



## Upcoming Seminars

### **Wednesday, 9.5.2018      Internal Seminar**

12.15-13.15      Rajesh Ramachandran  
AWI 00.010      "Vernacularization, Power and Institutional Change:  
Evidence from the Reformations"

### **Wednesday, 9.5.2018      Macro & Econometrics Seminar**

14.00-15.00      Christopher Krause, KIT  
AWI 01.030      "Fiscal policy over the business cycle"

### **Monday, 14.5.2018      Departmental Seminar**

13.30-14.30      Pierpaolo Battigalli, University of Bocconi  
AWI 00.010      (invited by Christoph Vanberg)  
"Beliefs, Plans, and Perceived Intentions in Dynamic Games"

### **Tuesday, 15.5.2018      Economics and Politics Seminar**

13.45-14.45      Nan Zhang, MPI Bonn  
AWI 01.030      (invited by Rajesh Ramachandran)  
"All in the Family: Language and State-Society Interaction  
in 19th Century France"

### **Wednesday, 16.5.2018      Macro & Econometrics Seminar**

14.00-15.00      Onno Kleen  
AWI 00.010      "Volatility Forecasting for Low-Volatility Investing"

## **Internal Seminar**

Rajesh Ramachandran

"Vernacularization, Power and Institutional Change: Evidence from the Reformations"\*

We study the role of language choice for organization of societal spheres – administration, education, politics and religion – as a source of power for elites in society. Elites might prefer to install imperial languages, rather the language of the masses, as the restricted knowledge of the former allow elites to extract rents due to their monopoly over knowledge of the language. We present a theoretical framework that show how replacing the imperial language with the ‘common tongue’- the language of the masses – can act as a powerful force for eroding the rents of elites, and thus provides a powerful impetus for inclusive institutional change. We empirically test our idea using the case of one of the most important examples of institutional change in the last Millennium in Europe – the Protestant Reformation. We trace the channels through which Latin comes to occupy its role as the language of religion and the various sources through which it bestows monopoly power to the Catholic Church. We highlight the central role of the replacement of Latin by the vernaculars in ending the monopoly of the Catholic Church in the market for religion. To test the role of language, we provide three tests: (1) We show that the earlier the date of the publication of the first vernacular Bible, more likely is a group to adopt Protestantism; (2) German, and not Latin, texts and pamphlets written by Luther and in circulation in German cities in the 16th century predict the likelihood of a city turning Protestant; and (3) the greater the distance of the city dialect from the dialect used by Luther, less likely is the city to turn Protestant in the 16th century. We discuss implications of vernacularization for understanding the rise of inclusive institutions in Europe, and the lack of it, in the persistence of extractive institutions in the post-colonial world.

\*with Christine Binzel

## **Macro & Econometrics Seminar**

Christopher Krause (KIT)

"Fiscal policy over the business cycle"

This paper studies the role of household heterogeneity for the transmission of shocks to government expenditure in a business cycle model with incomplete markets and nominal rigidities. In particular, I investigate the aggregate and distributional effects of changes in government consumption and fiscal transfers, and evaluate if these effects vary according to the state of the economy. My findings indicate that household heterogeneity generates significant differences in fiscal multipliers and impulse responses of aggregate variables. For both shocks, I find that multipliers are generally higher when the shock hits in a recession. Key driver of these results is the counter cyclicity of the fraction of borrowing constrained households. This leads to significant differences in the distributions of the marginal propensity to consume across the population, and ultimately to differences in the reactions of aggregate variables.

## Departmental Seminar

Pierpaolo Battigalli

"Beliefs, Plans, and Perceived Intentions in Dynamic Games"

We adopt the epistemic framework of Battigalli and Siniscalchi (J. Econ. Theory, 1999) to model the distinction between a player's contingent behavior, which is part of the external state, and his plan, which is described by his beliefs about his own behavior. This allows us to distinguish between intentional and unintentional behavior, and to explicitly model how players' revise their beliefs about the intentions of others upon observing their actions. We illustrate our approach with detailed examples and with a new derivation of backward induction from epistemic conditions. Specifically, we prove that common full belief in optimal planning and in belief in continuation consistency imply the backward induction strategies and beliefs. We also present within our framework other relevant epistemic assumptions and relate them to similar ones studied in the previous literature.

## Economics and Politics Seminar

Nan Zhang

"All in the Family: Language and State-Society Interaction in 19th Century France"\*

This paper proposes a novel link between the popular adoption of a national language and the development of state capacity. We argue that the effective projection of state power rests critically upon interactions between the state's administrative apparatus and the population it purports to control. In this context, functional fluency in the national language directly facilitates state-society interaction by lowering linguistic and cognitive barriers in encounters between citizens and bureaucrats "on the ground." Empirically, we present evidence drawing upon detailed historical data from 19th century France during a crucial period of state- and nation-building. Focusing on the specific domain of French marriage regulations, we find that increasing linguistic standardization predicts greater popular involvement with local authorities across French regions over time. We conclude by discussing the implications of our results for language policy and state capacity in the contemporary world.

\*with Melissa Lee, Princeton University

## Macro & Econometrics Seminar

Onno Kleen

"Volatility Forecasting for Low-Volatility Investing"\*

Low-volatility investing requires one to identify next period's low-volatility stocks. Existing approaches simply pick this period's low-volatility stocks, thus assuming that each stock's volatility follows a random walk. This assumption is at odds with a large econometric literature that develops volatility models, possibly based on measures from intra-daily data. We ask whether recent econometric volatility models are useful for low-volatility investing. The answer is 'yes', in the sense that econometric models beat the random walk in identifying low-volatility stocks, and also lead to more stable portfolios with less rebalancing.

\*with Christian Conrad und Fabian Krüger

## **Talks and Research Visits**

**Hans Diefenbacher** presented the paper „Applying the concept of defensive expenditure to ecosystem degradation and enhancement“, Expert meeting on Ecosystem Valuation in the context of natural capital accounting, Bundesamt für Naturschutz, Bonn, April 25, and gave a lecture on "The National Welfare Index – an integrated alternative assessment for SDGs?", University Alliance for Sustainability, Freie Universität Berlin, April 11.

## **New Publications**

Hans Diefenbacher: "Zur Transformation des Marktes – Eine Kritik der politischen Ökonomie bei Axel Honneth und Karl Polanyi", in: Schlette, Magnus (Hrsg.): Ist Selbstverwirklichung institutionalisierbar? Frankfurt/New York: Campus, 177 – 190.

**Editorial deadline for issue 11/2018 of the newsletter:  
Wednesday, May 16, 2018, 12 p.m.  
[newsletter@awi.uni-heidelberg.de](mailto:newsletter@awi.uni-heidelberg.de)**

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