



Stockholm  
University

INSTITUTE FOR  
INTERNATIONAL  
ECONOMIC STUDIES

Annual Report

2010/2011

Research Activities  
Staff and Organization  
Publications

# The Institute for International Economic Studies

Stockholm University

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## Deputy Director:

JAKOB SVENSSON

## Board of Governors:

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KÅRE BREMER (Chairman), Professor and  
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MICHAEL SOHLMAN, Executive Director of  
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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

## Research Assistants:

NIELS-JAKOB HARBO HANSEN

MOUNIR KARADJA

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  
KONRAD BURCHARDI  
ETHAN KAPLAN  
SEBASTIAN KOEHNE  
MASAYUKI KUDAMATSU  
PETER NILSSON  
CONNY OLOVSSON  
EMILIA SIMEONOVA  
ROBERT ÖSTLING

## Graduate Students

DAVID VON BELOW  
DARIO CALDARA  
JOHAN GARS

JINFENG GE  
JENS HENRIKSSON  
CHRISTINA HÅKANSON  
RUIXUE JIA  
JAN KLINGELHÖFER  
YINAN LI  
ERIK MEYERSSON  
ANDREAS MUELLER  
ETTORE PANETTI  
MARIA PERROTTA  
BEI QIN  
ALEX SCHMITT  
DAVID SEIM  
DANIEL SPIRO

## Visiting Graduate Students

TIMOTHÉE DEMONT  
HELÉNE LUNDQVIST  
SIMON QUINN  
BILAL SIDDIQI

# Visiting Fellows

RUEDIGER BACHMANN, University of  
Michigan  
RUBEN ENIKOLOPOV, New Economic  
School  
OLLE FOLKE, Columbia University  
PAUL KLEIN, University of Southampton  
NILS PETTER LAGERLÖF, York University  
EMILY OSTER, Chicago Booth  
NICOLA PAVONI, EUI  
MARIA PETROVA, New Economic School  
JESSE SHAPIRO, Chicago Booth  
NANCY QIAN, Yale University  
CARINA WENDEL, Centre for Microfinance  
and the World Bank

# News at the Institute 2010/2011

TIM BESLEY was elected Foreign Honorary Member of the American Academy of Arts and Sciences in 2011.

TESSA BOLD will be on leave of absence in the academic year 2011/2012 to take up a professorship in Development Economics at University of Frankfurt.

TOBIAS BROER was appointed CEPR Research Affiliate in June 2011.

KONRAD BURCHARDI, London School of Economics, has accepted a tenure track position at the Institute starting on September 1, 2011.

DARIO CALDARA defended his doctoral thesis in May 2011 and has accepted an economist position at the Board of Governors of the Federal Reserve System, starting in the fall of 2011. He will work in the Macroeconomic and Quantitative Studies Section.

LARS CALMFORS resigned as Chair of the Swedish Fiscal Policy Council on 30 June 2011. He entered the European Economic Advisory Group (EEAG) at CESifo in Munich as a member.

PAMELA CAMPA, THORSTEN ROGALL and ABDULAZIZ SHIFA have been admitted as graduate students at the Institute, starting in September 2011.

TIMOTHÉE DEMONT, University of Namur, and BILAL SIDDIQI, Oxford University, spent six months at the Institute as visiting graduate students within the AMID program.

DAVID YANAGIZAWA DROTT, former IIES graduate student, has been awarded the Arnberg Prize “for his analysis of causal effects of propaganda in conflict situations”.

ANDREA GUARISO will spend the academic year 2011/2012 at the Institute as a visiting graduate student within the AMID program.

JOHN HASSLER was appointed Vice Chairman of the Swedish Fiscal Policy Council starting on 1 July, 2011.

ETHAN KAPLAN will leave the Institute in September 2011 to take up a tenure track position at University of Maryland.

MOUNIR KARADJA spent six weeks at the World Bank in Washington, DC as a consultant. He will continue to work part time for the World Bank from Stockholm during the academic year 2011/2012.

JAN KLINGELHÖFER and ERIK MEYERSSON defended their doctoral theses in September 2010.

ASSAR LINDBECK was awarded the Ann-Kersti and Carl-Hakon Swenson Prize for research in the Humanities and Social Sciences by The Royal Academy of Letters, History and Antiquities for his internationally acclaimed research and his role in the public debate. He was also awarded The Myrdal Prize for Best Article in *Ekonomisk Debatt*.

NATHANIEL LANE will join the Institute as a research assistant in September 2011.

CHRISTINA LÖNNBLAD was appointed Editorial Secretary of the *Nordic Economic Policy Review*.

ANDREAS MUELLER defended his doctoral thesis in June 2011. He has accepted a position as assistant professor at Columbia Business School, starting in July 2011.

PETER NILSSON, Uppsala University, will take up a tenure track position at the Institute, starting in August 2011, after having spent a year as a post doc at Stanford University.

MARIA PERROTTA defended her doctoral thesis in December 2010. She accepted a tenure track position at SITE, Stockholm School of Economics starting in the spring of 2011.

TORSTEN PERSSON was appointed Honorary Doctor of Economics at Aalto University in Helsinki (May 2011). He was also elected to the Board of Trustees of the Nobel Foundation. In May 2011, he gave the annual Zvi Griliches Lectures at the New Economic School in Moscow. He also gave a Keynote Lecture at the first Annual Meeting of Swedish Economists in Lund (September 2010) and at a conference on political economics in Barcelona (April 2011).

ERIK PRAWITZ left his position as a research assistant and will spend the coming academic year at University of California, Berkeley.

ALEX SCHMITT will spend the academic year 2011/2012 at Yale University.

EMILIA SIMEONOVA will leave the IIES in September 2011 to spend the academic year 2011/2012 as a visiting assistant professor at Princeton University.

JAKOB SVENSSON was elected to the board of the African Economic Research Consortium (AERC) as Sweden's representative.

FABRIZIO ZILIBOTTI was appointed Director of the NBER Economic Fluctuations Group on Income Distribution & Macroeconomics (with Roland Benabou and Oded Galor). He also became Member of the Editorial Advisory Board of *China Economic Review*.

# Staff Research Activities 2010/2011

PHILIPPE AGHION wrote (1) “The Environment and Directed Technical Change” (with Daron Acemoglu, Leonardo Bursztyn and David Hemous), forthcoming in the *American Economic Review*, and published; (2) “Incomplete Contracts and the Theory of the Firm: What Have We Learned Over the Past 25 Years?”, *Journal of Economic Perspectives* May 2011 (with Richard Holden). During the year he also wrote (3) “Carbon Taxes, Path Dependency and Directed Technical Change: Evidence From the Auto Industry” (with Antoine Dechezlepretre, David Hemous, Ralf Martin and John Van Reenen); (4) “Subgame Perfect Implementation with Approximate Information: Evidence from a Laboratory Experiment” (with Ernst Fehr, Richard Holden and Tom Wilkening); (5) “Monetary Policy, Liquidity and Growth” (with Emmanuel Farhi and Enisse Kharroubi); (6) “Taxation, Corruption, and Growth” (with Ufuk Akcigit, Julia Cage and William Kerr); and (7) *Repenser l’Etat* (with Alexandra Roulet), Le Seuil, 2011.

ALMUT BALLEER worked on the papers (1) “New Evidence, Old Puzzles: Technology Shocks and Labor Market Dynamics”; (2) “Skill-Biased Technological Change and the Business Cycle” (with Thijs van Rens); (3) “Labour Force Participation in the Euro Area: A Cohort-based Analysis” (with Jarkko Turunen and Ramon Gomez-Salvador); (4) “What Drives Labor Market Dynamics in Germany?” (with Ronald Bachmann); (5) “Expansionary Versus Contractionary Technology Shocks” (with Zeno Enders); and (6) “Time Allocation Between Spouses” (with Monika Merz). Furthermore, she presented many of her papers at seminars and conferences throughout Europe including NORMAC (the Nordic Symposium in Macroeconomics) in Mustio and Smögen, the European Econometric Society Meeting in Oslo, the Riksbank (Swedish Central Bank), Uppsala University and many more. She also visited the IHS in Vienna for a week in March 2011.

