal Policy Council”, Stockholm. He was also the author of an interim report from the council, which was also published in both Swedish and English: (2) “Kommentarer till Budgetpropositionen för 2010” and “Comments to the 2010 Budget Bill”, Finanspolitiska rådet, Stockholm (Swedish Fiscal Policy Council, Stockholm) and the report (3) “Synpunkter på överskotts målet”, Finanspolitiska rådet, Stockholm (“Comments on the Surplus Target”, Swedish Fiscal Policy Council, Stockholm 2010). He published (4) “Trade in Services and in Goods with Low-Wage Countries – How Do Attitudes Differ and How Are They Formed?”, Sieps No. 2009:6, Swedish Institute for European Policy Studies, Stockholm (with Girts Dimdins, Marie Gustafsson, Henry Montgomery and Ulrika Stavlöf); (5) “How Have We Handled the Economic Crisis and What Do We Do Now?”, Félix Neubergh Lecture at the School of Economics, Business and Law, University of Gothenburg, 8 December 2009; and (6) “Ekonomer bör bredda sin bildning” (“Economists Should Broaden Their Outlook”), *Axess* 7,

2009. He wrote (7) “The Swedish Fiscal Policy Council – Experiences and Lessons”, a paper presented at the Conference on Independent Fiscal Policy Institutions which was organized by the Fiscal Policy Council of Hungary at the Academy of Sciences, Budapest, 18-19 March 2010; (8) “The Role of Independent Fiscal Policy Institutions”; (9) “Fiscal Policy Coordination in Europe”; and (10) “Oberoende ekonomisk-politiska institutioner och (de frånvarande) statsvetarna” (“Independent Economic-Policy Institutions and (the Absent) Political Scientists”), forthcoming in *Statsvetenskaplig Tidskrift*. In addition Lars contributed to (11) “Finanspolitiska rådets rapport 2009”, Nationalekonomiska Föreningens förhandlingar (“The Report of the Fiscal Policy Council”, the Deliberations of the Swedish Economic Association), *Ekonomisk Debatt* 2009:7; (12) ”Vilka lärdomar bör den nationalekonomiska professionen dra av den ekonomiska krisen”, Nationalekonomiska föreningens förhandlingar (“What Are the Lessons for the Economics Profession from the Economic Crisis”), the Deliberations of the Swedish Economic Association, *Ekonomisk Debatt* 2010:3; and (13) “Öppen utfrågning om Finanspolitiska rådets rapport” (“Open Hearing on the Report of the Fiscal Policy Council”) 25 maj 2010, Bilaga 13 till Betänkande 2009/10:FiU 20 Riktlinjer för den ekonomiska politiken, Sveriges Riksdag (Appendix 13 to the Report 2009/10:FiU 20 Guidelines for Economic Policy, the Swedish Parliament). Lars lectured or gave seminars at the OECD in Paris, the Academy of Sciences in Hungary, University of Copenhagen, Norwegian School of Economics and Business Administration in Bergen, the School of Business, Economics and Law at Gothenburg University and Umeå University.

During the academic year, KARIN EDMARK has published the paper (1) “Migration Effects of Welfare Benefit Reform”, *Scandinavian Journal of Economics* 111, 2009. She has also held seminars at Skattevitenskaplig forskningsråd Oslo 2009; Journées Louis-André Gérard-Varet #8 – 2009 IDEP Marseille; IEB Barcelona University; Stockholm School of Economics; The Research Institute of Industrial Economics; Uppsala University; The Institute for Labour Market Policy Evaluation; EALE-SOLE congress 2010 London.

HARRY FLAM published (1) “The Impact of the Euro on International Trade and Investment: A Survey of Theory and Empirical Evidence” as SIEPS Report 2009:8. He revised the paper (2) “Gravity Estimation of the Intensive and Extensive Margin of Trade: An Alternative Procedure with Alternative Data” (with Håkan Nordström) and wrote the paper (3) “Vinner eller förlorar Sverige på att ansluta sig till den monetära unionen?” (“Does Sweden Gain or Lose by Joining the Monetary Union”) for a textbook on macroeconomic topics.

The main focus of JOHN HASSLER’s research this year has remained on the economics of climate change. The work has been presented at various seminars and conferences, including the Annual Meeting of the American Economic Association and an invited session at the Congress of the European Economic Association in Glasgow. The paper (1) “Oil Monopoly and the Climate” (with Per Krusell and Conny Olovsson) was published in the *American Economic Review: Papers and Proceedings*, 100:2, 2010.

During his year as a visiting scholar at IIES, PAUL KLEIN mostly worked on a project (joint with Marek Kapicka) whose purpose is to investigate the empirically testable implications of models with households that face persistent shocks to their earnings and where there is an informational friction in the insurance market: earnings are private information of an agent and insurance companies cannot verify a person's claim that her earnings are temporarily low. The private information friction prevents the households from perfectly insulating themselves against the shocks. Imperfect consumption insurance is also observed in the data, and the plan is to investigate to what extent the private information friction can account for that. So far, great progress has been made on the computational side and their work was presented at the NBER Summer Institute in Cambridge, Massachusetts.

PER KRUSELL worked on a variety of research topics within broadly defined macroeconomics (inequality, growth, labor markets, financial economics, political economy and public economics) and on the project on economics and global climate change, which involves cooperation with other scientists through Mistra-SWECIA. Several of his recent papers were accepted for publication, or published, during this period, including (1) "Quantitative Labor Market Outcomes: The Roles of Chance and Choice" (with Toshihiko Mukoyama, Richard Rogerson and Aysegül Sahin), in *Quantitative Economics* 1:1, 2010; (2) "Temptation and Taxation" (with Burhanettin Kuruscu and Anthony A. Smith, Jr.) in *Econometrica* (forthcoming); (3) "Labor-Market Matching with Precautionary Savings and Aggregate Fluctuations" (with Toshihiko Mukoyama and Aysegül Sahin) in *Review of Economic Studies* 77:4, 2010; and (4) "Oil Monopoly and the Climate" (with John Hassler and Conny Olovsson), *American Economic Review: Papers and Proceedings* 100:2, 2010. Aside from this he completed a number of papers and submitted them for publication.

