



Stockholm
University

INSTITUTE FOR
INTERNATIONAL
ECONOMIC STUDIES

Annual Report

2012/2013

Research Activities
Staff and Organization
Publications



The Institute for International Economic Studies

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Professor

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JAKOB SVENSSON, Professor

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KARL ERIKSSON (IT Support)

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ASTRID WAKE

Publications:

ANNIKA ANDREASSON

HANNA CHRISTIANSSON

Visitors Program and Seminars:

ANNIKA ANDREASSON

TOBIAS BROER

MASAYUKI KUDAMATSU

ROBERT ÖSTLING

Research Assistants:

MATHIAS IWANOWSKY

NATHAN LANE

GEORG MARTHIN

Research Staff

Professors

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

Affiliated Professor

LARS E.O. SVENSSON

Visiting Professors

PHILIPPE AGHION
TIM BESLEY
DIRK NIEPELT

Research Fellows

ALMUT BALLEER
TESSA BOLD
TIMO BOPPART
TOBIAS BROER
KONRAD BURCHARDI
TOM CUNNINGHAM
SUSANNE FORSTNER
SEBASTIAN KOEHNE
MASAYUKI KUDAMATSU
PETER NILSSON
CONNY OLOVSSON
ROBERT ÖSTLING

Graduate Students

PAMELA CAMPA
JINFENG GE
NIELS-JAKOB HARBO HANSEN

CHRISTINA HÅKANSON
RUIXUE JIA
MOUNIR KARADJA
YINAN LI
HANNES MALMBERG
ETTORE PANETTI
ERIK PRAWITZ
BEI QIN
THORSTEN ROGALL
ALEX SCHMITT
DAVID SEIM
ABDULAZIZ SHIFA

Visiting Graduate Student

RIIKKA SAVOLAINEN

Visiting Fellows

LINT BARRAGE, Yale University
DAVID CESARINI, New York University
PIERRE-ANDRÉ CHIAPPORI, Columbia
University
RUBEN DURANTE, Sciences Po Paris
OLLE FOLKE, Columbia University
REMA HANNA, Harvard Kennedy School
PAUL KLEIN, Simon Fraser University
NILS-PETTER “NIPPE” LAGERLÖF, York
University
MATT NOTOWIDIGDO, Chicago Booth
University
PETRA PERSSON, Columbia University
NANCY QIAN, Yale University
LÁSZLÓ SÁNDOR, Harvard University
DANIEL SPIRO, University of Oslo
YANHUI WU, USC Marshall School of
Business

News at the Institute 2012/2013

ALMUT BALLEER has been research professor at the Ifo Center for Business Cycle Analysis and Surveys of the Ifo Institute at University of Munich since June 2013.

AUDINGA BALTRUNAITE, SAMAN DAROUGHEH, KARL HARMENBERG, SHUHEI KITAMURA, NATHANIEL LANE, MIRI STRYJAN and ERIK ÖBERG will join the IIES as graduate students as of September 2013.

TIM BESLEY gave the Geary Lecture, ESRI Dublin 2012, the Luca D'Agliano Lecture in Development Economics, Torino 2012 and the Max Weber Lecture, EUI 2013.

TIMO BOPPART was awarded the Annual Award 2013 of University of Zurich for his dissertation and the Young Economist Award 2013 of the Swiss Society of Economics and Statistics for the paper "Non-homothetic Preferences and Industry Directed Technical Change" (with Franziska J. Weiss).

KONRAD BURCHARDI was awarded the Walter-Eucken Prize (given biannually to a young researcher in economics) by the Economics Department at the Friedrich-Schiller-University Jena. He was also appointed associate editor of the *Journal of Development Economics* as well as ThReD (Theoretical Research in Development Economics). He was also an affiliate of the CESifo Network.

LARS CALMFORS was appointed Member of the Research Policy Committee of the Royal Swedish Academy of Sciences and Member of the Council for Government Grants to Activities Highlighting Issues for the Future in the European Union at the Swedish Youth Board (Ungdomsstyrelsen).

PAMELA CAMPA successfully defended her doctoral thesis in June 2013. She will take up a position as assistant professor at University of Calgary in September 2013.

DAVID CESARINI, New York University, will spend part of the academic year 2013/2014 at the IIES as a visiting assistant professor.

SERENA COCCILO, JAAKKO MERILÄINEN and JÓSEF SIGURÐSSON will join the IIES as research assistants in September 2013.

GEORG DÜRNECKER, University of Mannheim, will be a visiting assistant professor at the IIES during 2014.

SUSANNE FORSTNER will spend one more year at the Institute as a post doctoral researcher.

KATRIN FRIBERG joined the Institute's administrative team in August 2013. She will provide administrative support to professor Lars Calmfors and help out with various other administrative tasks.

JINFENG GE successfully defended his doctoral thesis in September 2012. Shortly thereafter he took up a position as assistant professor at Fudan University.

JOHN HASSLER has been appointed chairman of the Swedish Fiscal Policy Council from September 1, 2013.

CHRISTINA HÅKANSON successfully defended her doctoral thesis in April 2013.

RUIXUE JIA has taken up a position as assistant professor at UCSD School of International Relations as of September 2013. She successfully defended her thesis in May 2013.

NILS-PETTER LAGERLÖF, York University, will spend the fall of 2013 and May and June 2014 at the IIES.

NATHANIEL LANE will spend the academic year of 2013/2014 as a research fellow at Harvard University.

YINAN LI successfully defended his doctoral thesis in January 2013.

PETER NILSSON accepted an offer to spend the 2014 spring semester as a visiting associate research scholar at Center For Health and Wellbeing at Princeton University.

CONNY OLOVSSON took up a position at the Riksbank in September 2013.

ETTORE PANETTI accepted a position as postdoctoral fellow at the Department of Economics and Business of University of Sassari (Italy), starting in November 2012.

TORSTEN PERSSON gave the first WZB lecture in economics in Berlin 2013, and a keynote lecture at the 1st Chinese Conference Conference on Comparative Political Economy in Beijing 2013.

JON DE QUIDT, PhD from London School of Economics, will hold a post doc position at the IIES in the period March 2014-August 2015.

BEI QIN accepted an assistant professor position at the School of Economics and Finance, University of Hong Kong as of August 2013. She successfully defended her doctoral thesis in May the same year.

DAVID SEIM started his new job as assistant professor at University of Toronto in the fall of 2013 prior to which he successfully defended his thesis in June 2013.

ABDULAZIZ SHIFA successfully defended his doctoral thesis in June 2013 and took up a position as assistant professor at Syracuse University from August 2013.

JAKOB SVENSSON was appointed member of The Expert Group for Evaluation and Analysis of Swedish International Aid. He was also elected fellow of BREAD (Bureau for Research in Economic Analysis of Development).

LARS E.O. SVENSSON was awarded The Royal Swedish Academy of Engineering Sciences' (IVA's) Great Gold Medal.

MICHELE VALSECCHI, PhD from University of Gothenburg, will spend the spring of 2014 at the IIES as a post doc.

ASTRID WAKE, administrator at the Institute since 1999, retired in April 2013.

HAKKI YAZICI, Sabanci University, will be a visiting assistant professor at the IIES in the spring of 2014.

Staff Research Activities 2012/2013

PHILIPPE AGHION wrote (1) “Subgame Perfect Implementation under Informational Perturbations”, *Quarterly Journal of Economics*, 127:4, 2012 (with Drew Fudenberg, Richard Holden, Takashi Kunimoto and Olivier Tercieux); (2) “Innovation and Institutional Ownership”, *American Economic Review*, 103:1, 2013 (with John Van Reenen and Luigi Zingales); and (3) “What Do We Learn from Schumpeterian Growth Theory”, forthcoming in *Handbook of Economic Growth* (with Ufuk Akcigit and Peter Howitt). He also worked on (4) “Patent Rights, Product Market Reforms and Innovation”, revised for *Journal of Economic Growth* (with Peter Howitt and Susanne Prantl); (5) “Carbon Taxes, Path Dependency and Directed Technical Change: Evidence from the Auto Industry” (with Antoine Dechezleprêtre, David Hemous, Ralf Martin and John Van Reenen); (6) “Monetary Policy, Liquidity and Growth”, working paper, Harvard (with Emmanuel Farhi and Enisse Kharroubi); (7) “Education and Military Rivalry”, working paper, IIES (with Torsten Persson and Dorothee Rouzet); (8) “Capital vs Labor Taxation with Innovation-Led Growth”, working paper, Harvard (with Ufuk Akcigit and Jesús Fernández-Villaverde); and (9) “Subgame Perfect Implementation under Approximate Common Knowledge: Evidence from a Laboratory Experiment” (with Ernst Fehr, Richard Holden and Tom Wilkening).