TIM BESLEY has worked on the book (1) *Pillars of Prosperity: The Political Economics of Development Clusters* (with Torsten Persson); and published (2) *Tax by Design: The Mirrlees Review: Vol I*, Oxford University Press, 2011 (joint with James Mirrlees et. al.). During the academic year the following papers were published (3) “Fragile States and Development Policy”, *Journal of the European Economic Association* 9:3, 2011 (with Torsten Persson); (4) “Working or Shirking: A Closer Look at MPs’ Expenses and Parliamentary Attendance”, *Public Choice* 146:3-4, 2011 (with Valentino Larcinese); (5) “The Logic of Political Violence”, *Quarterly Journal of Economics* 126:3, 2011 (with Torsten Persson); (6) “Do Democracies Select More Educated Leaders?”, *American Political Science Review* 105:3, 2011 (with Marta Reynal-Querol); and (7) “Do Educated Leaders Matter for Growth?”, *Economic Journal (Features)* 121:554, 2011 (with Jose Montalvo and Marta Reynal-Querol). He also gave a number of lectures throughout the world.

TESSA BOLD worked on the papers (1) “Testing Coalition-Proof Dynamic Risk-Sharing”; (2) “Why did Abolishing Fees Not Increase School Enrolment in Kenya?”, CSAE Working Paper Series 2011:4 (with Justin Sandefur, Germano Mwabu and Mwangi Kimenyi); and (3) “Does Abolishing Fees Affect School Quality?” (with the same authors). With Sandefur, Mwabu and Kimenyi she also continued working on a randomized impact evaluation together with the government of Kenya and World Vision Kenya, which examines the impact of contract teachers on learning achievement. The project, entitled (4) “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 (5) “Contract Design in Insurance Groups” (with Stefan Dercon). She has also been involved in a large-scale project on developing an index for public service delivery in sub-Saharan Africa funded by the Hewlett Foundation and the World Bank (with Jakob Svensson, Bernard Gauthier and Ottar Maestad). She presented her work at LSE, the World Bank, Namur and at the Global Development Conference in Bogota. She has been awarded a small grant from the International Growth Centre for further work on the education sector in Kenya.

TOBIAS BROER published his article (1) “Crowding Out and Crowding In: When Does Redistribution Improve Risk-sharing in Limited Commitment Economies?” in *Journal of Economic Theory* 146:3, 2010. He also finished draft versions of several new articles: (2) “Competitive Equilibria with Limited Commitment to Contracts: Existence, Uniqueness, and Computation”; (3) “The Wrong Shape of Insurance? What Cross-sectional Distributions Tell us About Models of Consumption-smoothing”; and (4) “Great Moderation or Great Mistake: Can Overconfidence in Low Macro-risk Explain the Boom in Asset Prices?” (with Afroditi Kero). Tobias presented his work at Boston University, where he spent three months as a visiting researcher in the spring of 2011, the Federal Reserve Bank of Minneapolis, University of Zurich, and the NORMAC Conference 2011 in Smögen.

LARS CALMFORS, as Chair of the Swedish Fiscal Policy Council, was the author of two chapters “The Scope for Reforms and the Fiscal Framework” and “Employment Policy” as well as of the summary 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 2011 and Swedish Fiscal Policy - the 2011 report of the Swedish Fiscal Policy Council*, Stockholm. He also published (2) “Fiscal Policy Coordination in Europe”, PE 440.292, IP/A/ECON/NT/2010-10, European Parliament (also IIES Seminar Paper No. 765); (3) “The Role of Independent Fiscal Policy Institutions”, *Finanssällskapet institutiöt, Valtioneuvoston kanslian julkaisusarja* (Prime Minister’s Office Publications) 18/2010, Helsinki (also as IIES Seminar Paper No. 767 and CESifo WP No. 3367); (4) “The Swedish Fiscal Policy Council”, *Wirtschaftspolitische Blätter* (the Journal of the Austrian Chamber of Commerce) 2011/1 (also as IIES Seminar Paper No. 769); (5) “Wage Formation and the Swedish Labour Market Reforms 2007-09” (with Helge Benmarker and Anna Larsson), *Studier i finanspolitik* (Fis-

cal Studies) 2011/1, Swedish Fiscal Policy Council; (6) “Oberoende ekonomisk-politiska institutioner och (de frånvarande) statsvetarna” (Independent Economic-Policy Institutions and (the Absent) Political Scientists”), *Statsvetenskaplig Tidskrift* 2010:5; (7) “Hur ska framtida statsfinansiella kriser i Europa undvikas?” (“How Should Future Fiscal Crises in Europe Be Avoided?”), Thuréus Lecture, *Kungl. Vetenskaps societetens årsbok 2010* (The 2010 Yearbook of the Royal Society of Science), Uppsala; (8) “EU:s finanspolitiska regler och de statsfinansiella kriserna i euroområdet” (“EU’s Fiscal Rules and the Fiscal Crises in the Euro Area”), in Persson, M. and E. Skult (eds.), *Tillämpad makroekonomi* (Applied Macroeconomics), SNS, Stockholm, 2011; (9) “Bildning, bredd och samhällsengagemang inom nationalekonomin” (“Education, Breadth and Interest in Society”), in Lindh, M., J. Sundeen and C. Torhell (eds.), *Från Högskolan i Borås till Humboldt*, vol. 2, Bildning och kunskapskulturer, Vetenskap för profession No 16:2011, University College of Borås; (10) “Vi ekonomer bör engagera oss mer i debatten” (“As Economists We Should Be More Active in the Public Debate”), *Tvärsnitt* (the Journal of the Swedish Research Council) 1.11. In addition Lars contributed to (11) “Öppen utfrågning om Finanspolitiska rådets rapport” (“Open Hearing on the Report of the Fiscal Policy Council”), 31 maj 2011, Bilaga 5 till Betänkande 2010/11:FiU 20 Riktlinjer för den ekonomiska politiken, Sveriges Riksdag (Appendix 13 to the Report 2010/11:FiU 20 Guidelines for Economic Policy, the Swedish Parliament). Lars also wrote or substantially revised (12) “Pattern Bargaining and Wage Leadership in a Small Open Economy (with Anna Larsson), forthcoming in *Scandinavian Journal of Economics* (also as CESifo WP No. 3510) and (13) “What Should Fiscal Councils Do?” (with Simon Wren-Lewis), forthcoming in *Economic Policy* (also as IIES Seminar Paper No. 768 and CESifo WP No. 3382). Lars organised two conferences in Stockholm in 2010: one on Independent Fiscal Institutions on behalf of the Swedish Fiscal Policy Council and one on Employment Consequences of the Economic Crisis on behalf of the *Nordic Economic Policy Review*. He gave speeches at the National Conference in Economics (Lund), the Annual Meeting of the Association of Political Scientists (Gothenburg) and the Royal Society of Science (Uppsala).

HARRY FLAM published (1) “Gravity Estimation of the Intensive and Extensive Margin of Trade: An Alternative Procedure with Alternative Data” (with Håkan Nordström) as CESifo Working Paper No. 3387.

The main focus of JOHN HASSLER’s research during the 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 Olofsson and colleagues at other universities. It has been presented at various seminars and conferences, including the Annual Meeting of the American Economic Association and the Congress of the European Economic Association. The paper (1) “Optimal Taxes on Fossil Fuel in General Equilibrium” (with Mike Golosov, Per Krusell and Aleh Tsyvinski) was submitted to *Econometrica*.



