



ALFRED-WEBER-INSTITUT FÜR WIRTSCHAFTSWISSENSCHAFTEN
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AWI This Week

Monday, 2. 11. 09

17.15-18.45
AWI 00.010

Departmental Seminar

Martin Summer, ONB, Vienna
"Credit Risk in General Equilibrium"

Wednesday, 4. 11. 09

17.15-18.45
AWI 00.010

Internal Seminar

Florian Wilken
"How Strategic Buyers Sustain Seller Competition in
an Experimental Market"

Departmental Seminar

Martin Summer

"Credit Risk in General Equilibrium"

Quantitative models used in credit risk assessment usually model default risk, loss given default and exposure at default as subject to an exogenous source of risk. In reality all these parameters of credit risk are however endogenous: They are the aggregate consequences of decisions taken by market participants. In this paper we make an attempt to provide a model to describe the fact that credit risk is endogenous. In our model insolvency occurs as an equilibrium phenomenon that can be described by fundamental parameters such as risk preferences and endowments. Building on the literature on default in general equilibrium we are interested in a model that shows the key aspect of endogenous credit risk but at the same time is simple enough to allow a structured description of equilibrium prices and allocations of defaultable securities.

Internal Seminar

Florian Wilken

"How Strategic Buyers Sustain Seller Competition in an Experimental Market"

We investigate experimentally a two-period model where sellers have to exit when their profit is insufficient in the first period. Buyers decide how to allocate their demand to sellers. Strategic buying at the higher-priced seller can then be rational to sustain future seller competition. A significant number of purchases at the higher-priced seller in the first period are observed. Strategic buying is found to be higher in situations where it is rational than in those where it is not. In those cases where it is rational, observed buying behavior is compatible with the theoretical prediction. When it is not rational, weak evidence is found that fairness considerations play a role in explaining this non-rational behavior. In contrast to the predicted equilibrium outcome, sellers are observed to frequently set prices so high that buyers sustain both sellers. This is especially pronounced when the buyer role is played by the computer and follows a consistent purchasing pattern. Then, buyer surplus is increased compared to the prediction. When buyers are human, predatory behavior by the more efficient seller in the first period is observed more often.

Talks and Research Visits

Lars P. Feld gave a talk on "Federalism Commission II - Recent Reforms of Federal-Länder Financial Relationships in Germany" at an International Conference on "The New Financing Model for the Spanish Autonomous State - International Perspectives" organized by the Forum of Federations in Zaragosse (Spain), October 26.

Lars P. Feld presented his paper *FDI and Taxation: A Meta-Study* in the Brown Bag Seminar of the Frankfurt School of Finance and Management, October 28

Lars P. Feld presented his paper *Federalism, Budget Deficits and Public Debt: On the Reform of Germany's Fiscal Constitution*, Conference of the European Center for the Study of Public Choice (ECSPC) on 'Ex uno plures. Welfare without Illusion' in Rome (Italy), September 14–16, Discussant on Philip Jones and Nils Soguel, *Fiscal Federalism at the Ballot Box: The Relevance of Expressive Voting*.

Sarah Necker, presented her paper *Decentralization and Economic Performance in a Cooperative Federation – Evidence from Germany*, at the Annual Conference of the Verein für Socialpolitik on 'Klimaschutz – Stand und Perspektiven' in Magdeburg, September 8-11.

Sarah Necker and **Jan Schnellenbach** participated in the regional meeting of the Mont Pèlerin Society on *The Market Economy in the Welfare State* in Stockholm, August 16-19.

Lars P. Feld presented his paper *Comment on Gilles Saint-Paul: The Welfare State and the Rise of Paternalism*, Regional Meeting of the Mont Pèlerin Society in Stockholm (Sweden), August 16–19.

Sarah Necker and **Thushyanthan Baskaran** presented their paper *Decentralization and Economic Performance in a Cooperative Federation – Evidence from Germany*, Conference of the International Institute of Public Finance (IIPF) on 'Public Policy and Development', in Cape Town (South Africa), August 13-16. Thushyanthan Baskaran, Discussion of *One Size Fits All? Decentralization, Corruption, and the Monitoring of Bureaucrats* by Christian Lessmann and Gunther Markwardt.

Lars P. Feld and **Jan Schnellenbach** participated in a Liberty Fund Colloquium organized by the Ratio Institute at Stockholm, August 13-15.

Jan Schnellenbach presented his paper *Creative Destruction and Fiscal Institutions: A Study of Three Regions*, at the annual meeting of the Evolutionary Economics Committee in the Verein für Socialpolitik, at the University of Jena, July 3.

Jan Schnellenbach presented his paper *On the Interaction between Fiscal Federalism and Regional Structural Change*, at the Technical University of Dresden on July 1.

Lars P. Feld presented his paper *On the Interaction between Fiscal Federalism and Regional Structural Change*, 18. Silvaplana Workshop on Political Economy, in Pontresina (Switzerland) July 25-29; Discussant on Thomas Brändle and Alois Stutzer, *Public Servants in Parliament: Theory and Evidence on its Determinants in Germany*.

New Working Papers

Lars P. Feld and Thushyanthan Baskaran: *Fiscal Decentralization and Economic Growth in OECD Countries: Is There a Relationship?*, CESifo Working Paper No. 2721, July 2009 (journal submission).