During the academic year ALMUT BALLEER wrote the following papers: (1) “Short-time Work and the Macroeconomy” (with Britta Gehrke, Wolfgang Lechthaler and Christian Merkl), IZA Discussion Paper No. 7475, and Kiel Working Paper No. 1832, also presented at the CESifo conference on Macroeconomics and Survey Data, Munich, Germany, December 2012, CEPR/IZA European Summer Symposium on Labor Economics (ESSLE), Buch am Ammersee, Germany, September 2012, Christmas Meeting of German Economists Abroad, Cologne, December 2012 and at a seminar at University of Cologne, December 2012; (2) “What Drives Labor Market Dynamics in Germany and the US?” (with Ronald Bachmann) presented at Annual Meeting of the German Economic Association (Verein fuer Socialpolitik), Göttingen, Germany, September 2012; (3) “Expansionary and Contractionary Technology Improvements” (with Zeno Enders) presented at seminars at University of Heidelberg, ifo Institute Munich, RWTH Aachen; and (4) “Time Allocation Between Spouses” (with Monika Merz). She also published the articles (5) “New Evidence, Old Puzzles: Technology Shocks and Labor Market Fluctuations”, *Quantitative Economics*, 3:3, 2012; (6) “Labour Force Participation in the Euro Area: A Cohort-based Analysis” (with Jarkko Turunen and Ramon Gomez-Salvador) *Empirical Economics*, June 2013; and (7) “Skill-Biased Technological Change and the Business Cycle” (with Thijs van Rens) forthcoming in *Review of Economics and Statistics*, 95:4, 2013.

TIM BESLEY wrote (1) “Just Rewards: Local Politics and Public Resource Allocation in South India”, *World Bank Economic Review*, 26:2, 2012 (with Rohini Pande and Biju Rao); (2) “Risk Heterogeneity and Credit Supply: Evidence from the Mortgage Market”, NBER Macro Annual 2012 (with Neil Meads and Paolo Surico); (3) “Implementation of Anti-Discrimination Policy: Does Judicial Selection Matter?”, forthcoming in *American Law and Economics Review* (with Abigail Payne); (4) “Weak States and Steady States: The Dynamics of Fiscal Capacity”, forthcoming in *American Economic Journal: Macroeconomics* (with Ethan Ilzetzki and Torsten Persson); (5) “Bailouts and the Optimal Taxation of Bonus Pay”, *American Economic Review (Papers and Proceedings)*, 103:3, 2013 (with Maitreesh Ghatak); (6) “Taxation and Development”, forthcoming in Alan Auerbach et al (eds.) *Handbook of Public Economics*, Elsevier (with Torsten Persson); (6) “What’s the Good of the Market? A Review Essay on Michael Sandel’s What Money Can’t Buy”, *Journal of Economic Literature*, 51:2, 2013; (7) “Investing for Prosperity: Skills, Infrastructure and Innovation”, *National Institute Economic Review*, 2013 (with Miguel Coelho and John VanReenen); (8) “Making and Breaking Tax Systems”, (the 2013 Geary Lecture), forthcoming in *Economic and Social*



Professor Per Krusell enjoys his crayfish at the IIES Annual Crayfish Party - a bit a usual!

Review; and (9) “Profits with Purpose? A Theory of Social Enterprise with Experimental Evidence”, September 2013 (with Maitreesh Ghatak).

TIMO BOPPART joined the Institute in January 2013. He has since worked on a paper entitled (1) “Non-homothetic Preferences and Industry Directed Technical Change”, University of Zurich Working Paper 123 (with Franziska J. Weiss). Moreover, he revised the paper (2) “Structural Change and the Kaldor Facts in a Growth Model with Relative Price Effects and Non-Gorman Preferences”. He presented his work at the Greater Stockholm Macro Group at the Riksbank, the 4th Joint French Macro Workshop, the Annual Meeting of the Society for Economic Dynamics in Seoul, the TIGER Forum in Toulouse and the Annual Meeting of the European Economic Association in Gothenburg.

TESSA BOLD has held a part-time position at the IIES in 2012/13 while being the Chair in Development and International Economics at the Goethe University in Frankfurt. She has been working on three projects related to education in developing countries. She has revised two papers (1) “The High Return to Private Schooling in a Low-Income Country”; and (2) “Why Did Abolishing Fees Not Increase Public School Enrolment in Kenya?”, which has now been accepted for publication in the *World Bank Economic Review*. She has



Tom Cunningham (left) and Timo Boppert (right) joined the IIES during the year as Assistant Professors.

completed a working paper (3) “Scaling up What Works: Experimental Evidence on External Validity in Kenyan Education”, Center for Global Development Working Paper 321, March 2013 (with Mwangi Kimenyi, Germano Mwabu, Alice Ng’anga and Justin Sandefur) which has been submitted for publication and presented extensively at conferences. She has also been working on two papers related to risk-sharing (4) “Insurance Companies of the Poor” (with Stefan Dercon); and (5) “Testing Coalition-proof Dynamic Risk-sharing” (with Tobias Broer). She has presented her work at BREAD, NEUDC, DIW in Berlin, the Tinbergen Institute and International Growth Week among others.

TOBIAS BROER wrote the article (1) “The Wrong Shape of Insurance: What Cross-sectional Distributions Tells Us about Models of Consumption-smoothing”, forthcoming in *American Economic Journal: Macroeconomics*. He also finished draft versions of several new articles: (2) “The Great Moderation and the Great Leverage: Financial Trade and Asset Prices when Investors Disagree about Risk” (with Afroditi Kero); (3) “Great Moderation or Great Mistake: Can Overconfidence in Low Macro-risk Explain the Boom in Asset Prices?” (with Afroditi Kero); and (4) “The Distribution of Household Portfolios in International Macroeconomic Models and US Micro-data”. Tobias presented his work at the Paris School of Economics, where he spent six weeks as a visiting researcher in spring 2013, Tel Aviv University, University of Cyprus, Graduate Institute in Geneva, University College London, the Bank of England, the European Summer Symposium on Economic Theory 2013, the EEA Annual Meeting 2013 and the Nordic Macro Conference 2013 in Smögen.

KONRAD BURCHARDI has initiated a project that seeks to experimentally test the incentive effects of tenancy contracts (with Selim Gulesci and Munshi Sulaiman). He has also worked on a theoretical framework which helps to think about the welfare effects of microcredit contracts as well as the competition effects from expanding the access to both traditional and micro finance and suggests an effective regulation of financial systems in developing countries (with Tim Besley and Maitreesh Ghatak) and commenced theoretical work on the optimal design of randomized controlled trials (with Hannes Malmberg). He presented his work at Edinburgh University, University of Sterling, Tinbergen Institute (Amsterdam), CESifo (Munich), CREI (Barcelona), Paris School of Economics, University of Oslo, Columbia University, CKGSB (Beijing) and Tsinghua University (Beijing). Furthermore, his paper (1) “The Economic Impact of Social Ties: Evidence from German Reunification” (with Tarek A. Hassan) was published in *Quarterly Journal of Economics*, 128:3, 2013.

LARS CALMFORS published (1) “Pattern Bargaining and Wage Leadership in a Small Open Economy” (with Anna Larsson Seim), *Scandinavian Journal of Economics*, 115:1, 2013; (2) “Sweden: From Macroeconomic Failure to Macroeconomic Success”, in Maguire, M. and G. Wilson (eds), *Business and Government, Volume IV: Challenges and Prospects*, Routledge 2013;

(3) “Jobbskatteavdrag, arbetslöshetsersättning och löner” (“Earned Income Tax Credits, Unemployment Benefits and Wages”) (with Helge Bennmarker and Anna Larsson Seim), Rapport 2013:10, IFAU; (4) “Hur fungerar det svenska avtalssystemet?” (“How Does the Swedish Wage-Setting System Function?”), *SNS Analys*, No. 12, 2013; and (5) “Rädda euron: krävs en djupare integration?” (“Save the Euro: Is Deeper Integration Needed?”), *Ekonomisk Debatt*, 2013:3. He also wrote or substantially revised (6) “Why Do People Dislike Low-Wage Trade Competition with Posted Workers in the Service Sector?” (with Girts Dimdins, Marie Gustafsson Sendén, Henry Montgomery and Ulrika Stavlöt), forthcoming in *Journal of Socio-Economics*; (7) “The Swedish Macroeconomic Policy Framework”, forthcoming in Pierre, J. (ed.), *Handbook in Swedish Politics*, Oxford University Press; (8) “Earned Income Tax Credits, Unemployment Benefits and Wages: Empirical Evidence from Sweden” (with Helge Bennmarker and Anna Larsson Seim), IFAU Working Paper 2013:12; (9) “Eurokrisen och EU:s finanspolitiska regelsystem” (“The Euro Crisis and EU Fiscal Rules”), forthcoming in Persson, M. and E. Skult, *Tillämpad makroekonomi*, Studentlitteratur 2013; and (10) “Överlever euron?” (“Will the Euro Survive?”).