ETHAN KAPLAN spent the year visiting Columbia University and accepted a position at University of Maryland at College Park. He published (1) “Coups, Corporations and Classified Information” in the *Quarterly Journal of Economics* 126:3, 2011 (with Arindrajit Dube and Suresh Naidu). He also worked on and resubmitted a revision of (2) “The Iceberg Theory of Campaign Contributions: Political Threats and Interest Group Behavior” (with Marcos Chamon) to the *American Economic Journals: Public Policy*. In addition, Ethan received a grant with Arindrajit Dube from INET for three projects using spatial variation to answer questions in macroeconomics including : (1) the fiscal multiplier, (2) the impact of unemployment insurance on employment using discontinuities at state boundaries, and (3) the impact of unions on wages and union wage increases on output in the Great Depression.

SEBASTIAN KOEHNE published the paper (1) “On the First-order Approach in Principal-Agent Models with Hidden Borrowing and Lending”, *Journal of Economic Theory* 146, 2011 (with Arpad Abraham and Nicola Pavoni). Moreover, based on a chapter in his Ph.D. thesis, he wrote the paper (2) “Habit Formation, Local Substitution, and the Taxation of Capital”, which is currently under review. Sebastian also revised the thesis chapter (3) “Optimal Income Taxation with Asset Accumulation” (with Arpad Abraham and Nicola Pavoni) and presented it at seminars at University of Hannover, University of Edinburgh, University of Cologne, at the meeting of the Royal Economic Society, Society for Economic Dynamics, and at the Nordic Summer Symposium in Macroeconomics. (4) In a project with Moritz Kuhn, “Unemployment Insurance and Wealth Heterogeneity”, he investigated how unemployment insurance benefits should be linked to individual savings.

PER KRUSELL worked on a variety of research topics within macroeconomics (inequality, growth, labor markets, financial economics, political economy, and public economics) and on a project on economics and global climate change, through Mistra-SWECIA. Several of his recent papers were accepted for publication, or published: (1) “A Three State Model of Worker Flows in General Equilibrium”, *Journal of Economic Theory* 146:3, 2011 (with Toshihiko Mukoyama, Richard Rogerson and Aysegul Sahin); (2) “Asset Prices in a Huggett Economy”, *Journal of Economic Theory* 146:3, 2011 (with Toshihiko Mukoyama, Richard Rogerson and Aysegul Sahin); and (3) “Frictional Wage Dispersion in Search Models: A Quantitative Assessment”, forthcoming in *American Economic Review* (with Andreas Hornstein and Gianluca Violante). Aside from this he completed a number of papers and submitted them for publication.

MASAYUKI KUDAMATSU wrote a working paper entitled (1) “Weather and Infant Mortality in Africa” (with Torsten Persson and David Strömberg). Another paper entitled (2) “Has Democratization Reduced Infant Mortality in Sub-Saharan Africa? Evidence from Micro Data” was accepted for publication in *Journal of the European Economic Association*. In addition, he commenced a project on whether and how the promotion of Chinese Communist Party officials depends on their connections with the most powerful members of the Party (with Ruixue Jia and David Seim). He presented his work at University of Leicester and

University of Bristol and participated as a discussant at CESifo Venice Summer Institute Workshop on Malnutrition in South Asia.

In the past year ASSAR LINDBECK has devoted nearly all his working time to a book, initiated by Riksbankens Jubileumsfond, on his life-long experiences in economic research and economic-policy debate after World War II. He has also published comments on a paper by Per Skedinger on job security legislation in *Nordic Economic Policy Review* 2011:1.

DIRK NIEPELT presented his work at the SED Annual Meetings in Montreal and Ghent, Econometric Society World Congress, Shanghai, IMF, Cambridge University, Hungarian Central Bank, Institute for Advanced Studies, Vienna, European Summer Symposium in International Macroeconomics and the Swiss National Bank. He also wrote the paper (1) “Ageing, Government Budgets, Retirement and Growth” (with Martín Gonzalez-Eiras), forthcoming in *European Economic Review*. Apart from this he also co-organized conferences with CEPR (European Summer Symposia in Financial Markets, Economic Theory, and International Macroeconomics) as well as *Journal of Monetary Economics*.

During the academic year CONNY OLOVSSON revised the paper (1) “How Does a Pay-as-you-go System Affect Asset Returns and the Equity Premium?”. He also presented work at the Society for Economic Dynamics in Ghent 2011. Finally, at the request of the Swedish Institute for European Policy Studies (SIEPS) he wrote the report: (2) “Comment on the Green Paper towards Adequate, Sustainable and Safe European Pension Systems”. The report was presented in Almedalen (Sweden) in July 2011.

MATS PERSSON published a (1) review in Swedish of Bo Sandelin’s book *Adam Smith in Ekonomisk Debatt* 8, 2010. Amongst his published work is also found (2) “Pensionerna: en brandfackla i EMU-samarbetet?” (Will the Pensions Set the EMU Cooperation on Fire?), in Bernitz, U., Oxelheim, L. and Persson, T. (eds.), *Överlever EMU utan fiskal union? (Will the EMU Survive Without A Fiscal Union?)*, Santérus Förlag, 2011; and (3) “Men Among Men do Not Take Norm Enforcement Seriously”, *Journal of Socio-Economics* 40, 2011 (with Anne Boschini and Astri Muren). Finally, he also published his book (4) *Tillämpad makroekonomi, 4:e upplagan (Applied Macroeconomics, Fourth Edition)*, SNS Förlag, 2011 (with Eva Skult).

TORSTEN PERSSON wrote the papers (1) “Fragile States and Development Policy”, *Journal of the European Economic Association* 9, 2011; (2) “Weak States and Steady States: The Dynamics of Fiscal Capacity”, mimeo 2011 (with Tim Besley and Ethan Ilzetzki); and (3) “Weather and Infant Mortality in Africa” (with Masayuki Kudamatsu and David Strömberg). He also published (4) “Political Competition, Policy and Growth: Theory and Evidence from the United States”, *Review of Economic Studies* 77, 2010 (with Tim Besley and Daniel Sturm). In the fall of 2010 he worked on a new book, (5) *Pillars of Prosperity: The Political Economics of Development Clusters* (with Tim Besley). During the academic year, Persson also gave a

number of seminars in Sweden, Europe and the US. In October/November 2010, he visited the London School of Economics, in his capacity as a Centennial Professor, where he gave a series of lectures to graduate students.

EMILIA SIMEONOVA published (1) “Public vs. Private Provision of Charity Care? Evidence from Hill-Burton Hospitals in Florida”, *Journal of Health Economics* January, 2011 (with Janet Currie and Douglas Almond); (2) “Out of Sight, Out of Mind? The Impact of Natural Disasters on Pregnancy Outcomes”, *CESifo Economic Studies*, 2011. In January 2011, she also resubmitted (3) “In Sickness and in Health: How Does Marriage Affect Survival in the Chronically Ill?” to the *Journal of Health Economics* as well as presented (4) “Education, Health and Mortality: Evidence from a Social Experiment” (with Costas Meghir and Märten Palme) at the NEBR Summer Institute, 2011, now forthcoming as an NBER Working Paper.

DAVID STRÖMBERG spent the academic year working on the papers (1) “Measuring the Impact of Media on Court Decisions” (with Claire Lim and James Snyder); (2) “Weather and Infant Mortality in Africa” (with Masayuki Kudamatsu and Torsten Persson); (3) “The Determinants of Media Capture in China” (with Bei Qin and Yanhui Wu); and published (4) “The Political Economy of Mass Media” (with Andrea Prat) in *Advances in Economics and Econometrics: Theory and Applications, Proceedings of the Tenth World Congress of the Econometric Society*.