MASAYUKI KUDAMATSU continued working on the Mistra-SWECIA project on the impact of annual weather fluctuations on infant survival in Africa (with Torsten Persson and David Strömberg) and on how the network structure of the ruling elite in a non-democratic government affects the policy-making incentives of dictators (with David Seim). He presented his work on weather and infant survival in Africa at University of Houston, Southern Economic Association Annual Meeting 2009 in San Antonio, Stockholm School of Economics and Universitat Pompeu Fabra.

ASSAR LINDBECK has during the last year devoted most of his time to a project initiated by Riksbankens Jubileumsfond on his experiences in economic research and the economic-policy debate after World War II. He has also published two papers, (1) "Lärdomar av finanskrisen" ("Lessons of the Financial Crisis"), *Ekonomisk Debatt* 2010:4; and (2) "Ekonomisk politik och politisk ekonomi – ett personligt perspektiv" ("Economic Policy and Political Economics – a Personal Perspective"), *Ekonomisk Debatt* 2010:5. He has also finished a working paper on (3) "A Continuous Theory of Income Insurance", CESifo Working Paper No. 3097 (with Mats Persson).

ANDREAS MADESTAM has written the following seminar- and working papers: (1) “Informal Finance: A Theory of Moneylenders”, IGER WP 347, 2010; (2) “Sex and Credit: Is there a Gender Bias in Microfinance?” (with Thorsten Beck and Patrick Behr); (3) “Shaping Democracy: the Effect of Fourth of July on Political Participation” (with David Yanagizawa Drott); and (4) “Who Benefits from Reduced Cost of Education? Evidence from an Experiment in Cambodia” (with Maria Cheung and Jakob Svensson). During the academic year, he has also given seminars at the Department of Economics, Stockholm University; IIES, Stockholm University and at Stockholm School of Economics. Moreover, Andreas has participated in the CEPR Development Conference London, CEPR Development Conference Stockholm, Development Economics Workshop Tilburg, Workshop in Development Economics Gothenburg and the World Bank conference on Development Economics (ABCDE) Stockholm.

DIRK NIEPELT worked on projects about sovereign debt maturity, the composition of government budgets in politico-economic equilibrium, and the politico-economic equivalence of fiscal policies. He presented this work at meetings of the Society for Economic Dynamics, the Allied Social Sciences Association, the Econometric Society as well as at various seminars. He organized a session at the Allied Social Sciences Association meeting in Atlanta and co-organized conferences at the Study Center Gerzensee and University of Bern.



Professors David Strömberg and Jakob Svensson receiving the Assar Lindbeck Medal.

CONNOR OLOVSSON published the paper (1) “Quantifying the Risk-sharing Welfare Gains of Social Security” in the *Journal of Monetary Economics*, 57:3, 2010. He also published (2) “Oil Monopoly and the Climate” (with John Hassler and Per Krusell) in the *American Economic Review: Papers and Proceedings*, 100:2, 2010. Furthermore, he presented this paper at the European Economic Association in Glasgow and at the 4th Nordic Summer Symposium in Macroeconomics (Helsinki), both in August 2010.

MATS PERSSON published (1) “Beskattning av Privat Pensionssparande” (“Taxation of Private Pension Savings”), ESE Report 2010:2, Ministry of Finance, Stockholm (with Åsa-Pia Järliden Bergström and Mårten Palme).

TORSTEN PERSSON wrote the new papers (1) “The Logic of Political Violence” (with Tim Besley), 2009; and (2) “Weak States, Strong States and Steady States: The Dynamics of Fiscal Capacity” (with Tim Besley and Ethan Ilzetzki), 2010. During the year, he published (3) “State Capacity, Conflict and Development” (with Tim Besley), *Econometrica* 78, 2010 and (4) “Political Competition, Policy and Growth: Theory and Evidence from the United States” (with Tim Besley and Daniel Sturm), *Review of Economic Studies* 77, 2010. In October/November 2009, he visited the London School of Economics as a Centennial Professor, where he gave a series of lectures to graduate students. He also gave a large number of seminars in Europe as well as in North America.

EMILIA SIMEONOVA’S research interests have focused on (1) “Obesity” (with Randall Akee), IZA Discussion Paper 5135; (2) “Hospital performance” (with Janet Currie and Douglas Almond), NBER Working Paper 15798 and (3) “Infant and Maternal Health”, CES Ifo Discussion Paper 2814. She has also researched health from a behavioral economics perspective entailing two experiments investigating the effect of reminders to physicians about patient medication non-adherence (in the US) and text messages to patients to attend to dental and oral hygiene (Sweden). Both studies are in progress.

DAVID STRÖMBERG published (1) “Press Coverage and Political Accountability” (with James Snyder) in the *Journal of Political Economy* 118, 2010; has worked on (2) “Measuring the Impact of Media on Court Decisions” (with Claire Lim and James Snyder); (3) “Weather and Infant Mortality in Africa” (with Masayuki Kudamatsu and Torsten Persson) and (4) “The Political Economy of Mass Media” (with Andrea Prat).