TOM CUNNINGHAM principally worked on his project on (1) “Biases and Implicit Knowledge”, an attempt to explain why people make inconsistent decisions, and the paper (2) “The Incumbency of Signalling” (with Francesco Caselli, Ines Moreno de Barreda and Massimo Morelli) was accepted for publication in *Economica*. He also continued work on (3) “Thresholds and Effort” (with Ines Moreno de Barreda); and revised (4) “Comparisons and Choice”. He presented his work at seminars at Tel Aviv University, Princeton, Hebrew University, HHS and Oxford University.

HARRY FLAM wrote the working paper (1) “Swedish Equity Mutual Funds: Performance, Persistence and the Presence of Skill” (with Roine Vestman). He was also the principal investigator and chairman of a government commission to examine the financial independence of the Riksbank. The investigation and subsequent proposals were published in the report “The Riksbank’s Financial Independence and Balance Sheet” (SOU 2013:9).

Since taking up a post doctoral position at the IIES in October 2012, SUSANNE FORSTNER has mainly worked on (1) “The Effect of Moral Hazard on Wage Inequality with On-the-job Search and Employer Competition” (with Arpad Abraham and Fernando Alvarez-Parra). She also continued work on (2) “Job-to-job Mobility and Wage Inequality: A Quantitative Assessment”. During the year, she also presented her work at the Uppsala University Macro Seminar, the Greater Stockholm Macro Group, the Mannheim Workshop in Quantitative Macroeconomics, the SED Annual Meeting in Seoul, the Nordic Summer Symposium in Macroeconomics in Smögen and the EEA Annual Congress in Gothenburg.

The main focus of the research of JOHN HASSLER this year has remained on the economics of climate change. He is a member of the management group of the climate project Mistra-SWECIA, run jointly with the Swedish meteorological office SMHI and Lund University. John's research on climate change is done in collaboration with Per Krusell, Conny Olovsson and colleagues at other universities in Europe and the U.S. The paper (1) "Optimal Taxes on Fossil Fuel in General Equilibrium" (with Mikhail Golosov, Per Krusell and Aleh Tsyvinski) was accepted for publication in *Econometrica*. His paper (2) "The Fossil Episode" (with Hans-Werner Sinn) has been presented at various conferences and seminars. Together with Per Krusell, Abdulaziz Shifa and Daniel Spiro, he wrote the report (3) "Ugandan Oil: A Blessing or a Curse", commissioned by the International Growth Centre at LSE and University of Oxford.

SEBASTIAN KOEHNE revised three research papers: (1) "Optimal Income Taxation with Asset Accumulation" (with Arpad Abraham and Nicola Pavoni); (2) "Should Unemployment Insurance be Asset-tested" (with Moritz Kuhn); and (3) "Optimal Taxation in a



IIES' new research assistants. From left: Jósef Sigurdsson, Serena Cociolo and Jaakko Meriläinen.

Habit Formation Economy” (with Moritz Kuhn). He also started a new research project on optimal tax incentives for home owners as well as presented his work at Uppsala University, Sabanci University, Tel Aviv University, Goethe University Frankfurt, at the SED meeting, the CESifo Public Economics conference and the annual meeting of the German Economic Association.

PER KRUSELL worked on a variety of research topics within macroeconomics broadly defined (inequality, growth, labor markets, financial economics, political economy, and public economics) and on a project on economics and global climate change, which involves cooperation with other scientists through Mistra-SWECIA and abroad. Several of his recent papers were accepted for publication, or published, during this period. Apart from those mentioned in last year’s Annual Report, (1) “Optimal Taxes on Fossil Fuel in General Equilibrium” (with Michael Golosov, John Hassler and Aleh Tsyvinski) was accepted for publication in *Econometrica*.

MASAYUKI KUDAMATSU has been working on two research projects: (1) “Weather and Infant Mortality in Africa”, CEPR Discussion Paper No. 9222 (with Torsten Persson and David Strömberg); and (2) “Complementary Roles of Connections and Performance in Political Selection in China”, CEPR Discussion Paper No. 9523 (with Ruixue Jia and David Seim). He also gave seminar talks at Barcelona Development Economics Workshop, Singapore Management University, National Graduate Institute of Policy Studies (in Tokyo), Osaka University and Hong Kong University of Science and Technology.

ASSAR LINDBECK finished his book, (1) *Ekonomi är att välja (Economics is an Issue of Choosing)*, Albert Bonniers Förlag, 2012, initiated by Riksbankens Jubileumsfond, on his life-long experiences in economic research and the economic-policy debate after World War II. He also wrote (2) “A Continuous Model of Income Insurance”, forthcoming in *International Tax and Public Finance* (with Mats Persson). He is currently working on a paper on optimum social insurance in a society with social norms against overusing the benefit system; an empirical study of social norms in connection with sick-pay insurance; and a theoretical paper on bonus systems for managers (including portfolio managers).

DIRK NIEPELT served on the organizing committee of the European Summer Symposium in Financial Markets, the European Summer Symposium in Economic Theory (both in Gerzensee, Switzerland) as well as the Young Swiss Economists’ Meeting. With his co-authors Harris Dellas and Martin Gonzalez-Eiras, Dirk worked on projects in international finance and macroeconomic theory. He published short articles in the *Journal of Money, Credit and Banking* and the *Swiss Journal of Economics and Statistics* as well as various newspaper articles.

During the academic year PETER NILSSON revised his work on the effects of early life conditions on long-term economic outcomes in (1) “Alcohol Policy, Prenatal Conditions, and Long-term Economic Outcomes”; the effects of air pollution in (2) “The Long-run Effects of Early-Childhood Lead Exposure: Evidence from the Phase out of Leaded Gasoline”; (3) “Congestion Charges and Children’s Health” (with Janet Currie, Emilia Simeonova, and Reed Walker); (4) “Air Pollution and Productivity: Evidence from Inversion Episodes” (with Jenny Jans and Per Johansson); and finally peer effects in the workplace (5) “Businesses, Buddies, and Babies: Fertility and Social Interactions at Work” (with Lena Hensvik and Magne Krogstad Asphjell). He presented work at NHH Bergen and at Oslo University and was a discussant at workshops at CESifo in Munich and at the IIES Climate and the Economy Conference.

CONNOR OLOVSSON published the paper “How Does a Pay-as-you-go System Affect Asset Returns and the Equity Premium?” which is now forthcoming in the *Review of Economic Dynamics*. Conny also worked on the paper “Optimal Taxation with Home Production”, which is a revise and resubmit to the *Journal of Monetary Economics*. He also presented: “Why Do Income and Productivity Differ in OECD Countries?” at the Nordic Summer Symposium in Macroeconomics in Smögen, Sweden.

MATS PERSSON published (1) “2012 års Ekonomipris till Lloyd Shapley och Alvin Roth” (“The 2012 Economics Prize to Lloyd Shapley and Alvin Roth”), *Ekonomisk Debatt* 2012:8 (with Tore Ellingsen, Peter Englund, Per Krusell and Tomas Sjöström); (2) “Constructing Gender Differences in the Economics Lab”, *Journal of Economic Behavior and Organization*, 84, 2012 (with Anne Boschini and Astri Muren); (3) “Kommentar till André Sapir”, *Nationalekonomiska Föreningens Förhandlingar, Ekonomisk Debatt*, 2013:3; and (4) “Är kön en social konstruktion?” (“Is Gender a Social Construct?”), *Ekonomisk Debatt*, 2013:5 (with Anne Boschini and Astri Muren).

TORSTEN PERSSON wrote the new papers (1) “Gender Quotas and the Mediocre Man: Theory and Evidence from Sweden” (with Tim Besley, Olle Folke and Johanna Rickne) 2012; and (2) “Preferential Votes and the Selection of Party Leaders: Evidence from Sweden” (with Olle Folke and Johanna Rickne), 2013. He published (3) “Taxation and Development” in Auerbach, A., R. Chetty, M. Feldstein and E. Saez (eds.) *Handbook of Public Economics*, 2013 (with Tim Besley). During the academic year, Torsten gave a number of seminars and participated in academic conferences in Sweden, Europe, the US, and Asia. In October/November 2012, he visited the London School of Economics, in his capacity as a Centennial Professor, where he gave series of lectures to PhD students.

DAVID STRÖMBERG worked on (1) “The Judge, the Politician and the Press” (with Claire Lim and James Snyder); (2) “Weather and Infant Mortality in Africa” (with Masayuki Ku-

damatsu and Torsten Persson); and (3) “The Determinants of Media Capture in China” (with Bei Qin and Yanhui Wu).