PETER SVEDBERG published the articles (1) “Estimates of Child Malnutrition in India”, *Economic and Political Weekly* XLV, 2010; (2) “Is Hunger in the World on the Rise?”, *Bridges Monthly* 14, 2010; (3) “How Many People are Malnourished?”, *Annual Review Nutrition* 31, 2011; (4) “The Composite Index of Anthropometric Failure (CIAF): An Alternative Indicator of Malnutrition in Young Children” (with Shailen Nandy), in Preedy, V. (ed.), *Handbook of Anthropometry: Physical Measures of Human Form in Health and Disease*, Springer Verlag, 2011; and (5) “Long-term Trends in the Real Price of Primary Commodities: Inflation Bias and the Prebisch-Singer Hypothesis”, *Resources Policy* 35, 2011 (with John Tilton). The paper (6) “Poverty in India can be Halved in a Few Years if...” was presented at the 6th Conference on Growth and Development at the Indian Statistical Institute in New Delhi in December 2010. Another paper (7), “Reforming or Replacing the Public Distribution System with Cash Transfers?”, was submitted for publication. Peter also presented a synthesis of his work on malnutrition at a workshop on Food, Medicine, Rights at Princeton University, USA, in April 2011.

JAKOB SVENSSON published (1) “Bribes, Lobbying, and Development”, *American Political Science Review* 105:1, 2011 (with Bård Harstad); (2) “Working for God? Evidence from a Change in Financing of Not-for-profit Health Care Providers in Uganda”, *Journal of the European Economic Association* 8:6, 2010 (with Ritva Reinikka); and (3) “The Power of Information in

Public Services: Evidence from Education in Uganda”, *Journal of Public Economics* 95:7-8, 2011 (with Ritva Reinikka). Jakob has also worked on the papers (4) “Tuning in the Market Signal: Theory and Evidence from a Large Scale Natural Experiment in Uganda” (with David Yanagizawa-Drott); (5) “Who Benefits from Free Education: Evidence from a Policy Experiment in Cambodia (with Maria Cheung and Andreas Madestam); (6) “Power to the People in the Long Run: Evidence from a Randomized Field Experiment on Community-based Monitoring in Uganda”; (7) “The Market for (Counterfeit?) Anti-malarial Drugs: Evidence from a Randomized Experiment in Uganda” (with David Yanagizawa-Drott); and (8) “A Report Card in Primary Education and Health” (with Tessa Bold, Bernard Gauthier and Ottar Maestad). He has also, together with Tessa Bold, Bernard Gauthier, and Ottar Maestad, developed a blueprint for a new cross-country index of the quality of health and education delivery in Africa (funded by the World Bank and the Hewlett Foundation). In addition, he has continued working on field experiments on incentivizing community health workers in Uganda (with Martina Björkman and David Yanagizawa-Drott) and on HIV prevention in Lesotho (joint with Martina Björkman, Damien de Walque and Lucia Corno). Two other field experiments are in the planning stage.

LARS E.O. SVENSSON worked on several projects on the theory and practice of monetary policy, stimulated by his job as Deputy Governor and member of the Executive Board of Sveriges Riksbank (the Central Bank of Sweden). He completed the paper (1) “Practical Monetary Policy: Examples from Sweden and the United States,” for the Fall 2011 issue of *Brookings Papers on Economic Activity*. He also published the papers (2) “Optimal Monetary Policy in an Operational Medium-Sized DSGE Model”, *Journal of Money, Credit and Banking* 43, 2011 (with Malin Adolfson, Stefan Laséen and Jesper Lindé); (3) “Anticipated Alternative Instrument-Rate Paths in Policy Simulations”, *International Journal of Central Banking* 7:3, 2011 (with Stefan Laséen); and (4) “Inflation Targeting”, in Friedman, B. and Woodford, M. (eds.), *Handbook of Monetary Economics, Volume 3b*, chapter 22, Elsevier, 2011. In addition, Lars also revised the papers (5) “Monetary Policy Trade-Offs in an Estimated Open-Economy DSGE Model” (with Malin Adolfson, Stefan Laséen and Jesper Lindé).

FABRIZIO ZILIBOTTI has continued his research on the economic growth of China, joint with several coauthors. He has also produced research in the area of economics of conflict, both theoretical and empirical. He is currently working with Gino Gancia and Daron Acemoglu on the theory of directed technical change, with a particular focus on the integration of China in the world economy. Further to this he has continued to be the chief editor of the *Journal of the European Economic Association*. He also published (1) “Growing like China” *American Economic Review* 101:1, 2011 (with Zheng Song and Kjetil Storesletten); (2) “Vertical Integration and Technology: Theory and Evidence”, *Journal of the European Economic Association* 8, 2010 (with Daron Acemoglu, Philippe Aghion and Rachel Griffith); (3) “War Signals: A Theory of Trade, Trust and Conflict”, CEPR Working Paper No. 8352, April 2011 (with Dominic Rohner and Mathias Thoenig); and the paper

(4) “Structural Development Accounting” (with Gino Gancia and Andreas Mueller), is currently forthcoming in *Advances in Economics and Econometrics, Tenth World Congress of the Econometric Society*.

Apart from initiating new projects, ROBERT ÖSTLING has continued to revise the chapters of his thesis (1) *Bounded Rationality and Endogenous Preferences* and all five chapters have finally been accepted for publication in scientific journals. The paper (2) “Testing Game Theory in the Field: Swedish LUPI Lottery Games” (with Joseph Tao-yi Wang, Eileen Chou and Colin F. Camerer) was published as the lead article in the *American Economic Journal: Microeconomics*, 3, 2011 and the paper (3) “Identity and Redistribution” (with Erik Lindqvist) has been accepted for publication in *Public Choice*. Another paper that was published during the academic year was (4) “Strategic Risk and Coordination Failure in Blame Games”, *Economics Letters* 110, 2011 (with Tore Ellingsen).



*In May 2011 Professor Torsten Persson was appointed Honorary Doctor of Economics at Aalto University in Helsinki, Finland.*

## Articles Published or Accepted in Leading Journals by IIES Staff 2010/2011

DARON ACEMOGLU, PHILIPPE AGHION, LEONARDO BURSZTYN and DAVID HEMOUS, “The Environment and Directed Technical Change”, *American Economic Review* (forthcoming).

PHILIPPE AGHION, MATHIAS DEWATRIPONT, JULIAN KOLEV, FIONA MURRAY and SCOTT STERN, “The Public and Private Sectors in the Process of Innovation : Theory and Evidence from the Mouse Genetics Revolution”, *American Economic Review* 100:2, 2010.

TIM BESLEY, KONRAD BURCHARDI and MAITREESH GHATAK, “Incentives and the de Soto Effect”, *Quarterly Journal of Economics* (forthcoming).

TIM BESLEY and HANNES FELIX MUELLER, “Estimating the Peace Dividend: The Impact of Violence on House Prices in Northern Ireland”, *American Economic Review* (forthcoming).

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

ARINDRAJIT DUBE, ETHAN KAPLAN and SURESH NAIDU, “Coups, Corporations, and Classified Information”, *Quarterly Journal of Economics* 126:3, 2011.

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

PER KRUSELL, BURHANETTIN KURUSCU and ANTHONY A. SMITH, JR., “Temptation and Taxation”, *Econometrica* 78:6, 2010.

JAMES SNYDER and DAVID STRÖMBERG, “Press Coverage and Political Accountability”, *Journal of Political Economy* 118:2, 2010.

ZHENG SONG, KJETIL STORESLETTEN and FABRIZIO ZILIBOTTI, “Growing like China”, *American Economic Review* 101:1, 2011.