PETER SVEDBERG published the articles (1) “Child Malnutrition in India and China: A Comparison”, in Joachim von Braun, Ruth Vargas Hill and Rajul Pandya-Lorch (eds.), *The Poorest and the Hungry: Assessments, Analyses and Actions*, International Food Policy Research Institute, Washington DC, 2010; (2) “Estimates of Child Malnutrition in India”, *Economic and Political Weekly* XLV(12), 2010; (3) “The Composite Index of Anthropometric Failure (CIAF): An Alternative Indicator

of Malnutrition in Young Children” (with Shailen Nandy), in Victor R. Preedy (ed.), *Handbook of Anthropometry: Physical Measures of Human Form in Health and Disease*, Springer Verlag, 2010; (4) “Long-term Trends in the Real Price of Primary Commodities: Inflation Bias and the Prebich-Singer Hypothesis” (with John Tilton), *Resources Policy* 35, 2010; (5) “Is Hunger in the World on the Rise?”, *Bridges Monthly* 14, 2010. The paper (6) “Why Malnutrition in Shining India Persists” was revised and submitted for publication. The paper (7) “Poverty in India Can be Halved in Five Years” is to be presented at the 6th Conference on Growth and Development at the Indian Statistical Institute in New Delhi in December 2010. A paper on (8) “How Many People are Malnourished?” is in progress for the *Annual Review of Nutrition* 31, 2011 (invited article).

JAKOB SVENSSON has published (1) “When is Community-Based Monitoring Effective? Evidence from a Randomized Experiment in Primary Health in Uganda” (with Martina Björkman), *Journal of the European Economic Association* April 2010, 8:2-3; (2) “Working for God? Evidence from a Change in Financing of Not-for-Profit Health Care Providers in Uganda” (with Ritva Reinikka), *Journal of the European Economic Association* (forthcoming); and (3) “Local Accountability Improves Health Services”, in Tim Besley and Rajshri Jayaraman (eds.), *Institutional Microeconomics of Development*, MIT Press, 2010. The following papers have been revised during the year; (4) “The Returns from Reducing Corruption: Evidence from Education in Uganda” (with Ritva Reinikka), (revise and resubmit *Journal of Public Economics*); (5) “From Corruption to Lobbying and Economic Growth” (with Bård Harstad), (revise and resubmit *American Political Science Review*). During the year Jakob has also worked on the papers (5) “Tuning in the Market Signal: Contracting and Efficiency under Asymmetric Price Information in Uganda Maize Markets” (with David Yanagizawa Drott); (6) “Who Benefits from Free Education: Evidence from a Policy Experiment in Cambodia” (with Maria Cheung and Andreas Madestam) and (7) “Delivering Service Indicators in Education and Health in Africa: A Proposal” (with Tessa Bold, Bernard Gauthier and Waly Wane), World Bank Policy Research Working Paper No. 5327. He has also worked on field experiments on incentivizing community health workers in Uganda (with Martina Björkman and David Yanagizawa Drott); on assessing the magnitude and consequences of counterfeit and substandard antimalarials in Uganda (with Martina Björkman and David Yanagizawa Drott); on community monitoring in Uganda (with Martina Björkman), and on HIV prevention in Lesotho (with Martina Björkman, Damien de Walque and Lucia Corno). Two other field experiments are in the planning stage. Jakob was also in the scientific committee for the CEPR Development Economics Conference in Stockholm in June 2010 and the ABCDE Conference in Stockholm in May/June 2010.

LARS E.O. SVENSSON completed the papers (1) “Inflation Targeting”, forthcoming in Benjamin M. Friedman and Michael Woodford (eds.), *Handbook of Monetary Economics*, Volume 3a and 3b, North-Holland/Sveriges Riksbank, July 2010; and (2) “Evaluating Monetary Policy”, forthcoming in Evan Koenig and Robert Leeson (eds.), *From the Great Moderation to the Great Deviation: A Round-Trip Journey Based on the Work of John B. Taylor* (revision and update of speech on March 13, 2009).

He published the papers (1) “What Have Economists Learned about Monetary Policy over the Past 50 Years?” in Heinz Herrman (ed.), *Monetary Policy Over Fifty Years: Experiences and Lessons*, Routledge, 2009; (2) “Policy Expectations and Policy Evaluations: The Role of Transparency and Communication”, *Sveriges Riksbank Economic Review*, 1/2010; and (3) “Monetary Policy and Financial Markets at the Effective Lower Bound”, *Journal of Money, Credit, and Banking*, 42, 2010 Supplement. He revised the papers (1) “Optimal Monetary Policy in an Operational Medium-Sized DSGE Model” (with Malin Adolfson, Stefan Laséen and Jesper Lindé); and (2) “Anticipated Alternative Instrument-Rate Paths in Policy Simulations” (with Stefan Laséen).

FABRIZIO ZILIBOTTI gave the lecture for the award of the Yrjö Jahnsson Medal in Helsinki on January 29, 2010. The title of the lecture was “Technological Change, Firms’ Organization and the Wealth of Nations”. On April 24, 2010, he received the award “Ciliegia d’Oro” (Golden Cherry). This award is granted every year to a personality of the world of art, business, culture or sport born in Emilia Romagna, a North Italian region with 4 400 000 inhabitants. Previous winners include Enzo Ferrari, Giulietta Masina, Luciano Pavarotti, Luca Cordero di Montezemolo and Luca Toni. His paper (1) “Do International Labor Standards Contribute to the Persistence of the Child Labor Problem?” (with Matthias Doepke) was published in the *Journal of Economic Growth*, 15:1; while his paper (2) “Vertical Integration and Technology: Theory and Evidence” (with Daron Acemoglu, Philippe Aghion and Rachel Griffith) was published in the *Journal of the European Economic Association*, 8:5. His paper (3) “Growing like China” (with Kjetil Storesletten and Zheng Song) has been accepted for publication in the *American Economic Review*. He has given an invited lecture (paired session) at the World Congress of the Econometric Society held in Shanghai in August 2010.

