

BONN GRADUATE SCHOOL OF ECONOMICS
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BONN ECON NEWS

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Montag, 18.06.2012

Ä N D E R U N G

Das Brown Bag Seminar findet **n i c h t** statt!

Donnerstag, 21.06.2012
BGSE Brown Bag Seminar
14.15 Uhr, Fakultätszimmer

Matthias Minke, BGSE
“Macroeconomic application of Labor
Economics”

IZA FORSCHUNGSSEMINAR**Chan Shen**, University of Texas M. D. Anderson Cancer Center

“Marginal Effects in Semiparametric Models”

Abstract

This paper addresses the estimation of a semiparametric sample selection index model where both the selection rule and the outcome variable are binary. Since the marginal effects are often of primary interest and are difficult to recover in a semiparametric setting, we develop estimators for both the marginal effects and the underlying model parameters. The marginal effect estimator only uses observations which are members of a high probability set in which the selection problem is not present. A key innovation is that this high probability set is data dependent. The model parameter estimator is a quasi-likelihood estimator based on regular kernels with bias corrections. We establish their large sample properties and provide simulation evidence confirming that these estimators perform well in finite samples.

IZA FORSCHUNGSSEMINAR**Miles Kimball**, University of Michigan

“Thoughts on Monetary and Fiscal Policy in the Wake of the Great Recession”

Abstract

Events in the last few years, including the Financial Crisis of 2008, the Great Recession and the European Debt Crisis call for new forms of monetary and fiscal policy. The zero lower bound on the nominal interest rate and conflicting needs for short-run and long-run fiscal policy create special short-run problems. Nevertheless, I will argue that sufficient aggregate demand management tools exist to effectively return economies around the world to their natural levels of output. Then policy-makers would still have to face the much more intractable long-run conflict between the increasing call for government expenditure to serve aging populations and fulfill other needs, and the serious distortions caused by taxation.

LAW ECON WORKSHOP**Eric Talley**, Berkeley

“Law, Economics, and the Burden(s) of Proof in Litigation”

Abstract

This essay presents an overview of the theoretical Law and Economics literature on the burden of proof in litigation. I begin by clarifying core legal definitions within this topic, demonstrating that

the burden of proof actually refers to at least five overlapping concepts, which are not completely interchangeable. I then provide a conceptual roadmap for analyzing the major extant

contributions to this topic within theoretical law and economics, emphasizing three key dimensions that organize them: (a) where they fall in the positive-normative spectrum; (b) what type of underlying modeling framework they employ (ranging from decision theoretic to game theoretic to mechanism design); and (c) whether they focus on litigation activity or primary activities (or both). In the aggregate, the resulting theoretical landscape is a complex one, yielding a number of interesting insights. Yet it still suffers from having no single unified theory. The essay concludes by offering a number of recommendations about where applied law and economics scholars interested this topic could direct their research efforts.

MACRO/ECONOMETRICS/FINANCE WORKSHOP

Christian Bayer, Universität Bonn

(joint work with Falko Juessen)

“Happiness, Income, and Market Incompleteness”

Abstract

This paper reassesses the empirical effect of income and employment on happiness. As models of incomplete markets suggest, we differentiate between the effect of persistent and transitory income shocks and find that only the former impact on self-reported well-being. Moreover, we show that without this differentiation the effect of employment on happiness is overestimated. In contrast to some of the happiness literature, but in line with standard economic reasoning, we find that employment per se does not contribute to happiness other than by providing a household with income and is rather associated with a decline in happiness. The differentiation between persistent and transitory income shocks is obtained making use of a novel two-step estimation procedure that allows applying standard instrumental variable regressions to a latent utility model with ordinal observable data.

MICRO WORKSHOP BGSE

Konrad Mierendorff, Universität Zürich

“Generalized Reduced-Form Auctions: A Network-Flow Approach”

Abstract

We develop a network-flow approach for characterizing interim-allocation rules that can be implemented by ex post allocations. The network method can be used to characterize feasible interim allocations in general multi-unit auctions where agents face hierarchical capacity constraints. We apply the method to solve for an optimal multi-object auction mechanism when bidders are constrained in their capacities and budgets.