# Visiting Fellows 2010/2011

RUEDIGER BACHMANN enjoyed his visit to the IIES in September 2010 very much. First time in Sweden he loved the congenial atmosphere and the hospitality of the IIES staff, students and faculty. During his stay he presented his work “Public Consumption over the Business Cycle” (joint with Jinhui Bai) at the seminar and got very useful comments. Especially the comments of, and interaction with, Per Krusell, a leader in the field of dynamic political macroeconomics, were extremely helpful for him. He also enjoyed many more lively discussions about economics with a lot of people in the department.

PAUL KLEIN spent another productive summer visiting the Institute from June to August 2011. His project on consumption risk sharing with asymmetric information and persistent earnings (with Marek Kapicka of University of California, Santa Barbara) got a significant boost when he persuaded Tobias Broer (IIES) to join the team as well. He also worked with David Domeij (Stockholm School of Economics) on their long-running project on day care subsidies; David was happy to come out to the Institute’s leafy suburban location on a few occasions. In addition, Paul enjoyed talking to IIES graduate students, especially Daniel Spiro, about their work and plans for the future.

NILS PETTER “NIPPE” LAGERLÖF spent 11-20 May at the Institute working on “Population, Technology and Fragmentation: The European Miracle Revisited”, which presents a theory of the divergence between China and Europe in the centuries before 1500, centered on Europe’s higher degree of fragmentation. The paper benefited from long conversations in the IIES kitchen on Chinese and European history and beyond. Fighting a jet lag Nippe also developed his espresso machine skills.

EMILY OSTER had a wonderful time visiting the Institute in September 2010. She gave a paper on the impact of call centers on school enrollment in India, which led to a number of productive conversations with faculty. She also had several nice lunches and dinners with members of the department. Together with her husband (also a visiting economist) she very much enjoyed Stockholm and the IIES surroundings.

NICOLA PAVONI had a great and very productive time visiting the Institute for a week in March 2011. During his visit, he presented a paper co-authored with Piero Gottardi on optimal taxation of assets in financial markets affected by asymmetric information. Nicola received very useful comments on the paper from members of the Institute, both during the seminar and during the whole of his stay. Throughout his visit, Nicola also

worked on a project on optimal income taxation joint with Sebastian Koehne, a junior faculty member at the Institute. On the sunny days of his stay, Nicola enjoyed the short healthy walks through the forests surrounding the Institute, with still some snow on the ground.

NANCY QIAN visited the IIES for one week in May which she found to be an extremely productive stay. She presented a paper on the effect of food aid on conflict, co-authored with Nathan Nunn and received extremely helpful comments, particularly from Torsten Persson and David Strömberg. During her visit, she also had lengthy discussions with Torsten about their overlapping interests in the determinants of democracy and with David Strömberg on media. In addition, she benefitted greatly from talking to Masayuki Kudamatsu about DHS and elections data, and with Ruixue Jia about her work on sweet potatoes and conflict. And of course, every coffee hour and lunch was lively and great fun!

During JESSE SHAPIRO's visit to the IIES in August-September 2010, he presented a paper on ideological segregation in the news media (joint with Matthew Gentzkow) and obtained valuable feedback. He started a new project with Per Petterson-Lidbom and David Strömberg (and Matthew Gentzkow) on the effect of newspapers on public policies in Swedish municipalities. He learned a lot from Torsten Persson about new developments in political economy, and he went to lunch every day at the bell!

CARINA WENDEL visited IIES for ten weeks during the summer of 2011. During her stay she worked on an analysis of randomized control trials in rural India in collaboration with Professor David Yanagizawa-Drott from the Harvard Kennedy School and Professor Shawn Cole from Harvard Business School. The projects being evaluated consist of an index-based rainfall insurance product designed to protect developing country farmers against drought and an information-based project aimed at deducing the impact of providing futures prices to farmers. Carina really appreciated the warm welcome and openness of everyone in the office and was very grateful that IIES could facilitate a productive and fun summer in Stockholm.



# Tenure Track Assistant Professor Position

The Institute for International Economic Studies, Stockholm University, seeks to fill one position at the tenure-track assistant professor level, in any field, beginning in the academic year 2012/13. 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 30, 2011.

Candidates on a shortlist will be interviewed at the ASSA Annual Meetings in Chicago 2012. Other arrangements may be possible for short-listed candidates not based in the US and not planning to attend the Meetings.

For questions please contact: Prof. Per Krusell, e-mail: [per.krusell@iies.su.se](mailto:per.krusell@iies.su.se)



*In September 2011, Konrad Burchardi (left) and Peter Nilsson (right) joined the IIES as assistant professors.*

# Teaching 2010/2011

At Harvard PHILIPPE AGHION taught Contract Theory in the fall of 2010. He also gave the course Technology, Institutions, and Growth with Fabrizio Zilibotti at Stockholm University in the spring of 2011.

ALMUT BALLEER taught the Ph.D. courses Labor Market Macroeconomics and Quantitative Methods with Per Krusell and Sebastian Koehne in the fall of 2010 as well as Macroeconomics II with Per Krusell during the spring term, 2011.

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

TOBIAS BROER taught International Macroeconomics in the fall of 2010.

LARS CALMFORS taught a master's course in Labour Economics and Wage-Setting Theory in the spring of 2011.

HARRY FLAM taught Macroeconomics for beginners in the fall of 2010.

JOHN HASSLER gave the first-year undergraduate course in Macroeconomics with over 600 students, a master's course in the Economics of Climate Change (with Per Krusell and Conny Olovsson) as well as graduate courses in Macroeconomics and Dynamic Public Finance.

SEBASTIAN KOEHNE taught the Ph.D. courses Mathematics II (together with Per Krusell) and Labor Market Macro and Quantitative Methods (together with Almut Balleer and Per Krusell).

PER KRUSELL taught various graduate courses: Math II (with Sebastian Koehne), Labor Market Macro (with Almut Balleer and Sebastian Koehne), Macro II, and a reading course in Climate and the Economy, first- and second-year courses in the Stockholm Ph.D. program, a first-year Ph.D. course in Macro at Gothenburg University, and a second-year Ph.D. course in Macroeconomics and Inequality at Yale University. Together with John Hassler and Conny Olovsson, he also taught a master's course at Stockholm University called The Climate and the Economy.

MASAYUKI KUDAMATSU taught the second-year Ph.D. courses Development Economics I and II (together with Tessa Bold and Jakob Svensson). He also taught the second-year Ph.D. course Topics in Applied Microeconometrics.

During the year DIRK NIEPELT lectured on Dynamic Political Economy in the SDPE and taught a graduate level Macro course at University of Bern.

CONNOR OLOVSSON taught the course The Climate and the Economy, which was given at both master's level and Ph.D. level. The course was taught together with John Hassler and Per Krusell.

TORSTEN PERSSON taught the second year graduate courses Political Economics II and III at Stockholm University (with David Strömberg). He gave a master's course on the same topic at London School of Economics (with Ronny Razin). In addition, he gave a set of lectures to graduate students on the political economics of development at University of Toronto.

During the spring of 2011, DAVID STRÖMBERG taught Political Economics II and III (both together with Torsten Persson).

JAKOB SVENSSON taught the graduate course in Development Economics (with Masayuki Kudamatsu and Tessa Bold) and the master's course in Development Economics in the fall term 2010.

LARS E.O. SVENSSON taught the second year Ph.D. course Monetary Economics with Nils Gottfries and Johan Söderberg at Uppsala University and Ulf Söderström and Andreas Westermark at the Riksbank in the spring of 2011.

FABRIZIO ZILIBOTTI gave the course Growth, Technical Change and Institutions in the spring of 2011 (co-teacher Philippe Aghion).

ROBERT ÖSTLING taught a new second-year graduate course called Economic Methodology. The course was given jointly with the Department of Economics at Uppsala University.