ROBERT ÖSTLING has been on parental leave for most of the academic year but has also continued to revise the chapters of his thesis *Bounded Rationality and Endogenous Preferences*. One chapter has been accepted for publication during the academic year: (1) “Political Polarization and the Size of Government”, *American Political Science Review*, 104, 2010 (with Erik Lindqvist). Another paper that has been accepted for publication during the academic year is (2) “The Effect of Competition on Physical Activity: A Randomized Trial”, *B.E. Journal of Economic Policy & Analysis (Topics)*, forthcoming (with Magnus Johannesson and Eva Ranehill). Robert has also given a seminar at Aarhus University and has been a discussant at two final seminars (“slutseminarier”) at Stockholm University and Gothenburg University.

Articles Published or Accepted in Leading Journals by IIES Staff 2009/2010

PHILIPPE AGHION, YANN ALGAN, PIERRE CAHUC and ANDREI SHLEIFER, “Regulation and Distrust”, *Quarterly Journal of Economics*, 125:3, 2010.

TIMOTHY BESLEY and TORSTEN PERSSON, “State Capacity, Conflict and Development”, *Econometrica*, 78:1, 2010.

TIMOTHY BESLEY, TORSTEN PERSSON and DANIEL STURM, “Political Competition, Policy and Growth: Theory and Evidence from the United States”, *Review of Economic Studies*, 77:4, 2010.

TORE ELLINGSEN and ROBERT ÖSTLING, “When Does Communication Improve Coordination?” *American Economic Review*, 10, 2010.

JOHN HASSLER, PER KRUSELL and CONNY OLOVSSON, “Oil Monopoly and the Climate”, *American Economic Review: Papers and Proceedings*, 100:2, 2010.

PER KRUSELL, BURHANETTIN KURUSCU and ANTHONY A. SMITH, JR., “Temptation and Taxation”, *Econometrica*, (forthcoming).

PER KRUSELL, TOSHIHIKO MUKOYAMA and AYŞEGÜL ŞAHİN, “Labor-Market Matching with Precautionary Savings and Aggregate Fluctuations”, *Review of Economic Studies*, 77:4, 2010.

ZHENG SONG, KJETIL STORESLETTEN and FABRIZIO ZILIBOTTI, “Growing like China”, *American Economic Review*, (forthcoming).

Visiting Fellows 2009/2010

PAOLA GIULIANO enjoyed the last days of snow in Stockholm during the week spent at the Institute in March 2010. During her visit she presented a paper on the relationship between family values and labor market regulations. The paper explores the interaction between a particular aspect of a society, the extent of family ties, and the existence of one particular institution, the regulation in the labor markets.

Paola incorporated many of the very useful comments received during the seminar. During her visit Paola also had the time to visit Stockholm with some friends. The visit has been very pleasant and very productive and she hopes to be able to visit again in the near future.

CHRISTIAN GOLLIER visited IIES for one week in early October 2009. He presented his paper joint with Johannes Gierlinger (TSE) on discounting. The problem of valuing very distant costs and benefits is important for questions of sustainable development such as climate change, nuclear waste and genetically modified organisms. During his stay, Christian also worked on a new paper which is aimed at reconciling different approaches that have been presented in the literature to characterize the socially efficient discount rate (Ramsey rule, Weitzman rule, Expected Net Future Value rule). In spite of this very busy agenda, he was able to interact with his colleagues at IIES, either in the office, or during nice lunches and dinners in town.

BERNARDO GUIMARAES visited the IIES in October 2009. He presented a very preliminary and incomplete version of the paper “A Model of Equilibrium Institutions”. Comments from the audience during the presentation were indeed very useful. More importantly, the conversation with Per Krusell was extremely helpful, and has had an important effect on his work on this paper in the following months.

KRISTOFFER NIMARK visited the Institute during a week in August 2009 and very much enjoyed both the formal interaction in the seminar as well as the informal interactions over lunch and coffee. During his visit, Kristoffer Nimark presented a paper proposing a solution method for dynamic models with privately informed agents. This class of models presents special challenges since private information gives rise to the need to “forecast the forecast of others”. Kristoffer Nimark also enjoyed staying in the Institute apartment, which is very conveniently located between the University and the central parts of Stockholm.

GUILLERMO ORDONEZ had a great and very productive time visiting the Institute for a week in April 2010. During his visit he presented a paper coauthored with Andy Atkeson and Christian Hellwig on the optimal regulation that should be imposed in markets where firms have reputation

concerns. During the seminar, Guillermo received extremely useful comments to improve the paper in several dimensions. He enjoyed many lively discussions about economics with a lot of people in the department. Also, faithful to his Argentinean origin, he enjoyed a very challenging indoor soccer match with faculty and students.

THIJS VAN RENS visited the Institute for a week in June. He presented a paper on wage rigidity and job creation. The visit was well spent on discussions with people at the Institute. In particular, Thijs had a stimulating discussion with Andreas Mueller on cyclical changes in the quality of employed and unemployed workers (both are higher in recessions than in booms!) and the possible reasons for this. Most importantly, he spent several days working with his co-author, Almut Balleer, on developing a model to explain the results in their joint paper on (1) "Skill-Biased Technological Change Over the Business Cycle". Apart from making him work all week, Almut was also kind enough to take him on a boat tour of the islands.



At the Institute it's not "All work and no play..." – Members of the staff enjoying a game of "kubb" in the evening sun.