PETER SVEDBERG published the articles (1) “Assessing Hunger: What Do the FAO’s Revised Undernourishment Figures Tell Us?”, *Bridges Africa* 2:1, 2013; and (2) “The Composite Index of Anthropometric Failure (CIAF): An Alternative Indicator of Malnutrition in Young Children”, in Preedy, V. (ed.), *Handbook of Anthropometry: Physical Measures of Human Form in Health and Disease*, Springer Verlag, 2012. He also revised the papers (3) “The Global Hunger Millennium Development Goal is Attainable”; and (4) “Small Effects on Child Malnutrition of World Food Price Raise 2008-12”.

During the academic year, JAKOB SVENSSON worked on a number of papers, including (1) “Policies and Institutions for Effective Service Delivery: The Need of a Microeconomic and Micropolitical Approach”, *Journal of African Economies*, 22:2, 2013 (with Tessa Bold); (2) “Tuning in the Market Signal: Estimating Impact of Access to Market Prices in Par-

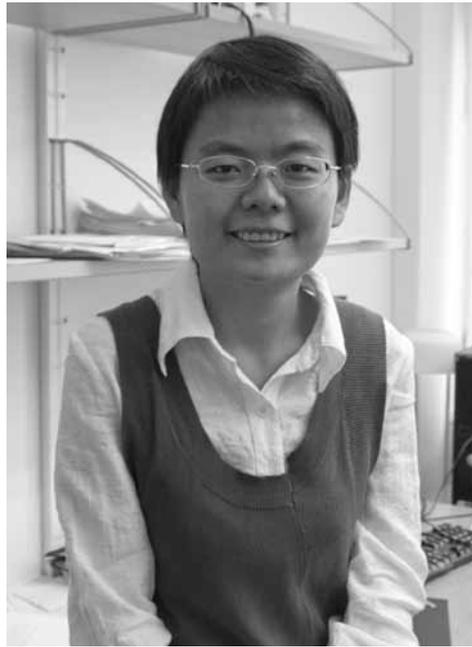


Quiz walk (“tipspromenad”) before the crayfish party.

tial vs. General Equilibrium”, Working Paper (with David Yanagizawa Drott); (3) “The Market for (Fake) Antimalarial Medicine: Evidence from Uganda”, Working Paper (with Martina Björkman Nyqvist and David Yanagizawa Drott); (4) “Who Benefits from Free Education: Evidence from a Policy Experiment in Cambodia” (with Maria Cheung and Andreas Madestam); (5) “Information is Power: Experimental Evidence of the Long Run Impact of Community Based Monitoring” (with Martina Björkman Nyqvist and Damien de Walque); and (6) “Safe Sex for a Chance to Win: Evidence from a Randomized Field Experiment on Lottery Incentives for HIV Prevention” (with Martina Björkman Nyqvist, Lucia Corno and Damien de Walque). In addition, he is currently managing several large field experiments in health and agriculture in Uganda.

LARS E.O. SVENSSON worked on several projects on the theory and practice of monetary policy, stimulated by his experience as Deputy Governor and member of the Executive Board of Sveriges Riksbank (the central bank of Sweden). He left the Riksbank in May 2013 and is now a Visiting Professor at SIFR – The Institute for Financial Research, Swedish House of Finance, Stockholm School of Economics. He completed a first draft of the paper (1) “Some Lessons from Six Years of Practical Inflation Targeting”, forthcoming in *Sveriges Riksbank Economic Review*, 2013:3; (2) “The Effect of Housing Prices of Changes in Mortgage Rates and Taxes”; and (3) “Leaning Against the Wind’ Increases (Not Reduces) the Household Debt-to-GDP Ratio.”. He published the comments (4) “Discussion of Athanasios Orphanides and Volker Wieland ‘Complexity and Monetary Policy’”, *International Journal of Central Banking* 9, Supplement 1, 2013; and (5) “Comment on Olivier Jeanne, ‘Capital Account Policies and the Real Exchange Rate’”, in Giavazzi, F. and K. D. West (eds.), *International Seminar on Macroeconomics 2012*, National Bureau of Economic Research, University of Chicago Press, 2013.

ROBERT ÖSTLING has mainly focused on a project about wealth effects on lifetime outcomes. Two drafts have been completed during the academic year: (1) “The Effect of Wealth on Household Labor Supply: Evidence from Swedish Lotteries” (with David Cesarini, Erik Lindqvist and Matthew Notowidigdo) and (2) “Estimating the Causal Impact of Wealth on Health: Evidence from Swedish Lottery Players” (with David Cesarini, Erik Lindqvist and Björn Wallace). Robert has presented the latter paper at Lund, Uppsala and Stockholm University (SOFI, CHESS and IIES). Robert has also continued working on an experimental paper (with Tore Ellingsen and Erik Wengström) entitled (3) “How Does Communication Affect Beliefs?”. Two other ongoing projects are about learning in the LUPI game (with Erik Mohlin and Joseph Tao-yi Wang) and learning in a minimum effort game (with Manja Gärtner and Erik Mohlin).



Four of our recently graduated PhD students, (clockwise from top left), Pamela Campa, Ruixue Jia, Abdulaziz Shifa and Bei Qin. We wish them all success in their future careers.

Articles Published or Accepted in Leading Journals by IIES Permanent Staff 2012/2013

KONRAD BURCHARDI and TAREK A. HASSAN, “The Economic Impact of Social Ties: Evidence from German Reunification”, *Quarterly Journal of Economics*, 128:3, 2013.

JULIO DAVILA, JAY HONG, PER KRUSELL and JOSÉ-VÍCTOR RÍOS-RULL, “Constrained Efficiency in the One-Sector Neoclassical Growth Model with Uninsurable Idiosyncratic Shocks”, *Econometrica*, 80:6, 2012.

MICHAEL GOLOSOV, JOHN HASSLER, PER KRUSELL and ALEH TSYVINSKI, “Optimal Taxes on Fossil Fuel in General Equilibrium”, *Econometrica* (forthcoming).

Visiting Fellows 2012/2013

LINT BARRAGE had a wonderful and productive time while visiting IIES for two weeks in April 2013. She had the opportunity to work with Per Krusell and John Hassler on computational climate-economy modeling based on work by Per, John, Aleh Tsyvinski (Yale) and Mikhail Golosov (Princeton). Lint got to work with Per and John on studying the impact of different assumptions about factors such as future economic growth on the model's predictions and climate policy recommendations. Lint felt very much at home thanks to the friendly atmosphere at the Institute, and immensely enjoyed the opportunity to learn more about the research of its faculty and graduate students over lunches, dinners, and 'fika'.

PIERRE ANDRE CHIAPPORI had a very productive time visiting the Institute for a week in May 2013. During his visit he presented a survey paper covering recent developments in matching theory (from both a theoretical and an empirical perspective), with a particular emphasis on Transferable Utility models. The seminar generated vivid discussions, particularly regarding the applications to female demand for higher education. He met several students and colleagues in the department. And he was particularly grateful to the department for choosing, for his visit, an entirely sunny week.

REMA HANNA had a very productive and engaging time visiting the Institute. During the visit, she met with lots of different faculty to discuss research ideas, and then presented her paper on the effects of different targeting methodologies in terms of identifying the poor to provide them with social services. She received very useful comments to improve the paper in several dimensions and is, as always, looking forward to her next trip to the Institute.

PAUL KLEIN (Simon Fraser University) spent another productive summer at IIES, mainly working on a project (with David Domeij, Stockholm School of Economics) whose aim is to understand the phenomenon of two-way migration of people across regions. The nuts and bolts of a new model framework and its associated numerical solution algorithm were developed. He also worked on a model of dynamic tax competition under commitment (with Miltiadis Makris, University of Southampton), showing numerically that although Gross (2012) was right to conclude that capital mobility does not affect the long-run zero capital tax rate result of Chamley (1986), the transition to the long run is very much affected by capital mobility across jurisdictions, and that capital taxes along that transition are typically positive.

NILS-PETTER “NIPPE” LAGERLÖF visited the IIES from 17 June to 5 July, 2013, working on “Statehood, Democracy and Preindustrial Development”, which proposes a unified model of state transitions, explaining, inter alia, why regions of the world which were first to develop statehood (e.g. China and the Middle East) have been late to transit into democracy. Related subjects were discussed over several long lunches at Stora Skuggan, Skafferiet and Kräftan. Nippe gained a lot of weight.

MATT NOTOWIDIGDO had a fun and productive time at the Institute during his visit in September 2012. During his visit he presented a paper co-authored with Kory Kroft and Fabian Lange on duration dependence and labor market conditions, which used data from a large-scale field experiment conducted in the U.S. He also began work on a joint project with David Cesarini, Erik Lindqvist, and Robert Östling studying the effect of wealth on labor supply. Most of his time was spent working hard with David, Erik and Robert, but the research team did allow time for lunchtime discussions with other people in the department, as well as time to introduce Matt to some fine Swedish cuisine.