# Extramural Activities

TIM BESLEY has served as Director of the Suntory-Toyota International Centres for Economics and Related Disciplines (STICERD) at the LSE, Director of the MPA Program at LSE, Program Member at the Canadian Institute for Advanced Research (CIFAR) Program on Institutions, Organizations and Growth, as Research Fellow, Institute for Fiscal Studies in London, as Chairman, Council of Management, National Bureau of Economic and Social Research (NIESR), External Member of the World Bank Research Committee, and President of the European Economic Association, 2010.

LARS CALMFORS served as the Chair of the Swedish Fiscal Policy Council. He allocated half of his time to this duty for which the institute was reimbursed by the Council. He also served as a member of the Board of the Swedish Research Council. In the Royal Swedish Academy of Sciences he was the chair of the Söderberg Prize Committee and a member of the Election Committee of Class IX. 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 issues such as the euro crisis, fiscal policy and institutions, and employment policy. This included the OECD (Parliamentary Budget Officials Meeting), the Finance Committee in the Norwegian Parliament, the Prime Minister's Office in Finland, a Delegation from the Ministry of Finance in the People's Republic of China, the Finance Committee in the Swedish Parliament, the Ministry of Finance in Sweden, the Swedish Fiscal Policy Council, the Swedish Government Commission on Social Insurance, the University College in Borås, SNS (the Centre for Business and Policy Research), the Swedish Trade Union Congress, the Swedish Liberal Club (Frisinnade klubben), the June List (Junilistan) and Skyline in Linköping.

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

JOHN HASSLER has continued to work on economic policy in the European Economic Advisory Group (EEAG) and has been appointed vice chairman of the Swedish Fiscal Policy Council. He remains a member of the Editorial Board of the *Review of Economic Studies* and an adjunct member of the prize committee for the 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 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 the Women in Economics committee of the EEA. Per also served as a scientific consultant to Sveriges Riksbank and to the Federal Reserve Banks of New York and Richmond and as a board member of Riksgälden (Swedish National Debt Office). 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 and newspapers.

DIRK NIEPELT served as the director of the Study Center Gerzensee and professor at University of Bern.

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

TORSTEN PERSSON was a member of the Prize Committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel (from January 2010). He also served on the Board of Trustees of the Nobel Foundation. In September 2011 he served on a Committee evaluating the teaching and research at the Tinbergen Institute in Amsterdam and Rotterdam. By the end of 2010, he completed his term as Chair of a panel for Starting Grants at the European Research Council.

JAKOB SVENSSON is a board member of the African Economic Research Consortium, AERC.

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

ROBERT ÖSTLING continued to write blog posts about economics and economic policy for the Swedish blog Ekonomistas. He has also written two chapters (one of which was jointly written with Erik Mohlin) for the Swedish book *Nationalekonomi för vänstern* which was published during the academic year.

# Completed Theses 2010/2011

In May 2011, DARIO CALDARA defended his thesis *Essays on Empirical Macroeconomics*, which comprises four papers. The first two papers employ structural vector autoregressions (SVARs) to study the effects of changes in taxation and public expenditures in the United States. Governments often use fiscal policy to stabilize economic fluctuations. Yet, empirical studies employing SVARs find widely diverging evidence on the impact of such policy actions on the macroeconomic aggregates. The first paper, “What are the Effects of Fiscal Policy Shocks? A VAR-based Comparative Analysis”, shows that after controlling for differences in the specification of the statistical model, some of the disagreement in the literature vanishes. In particular, the evidence presented in this paper suggests that private consumption increases in response to an increase in government spending. In contrast, the paper finds mixed evidence on the effects of tax cuts. The second paper, “The Analytics of SVARs: A Unified Framework to Measure Fiscal Multipliers”, derives a unified analytical framework to explain the diverging evidence regarding the effects of tax increases in SVARs models documented in the first paper. Applying this framework to study fiscal policy in the United States for the period 1947-2010, Dario shows that tax cuts do not have any effect on economic activity. The third paper, “Computing DSGE Models with Recursive Preferences and Stochastic Volatility”, compares different solution methods for computing the equilibrium of dynamic stochastic general equilibrium (DSGE) models with recursive preferences and stochastic volatility. Both features have become very popular in finance and macroeconomics as modeling devices to account for business cycle fluctuations and asset pricing. The fourth paper, “Business Cycle Accounting and Misspecified DSGE Models”, proposes a method to trace out the implications of missing sectors in a baseline estimated DSGE model used for forecasting and policy analysis in central banks.

JAN KLINGELHÖFER defended his thesis *Models of Electoral Competition* in late September 2010. It consists of three essays in theoretical political economics: In “The Swing Voters’ Blessing”, Klingelhöfer models elections with quality differences between two ideological candidates. The quality differences are only observable to a limited number of informed voters. He shows that if uninformed voters follow an optimal strategy of only making their voting decisions dependent on their ideological position relative to the median voter, the candidate who is preferred by the median voter wins. Furthermore, he shows that the existence of boundedly rational uninformed voters who always support the candidate whose policy offer is most attractive increases the welfare of the majority of voters. It forces candidates to announce positions closer to the median voter’s bliss point. “Lobbying and Elections” contributes to the literature on lobbying. Besley and Coate (2001) use their well-known citizen candidate framework and find that if citizen candidates with

sufficiently extreme preferences are available, lobbying has no influence on implemented policy. Klingelhöfer shows that this result does not apply in a more realistic model with ideological parties instead of citizen candidates because the parties cannot adjust their policy positions. In a two-party system, even if forward-looking voters are aware that lobbying will take place, their choice between policies is different when lobbies do and do not exist. “Lexicographic Voting” reconsiders the division of the literature into models with forward-looking voters and models with backward-looking voters by developing a model that incorporates motives from both literatures. As long as there is no uncertainty about preferences and parties can commit in advance to the ideological dimension of policy, but not to a maximal level of rent extraction, voters can constrain the latter to the same extent as in a purely backward-looking model. At the same time, the policy preferred by the median voter is implemented.

In September 2010, ERIK MEYERSSON defended his thesis *Religion, Politics, and Development*. The thesis consists of three essays in development and political economics. “Islamic Rule and the Emancipation of the Poor and Pious” reveals new findings on the causal relationship between political Islamic control and female participation in public institutions. Using a regression discontinuity design among Turkish municipalities, it is showed that local Islamic control increased female participation in secular education more than secular control did. One mechanism for this is increased investment by religious organizations, tailoring facilities towards the poor and pious. “Islam and Long-Run Development” examines new cross-country evidence on the long-run impact of Islam on economic development. Using the proximity to Mecca as an instrument for the Muslim share of a country’s population, Islam has had a reducing long-run impact on income per capita, as well as lower female participation in public institutions. But it has also had a positive impact on several measures of female health outcomes. This emphasizes the link between lower incomes and lower female participation in public institutions, over one where Islamic influence has adverse health outcomes. “The Rise of China and the Natural Resource Curse in Africa” examines the economic and political consequences of Africa’s increased reliance on selling oil to China where the empirical strategy uses exogenous variation based on China’s economic rise and consequent demand for oil in interaction with the pre-existence of oil in Sub-Saharan Africa. The results show that selling oil to China is unique in having large positive growth effects while not having detrimental consequences for institutions or human rights abuses. In the case of Africa, the Chinese oil trade has served as a crucial injection in a region where growth has been chronically low, without causing detrimental consequences for political development.