WIWI KONKRET

Tobias Lindner, MdB

“Das Bundestagswahlrecht aus der Perspektive der Social-Choice-Theorie”

Abstract

Das Wahlsystem zum Deutschen Bundestag weist einen schwerwiegenden Defekt auf: Mehr Stimmen für eine Partei können dazu führen, dass diese weniger Sitze erhält - das sogenannte negative Stimmgewicht. Das Bundesverfassungsgericht hat den Bundestag aufgefordert, bis Ende Juni 2011 diesen Fehler durch eine Änderung des Wahlrechts zu beseitigen. Hierzu gibt es eine Vielzahl von Möglichkeiten. Der Vortrag unternimmt den Versuch, mögliche Änderungen aus Sicht der Social Choice-Theorie zu beurteilen. Hierzu wird ein einfaches System von Bedingungen an Wahlen vorgestellt, anhand dessen die bisherigen Lösungsvorschläge systematisiert werden. Dabei stellt sich heraus, dass es kein Wahlsystem geben kann, das gleichzeitig all diesen Bedingungen genügt. Dennoch lassen sich unter den existierenden Änderungsvorschlägen solche identifizieren, die mehr wünschenswerte Bedingungen erfüllen als andere.

FINANCE AND INSURANCE SEMINAR

Markus Pelger, University of California

“Contingent Convertible Bonds: Pricing, Dilution Costs and Efficient Regulation”

Abstract

Contingent convertible bonds (CCBs) are new debt instruments that automatically convert to equity when the issuing firm or bank reaches a specified level of financial distress. This paper presents a formal model of CCBs with finite maturity and where the firm's value process is driven by a jump diffusion process. We are able to derive closedform solutions for the value of the CCBs. In this paper we can completely characterize two different types of CCBs: In the first case the number of shares granted at conversion is fixed a priori. In the second specification the number of shares granted at conversion is chosen a posteriori such that the value of the shares equals a specified value. Incorporating jumps into the dynamics of the firm's value process is important for two reasons. First it can solve the predictability problem of the conversion and default event, i.e. including jumps into the firm's value process creates non zero credit spreads for short maturities. Second, the evaluation of CCBs depends on the capital structure. Without jumps the evaluation of contingent convertible bonds can be independent of the amount of straight debt. In a model with jumps the valuation of straight debt and contingent convertible debt is interlinked as jumps could be large enough to trigger conversion and default simultaneously. Furthermore, it is observed that short-term debt has very different features than long-term debt. Our model can capture the effect of the maturity on the debt contracts. In order to apply CCBs in practice it is desirable to base the conversion on observable market prices that can constantly adjust to new information in contrast to accounting triggers. We can show how to use credit spreads and the

risk premium of credit default swaps to construct the conversion trigger and to evaluate the contracts under this specification. CCBs are intended to avoid bank bailouts of the type that

occurred during the subprime mortgage crisis when banks were in trouble to recapitalize themselves and regulators feared the consequences of default contagion. Hence, the second focus of this paper is to analyze whether CCBs can be used as a regulation instrument. It is crucial to require that the parameters of the CCBs are chosen such that they satisfy a no-early-default condition. In this case a regulation that combines a restriction on the maximal leverage ratio and the requirement of issuing a certain fraction of CCBs as part of the whole debt, can efficiently lower the default probability without reducing the total value of the firm. However, if this condition is violated, CCBs can increase the default risk of a bank.

IZA BROWN BAG SEMINAR

Xavier Fontaine, IZA

“On the comparability of well-being statements”

Abstract

Well-being statements are increasingly used to proxy well-being. Such variables allow to study the relationship between socio-economic variables and well-being, more simply than the revealed preference approach does. The validity of subjective well-being variables as proxies can however be questioned if respondents differs in the way they report their well-being. The present paper proposes a method to capture and analyse the differences in the way different group of respondents use well-being statements. We apply this method to study how people from different income groups differ in their use of subjective well-being statements.

MACRO/ECONOMETRICS/FINANCE SEMINAR

Marcel Fratzscher, Europäische Zentralbank

“The Pricing of Sovereign Risk and Contagion during the European Sovereign Debt Crisis”

Abstract

The paper analyses the drivers of sovereign risk for 31 advanced and emerging economies during the European sovereign debt crisis. It shows that a deterioration in countries' fundamentals and fundamentals contagion – a sharp rise in the sensitivity of financial markets to fundamentals – are the main explanations for the rise in sovereign yield spreads and CDS spreads during the crisis, not only for euro area countries but globally. By contrast, regional spillovers and contagion have been less important, including for euro area countries. The paper also finds evidence for herding contagion – sharp, simultaneous increases in sovereign yields across countries – but this contagion has been concentrated in time and among a few markets. Finally, empirical models with economic fundamentals generally do a poor job in explaining sovereign risk in the pre-crisis period for European economies, suggesting that the market pricing of sovereign risk may not have been fully reflecting fundamentals prior to the crisis.

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