PETRA PERSSON visited the Institute for ten days in October 2013. During her visit she presented a paper on how the design of social insurance affects behavior in the marriage market. Petra greatly enjoyed presenting in the IIES seminar series, and found the comments from the audience very helpful in the continued development of the paper. During her time at the Institute she also laid the foundation for a new research project, joint with a member of the Institute. The visit was thus a highly productive one and Petra hopes to return for future visits.

LÁSZLÓ SÁNDOR had a very productive visit in December 2012, notwithstanding the darkest week of the academic year, the snow, and the Christmas schedule. The main project with David Seim got off the ground and many new ideas which arose have progressed greatly since. László had great meetings with faculty and fellow students, and he was particularly glad to join the holiday festivities and the annual holiday dinner party. He is particularly grateful for the hospitality in the office and the IIES apartment. The IIES clearly appreciates and facilitates interaction with outside researchers.

The IIES kindly provided DANIEL SPIRO with a base when working for the Swedish Finance Ministry and meeting with co-authors based in Stockholm during a number of weeks in June and July 2013. Apart from these work related issues, Daniel got the opportunity to catch-up with old friends and colleagues at the IIES both professionally and personally. The IIES is a very active research environment even during summer when the rest of Sweden shuts down. Although the weather was tempting Daniel not to work, the faculty and PhD students provided ample incentive to come to the office.

Tenure Track Assistant Professor Position

The Institute for International Economic Studies, Stockholm University, seeks to fill up to three positions at the tenure-track, assistant-professor level, in any field, beginning in the academic year 2014/2015. 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 positions offer 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 28, 2013. Candidates on a shortlist will be interviewed at the ASSA Annual Meetings in Philadelphia, January 2014. Other arrangements may be possible for short-listed candidates, who do not plan to attend the meetings.

For questions, please contact: Prof. Torsten Persson, e-mail: torsten.persson@iies.su.se

Teaching 2012/2013

PHILIPPE AGHION taught the course “Economic Growth: Theory and Policy” with Timo Boppart.

ALMUT BALLEER taught the course “Labor-market Macro and Quantitative Methods” (2nd year PhD) with Per Krusell.

TESSA BOLD has been teaching part of a PhD course in “Development Economics”.

TIMO BOPPART taught the second year course “Economic Growth: Theory and Policy” with Philippe Aghion.

TOBIAS BROER taught “International Macroeconomics” in the autumn of 2012 and “Macroeconomics II” in the spring of 2013.

KONRAD BRUCHARDI taught the undergraduate course “Intermediate Development Economics” and “Development Economics II” at the PhD level (with Andreas Madestam, Masa Kudamatsu and Jakob Svensson) in the fall of 2012.

LARS CALMFORS taught the undergraduate course “Intermediate Macroeconomics” in the autumn of 2012 and the master’s course in Labor Economics in the spring of 2013.

TOM CUNNINGHAM taught the course “Graduate Behavioral Economics” with Robert Östling.

HARRY FLAM taught “Macroeconomics” for beginners in the fall of 2012.

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

SEBASTIAN KOEHNE taught the PhD courses “Mathematics III” with Conny Olovsson and “Public Economics” with John Hassler and Dirk Niepelt.

PER KRUSELL taught various graduate courses at Stockholm University and elsewhere: Macro II (first year) and Macro-Labor (second year) at Stockholm University, Macro at University of Gothenburg, Macro I (first year) at London School of Economics, and Macro and Inequality (second year) at Yale University. Per also taught a master’s course at Stockholm University called “The Climate and the Economy”.

MASAYUKI KUDAMATSU taught three second-year graduate courses: “Development Economics I and II” (with Jakob Svensson, Tessa Bold, Andreas Madestam and Konrad Burchardi) and “Topics in Applied Microeconometrics”.

DIRK NIEPELT co-taught a “Public Economics” PhD course with John Hassler and Sebastian Koehne. He also taught BA and MA level courses at University of Bern.

PETER NILSSON taught the PhD level course “Social Economics”, together with Hans Grönqvist.

Conny Olovsson taught the courses “The Climate and the Economy”, and “Math III”. The former course is for the master level and the second is a PhD course.

ETTORE PANETTI taught the course “Advanced Macroeconomics” in the Master Program in Economics at University of Sassari, together with Prof. Francesco Lippi.

MATS PERSSON taught undergraduate “Macroeconomics”.

TORSTEN PERSSON taught the second year graduate courses “Political Economics II and III” at Stockholm University (with David Strömberg). At the London School of Economics, he gave a PhD course in “Development Economics” (with Oriana Bandiera, Greg Fischer and Gerard Padro-i-Miquel). He also gave a week-long summer course on Development Economics in the Swiss Doctoral Program at Gerzensee. Finally, he was the advisor or co-advisor of four students who took their PhDs during the academic year 2012/13.

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

JAKOB SVENSSON taught the master’s course in “Development Economics” and jointly taught the graduate courses in “Development Economics”. Both in the fall term 2012.

LARS E.O. SVENSSON taught with Nils Gottfries, Uppsala University, and Johan Söderberg, Stockholm University, the second year PhD course “Monetary Economics” organized by the Riksbank, Stockholm University and Uppsala University in the spring of 2013.

ROBERT ÖSTLING has taught one graduate course in “Behavioral Economics” together with Tom Cunningham and an undergraduate course in applied game theory called “Economic Strategic Thinking”.

Extramural Activities

TIM BESLEY was Member of the External Panel on the Doing Business Report reporting to the President of the the World Bank, Chair of Council of Management at the National Institute of Economic and Social Research, Steering Group Member at the International Growth Centre, Vice-President of the International Economics Association, the Gluskin-Granovsky CIFAR Fellow (and member of the Institutions, Organizations and Growth Program.) and Co-Chair of LSE Growth Commission. He was also the Associate Editor of *Quarterly Journal of Economics*, *Journal of Development Economics*, *International Tax and Public Finance*, *Review of Development Economics* and *European Journal of Political Economy* and was also Editorial Advisor of *Journal of Economic Perspectives*.

TOBIAS BROER has continued his regular visits to Sveriges Riksbank's Research Department.

KONRAD BURCHARDI was Associate Editor of *Journal of Development Economics*, Associate of ThReD (Theoretical Research in Development Economics) and Affiliate of the CES-ifo Network.

LARS CALMFORS served as a columnist in *Dagens Nyheter* (the leading Swedish morning daily). He also gave a large number of public lectures and speeches on stabilisation, employment and tax policies as well as on wage setting and the euro crisis. This included the OECD (High-Level Parliamentary Seminar), the Finnish Economic Council, the Embassy of France in Stockholm, the Swedish Economic Association, the Swedish Research Council, the Swedish Center for Business and Policy Studies (SNS), the Swedish Ministry of Finance, the Swedish Ministry of Education, the Swedish National Board of Trade (Kommerskollegium), the Swedish Trade Union Congress (LO), the Confederation of Swedish Enterprise (Svenskt Näringsliv), Almega (the Employer and Trade Organisation for the Swedish Service Sector), the Board of the Swedish Liberal Party, Social Democrats in Stockholm, the Local Social Democratic Association in Uppsala, Confex, the Organisation of Swedish Unemployment Insurance Funds, Värnamo municipality and Norrlandsfonden. Lars Calmfors also worked as a Member of the Research Policy Committee of the Royal Swedish Academy of Sciences and as a Member of the Council for Government Grants to Activities Highlighting Issues for the Future in the European Union at the Swedish Youth Board (Ungdomsstyrelsen).

HARRY FLAM served as chairman of the Scientific Council at the Center for Business and Policy Studies (SNS), member of the foreign minister's strategic council, 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), expert on a government commission on Swedish official statistics, and principal investigator on a government commission on the financial independence of the Riksbank.

JOHN HASSLER has been vice chairman of the Swedish Fiscal Policy Council and will be appointed chairman from September 1, 2013. He is also a member of the Bellagio group of academics and central bankers led by Barry Eichengreen. John remains an adjunct member of the Prize Committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel and is associate editor of *Macroeconomic Dynamics* and *Scandinavian Journal of Economics*.

Throughout the year, PER KRUSELL served on the Prize Committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. He served as Programme Director of the Climate and Economics Initiative of the Centre of Economic Policy Research (CEPR), on several scientific advisory boards, on the senior grant evaluation panel of the European Research Council, and on the Council as well as the Women in Economics committee of the EEA. Per also served as a scientific consultant to Sveriges Riksbank. In addition, Per gave a number of lectures and seminars and conference presentations in Europe and the United States and also participated in the public debate by appearing in various media outlets, including TV, radio and newspapers.