Tenure Track Assistant Professor Positions

The Institute for International Economic Studies, Stockholm University, seeks to fill one or two positions at the tenure-track assistant professor level, in any field, beginning in the academic year 2011/12. Applicants should have a Ph.D. in economics (or be near completion of the doctorate). A commitment to excellence in research is a prerequisite. The position offers a low teaching load (primarily at the Ph.D. level) and a competitive salary. Applicants should submit a CV, at least three letters of recommendation, and samples of research such as thesis chapters or publications.

To ensure full consideration, applications must be submitted at <http://econjobmarket.org> by November 29, 2010.

Candidates on a shortlist will be interviewed at the ASSA Annual Meetings in Denver, 2011. Other arrangements may be possible for shortlisted candidates not based in the US and not planning to attend the Meetings.

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



Celebrating Assar Lindbeck's 80th birthday with flowers, wine and a trumpet fanfare!

From left: Erik Prawitz, Maria Perotta, Harry Flam, Christina Lönnblad, Assar Lindbeck and Mats Persson.

Teaching 2009/2010

TESSA BOLD taught the Ph.D. course Development Economics with Jakob Svensson and Masayuki Kudamatsu in the fall 2009 and the spring 2010.

TOBIAS BROER taught Topics in Macroeconomics, together with Almut Balleer. He also taught the sequence International Macroeconomics, as well as served as discussant for Pia Fromlet's licenciate seminar in Uppsala.

LARS CALMFORS taught the undergraduate course in Intermediate Macroeconomics in the autumn of 2009 and a master's course in Labor Economics in the spring of 2010.

KARIN EDMARK taught "Offentlig ekonomi C" at Uppsala University, with Heléne Lundqvist.

HARRY FLAM taught the undergraduate course, International Economics, in the spring of 2010.

PAUL KLEIN taught Mathematics for Macroeconomics in the Stockholm Graduate Program in Economics and Macroeconomics 2 in the Stockholm Graduate Program in Economics (joint with Per Krusell and John Hassler).

PER KRUSELL taught various graduate courses: Macro II and Dynamic Public Finance, first- and second-year courses in the Stockholm Ph.D. program and a second-year course in Macroeconomics and Inequality at Yale University. Together with John Hassler and Conny Olovsson, he also taught a new Master's course at Stockholm University called The Climate and the Economy.

MASAYUKI KUDAMATSU taught the second-year Ph.D. courses Development Economics I, II and III (together with Tessa Bold and Jakob Svensson).

ANDREAS MADESTAM taught Development Economics, two lectures in the Master's program at Stockholm University.

Apart from courses at the Study Center Gerzensee and University of Bern, DIRK NIEPELT taught the course Macro I in the SDPE, joint with Lars Ljungqvist.

CONNY OLOVSSON taught the course The Climate and the Economy together with John Hassler and Per Krusell.

MATS PERSSON taught the undergraduate first-year Macroeconomics course in the fall of 2009, and Excel in the master course on Methodology in the spring of 2010.

TORSTEN PERSSON taught the 2nd year graduate courses Political Economics II and Political Economics III (with David Strömberg). He also taught a Master's/Ph.D. course on the same topic at the London School of Economics (with Ronny Razin).

EMILIA SIMEONOVA co-taught Graduate Applied Microeconomics with Mårten Palme from the Department of Economics at Stockholm University.

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

JAKOB SVENSSON taught the graduate courses in Development Economics (with Masayuki Kudamastu and Tessa Bold) and the master course in Development Economics in the fall 2009.

JOHN HASSLER gave the first-year undergraduate course in macroeconomics, a masters course in the economics of climate change and graduate courses in macroeconomic and dynamic public finance.

ROBERT ÖSTLING taught a second-year graduate course called Behavioral Economics II.



This year's IIES Crayfish Party in September was a great success as usual!

Extramural Activities

TIM BESLEY received the John von Neumann Award as well as held the Albert Hirschman lecture, LACEA, Buenos Aires, the Yan Fu lecture, CCER Beijing as well as the Yrjö Jahnsson lectures in Helsinki. He is also the President of EEA.

LARS CALMFORS served as chair of the Swedish Fiscal Policy Council and as a member of the Board of the Swedish Research Council. In the Royal Swedish Academy of Sciences he was a member of a committee evaluating the academy's activities. He did expert work for the Prime Minister's Office in Finland and the European Parliament. He gave a large number of public lectures and speeches on such issues as the economic crisis, fiscal policy and labor market developments. This included places like the Institute for Government in London, the National Bank of Denmark, the Danish Economic Association, the Swedish Economic Association, the Swedish Institute for European Policy Studies (Sieps), the International Business School in Jönköping, the Center for Business and Policy Research (SNS), the Swedish Institute for Foreign Affairs, the Swedish Parliament and ABF.

HARRY FLAM served as deputy chairman of the Expert Group on Public Economics at the Ministry of Finance, chairman of the Scientific Council at the Center for Business and Policy Studies (SNS), Scientific Adviser to the Torsten Söderberg Foundation, 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 has continued to work on economic policy in the European Economic Advisory Group (EEAG) and has served as the chairman of the scientific advisory board to the Swedish long-term planning committee at the Swedish Ministry of Finance. John remains a member of the Editorial Board of the *Review of Economic Studies* and also became an adjunct member of the Prize Committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel.

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 of the Centre of Economic Policy Research (CEPR), on several Scientific Advisory Boards, and on the Council as well as other functions of the EEA. Per also participated as a scientific advisor in an investigation (Långtidsutredning) on the labor market initiated by the Swedish Government and as a scientific consultant to the Federal Reserve Banks of New York and Richmond. In addition, Per gave a

large number of seminars and conference presentations in Europe and the United States and also participated in the public debate by appearing in various media outlets, including TV, radio, newspapers, and at Almedalen.