New Publications

Thushyanthan Baskaran: *Did the Maastricht Treaty Matter for Macroeconomic Performance? A Difference-in-Difference Investigation*, *Kyklos* 62 (3), 331–358.

Thushyanthan Baskaran: *Supranational Integration and National Reorganization: On the Maastricht Treaty's Impact on Fiscal Decentralization in EU Countries*, forthcoming in: *Constitutional Political Economy*.

Lars P. Feld, Gebhard Kirchgässner and Christoph A. Schaltegger: *Decentralized Taxation and the Size of Government: Evidence from Swiss State and Local Governments*, forthcoming in: *Southern Economic Journal* 77 (1), 2010.

Lars P. Feld and Christoph A. Schaltegger: *The Political Economy of Fiscal Policy: Time Series Evidence for the Swiss Federal Level Since 1849*, forthcoming in: *Public Choice* 2010; also appeared as CESifo Working Paper No. 2691, July 2009.

Anne van Aaken, Lars P. Feld and Stefan Voigt: *Do Independent Prosecutors Deter Political Corruption? An Empirical Evaluation across 78 Countries*, forthcoming in: *American Law and Economics Review* 12, 2010.

Lars P. Feld and Thushyanthan Baskaran: *Zur Reform der deutschen Finanzverfassung*, in: Günther G. Schulze (ed.), *Reformen für Deutschland – Die wichtigsten Handlungsfelder aus ökonomischer Sicht*, Schäffer-Poeschel, Stuttgart 2009, 173–206.

Lars P. Feld: *Die Schuldenbremse ist nicht genug – Wie steht es um die Nachhaltigkeit der Bundesfinanzen?*, *Schweizer Monatshefte – Zeitschrift für Politik Wirtschaft Kultur* 970, July 2009, p. 8.

Juergen B. Donges, Johann Eekhoff, Lars P. Feld, Wernhard Möschel and Manfred J.M. Neumann (Kronberger Kreis): *Die Agenda für eine neue Regierung*, *Frankfurter Allgemeine Sonntagszeitung* No. 39, Sunday, 27. September 2009, p. 38.

Lars P. Feld and Christoph A. Schaltegger: *Braucht die Schweiz eine materielle Steuerharmonisierung? Eine ökonomische Beurteilung verschiedener Vorschläge*, *Steuer Revue/ Revue fiscale* Nr. 10, 2009, 727 – 742.

Lars P. Feld, Thushyanthan Baskaran and Jan Schnellenbach: *Die deutsche Schuldenbremse – ein institutioneller Fortschritt?*, forthcoming in: *WIST* 38 (10), 2009, 512 – 518.

Lars P. Feld: *Braucht die Schweiz eine materielle Steuerharmonisierung?*, Study on behalf of *economiesuisse*, Eigenverlag, Zürich et al., August 2009.

Lars P. Feld: *Une harmonisation fiscale matérielle est-elle nécessaire en Suisse?*, French Version of the Study on behalf of *economiesuisse*, Eigenverlag, Zürich et al., August 2009.

Juergen B. Donges, Johann Eekhoff, Lars P. Feld, Wernhard Möschel and Manfred J.M. Neumann (Kronberger Kreis): *Für einen wirksamen Klimaschutz*, Schriftenreihe Band 49, Stiftung Marktwirtschaft, Berlin, August 2009.

Lars P. Feld, Jost H. Heckemeyer, Michael Overesch, Martin Eichler and Michael Grass: *Steuerelastizitäten mobiler Produktionsfaktoren*, Study on behalf of the German Federal Finance Ministry, ZEW Mannheim and BAK Basel, Mannheim and Basel, September 2009

Miscellaneous

On October 8, Alexander Libman finished his Ph.D. dissertation entitled "Essays on Asymmetric Federalism" at the Center for Doctoral Studies in Economics (CDSE) at the University Mannheim (supervisor: Lars P. Feld).

In a celebratory ceremony on October 3, Lars P. Feld received his diploma as member of the German Academy of Sciences Leopoldina in Halle.

From September 30 to October 2, an international DFG-Workshop on 'Institutional Design of Federative Systems' took place at the University of Heidelberg with presentations and speeches, among others, by Wallace Oates (University of Maryland), Gebhard Kirchgässner (University of St. Gallen), Kai Konrad (MPI Munich) and Eckhard Janeba (University of Mannheim). It was organized by the public economics people at AWI.

As a member of the program committee, Lars P. Feld helped to organize this year's regional meeting of the Mont Pèlerin Society on 'The Market Economy in the Welfare State', August 16–19, in Stockholm (Sweden).

In July, Lars P. Feld received an offer from the University of Freiburg i.Br. for a full professorship in economics, in particular economic policy, in connection with the directorate of the Walter-Eucken-Institut. He is currently in talks with Freiburg University.

New and Leaving Staff

Since October 1, Jan Schnellenbach is back in Heidelberg after spending three semesters as a visiting professor for public economics at the University of Hamburg.

**Editorial deadline for issue 25/2009 of the newsletter:
Wednesday, November 4, 2009, 12 o'clock
newsletter@awi.uni-heidelberg.de**

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