DIRK NIEPELT served as Director of the Study Center Gerzensee, Foundation of the Swiss National Bank, Professor at University of Bern, and Board Member of the Swiss Society for Economics and Statistics.

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

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

JAKOB SVENSSON served as board member of the African Economic Research Consortium (AERC) as board member of J-PAL's Governance Initiative, as member of the

Expert Group for Evaluation and Analysis of Swedish International Aid and as Visiting Professor at Norwegian School of Economics (NHH), Bergen.

LARS E.O. SVENSSON, in his capacity as Deputy Governor and member of the Executive Board of Sveriges Riksbank (the central bank of Sweden) and also after he left the Riksbank, gave many policy-oriented speeches, lectures, and presentations during the year; see the section “Practical Monetary Policy” on his website, larseosvensson.se. Since he left the Riksbank he has also become one of the bloggers at the Swedish blog Ekonomistas.se. He has also contributed to the Voxeu.org website.

ROBERT ÖSTLING’S extramural activities have largely been devoted to writing blog posts about economics and economic policy for the Swedish blog [Ekonomistas](http://Ekonomistas.se). He has also been appointed member of a Social Democratic unemployment research commission led by Professor Mårten Palme. Robert Östling has been on parental leave since May 1 2013 and plans to be on leave during the remainder of 2013.



The local 4H-yard offers backing on Icelandic horses. Here the head of administration, Christina Lönnblad (left), takes fellow horse-loving administrator Hanna Christiansson for a ride.

Completed Theses 2012/2013

PAMELA CAMPA successfully defended her thesis *Media Influence on Pollution, and Gender Equality* in June 2013, which consisted of three essays. The first essay, “Press and Leaks: Do Newspapers Reduce Toxic Emissions?”, investigates whether media coverage induces firms to reduce toxic emissions. It uses data on plant-level emissions in 2001-2009 from the Toxic Release Inventory of the US Environmental Protection Agency, coupled with newly collected data on location and content of newspapers. An increase in Newspapers Density, that is the number of newspapers nearby a plant, raises the press coverage of the plant’s toxic emissions and reduces the amount of these emissions. This association is larger in industries exposed to consumer pressure and in counties subjected to extreme negative health outcomes. The second essay, “Gender Quotas, Female Politicians and Public Expenditures: Quasi-Experimental Evidence”, estimates the effect of gender quotas on the election of female politicians and on public finance decisions in Spanish municipalities, using a Before-After Regression Discontinuity Design. Gender quotas have increased the percentage of female candidates and also, but to a lower extent, the percentage of female councilors. The difference between the two effects is due to the strategic positioning of candidates within lists. The effect of quotas on the election of female mayors and on the size and composition of expenditures is not statistically different from zero, despite there being survey evidence of gender differences in preferences over policy. The third essay, “Are Attitudes Endogenous to Political Regimes? Beliefs about Working Women in State-socialist Countries” (co-authored with Michel Serafinelli) studies whether a policy regime that puts emphasis on gender equality changes people’s attitudes toward sex-roles in society. It uses a Difference-in-Differences analysis that compares attitudes before and after the advent of state-socialism in Central and Eastern Europe. Between the late 1940s and the early 1990s, state-socialist governments strongly encouraged women’s paid employment outside the home. The results suggest that Central and Eastern Europeans that formed their attitudes during the state-socialist regime are more likely to hold progressive beliefs regarding working women. No significant difference is found in the evolution of beliefs about the compatibility of work and motherhood.

In September 2012, JINFENG GE defended his thesis *Essays on Macroeconomics and Political Economy*, consisting of two papers in macroeconomics, and one in political economy. The first paper, “The Relative Price of Investment Goods and Sectoral Contract Dependence”, develops a quantitative model to show that incomplete contract enforcement induces distortions in the production process which come from the holdup problem between a final goods firm and its suppliers. The poorer is the contract enforcement insti-

tution, the larger is the distortion. Because the investment goods sector is more contract dependent, its productivity suffers more from the distortion. In turn, countries endowed with weaker contract enforcement institutions face higher relative prices of investment goods because of the relative inefficiency of producing investment goods. The second essay “Ricardian Model of Labor Market with Directed Search” analyzes how search frictions affect the allocation in a Ricardian model of the labor market. The equilibrium shows that the matching pattern is partially mixed: Some tasks are only performed by skilled workers; some are only performed by unskilled workers; the remaining tasks are performed by both skilled and unskilled workers. The mixed matching pattern implies a mismatch in equilibrium. I also calibrate the model and show that the magnitude of the mismatch is quantitatively small. Finally, the third essay “A Dynamic Analysis of the Free Rider Problem” argues that special interest groups overcome their free-rider problem thanks to distorted government policy. As public policy confers monopoly privileges on a special interest group, it can also preserve and promote group organization. The key is a dynamic incentive: when distorted policy generates rents for an interest group, each member of the group wishes to make contributions not just to raise their rents today; they want to sustain their cooperation so that they will be able to influence policy in the future.

In April 2013, CHRISTINA HAKANSON defended her thesis *Changes in Workplaces and Careers* consisting of three empirical and one theoretical paper in labor economics. The first paper, “Organizational Change and Productivity Growth: Evidence from Sweden” uses two firm level surveys matched with employer-employee data to investigate both determinants and effects of different types of organizational change. The second paper, “Firms and Skills: The Evolution of Worker Sorting” documents a significant increase in sorting by both cognitive and non-cognitive skill from 1986 to 2008 using data for 28 cohorts of Swedish men. In particular, the skill differences within firms have fallen in all major industries while it has increased between firms. The third paper, “Trading off or Having It All? Completed Fertility and Mid-career Earnings of Swedish Men and Women” documents changes in education, assortative mating, completed fertility and mid-career earnings for Swedish men and women born 1945-1962 and explores how the association between earnings and children has changed. Finally, “Solving the Puzzle: Hours Constraints, Technical Change and Female Labor Supply” extends the standard theory of labor supply to incorporate an important ingredient in the labor supply decision of today’s women: the role of flexibility and time constraints.

In May 2013, RUIXUE JIA defended her thesis *Essays on the Political Economy of China’s Development*, consisting of a total of five papers. “Complementary Roles of Connections and Performance in Political Selection in China” studies who become top politicians

and finds that political connections and economic performance are complements in the political selection process. “Pollution for Promotion” studies how the political selection system in China affects the environment and finds that politicians with stronger career concerns pollute more. “Decentralization, Collusion and Coalmine Deaths” examines how collusion between politicians and firms affects workplace safety using the case of China’s coalmine deaths. “The Legacies of Forced Freedom: China’s Treaty Ports” investigates the long-run development of China’s treaty ports from the mid-18th century until today. This paper is forthcoming in *Review of Economics and Statistics*. And finally, “Weather Shocks, Sweet Potatoes and Peasant Revolts in Historical China” uses data over four centuries to investigate to what extent weather shocks and technology adoption affected civil conflict. This paper is also forthcoming in *Economic Journal*.

In January 2013, YINAN LI defended his thesis *Institutions, Political Cycles and Corruption: Essays on Dynamic Political Economy of Government*. The thesis consists of three self-contained



This year's completed theses. Clockwise from top left: Jinfeng Ge, Yinan Li, Christina Håkanson, Bei Qin, Abduraziz Shifa, David Seim, Pamela Campa and Ruixue Jia.

essays. The first essay, “China’s Political Business Circle”, uncovers the evidence of political business cycles in China’s key macro variables after the economic reform starting in 1977. It also provides a theory to explain the mechanism of the political business cycle, incorporating the fundamental institutional features after the reform: economic decentralization, political centralization and central government intervention when necessary. An empirical test of the theory, using a panel of provincial level data, derives a result consistent with the predictions of the theory. The essay also clearly defines the China Model of Growth. The second essay, “A Theory of Dynastic Cycle”, proposes a dynamic politico-economic theory on the dynastic cycle, a repeating pattern throughout China’s history. While each new dynasty is initially strong under the ruling of a new royal family, it degenerates over time until being replaced by another royal family after civil wars, peasants’ rebellions or foreign invasions. The core of the theory is the crown prince problem faced by an incumbent ruler. Choosing a politically stronger successor is economically beneficial since the successor will be able to control the bureaucrats well and prevent bureaucratic corruption from being high in the future. This encourages the current investment made by forward-looking citizens and thus increases the tax base of the incumbent ruler. On the other hand, a politically stronger successor has a higher probability of replacing the incumbent ruler and seizing the power earlier. The theory predicts that, consistent with historical evidence, when all rulers are primarily concerned with their own safety, the quality of the successors (future rulers) will become increasingly worse, and bureaucratic corruption will increase over time. High corruption has two effects on the economy. On the one hand, it increases the burden of the citizens and increases the possibility of rebellions. On the other hand, it reduces the tax base of the ruler and makes the dynasty vulnerable to negative shocks and rebellions. The combination of both effects increases the probability of the collapse of the dynasty. The third essay, “A Politico-Economic Theory of Corruption in Non-Democracy”, is based on three building blocks. First, a non-democratic ruler needs to delegate the power to some agents. Second, a more patient ruler cares more about the future and sets less extractive policies. Third, the agent has the chance to replace the ruler and be corrupt, both due to the weak institutions. Adding up the three blocks, this essay shows that the ruler has a demand for corrupt agents. The reason is as follows. A corrupt agent cares more about the corrupt income in the short run and loses the chance to be the ruler in the long run as such an impatient agent is unlikely to get the support to replace the ruler due to the potential extractive policy he is likely to set as a ruler. But this makes the corrupt agent attractive to the ruler, as they are politically reliable.

