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AWI This Week

Monday, 10. 5. 10

Departmental Seminar

17.15-18.45

Alessia Testa, University of Bonn

AWI 00.010

"Herding with Asymmetric Information about Traders' Types"

Wednesday, 12. 5. 10

Internal Seminar

17.15-18.45

Wendelin Schnedler

AWI 00.010

"A Rationale for Motivational Crowding Out"

Departmental Seminar

Alessia Testa

"Herding with Asymmetric Information about Traders' Types"

We study the case of sequential trading when traders can be of the informed type or of the noise type, and they can observe each other's type but not each other's information. This creates an informational asymmetry between the traders and the market maker. Contrary to previous literature, this informational asymmetry is endogenous to the trading process and does not appeal to exogenous events such as shocks in the value of the asset traded. In this setting, we are able to recover herding results without the need of any dimension of uncertainty other than the one relative to the value of the asset traded. We find that better-informed markets (i.e. where informed traders receive high precision signals), can generate herd behavior more easily than poorly informed markets. Informational cascades can never occur and the market learns in the limit. Moreover, at any point in time, the expected price of an asset is more informative of its fundamental value than the price in a market where all traders follow their signal. Herd behavior persists over time and this is still compatible with learning. Hence, the dichotomy 'herding and learning' does not need to hold.

Internal Seminar

Wendelin Schnedler

"A Rationale for Motivational Crowding Out"*

Anecdotal, empirical, and experimental evidence suggests that sometimes external rewards for an activity reduces its supply. This "motivational crowding out" can be explained using non-standard assumptions such as changes in preferences or belief-dependent preferences. Here, we propose a simple rationale using standard economic arguments: Voluntarily engaging in an activity may reduce external rewards and thus lead to opportunity costs. We discuss two channels by which these opportunity costs can arise. First, engaging in an unrewarded activity may lower prices. Second, it may reveal intrinsic motivation to others who then are no longer willing to reward the activity. Our analysis yields testable predictions about motivational crowding out and market power in certain situations and concealed motivation in others.

* with Christoph Vanberg

Jour Fixe

The AWI JOUR FIXE takes place at the Lounge on a weekly basis on Mondays from 16:30 till 17:15 (i.e., just before the departmental seminar). There you will have the opportunity to meet the speaker, enjoy a coffee, and exchange news and discuss research with other members of the AWI.

Talks and Research Visits

Johannes Voget presented his paper "Effects of Sectoral Incentives on FDI" at the conference "The Taxation of Foreign Profits – The Role of Firm Heterogeneity" at the Max Planck Institute for Intellectual Property, Competition and Tax Law in Munich, April 30, 2010.

Ole Jürgens presented his paper "Monitoring and Enforcement: The L. B. Jeffrey´s Problem" (with Timo Goeschl) at the XVth Spring Meeting of Young Economists in Luxembourg, April 15-17, 2010.

Johannes Jarke presented his paper "The Curse of the Mandate: Legislator Compensation and Activity" (with Ole Jürgens) at the XVth Spring Meeting of Young Economists in Luxembourg, April 15-17, 2010.

Johannes Voget presented his paper "The Determinants of Tax Information Sharing" at a conference by the Institute for Austrian and International Tax Law in Vienna, March 20, 2010.

New Publications

Conrad, Christian and Michael J. Lamla (2010). "The high-frequency response of the EUR-USD exchange rate to ECB communication." *Journal of Money, Credit and Banking*, forthcoming.

**Editorial deadline for issue 9/2010 of the newsletter:
Wednesday, May 12, 2010, 12 o'clock
newsletter@awi.uni-heidelberg.de**

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