ASSAR LINDBECK has given a number of lectures at international conferences.

DIRK NIEPELT was appointed Director of the Study Center Gerzensee, Foundation of the Swiss National Bank.

MATS PERSSON served as a member of the Preparatory Committee for Economics of 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 chaired the panel for Starting Grants in Economics, Finance and Management (SH1) in the European Research Council. He was a member of the Faculty Board of Social Sciences at Stockholm University. Persson also served as an elected trustee of the Nobel Foundation.

JAKOB SVENSSON is a member of the Swedish Agency for Development Evaluation (Sadev), member of the “Insynsråd”; Transparency International, member of Panel of Experts for U4 Helpdesk; Steering committee for the ABCDE conference organized by the World Bank and the Foreign Ministry of Sweden.

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

ROBERT ÖSTLING has continued to write blog posts about economics and economic policy for the Swedish blog Ekonomistas.

Completed Theses 2009/2010

In June, 2010, DAVID YANAGIZAWA DROTT successfully defended his thesis *Information, Markets and Conflict: Essays on Development and Political Economics* which consists of four essays. The first essay, “The Strategic Determinants of U.S. Human Rights Reporting: Evidence from the Cold War”, uses a country-level panel dataset to test the hypothesis that the United States biases its human rights reports of countries based on the strategic value of these countries. The results show that allying with the U.S. during the Cold War significantly improves reports on a country’s human rights situations from the U.S. State Department relative to Amnesty International.

The second essay, “Watchdog or Lapdog? Media and the U.S. Government during the Cold War”, builds on the first and investigates the extent to which strategic objectives of the U.S. Government influenced news coverage during the Cold War. Two relationships are established: 1) strategic objectives of the U.S. government cause the State Department to under-report human rights violations of allies; and 2) these objectives reduce the news coverage of human rights abuses for allies in six United States national newspapers.

The third essay, “Propaganda and Conflict: Theory and Evidence from the Rwandan Genocide”, investigates the impact of the infamous “hate radio” station Radio RTLM on participation in the Rwandan Genocide. The results show that Radio RTLM substantially increased participation. Complete radio coverage in a village increased participation by 65 to 77 percent, and a simple counter-factual calculation suggests that approximately 9 percent of the genocide, corresponding to at least 45 000 Tutsi deaths, can be explained by the radio station.

The fourth essay, “Tuning in the Market Signal: The Impact of Price Information on Market Exchange in Uganda”, estimates the impact of access to market price information on agricultural market outcomes. By exploiting a natural experiment in Uganda, the results show that access to price information causes rural farmers to sell larger shares of their output and receive higher farmgate prices, while decreasing the market price in urban markets. Together, the results indicate that the price information reduced market failures by alleviating frictions between farmers and traders.

OLLE FOLKE defended his thesis *Parties, Power and Patronage* in May, 2010. The first paper “Shades of Brown and Green: Party Effects in Proportional Election Systems”, is the first to develop a method for estimating the causal effect of party representation in proportional election systems. This method is applied to Swedish municipalities. The results show that party representation has a large effect on immigration policy and environmental policy. Parties profiling themselves in a policy area also have the largest effects on it. There is no evidence of party representation having an effect on tax policy. The second paper “Midterm Slumps in U.S. State Elections: Coattails, Power Balancing, or Referenda?” examines midterm slumps in U.S. state legislatures and

the mechanisms that cause them. The results show that the party of the governor systematically loses legislative seats in the midterm elections. Through the use of a regression discontinuity design it can be ruled out that this is caused by a surge-and-decline type mechanism. Instead, the results suggest that the midterm slump can be attributed, in about equal shares, to the midterm elections being a referendum on gubernatorial performance and the voters using the midterms for balancing of power. The third paper “Patronage and Elections in U.S. States”, which is written with Jim Snyder, MIT, and Shigeo Hirano, Columbia University, examines if control over patronage jobs increased a political party’s probability of winning elections in U.S. States. A patronage system is a practice where a political party, after winning an election, reward its supporters by giving them government jobs. The essay provides evidence that patronage does – or, rather, did – help U.S. parties in power to retain it. There is also evidence that an “entrenched” party in power for a longer time period can use patronage more effectively than a “weak” party that is usually out of power.



A relaxing lunch break at the Institute.

From left: Conny Olovsson, Christina Håkanson, Annika Andreasson and Robert Östling

Theses in Progress 2009/2010

DAVID VON BELOW continued working on a thesis on the economics of climate change, with a focus on integrated assessment models, partly within the Mistra-SWECIA research programme. He attended the 9th NCCR summer school in Grindelwald, Switzerland (August 2010), presenting “The Carbon Cycle in Climate-Economy Models” (with Anders Ahlström). He also organized the 20th International Climate Policy Workshop at Stockholm University (April 2010), and has written the following journal article; “Last in, First out? Estimating the Effect of Seniority Rules in Sweden” (with Peter Skogman Thoursie), *Labour Economics*, forthcoming.

DARIO CALDARA works on applied macroeconomics and time series econometrics. He published an NBER Working Paper, joint with Jesus Fernandez-Villaverde, Juan Rubio-Ramirez and Yao Wen, in which he tests non-linear solution methods for Dynamic Stochastic General Equilibrium Models. He is currently working on two chapters of his dissertation. The first paper, joint with Christophe Kamps, proposes a framework to understand why Structural Vector Autoregressions (SVARs), time-series models widely used for policy analysis, produce results that are not fully consistent with economic theory. The second paper investigates whether increases in public spending and reductions in taxation stimulate output and its components, and which policy measure provides the largest stimulus. The analysis, based on SVAR models, is motivated by the large qualitative and quantitative dispersion of evidence documented in the literature, which prevents economists from offering clear prescriptions to policy-makers. During the academic year Dario visited University of Pennsylvania, the Bank of England, and the European Central Bank.

