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Newsletter 09/2022

ALFRED-WEBER-INSTITUT FÜR WIRTSCHAFTSWISSENSCHAFTEN
BERGHEIMER STR. 58, 69115 HEIDELBERG, TEL. 06221/54-2941
REDAKTION: FREYA SCHADT, EMAIL: NEWSLETTER@AWI.UNI-HEIDELBERG.DE

Upcoming Seminars

Monday, 23.5.2022	**Departmental Seminar**
13.30-14.30	Robinson Kruse-Becher, FernUniversität Hagen
AWI room 00.010	"Predictive regressions under heteroskedasticity"
	(host: Christian Conrad)
Wednesday, 25.5.2022	**Internal Seminar**
12.15-13.15	Christian König
AWI room 00.010	"Nobel and novice: Author prominence affects peer review"

Departmental Seminar

Robinson Kruse-Becher

"Predictive regressions under heteroskedasticity"*

Typical financial predictive regressions are characterized by time-varying volatility, high persistence and endogeneity leading to biased estimators and inefficiency. A feasible solution for the latter two problems is the so-called IVX procedure which builds on an instrument which is decisively less persistent than the predictor. These instruments are self-generated and are used to construct a test statistic whose critical values are taken from a standard limiting distribution. In this work, we tackle the important problem of time-varying volatility. While IVX predictive regressions can be robustified against time-varying volatility, we focus here on improving estimation and inference by using weighted IVX methods. The newly proposed procedure builds on a local non-parametric volatility estimator. Observations in the predictive regression are weighted according to the volatility estimator. It can be shown that under a set of weak assumptions regarding e.g. smoothness of the volatility function, the limiting distribution of weighted estimators and statistics remain the same. In addition, the

behavior under local predictability alternatives is investigated. In our extensive Monte Carlo study, we first consider the estimation accuracy of standard and weighted versions under a set of different volatility patterns. It turns our that MSE ratios can be reduced up to thirty percent under heteroskedasticity, while there is almost no loss (up to one percent only) under homoskedasticity.

Second, we focus on the problem of testing hypotheses about the slope coefficients. We study the empirical size and power and find that noticeable power gains are achievable under time-varying volatility, while the newly proposed tests perform well in terms of size. Furthermore, feasible and infeasible versions are nearly indistinguishable from each other. In an empirical application, we consider CRSP data for the equity premium and the logarithmic book-to-market ratio. We study both in-sample and out-of-sample predictability. While standard IVX tests do not indicate in-sample predictability from 1926 to 2018, the newly proposed heteroskedasticity-weighted tests clearly reject the null. For the out-of-sample exercise from 2004 to 2018, we find that the weighted IVX estimator for the predictive regression provides the largest pseudo-R^2 measure in comparison to other approaches.

Internal Seminar

Christian König-Kersting

"Nobel and novice: Author prominence affects peer review"

Peer-review is a well-established cornerstone of the scientific process, yet it is not immune to status bias. Merton identified the problem as one in which prominent researchers get disproportionately great credit for their contribution while relatively unknown researchers get disproportionately little credit (Merton, 1968). We measure the extent of this effect in the peer-review process through a pre-registered field experiment. We invite more than 3,300 researchers to review a paper jointly written by a prominent author -- a Nobel laureate -- and by a relatively unknown author -- an early-career research associate --, varying whether reviewers see the prominent author's name, an anonymized version of the paper, or the less well-known author's name. We find strong evidence for the status bias: while only 23 percent recommend "reject" when the prominent researcher is the only author shown, 48 percent do so when the paper is anonymized, and 65 percent do so when the little known author is the only author shown. Our findings complement and extend earlier results on double-anonymized vs. single-anonymized review (Peters and ceci, 1982; Blank, 1991; Cox et al., 1993; Okike et al., 2016; Tomkins et al., 2017; Card and DellaVigna, 2020) and strongly suggest that double-anonymization is a minimum requirement for an unbiased review process.

Talks and Research visits

Anca Balietti presented the paper "Environmental Auditing and Air Pollution in the US" at the 10th Mannheim *Conference on Energy and the Environment*, May 16-17.

Andis Sofianos presented the paper "Intelligence Disclosure and Cooperation in Repeated Interactions" (with Marco Lambrecht, Eugenio Proto and Aldo Rustichini) at the seminar in *Radboud University*, May 16.

Stefan Trautmann presented the paper "Noblesse Oblige: Holding High-Status Individuals to Higher Standards" at the *University of St. Gallen*, May 12.

New Publications

Clive Bell, "The social profitability of rural roads in a small open economy: Do urban agglomeration economies matter?" To appear in *Papers in Regional Science*. Available in open access: DOI: 10.1111/pirs.12649

New and leaving Staff

Some of our doctoral students would like to announce a new colleague and species studying at Campus Bergheim since several weeks now. The fields of research are obviously interdisciplinary in the areas of botanics and economics. Family name: *Lepus Europaeus*, fitting perfectly into Campus Bergheim´s international fields of study.

Editorial deadline for issue 10/2022 of the newsletter:
Wednesday, May 25, 2022, 12 p.m.
newsletter@awi.uni-heidelberg.de