



ALFRED-WEBER-INSTITUT FÜR WIRTSCHAFTSWISSENSCHAFTEN
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AWI This Week

Monday, 6. 04. 09

Departmental Seminar

17.15-18.45

AWI 00.010

Peter Funk, University of Cologne

"History-Dependent Individual Behavior, Polarization,
and Pareto-Improving Activating Welfare"

Wednesday, 8. 4. 09

Departmental Seminar

17.15-18.45

AWI 00.010

Jan Wenzelburger, University of Keele

"On Endogenous Option Prices"

**AWI is now at Bergheimer Straße 58 (building of the former Ludolf Krehl Klinik).
Seminars are taking place in the left-hand part of the Campus, on the groundfloor.**

Departmental Seminar

Peter Funk

"History-Dependent Individual Behavior, Polarization, and Pareto-Improving Activating Welfare"

This paper assumes that human capital not only generates market incomes but is a direct source of utility as well. In an otherwise standard framework it is shown that the interaction between human capital and effort (necessary to raise human capital) naturally leads to history-dependent optimal individual behavior. Depending on the initial distribution of skills, this history-dependence divides each group of otherwise identical households into two perpetually separated groups: one rich and educated, the other poor and uneducated. If the rich have a common interest in the education of the poor (for instance financing public goods), such polarized equilibria are typically Pareto-inefficient. While unconditional transfers only reduce the incentives of the uneducated to accumulate skills, it is shown that there exist activating tax-transfer systems that Pareto-dominate any non-redistributing tax-system and involve a negative marginal income tax on household income below a certain threshold.

"Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime." Chinese proverb.

Departmental Seminar

Jan Wenzelburger

"On Endogenous Option Prices"

This paper investigates a dynamic CAPM in which investors may trade with option contracts which are zero in net supply. In each period, asset and option prices are endogenously determined by market clearing. Contrary to the usual arbitrage-free pricing formulas, endogenous option prices may have a significant influence on prices and allocations of the underlying primary assets. Investors with heterogeneous beliefs will generally hold portfolios consisting of the primary asset and the option. We analyze the effect of option contracts on the dynamics of asset prices, portfolio allocations, and on the resulting wealth process. Specifically, we show how short-selling of option contracts may increase the volatility of the wealth process.

Talks and Research Visits

Adam Dominiak participated in the 2009 Asia Pacific meeting of the Economic Science Association (APESA09) hosted by the University of Haifa (Israel), from March 25-29. He presented the joint work with Wendelin Schnedler: "Uncertainty Aversion and Preferences for Randomization: An Experimental Study".

On March 24, Andreas Irmen gave a lecture at the Free University of Bozen on "Population, Pensions, and the Direction of Technical Change".

Andreas Irmen gave a lecture on "Population, Pensions, and Endogenous Economic Growth". February 11, at the Universität Nürnberg-Erlangen and March 30, at the ETH Zurich.

New Publications

Andreas Irmen: *Frictional Unemployment, Labor Market Institutions, and Endogenous Economic Growth*, *Economics Bulletin*, forthcoming.

**Editorial deadline for issue 7/2009 of the newsletter:
Wednesday, April 8, 2009, 12 o'clock
newsletter@awi.uni-heidelberg.de**

If you would like to receive the newsletter by email,
please contact the address above.