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AWI This Week

Monday, 12. 10. 09

17.15-18.45
AWI 00.010

Departmental Seminar

Volker Böhm, University of Bielefeld
"Endogenous Inequality of Nations Through Financial
Asset Market Integration"

Wednesday, 14. 10. 09

17.15-18.45
AWI 00.010
(under the auspices of the
Excellence Initiative)

Internal Seminar

Christoph Brunner, University of Heidelberg
"Wise Crowds or Wise Minorities"

Departmental Seminar

Volker Böhm

"Endogenous Inequality of Nations Through Financial Asset Market Integration"*

The paper analyzes an endogenous mechanism leading perfectly symmetric economies to diverge in the long run after unifying their financial asset markets. The standard OLG growth model is extended to include uncertainty and a financial asset used to transfer ownership of the proceeds of an exogenous random production process between generations. Consumers are risk averse, implying that consumers hold mixed portfolios of real capital and of the asset which are not perfect substitutes. The paper demonstrates that in the absence of an international asset market, the two autarkic economies converge to the same globally attracting steady state under rational expectations dynamics. However, when the two asset markets are unified internationally prior to convergence, additional asymmetric steady states appear implying that the steady state with equal levels of capital becomes unstable, causing symmetry breaking. As a result, depending on the distribution of capital at the time of integration, perfectly symmetric economies in a completely symmetric world can converge to an asymmetric steady state. The paper derives general sufficient conditions for a saddle node bifurcation of the symmetric steady state. These reveal that the instability of the symmetric steady state occurs due to a non linear interaction of the elasticities in production and in asset demand. A numerical example shows that these effects occur in particular, when the production function and the function of absolute risk aversion are isoelastic.

*with George Vachadze

Internal Seminar

Christoph Brunner

"Wise Crowds or Wise Minorities" *

This paper reports results from social learning experiments where subjects choose between two options and each subject has a small chance of being perfectly informed about which option is correct. In treatment "sequence," subjects observe the entire sequence of predecessors' choices while in treatment "no-sequence" they only observe the number of times each option has been chosen. The theoretical predictions are that subjects follow their immediate predecessors in treatment sequence and follow the minority in treatment no-sequence (Callander and Hoerner, 2009). The former prediction is borne out in the data, but subjects tend to follow the majority in treatment no-sequence. We observe substantial heterogeneity in levels of strategic thinking, as predicted by level-k and Cognitive Hierarchy. While these models reproduce some features of our data, their fit is poor because of the assumed best-response behavior. Allowing for some degree of "trembling" improves the fit significantly, especially if subjects are aware that others tremble, as in logit-QRE. The "noisy introspection" model proposed by Goeree and Holt (2004), which combines different levels of thinking with error-prone behavior, best describes the data.

*with Jacob Goeree

Talks and Research Visits

From October 8-9, Switgard Feuerstein participated at the Conference "Regions, firms and institutions in the World Economy", Warsaw School of Economics (SGH). As part of the Scientific Committee she talked on "International Price Differences: European Retail Food Prices".

From October 5-9, Andreas Roider is visiting Gerd Muehlheusser at the University of Bielefeld for research.

From September 8-11 Switgard Feuerstein participated at the Jahrestagung des Vereins für Socialpolitik, Magdeburg and was talking on "Taxes Inducing International Price Discrimination: An Optimal Tariff Approach".

From September 8-11, Christian Conrad participated in *The Annual Meeting of the Verein für Socialpolitik* (Magdeburg) and presented his paper "Fractionally integrated APARCH modelling of stock market volatility: a multi-country study" (joint with Menelaos Karanasos and Ning Zeng, both Brunel University).

From August 23-27, Switgard Feuerstein participated at the Annual Congress of the European Economic Association, Barcelona and gave a talk on "Taxes Inducing International Price Discrimination: An Optimal Tariff Approach".

From August 23-27, Christian Conrad participated in *The Econometric Society European Meeting* (Barcelona) and presented his paper "On the transmission of memory: inflation persistence and the Great Moderation" (joint with Simone Elmer, KOF Swiss Economic Institute, and Menelaos Karanasos, Brunel University).

On August 24, Jan Schrader presented his paper "The Competition between Relationship-Based Microfinance and Transaction Lending" at the 24th Annual Congress of the European Economic Society (EEA) in Barcelona.

On August 23, Thomas Eife presented a paper at the EEA Meeting in Barcelona: "The Veil of Money and Non-Neutral Effects of a Currency Changeover".

From July 6-17, Johannes Diederich attended *The 9th Mannheim Empirical Research Summer School* (MERSS) on experimental, econometric, and neuroeconomic methods.

Visitors

From August 28-31, Burkhard Schipper, University of California, Davis, visited Heidelberg for joint research with Peter Duersch on their project on learning theory.

New Working Papers

Adam Dominiak and Jean-Philippe Lefort: *Unambiguous Events and Dynamic Choquet Preferences*, September 2009

Peter Bernholz, Malte Faber and Thomas Petersen: *Kausalität in den Wirtschaftswissenschaften: Welche Ursachen hat die Finanzkrise?*, September 2009.

Adam Dominiak, Peter Dürsch and Jean-Philippe Lefort: *A Dynamic Ellsberg Urn Experiment*, September 2009.

Jörg Oechssler: *Searching beyond the lamppost: Let's focus on economically relevant questions*, August 2009.

Peter Duersch and Maroš Servátka: *Punishment with Uncertain Outcomes in the Prisoner's Dilemma* (revision of DP 451), July 2009.

Beate Fischer, Frank Jöst, Bernd Klauer and Johannes Schiller: *Is a Sustainable Land-Use Policy in Germany Possible?*, July 2009.

Rotfuß, W., C. Conrad and D. Rittler, 2009: *The European Commission and EUA Prices: A High-Frequency Analysis of the EC's Decisions on Second NAPs*, ZEW Discussion Paper No. 09-045.

New Publications

Timo Goeschl and Grischa Perino: *On backstops and boomerangs: Environmental R&D under technological uncertainty* ("Energy Economics", Volume 31, Issue 5, September 5, 2009, Page 800-809).

New and Leaving Staff

In September Isadora Dorn joined the team of Andreas Roider as a PhD student. She received her diploma degree in economics from the University of Vienna.



In September Benjamin Roth joined the team of Andreas Roider as a PhD student. He got his diploma in economics from Heidelberg University where he graduated recently.



In September Daniel Heyen has started his work towards a Ph.D. in the research group of Timo Goeschl. He will focus on the economic aspects of Geo Engineering.



Johannes Voget studied Econometrics at Maastricht University and received his Ph.D. in Economics from Tilburg University for his thesis on tax competition and tax evasion. Prior to joining the Alfred-Weber-Institut as a post-doctoral researcher, Johannes held a position as Research Fellow at the Oxford University Centre for Business



Christoph Brunner graduated with a Ph.D. in Social Sciences from the California Institute of Technology in Fall 2009. His research interests as a post-doctoral researcher at the Alfred-Weber-Institute are mainly in experimental economics with a focus on markets, auctions and game theory.



Miscellaneous

On December 21-22, 2009 the AWI will host the **VI. Christmas Meeting of German Economists Abroad**. Further information may be found at weihnachtstreffen2009.uni-hd.de. Members of the AWI are cordially invited to attend. The program and a registration form will be made available in November.

**Editorial deadline for issue 22/2009 of the newsletter:
Wednesday, October 14, 2009, 12 o'clock
newsletter@awi.uni-heidelberg.de**

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