



ALFRED-WEBER-INSTITUT FÜR WIRTSCHAFTSWISSENSCHAFTEN
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Upcoming Seminars

Monday, 13.6.2016

Departmental Seminar

17.15-18.15

AWI 00.010

Ani Guerdjikova, THEMA, Université de Cergy-Pontoise
(invited by Jürgen Eichberger)
"Market Selection with Differential Awareness:
The Case of Coarsening"

Tuesday, 14.6.2016

Economics and Politics Seminar

13.45-14.45

AWI 01.030

Christian Bjørnskov, Aarhus University
"And Yet It Grows:
Crisis, Ideology, and Interventionist Policy Ratchets"

Wednesday, 15.6.2016

Internal Seminar

12.15-13.15

AWI 00.010

Sarah Langlotz
"Fueling Conflict? (De)Escalation and Bilateral Aid"

Wednesday, 15.6.2016

Macro & Econometrics Seminar

17.00-18.00

AWI 01.030

Christopher Zuber
"News or Just Noise?
Evidence from Consumer Confidence in the Eurozone"

Friday, 17.6.2016

Special Seminar (Host: Christoph Vanberg)

16.15-17.45

Campus Bergheim

Room 02.023

Ariel Rubinstein, University of Tel Aviv and NYU
"A Typology of Players:
Between Instinctive and Contemplative"

Departmental Seminar

Ani Guerdjikova

"Market Selection with Differential Awareness: The Case of Coarsening"

We analyze a market populated by partially aware agents who perceive a "coarsening" of the state space and thus, disregard the distinction between some states. We first show that the introduction of differential awareness has an impact on prices and allocations as compared to a market with fully aware agents. Moreover, we show that these effects are persistent: in particular, whenever agents have equal survival indices (e.g. identical correct beliefs and equal discount factors), and the awareness partitions are nested, all agents survive. When agents have heterogeneous beliefs, differential awareness allows agents with wrong beliefs to survive, even when markets are complete and all agents are expected utility maximizers. Provided unawareness is relevant (in a sense we define more precisely), the condition for an agent to survive is that his survival index is at least as large as that of the agents with finer partitions. We also study the impact of an increase in individual awareness and obtain a "paradox of ignorance": unless the agent can immediately adopt correct beliefs on the newly learned events, increasing his awareness might harm his chances for survival.

Economics and Politics Seminar

Christian Bjørnskov, Aarhus University

"And Yet It Grows: Crisis, Ideology, and Interventionist Policy Ratchets"*

Previous studies of policy responses to economic crises argue that crises may lead to more interventionist policy but also cause deregulation. The empirical evidence in previous studies is equally mixed. We argue that whether or not governments implement more or less interventions depend on their core political ideology. We thus expect ideologically heterogeneous policy reactions to crises yet also note that crisis responses theoretically may cause 'policy ratchets' where temporary crisis policies become permanent. Employing a panel of 68 countries with Western political institutions observed between 1975 and 2010, and exploring the evolution of indicators of government size and regulatory, we find that crises in general cause more interventionist policies when countries have centrist or left-wing governments. We also find clear evidence of policy ratchets in all policy areas. The ideological crisis policies mainly relate to government consumption, taxation and market regulations.

*with Martin Rohde

Internal Seminar

Sarah Langlotz

Fueling Conflict? (De)Escalation and Bilateral Aid*

Civil conflicts undergo cycles of escalation. They often begin with riots, purges, and other violent acts of aggression, escalate, and sometimes culminate in civil war. This paper studies the effects of foreign aid on conflict escalation and de-escalation. We

make three major contributions. First, we combine data on civil wars with data on low level conflicts in a new ordinal measure capturing the two-sided nature of conflict. Second, we develop a novel empirical framework. Concretely, we propose a two-step dynamic ordered probit estimator that allows for unobserved heterogeneity and corrects for endogeneity. This allows us to give a rich description of how conflicts evolve, and to highlight the different roles played by bilateral aid in these transitions. Third, we employ a new instrumental variable, which we then use to predict bilateral aid of DAC donor countries to 125 recipient countries over the period of 1975 to 2010. Our results show that the effect of foreign aid on the various transition probabilities is heterogeneous and under certain conditions substantial. For example, receiving bilateral aid raises the chances of escalating from small conflict to armed conflict, but has no discernible effect on the transition from peace to any type of conflict. Our main findings are robust to a variety of estimation methods, controls and measures of conflict or foreign aid.

*with Richard Bluhm, Martin Gassebner and Paul Schaudt

Macro & Econometrics Seminar

Christopher Zuber

"News or Just Noise? Evidence from Consumer Confidence in the Eurozone"

Public attention to consumer confidence is persistently high. Among other leading indicators, the confidence indicator is regarded to help significantly predicting business cycle fluctuations. The growing news literature focuses on consumers' expectations and aims at disentangling news and noise – true or false signals ex-post. Following findings for the US, this paper assesses whether the business cycle is affected through a news channel in the eurozone too. A trivariate vector autoregression model shows that confidence innovations have long-lasting impact on output and consumption. Results are robust towards several different confidence measures. By matching empirical impulse response functions with theoretical impulse responses from a structural dynamic stochastic general equilibrium model, the theoretical news shock has influence on real variables as well. The impact of the noise shock is negligible.

Special Seminar

Ariel Rubinstein

"A Typology of Players: Between Instinctive and Contemplative"

A new typology of players is proposed based on the classification of actions as either instinctive or contemplative. A person's type is the probability of him choosing a contemplative action. To test the typology, results of 10 games are analyzed. Actions in each game were classified depending on whether their response time was more or less, respectively, than the median response time of all subjects who played the game. It is argued that fast actions are more instinctive and slow actions are more contemplative. A subject's contemplative index (CI) is defined as the proportion of games in which he chose a contemplative action. It is found that for 8 of the 10 games, the CI in the other 9 games is positively correlated with a player's choice of a contemplative action in that game (average Spearman correlation of 9%). The CI is used to shed light on the nature of choice in five additional games.

Talks and Research Visits

Jonas Dovern discussed the paper "Short-Term Forecasting of Business Cycle Turning Points: a Mixed-Frequency Markov-Switching Dynamic Factor Analysis" by Siem Jan Koopman and Matías Pacce at the 9th ECB Workshop on Forecasting Techniques, June 3-4.

Jürgen Eichberger presented the paper "Equilibrium under Ambiguity (EUA) for Belief Functions" at the ZIF Research Group Closing Conference *Robust Finance and Beyond*, Bielefeld University, May 30-June 3, 2016.

Lennart Kaplan presented his paper "Recklessly Ricardian? On how aid works, but not as you might Hope" during the Ronald Coase Institute's Workshop on Institutional Analysis, Tallinn, Estonia, May 18.

Visitors

Ani Guerdikova, Université de Cergy-Pontoise, will stay at the AWI for research with Jürgen Eichberger from June 13-15 (room 01.026).

Simon Grant, Australian National University, stays at the AWI for research with Jürgen Eichberger from June 3-11 (room 01.026).

New Publications

Jonas Dovern's paper "Indicators for monitoring sustainable development goals: An application to oceanic development in the European Union" (Rickels et al.) has been published in *Earth's Future*.

**Editorial deadline for issue 14/2016 of the newsletter:
Wednesday, June 15, 2016, 12 p.m.
newsletter@awi.uni-heidelberg.de**

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please contact the address above.