In June 2011, ANDREAS MUELLER successfully defended his thesis *Business Cycles, Unemployment and Job Search: Essays in Macroeconomics and Labor Economics*. The first essay, “Separations, Sorting and Cyclical Unemployment”, establishes a new fact about the composi-

tional changes in the pool of unemployed over the U.S. business cycle and evaluates a number of theories that can potentially explain it. Using longitudinal micro data from the Current Population Survey 1979-2008, it documents that in recessions, the pool of unemployed shifts towards workers with high wages in their previous job. A search-matching model with endogenous separations and worker heterogeneity in terms of ability has difficulty in explaining these patterns. But an extension of the model with credit-constraint shocks does much better in accounting for the new fact. The second essay, “The Lot of the Unemployed: A Time Use Perspective”, provides new evidence on the time use of employed and unemployed individuals in 14 countries. It devotes particular attention to characterizing and modeling job search intensity, measured by the amount of time devoted to searching for a new job. Job search intensity varies considerably across countries and is higher in countries with higher wage dispersion. The third essay, “Job Search and Unemployment Insurance: New Evidence from Time Use Data”, provides new evidence on the job search intensity of the unemployed in the U.S. The major findings are: the average U.S. unemployed worker devotes about 41 minutes to job search on weekdays, which is substantially more than their European counterparts; job search is inversely related to the generosity of unemployment benefits, with an elasticity between -1.6 and -2.2; job search intensity for those eligible for Unemployment Insurance (UI)



*A toast for Dario Caldara as the whole of the Institute, family and friends gather following the successful defense of his thesis *Essays on Empirical Macroeconomics* in May 2011.*



increases prior to benefit exhaustion; and the time devoted to job search is fairly constant regardless of unemployment duration for those who are ineligible for UI. The fourth essay, “On-the-Job Search and Wage Dispersion: New Evidence from Time Use Data”, investigates whether workers who have a job invest time in finding a better paying job. The major finding is that workers with lower wages on their current job spend more time on job search activities.

MARIA PERROTTA defended her thesis *Aid, Education and Development* in December 2010. The first paper, “Aid Effectiveness: New Instrument, New Results?”, written with Emmanuel Frot, SITE - Stockholm School of Economics, proposes a new instrumental variable for foreign aid, based on aid quantities as predicted by the priority that different recipients are given by the donors. It finds a positive and significant, though relatively small, effect of aid. The second paper “Hidden Redistribution in Higher Education” advances and tests the hypothesis that overspending in higher education in Sub-Saharan Africa reflects patterns of redistribution towards the elites close to the political leaders, when this level of education is accessible exclusively or mostly to such groups. The paper finds support for this hypothesis, although the bulk of the Sub-Saharan Africa spending anomaly remains to be explained. The third paper “The Impact of a Food For Education Program on Schooling in Cambodia”, which is written with Maria Cheung, Stockholm University, evaluates the World Food Program FFE in Cambodia and finds that it increased enrollment rates, school attendance and achieved education for primary school children. Finally, “Constitutions and the Growth Elasticity of Poverty” explores the heterogeneity around the well-known relationship between growth and poverty reduction. The main finding of this paper is the effect of the constitution, not previously investigated in the literature.

# Theses in Progress 2010/2011

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 AERE Inaugural Summer Conference (Seattle, June 2011), presenting “Temperature Feedbacks to the Carbon Cycle in Climate-Economy Models” (joint with Anders Ahlström). In an ongoing project, he seeks to explore the implications of allowing policymakers and households to use different rates of time preference, in a climate-economy model used to prescribe optimal taxes on carbon dioxide emissions.

TIMOTHÉE DEMONT was delighted to spend six months at the Institute, from March till August 2011, as an AMID visiting fellow. During his stay, he continued working on his different projects, which he presented at the IIES Brownbag seminars to receive very valuable comments. In his first paper, Timothée develops a theoretical framework to be able to explain why the entry of microfinance institutions might push up the interest rate charged by existing traditional moneylenders, thereby hurting poor borrowers outside microfinance. His second project is mostly empirical and investigates the (side-)impacts of Self-Help Groups membership in Jharkhand, India. A long-run panel data has been collected by Timothée and his co-authors, which allows observing very interesting time evolutions over a wide series of outcomes for member, nonmember and control households. Finally, Timothée used part of his stay to set up a randomized controlled trial in Italy to measure the take-up rates and impacts of microsavings and microcredit products. Overall, Timothée was extremely satisfied with his Swedish experience. He particularly enjoyed the friendly atmosphere at the Institute and the quality of life in Stockholm.

During the year, JOHAN GARS has continued working within the macroeconomic modeling project of the Mistra-SWECIA program on climate change. He primarily worked on three different issues. The first issue is how the paths of technological development affect the intertemporal pattern of fossil fuel use. The second issue is how countries are indirectly affected, through trade in goods and financial instruments, by climate change related effects in other countries. The third issue is to what extent it matters how climate effects are introduced into economic models. Climate change is expected to have many different types of impacts. They can be modeled as affecting productivity, utility directly or the depreciation of the capital stock. Johan investigates in what ways this modeling choice matters for the results delivered by the models. In addition to his work on climate change, he has also worked on issues related to renewable resources.

JINFENG GE worked on “A Ricardian Model of the Labor Market with Directed Search”. In this paper Jinfeng embeds a directed search à la Shi (2002) and Shimer (2005) into

a Ricardian model of the labor market in order to analyze how search frictions will affect the assignment of different workers to different tasks which different workers have distinctive comparative advantages to work on. He also analyzes the different labor market institutions such as how progressive labor income tax and minimum wage will affect the assignment of different workers to different tasks. In the end, Jinfeng discusses the implication of this mechanism for aggregate production efficiency and income inequality. In a joint project with Zheng Song, “Rural Immigration in China”, the effect of structure transformations on income inequality and the effect of international trade on structure formation are analyzed following the urbanization of masses of rural immigrants, meaning a mass reallocation of workers from the traditional agricultural sector, into industrial and tertiary sectors.



*The five Doctoral Dissertations by Erik Meyerson, Jan Klingelböfer, Maria Perrotta, Dario Caldara and Andreas Mueller, respectively, published in the IIES Monograph Series during the 2010/2011 academic year.*

CHRISTINA HÅKANSON worked on her paper “Trading off or Having it all: Completed Fertility and Mid Career Earnings of Swedish Men and Women”, presented at the INED Conference on Economics of the Family, in Paris, October 2011. A joint project with Åsa Rosen, Anna Sjögren and Anne Boschini, explores how these outcomes have changed for Swedish men and women born 1945-1962 by documenting changes in education, assortative mating patterns, completed fertility and mid-career earnings. Together with Erik Lindqvist and Jonas Vlachos she has also been working on “Skill Segregation in the Swedish Economy” where they investigate the segregation of male workers by skill between industries, firms and plants in the Swedish private sector from 1986 to 2006. Measures of skill include educational attainment and measures of cognitive and non-cognitive skills from the Swedish military enlistment. The paper will be presented at the AEA Annual Meeting in Chicago 2012.

RUIXUE JIA’S field is political economics and development. During the year she has been working on a project on decentralization, collusion and public bads, where she proposes a delegation-collusion model between local governments and firms to explain public bads generated in the growth process of China. She has applied this model to the high death rates in the coalmine industry, by exploring a natural experiment of decentralizing and centralizing the management of key state coalmines (with Huihua Nie). Now she attempts to apply the same logic to environmental pollution. Before this project, she finished two empirical papers and one applied theory paper. The paper entitled “The Legacies of Forced Freedom: China’s Treaty Ports” studies whether and why history matters in the context of the treaty system. The other empirical paper, “Weather Shocks, Sweet Potatoes and Peasant Revolts” investigates whether the adoption of a certain technology mitigates the impact of weather shocks on peasant revolts. The applied theory piece, “Government Structure and Military Coup” (with Pinghan Liang), models the incentives for military leaders in a multi-stage contest and derives an inverse-U shape between decentralization and the risk of coup. She has two very early stage social networks projects. One focuses on elite networks among government officials in China and their impact on accountability (with Masayuki Kudamatsu and David Seim). The other focuses on grass-root networks in rural villages and their impact on local politics (with Paul Novosad).