In May 2013, BEI QIN defended her thesis, *Essays on Empirical Development and Political Economics*. The thesis consists of three essays on development and political economics. “Political Connection, Government Patronage and Firm Performance: Evidence from

Chinese Manufacturing Firms” empirically shows that if being connected with top leaders in the central government, Chinese firms will receive more resources from governments, as measured by state capital investment and subsidies, and have higher product markup. Firms with more employees, but lower sales and less profit, tend to receive more state capital if equally connected, while firms with higher sales tend to obtain more subsidies. This additional state capital and these subsidies do not seem to improve the firm’s performance. “The Determinant of Media Bias in China” measures and investigates the determinants of political control of newspapers in China. The essay finds that more politically controlled newspapers cover disasters and corruption more than their commercial competitors, and they also cover more leaders and the official news agency Xinhua. The political control does not show a declining trend while GDP per capita has almost doubled in the past ten years. However, the reduction of the competition from party dailies does reduce the political control in general, which is mainly driven by the change in party evenings and subsidiary newspapers. “Chinese Microblogs and Drug Quality” examines the impact of the introductions of Sina Weibo, the most popular microblog in China, on the quality of drugs on the market. I find that the number of bad drugs is decreasing in Sina Weibo use, and the reduction of bad drugs is driven by two mechanisms. Sina Weibo induces more effort from the Drug Administration and it deters the production of bad drugs. The results suggest that microblogs can play an important role in monitoring both the public and the private sectors, especially in a context with media censorship.

In June 2013, DAVID SEIM successfully defended his thesis *Essays on Public, Political and Labor Economics* which consisted of four essays. “Real or Evasion Responses to the Wealth Tax? Theory and Evidence from Sweden”: This paper addresses the behavioral effects of an annual wealth tax. He uses Swedish tax records over the period 1999-2006 to estimate bunching at kink points in the progressive tax schedule and finds significant estimates of the implied net-of-tax elasticity of taxable net wealth at about 0.3. Exploiting features of the institutional setting, he decomposes the effects into a reporting response and a saving response. The results suggest that an increase in the tax is likely to stimulate evasion rather than deter savings. He merges tax records with military enlistment records on cognitive ability and find that high-skilled individuals respond more to the tax. “Job Displacement and Labor Market Outcomes by Skill Level”: This paper investigates the effects of displacement on outcomes such as annual earnings and unemployment. It relies on previously unexplored administrative data on all displaced workers in Sweden in 2002, 2003 and 2004 which are linked to employer-employee matched data at the individual level. By linking the data to military enlistment records, the paper assesses the selection into displacement. Workers with low cognitive and non-cognitive skills tend to be significantly more likely to be displaced than high-skilled workers, even after con-

trolling for tenure and education. The analysis of displacement effects shows evidence of large and long-lasting welfare costs from displacement. Studying the impacts of job displacement in terms of cognitive and non-cognitive skills reveals that workers with high skills fare better than low-skilled workers in absolute terms, but the recovery rates show no significant differences across skill groups. “Complementary Roles of Connections and Performance in Political Selection in China”: Who becomes a top politician in China? The focus is on provincial leaders, a pool of candidates for top political office, and the paper examines how their chance of being promoted depends on performance and connections with top politicians. A simple theoretical framework is proposed and the data is analyzed based on the curriculum vitae of Chinese politicians. What is shown is that connections and performance are complements in the Chinese political selection process. The complementarity arises because, by fostering loyalty of junior officials to senior ones, connections allow incumbent top politicians to select competent provincial leaders without being threatened to be ousted. The evidence also suggests that connections do not play any substantial role in providing information to top leaders, either on



At Christina Håkanson's defense in April 2013. Claudia Olivetti, Boston University, (far right) acted as opponent.

the provincial leader's ability or on the provincial economy. The findings shed some light on why a political system known for patronage can still select competent leaders. "Does the Demand for Redistribution Rise or Fall with Cognitive Ability?": What role does cognitive ability play for preferences for redistribution? This question is examined using a unique Swedish data set that matches data from a tailor-made survey about the demand for redistribution to administrative data. The latter dataset contains information on cognitive ability for men, collected at military enlistment. On a scale of 0 to 100 percent redistribution, it is found that a one standard deviation increase in cognitive ability is associated with a reduction of the willingness to redistribute income by six percent points. This result holds also when we take the positive correlation between cognitive ability and earnings capacity into account and control for long-run income. Furthermore, it is shown that the more cognitively able want less redistribution, despite the fact that they express stronger altruistic preferences.

ABDULAZIZ SHIFA defended his thesis *Essays on Growth, Political Economy and Development* in June 2013. The thesis has three self-contained articles: "Economic Growth and Trade in Human Capital": A salient empirical pattern in the East Asian "miracle" is a large increase in output and factor accumulation despite only a modest increase in TFP. He develops and calibrates a model of growth and catch-up to provide a possible explanation. A novel element of the model is a globalized education market allowing human capital transfer from frontier to developing economies – an assumption motivated by the experience of countries like Korea and Taiwan where domestic universities employed graduates of Western universities to provide advanced training. "The Political Economy of Urban Bias in Dictatorial Regimes": In many developing countries, public resource allocation is often biased against the rural population – a policy that hurts the vast majority of the poor living in rural areas. This paper develops a dynamic political economy model of urban bias in a dictatorial regime. A novel result of the model is that urban bias can emerge in predominantly agrarian economies even if there is no bias in political power toward urban residents. The empirical evidence from a recently compiled country-level panel dataset on agricultural taxes/subsidies is consistent with the prediction of the model. This paper is now forthcoming in *Journal of Development Economics*. "Does Agricultural Growth Cause Manufacturing Growth?": Empirically assessing the impact of agricultural growth on manufacturing growth is challenging because of endogeneity concerns. This paper attempts to circumvent the identification challenge by using weather variations to instrument for agricultural growth. The IV estimations show that agricultural growth has a significant positive impact on manufacturing growth, and it is larger than the OLS estimates. I discuss the empirical implications for agricultural policies, efficiency of the manufacturing sector, and for the role of agricultural growth in Africa's industrialization.

Theses in Progress 2012/2013

NIELS-JAKOB HARBO HANSEN has spent the year working on a number of projects within the field of macroeconomics. In one project (with Hannes Malmberg and Georg Marthin) he is trying to understand how flows in the labour market and demographical changes are driving changes in the unemployment and participation rate in Sweden. In another project (with Hans Henrik Sievertsen, Hannes Malmberg and Georg Marthin) he is trying to match data for vacancies with data for hiring on the plant level in Denmark and Sweden. Information about this would inter alia allow us to (i) better understand how vacancies are translated into hires and (ii) gauge how many hires that happen without preceding vacancies. He also presented his paper “Interaction between Fiscal and Monetary Policy in a Monetary Union” at the annual SUDSWEC conference. Finally, he finalised an IMF working paper “Credit Growth in Latin America” (with Olga Sulla) which describes and analyzes the recent credit development in Latin America.

MOUNIR KARADJA works in the fields of political and development economics. Throughout the year he has been working on two research projects, one in each field. The first (with David Seim and Johanna Möllerström) concerns the effect of inequality on political preferences. A sample of about 1000 Swedes were asked where they think they are located in the income distribution, followed by questions about political preferences. A few months later, a random subsample of participants were given information about their true income ranking and then surveyed again about their preferences. This experimental design allows one to analyze how political preferences are affected by information about one’s place in the income distribution, which can yield insights into the extent that selfish considerations govern political preferences. Mounir’s second project relates to the causal effect of income on health outcomes in developing countries. It has long been known that richer individuals and countries are healthier, a fact that is often seen as showing that income redistribution can improve health among the poor. However, it is not well established if there is in fact a causal affect of income on health. Recently, rigorous research from developed countries has found mixed results, but often showing little to no effect of income on health. This project instead studies a developing country, Uganda, in which it is very possible that the effect is more sizeable because incomes are so low to begin with. The identification strategy relies on isolating specific types of weather shocks that affect agricultural incomes but should have minor impacts on the disease environment and other confounding factors.