LUCIA CORNO was very pleased to join the Institute for six months, from January to July 2009. During her stay, she mainly worked on implementing a randomized controlled field trial in Lesotho to rigorously test whether short-term financial incentives have an impact on sexual behaviour, HIV incidence and a small set of curable Sexually Transmitted Infections (STIs). She spent several weeks in Lesotho to find potential partners to work with. The project is currently ongoing and she will have the preliminary results in February 2011.

Lucia also participated in the development seminar series at the IIES, where she presented her job market paper “Peer Effects on Criminal Behaviour: Evidence From the Homeless in Italy”. She received excellent comments and suggestions, which significantly improved the quality of the paper. The paper investigates the influence of peers on criminal behavior, using original data that she collected by interviewing homeless people in Milan. Information on friends’ names was elicited, making it possible to map each respondent’s network. Each individual was also asked to report his/her criminal status prior to becoming homeless. To estimate the causal effects of network size and of the share of criminal friends on (subsequent) criminal behavior, she relies on

two instruments. The first is the share of rainy days since the individual became homeless: rainfall fosters homeless concentration in sheltered places and increases the probability of meetings. The second instrument is the average number of inmates released by Milan's authorities during the individual's period as homeless, which affects the supply of criminal potential friends. She shows that the probability of arrest decreases with network size, but it increases with the share of criminal friends in the group. Finally, Stockholm is a beautiful city and she really enjoyed its brightness until the late hours during the summer months!

JOHAN GARS has continued working within the macroeconomic modeling project of the Mistra-SWECIA research programme on climate, impacts and adaptation. More precisely, he has continued studying how to use economic policy to facilitate the transition, from a fossil fuel based economy, to an economy based on use of alternative energy sources. Taking the effects of fossil fuel use on the climate into account, successful economic policy requires the combined use of policy instruments such as carbon taxes and research subsidies. The policy instruments interact in non-trivial ways. Therefore, optimal policy must be studied in a framework with both endogenous technological change and endogenous fossil fuel use. Some results on the effects of development of alternative energy technology on the optimal carbon tax were presented at the ESEM conference in Barcelona (August 2009). Apart from his work on climate change, Johan has also, in joint work with Daniel Spiro, analyzed the effects of trade on economies with improper management of renewable natural resources, in particular, whether the gains from trade, in the form of increased consumption variety, outweighs increased problems of over-harvesting.

JINFENG GE joined the IIES in September 2008. He continued to work on topics in macroeconomics and public finance. The first project is on the immigration and pension systems. Several economists propose that immigration could solve the fiscal problems associated with the aging population. But this proposal neglects the immigrants' future political voting decisions, for example these young immigrants are against intergenerational redistribution. Hence, the immigrants will also change the future intergenerational redistribution policy such as pension. In addition, he also worked on another project where he incorporates default into Barro's taxation smoothing model. In this project, he tries to understand what the effect is of default debt on government fiscal decisions on for example taxation and debt accumulation. He uses and extends the recent advances in the consumption-smoothing literature into the public finance area.

CHRISTINA HÅKANSON has, together with Åsa Rosen (SOFI), Anna Sjögren (IFAU) and Anne Boschini (SU), investigated the link between increased wage dispersion within industry and despecialization within families and increased female labor force participation. The hypothesis being that individuals may sort according to their relative preferences for career and family obligations and that the large increase in highly educated women on the labor market may thus generate segregation within occupation (as opposed to strictly following occupational and gender lines). In a series of

papers, they are to model this theoretically and test implications for intra-firm and industry gender wage gaps and gender fertility gaps empirically using matched employer-employee data from the IFAU database for the years 1985-2007. The first paper, “The Emergence of Mr. and Mrs. Degree”, documents trends in assortative mating, fertility and wages for the population in general and the higher educated in particular, observing (all) Swedish individuals at the age of 45 (when fertility more or less declines). A first draft of this paper is to be presented at the National conference in Economics October 2010. During the year she has also continued her work on “The Evolution of the High Ability Firm” with Jonas Vlachos (SU) and Erik Lindqvist (HHS) – an empirical project exploring the evolution of the high ability firm. They study how human capital has changed firms over the last 20 years. During this period, wage and productivity dispersion, predominantly between firms, have increased. A central question is whether this can be explained by sorting: that human capital is concentrated in some firms, or that productivity and wage differences have increased for some other reason. To study this, one needs to have a measure of human capital that is constant over time. Due to the large expansion of higher education it is questionable if traditional measures (like years in education) are unbiased. To deal with this, we use measures of cognitive and non-cognitive ability from Swedish draft data matched with register data on firms and employees. This gives us the opportunity not only to study wage and productivity dispersion between firms, but also to compare results when using the traditional measures of human capital. Furthermore, during the academic year 2009/2010, Christina has been on part-time maternity leave caring for her son Gabriel, born in April 2009.

JAN KLINGELHÖFER continued working on his thesis *Models of Electoral Competition – Three Essays in Political Economics*. It consists of three papers: “The Swing Voters’ Blessing” which shows that less informed voters do not necessarily lead to less desirable policy outcomes. On the contrary, under certain conditions less informed voters force politicians to implement more centrist policies. “Lobbying and Elections” shows the effects of lobbying on policy in a model with voters who have rational expectations of interest group influence on policy. In equilibrium, lobbying can be welfare enhancing. “Lexicographic Voting” shows that prospective and retrospective voting motives can be reconciled within the standard rational choice framework. The median voter’s preferred policy is implemented while the ruling party can be held accountable for rent-seeking behavior.