YINAN LI joined the Institute in September, 2010. In the past year, he has been working on a project about China’s political business cycle in the post-reform era. Specifically, Yinan presents strong evidence of political cycles in China’s key macro variables after 1976. He constructs a theory to explain the mechanism of the cycle and uses a panel of Chinese provincial data to test the predictions of the theory. The empirical results strongly support the theory. Yinan’s progress in this project could not have been achieved

without the excellent guidance and encouragement from his advisor, John Hassler. Moreover, insightful discussions with Per Krusell, Assar Lindbeck, Torsten Persson and David Strömberg have been extremely helpful.

While visiting the IIES during the spring semester of 2011, HELÈNE LUNDQVIST continued working on her thesis *Empirical Essays in Political and Public Economics*. The thesis consists of four papers focusing on the functioning of the public sector and its actors in different ways. The first paper, “Is it Worth it? On the Returns to Holding Political Office”, focuses on those who are ultimately responsible for the public sector; the elected politicians. The second paper, “Ethnic Diversity and Preferences for Redistribution”, focuses on how preferences for the public sector are formed. Specifically, how increased ethnic heterogeneity affects people’s preferred level of redistribution. The last two papers, “Granting Public or Private Consumption? Effects of Grants on Local Public Spending” and “Income Taxes and Stimulating Local Public Employment: Do General Grants Work?”, are on the financing of the public sector (the local public sector in particular). During her semester at the IIES, Helène also participated in several workshops, gave several seminars and competed in the Econometrics Game 2011 held in Amsterdam.

ETTORE PANETTI continued working on his thesis on the macroeconomics of financial intermediation. In his paper “Does Excessive Leverage Lead to Default in the Financial System? A Theoretical Assessment” he asks whether excessive leverage by financial institutions is sufficient to explain their default. He develops a theory of intermediation in which investors decide whether to make deposits into banks or directly invest in the asset markets. This competitive pressure from markets onto banks obliges the latter to skew their portfolios of securities toward risky long-term investments, eventually leaving them unprepared to face big liquidity shocks. Ettore proves that this is not enough for the emergence of default as an equilibrium phenomenon, as long as banks can insure themselves in a frictionless and liquid interbank market. He also presented his work on the macroeconomics of financial intermediation at the 11th Doctoral Workshop in Economic Theory and Econometrics, held in Rome (Italy) at EIEF in July 2011, and in a contributed session at the 26th Congress of the European Economic Association, held in Oslo (Norway) in August 2011. During the year, he was also the organizer of the IIES Brownbag Seminar Series and IIES Macro Group Meetings.

During the year, BEI QIN has been working on papers in political economy, development economics and labor economics. In “Political Connection and Government Patronage”, she explored whether politically connected firms receive preferential favor from the government in China, as measured by capital investment from the central government and subsidy. Together with David Strömberg and Yanhui Wu, Bei is working on a project

that studies the media capture in China. They study how large the media capture is for different types of news in different kinds of newspapers, and what the reasons are. In a co-authored paper with Maoyong Fan and Qian Liu, she is working on the “Impact of Marriage on Returns to Education in Sweden”. The paper examines the interplay between labor and marriage markets in shaping returns to education in Sweden.

SIMON QUINN visited the IIES as an AMID Early Stage Researcher in the autumn of 2010, having completed his D. Phil at University of Oxford a few months earlier. Simon worked on a number of topics and spent most of his time working on an econometric methodology for flexibly estimating the consequences of discrete ordered choices in Tanzania’s education system. Simon also developed his previous work on the consequences for Moroccan manufacturing firms of a change in Moroccan company law, and on co-authored work regarding the return to capital in Ghanaian microenterprises. While at the IIES, Simon gave a ‘brownbag’ lunch presentation, as well as seminar presentations at University of Oxford and University of Gothenburg.



*South Building 'A' at Stockholm University which houses the IIES.*

ALEX SCHMITT spent his year working on topics in computational economics, natural resource economics and climate-economy modeling. In one project, he looks at the quantitative effects of “Unilateral Climate Policy”, analyzing how aggregate variables evolve over time if only some countries or regions are willing or able to regulate carbon emissions (optimally), while others adopt a “laissez-faire” approach. In another project, Alex analyzes the optimal extraction of a finite, nonrenewable resource stock under uncertainty. More specifically, he considers a neoclassical growth model with the resource as an essential input in the production process. There also exists a backstop technology which can produce a close substitute to the resource and whose productivity in the future follows a stochastic process. The paper aims at answering how the degree of uncertainty affects the speed of extraction.

DAVID SEIM’s research fields comprise political economics, labor economics and public economics. More specifically, he has investigated how the effects of displacement on earnings depend on cognitive and non-cognitive skills. In another project, joint with Johanna Möllerström, he is empirically studying the determinants of preferences for redistribution. Having conducted a large-scale survey, they link the demand for redistribution to important variables such as income and altruism. Together with Ruixue Jia and Masayuki Kudamatsu, he continued to work on a project that seeks to understand the role of political connections in determining economic policy.

During his AMID Fellowship, BILAL SIDDIQI worked to complete significant parts of the research making up his final Ph.D. dissertation, and began two new projects. He revised the first chapter of his thesis, which uses data from a baseline household survey conducted in Liberia in 2008/09, to develop and test a model of forum shopping in a context of legal pluralism. He presented a draft paper, entitled “Forum Shopping and Legal Pluralism”, at the Midwest International Economic Development Conference in Madison, WI. Bilal also launched a new, individually-randomized component to the community-level randomization in order to study the separate impacts of the intervention on directly treated individuals vs community-level spillovers, for his second Ph.D. chapter. For the third chapter, on the long-term impacts of colonial land tenure institutions on public service delivery, Bilal finalized the results and presented them at development seminars at Harvard, Chicago and Pomona. Bilal also launched a baseline survey for a randomized controlled trial of two interventions involving non-financial incentives in Sierra Leone’s health sector, to form the basis of multiple academic papers over the next two years. Finally, Bilal began two new research projects – the first to develop a new measure of emissions embodied in trade to test the extent of ‘carbon leakage’ due to international emissions agreements, and the second to analyze data from a multi-country randomized controlled trial of cross-cutting legal aid interventions.

DANIEL SPIRO worked on the paper “Resource Extraction, Capital Accumulation and Time Horizon” which aims to explain why most exhaustible resources have historically had non-increasing price trends. The model developed in the paper is also calibrated to match the price and extraction path of oil. Daniel also finished a paper, together with Johan Gars, analyzing the gains and losses from trade with renewable resources as well as a paper on energy policy with Rob Hart. Daniel also worked on a project attempting to explain why resource abundance tends to be a curse for some countries and a blessing for others. Apart from resource economics, Daniel has continued working on a project, together with Moti Michaeli, analyzing how social norms affect the distribution of declared opinions. They characterize and link various phenomena such as alienation, hypocrisy, conformity and bipolarity to whether a society is orthodox or liberal. Finally, a new project was initiated, with Anne Boschini, testing whether there is a gender and/or a political bias in court rulings. Daniel has also given seminars at Tel Aviv University, Stockholm School of Economics, Bergen School of Economics and Copenhagen University and he spent two months in Geneva working for UNCTAD identifying policy priorities for the upcoming UN high level conference on sustainable development in Rio 2012.



# Seminars and Publications

## Seminars

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

Information about seminars of past and current academic years is to be found on our web: [www.iies.su.se/seminars](http://www.iies.su.se/seminars). 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 own web pages.

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

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



*Front Cover: Olle Baertling, Ra, 1954, Oil on canvas.*

*Back Cover: Autumn, Earth Sciences building, Stockholm University. Photo: Hanna Christiansson, 2011.*

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