HANNES MALMBERG’S research is within macroeconomics and economic development (with broad interests within each: sovereign debt, monetary theory, and the interlinkage

between health/population and economic development). Thus far Hannes has completed one working paper called “Price Level Determination when Paper Money Is Required to Pay Taxes” (with Erik Öberg). Together with Erik, he has also written a term paper called “Revisiting the ‘Reputational Collateral’ Explanation to Sovereign Debt”. He is currently working jointly with David Bloom on a project on women’s health and economic development, as well as sketching on three papers relating to urban mortality and growth of cities at the end of the 19th century, the effects of a dual breadwinner system on urbanization, as well as a paper on age structure and savings behavior in developing countries in the presence of credit constraints. Furthermore, Hannes wrote and published an article for the Swedish economics blog *Ekonomistas*: “Hannes Malmberg om Cervenkas bok ”Vad är pengar?”” (“Hannes Malmberg on Cervenka’s book ‘What is Money?’”).

ETTORE PANETTI accepted a position as postdoctoral fellow at the Department of Economics and Business of University of Sassari (Italy), starting in November 2012 and has been working on the economics of the banking system. In his most recent work, which is titled “A Quantitative Evaluation of the Welfare Costs of Bank Runs” (with Elena Mattana) he develops a general-equilibrium macroeconomic model with a fully microfounded banking system, to study the dynamic effects of bank runs on the real economy, and to quantitatively evaluate the welfare costs of financial crises. In “Financial Liberalization with Hidden Trades”, he instead studies how the presence of unregulated channels for the circulation of liquidity in the financial system affects the process of financial integration in a two-country model of banking with hidden trades and comparative advantages in the production technologies. He has also been invited as a seminar speaker by the Swedish House of Finance, Bank of Italy, University of Cagliari, Stockholm School of Economics and Banco de Portugal. He has also attended the ECCE-USB Conference 2013 in Cape Town (South Africa), and organized the “IV Workshop on Institutions, Individual Behavior and Economic Outcomes”, held in Alghero (Italy).

ERIK PRAWITZ’S main research areas have been in development, political economics and economic history. During the academic year he has mainly worked on two separate projects using new historical data. Together with Nancy Qian and Nathan Nunn he has worked on a project concerning the historical impact of electricity and lights on Swedish productivity and population movements. Together with Mounir Karadja he has started on a project aiming at understanding the economic and political consequences of the transatlantic emigration from Sweden to the US.

THORSTEN ROGALL’S area of work is development economics and political economics with a special focus on civil war and conflict in Africa. Together with David Yanagizawa-Drott, he spent the year working on a project investigating the medium-term effects of

the genocide in Rwanda on human capital, consumption and income. Together with Andrea Guariso, he worked on a project estimating the effects of violence by armed groups such as the militia and Hutu army on civilian participation in the Rwandan genocide. He is also starting a new project on violence in the Philippines (together with Nathan Lane).

RIIKKA SAVOLAINEN visited the IIES from September 2012 to June 2013. During her stay, she attended some courses and worked on two research projects. The first project, “How Policies Influence Voter Sentiments: Evidence from Asylum Center Placements”, investigated the political reactions to immigrants at a very early stage when large-scale immigration has not taken yet place. The results can be compared to reactions in other countries for which it is more difficult to find appropriate data to explore the initial reactions. This provides information on whether there is a threshold in the number of immigrants above which the voting behavior changes. The results suggest no impact on voting shares of the anti-immigration party at the municipality level or the sub-municipality level. She also began working on the electoral impacts of layoffs. This is a modified economic voting model where she studies not just the impact on the parties’ vote shares but also on the policy support. To this end, she utilizes unique, publicly available Finnish data on the candidate policy signals in order to infer information on the impacts on the popularity of policies.

ALEX SCHMITT’S main research interests are in the fields of environmental economics, climate-economy modeling and public finance. Over the past year, he has continued working on his project “Second-Best Environmental Taxation in Dynamic Models without Commitment”, in which he analyzes the interaction between environmental regulation and distortionary fiscal policy. In the context of climate change, he finds that the optimal carbon tax in 2015 is around 21% below the corresponding rate in a setting without distortionary taxation. In a related project, he analyzes the distributional effects of a carbon tax within a country. The main research question is whether a revenue-neutral (partial) environmental tax reform that reduces distortionary taxes on capital yields the same level of non-environmental benefits (a “double dividend”) that was found in earlier studies which abstracted from household heterogeneity.

Seminars and Publications

Seminars

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

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

Publications

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

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

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

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

IIES 50th Anniversary Celebrations

3 - 8 September 2012

The Institute for International Economic Studies (IIES) dates back to July 1, 1962, with Gunnar Myrdal as its first Director. The IIES was an independent research institute placed directly under the Ministry of Education during the first three decades, but later became part of Stockholm University. In order to celebrate the first fifty years, a Nobel Symposium on Growth and Development and a conference on Climate and the Economy took place in the first week of September 2012. The two conferences were bridged by a public event in which conference participants discussed policy issues raised by the two conferences.

Nobel Symposium on Growth and Development

On September 3-5, a two-and-a-half-day conference – financed by the Nobel Foundation within its Symposium program – took place at the Marina Tower Hotel in Stockholm as part the IIES 50th anniversary. The topics of the conference were growth and development, two interrelated fields that have undergone major changes over the last 25 or so years. Essentially, all the main contributors to these fields came to the conference to present either surveys or recent work on pre-assigned topics. The quality of the participants was arguably the highest ever recorded in Sweden across the whole field of economics.

Overall, the about 150 participants covered a broad spectrum in terms of nation of origin, country of residence, and perspective on the subject matter. The conference was streamed live over the internet, with remote participation by far-away viewers, who could pose questions relayed to the speakers and discussed at the event. Swedish public TV also broadcast the conference with a lag. All talks and discussions (videos and documents) are accessible via the IIES webpage: <http://www-2.iies.su.se/Nobel2012/>.

The interest in the conference has been great and, by casual evidence, the conference proceedings (videos, papers, and presentations) are used as course materials at universities all over the world. Since speakers and discussants not only dealt with what has been accomplished to date, but also discussed open questions and challenges, the conference will in all likelihood generate new research efforts.

Most of the speakers gave up-to-date surveys of a subfield, but some of them – such as Robert Barro and Robert E. Lucas, Jr. – had also written new research papers for the event. The organizing committee – Philippe Aghion, Tim Besley, Per Krusell, Torsten Persson, Jakob Svensson, and Fabrizio Zilibotti – was extremely pleased with the high quality of the interactions during and in between presentations. The conference ended with a panel discussion about micro- and macro-perspectives on growth and development, and a public panel discussion at Aula Magna, Stockholm University, about the pros and cons of foreign development assistance.

The complete program can be found at:
http://www-2.iies.su.se/Nobel2012/page_nobel_programme_java.html





Romer 1987

$$Y = L \int_0^A g \left(\frac{x(i)}{L} \right) di$$
$$= L^{1-\sigma} \int_0^A x(i)^\sigma di$$

- homogeneous of degree 1 in rival inputs
- 100% excludability of all rival and nonrival goods



Public event at Aula Magna, Stockholm University







Anniversary Dinner at Operaterassen



Climate and the Economy

On September 6-8, a three-day conference on climate and the economy – financed by MISTRA-SWECIA, Riksbankens jubileumsfond, the Swedish Research Council and Handelsbanken's Research Foundations – took place at Steningevik, some 30 kilometers north of Stockholm. There were 15 papers on the program, each asking a different question or set of questions. Some had a global orientation, discussing global climate-economy interactions, and others were focusing on microeconomic studies, empirical or theoretical. Some discussed policy, both from a normative and a positive perspective. The overall theme of the conference was to bring together researchers with different perspectives on the climate-economy interactions; the idea was that this would lead to fruitful interaction that otherwise would not occur.

The conference was by all indications a success. The papers were excellent as were the discussions. It appears that new research and other conferences have been initiated in large part due to the network building at Steningevik.

Most of the papers have been submitted after the conference to the *Journal of Political Economy*, in order to produce a conference issue.

The organizing committee consisted of Per Krusell, Torsten Persson, John Hassler and David Strömberg.

The complete program can be found at:

http://www-2.iies.su.se/Nobel2012/page_climate_programme_java.htm







Front Cover: Olle Baertling, IRGE, 1958, Oil on canvas.

Back Cover: Minister for International Development Cooperation, Gunilla Carlsons introductory speech to the panel discussion, How Can Policy and Aid Help in Bringing Down World Poverty? at the public event in Aula Magna during the IIES 50th Anniversary, 2012. Photo: Hanna Christiansson.

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