During the AMID Fellowship, SOFYA KRUTIKOVA completed the planned research making up her final Ph.D. thesis paper. The goal of the research undertaken during her time as an AMID fellow was to use panel data from the Kagera Health and Development Survey (KHDS) to investigate whether there is evidence of social effects in fertility behavior. She found that moving has large and significant effects on the age at which a woman has her first child compared to women with whom she co-habited in childhood and who did not move. The results are robust to controls for selection into migration and changes in the opportunity cost of having children. Although not

directly testing the hypothesis of social effects in fertility behavior, the results are strongly suggestive of a correlation between the fertility behavior of individuals and their reference group. The results are presented in the paper “Fertility in Context: The Effect of Local Environment on Fertility Behavior”, which will be included as the final paper in her thesis to be sent for publication after the defence. In addition to completing this research work, Sofya attended and participated in a number of seminars, workshops and conferences in Sweden as well as other countries, for example the CEPR Annual Symposium which was held in Stockholm in June 2010.

ERIK MEYERSSON continued his dissertation on development economics and political economics. The academic year was spent working on a project on political Islam and education called “Islamic Rule and the Emancipation of the Poor and Pious”. Turkey is one of the very few places where the existence of data and institutional stability allows a thorough analysis of the consequences of local Islamic rule and the influence of Islamic networks in various forms. The collected data makes possible the use of the regression discontinuity design, a powerful method for identifying causal treatment effects, and results show that Islamic political organizations have a significant impact on participation in education, especially for women. Other ongoing research projects include the effects of resource trade with China on African institutions, the long-run development impact of Islam, and its consequences for democratic institutions.

ANDREAS MUELLER is working on topics related to unemployment, job searching and the business cycle. In the paper entitled “Separations, Sorting and Cyclical Unemployment”, he looks at compositional changes in the pool of unemployed over the business cycle. He uses data from the Current Population Survey 1979-2008 and shows that in a downturn the composition of the pool of unemployed workers shifts towards those with high wages at their previous job. Moreover, he documents that these cyclical changes in the composition of the unemployed are mainly due to the higher cyclicity of separations for high wage workers, and not driven by differences in the cyclicity of job finding rates. He finds that a search-matching model with worker heterogeneity in terms of ability has difficulties explaining these patterns, whereas an extension of the model where firms face cyclical credit shocks does much better in accounting for these new facts. Andreas also published the paper “Job Search and Unemployment Insurance: New Evidence from Time Use Data” (with Alan B. Krueger), in the *Journal of Public Economics*, 94, 2010, and together with Alan B. Krueger, he collected a survey of 6,000 unemployed workers in New Jersey on their time use patterns as well as search strategies, reservation wages and weekly food consumption over a period of up to 24 weeks.

ETTORE PANETTI is mainly working on the macroeconomics of financial intermediation. Specifically, he has been studying how the provision of liquidity to the economy, still based on heavily-regulated “traditional” commercial banks, is affected by the presence of an international unregulated set of instruments, structures, firms and markets also known as the “shadow banking

system”. In order to determine this, Ettore is developing a multi-country version of the standard Diamond-Dybvig (1983) model of financial intermediation with aggregate and idiosyncratic uncertainty, where agents deposit their income into banks in their own countries, but also engage in international hidden trades. Some preliminary results show that the competitive equilibrium is not constrained efficient, and that optimality can be implemented through the introduction of country-specific minimum capital requirements. In a two-country version of the model, he also shows that in the presence of different regulatory environments, a decentralized equilibrium with integrated shadow banking improves over an autarkic equilibrium.

MARIA PERROTTA continued to work on her thesis in development economics and political economics. This year, she has mainly been working on one project with Emmanuel Frot: an instrumental variable approach to assess aid effectiveness. Maria’s other projects are: “Public Expenditures in Education and Elite Capture”, testing the hypothesis that the observed overspending in higher education in a group of African countries is a form of inefficient redistribution; and an evaluation of a school feeding program in Cambodia, with Maria Cheung.

DAVID SEIM’S area of work is political economics, public economics and network theory. In one of his projects, he studies the effects of advance notification of job loss on subsequent unemployment spells. Analyzing firm behavior, he looks at the effect of the advance notification law on layoffs. Together with Masayuki Kudamatsu, David is working on a project investigating the role of social networks within the political elite in determining economic policy. They study how the power of politicians in autocratic regimes depends on informal ties. Together with Andreas Nordvall Lagerås, he finished the theoretical paper “How Do Interactions Influence Formation of Social Networks? A General Microfounded Explanation”, in which they provide a general and microfounded framework for studying network formation together with games on networks in a dynamic context. The main finding is that strategic complementarity in agents actions yields absolute convergence to a particular class of networks called Nested Split Graphs and that this class of networks constitutes an absorbing state. David spent the academic year 2009/2010 at Harvard University.

Seminars and Publications

Seminars

Seminars at the IIES normally take place on Tuesdays and Thursdays between 15.00 and 16.30. Most speakers (about 85% of the total) are non-Swedish. Almut Balleer, Tessa Bold, Tobias Broer and Annika Andreasson (administration) are responsible for all seminars during the 2010/2011 academic year.

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

Publications

A list of the IIES Seminar Papers is found on our web, where all papers from SP No. 706 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, Tot, 1953, Oil on canvas.

Back Cover: Rear view of Aula Magna, Stockholm University. Photo: Hanna Christiansson, 2010.

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