



ALFRED-WEBER-INSTITUT FÜR WIRTSCHAFTSWISSENSCHAFTEN
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AWI This Week

Monday, 9.1.12

Departmental Seminar

17.15-18.45

Tymon Tatur, University of Bonn

AWI 00.010

"Repeated Contests with Hyperbolic Discounting"

Wenesday, 11.1.12

Departmental Workshop

17.15-18.45

Jochen Laps, University of Heidelberg

AWI 00.010

"Demographic Risk and the Optimal Size of Social Security"

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.

Departmental Seminar

Tymon Tatur

"Repeated Contests with Hyperbolic Discounting"

Contests among employees that are conducted on a periodic basis are commonly used as a tool to increase employee performance. Examples are: yearly bonuses for top performers, "employee of the month" rewards, and yearly teaching awards at university departments. This paper studies the design of such incentive schemes in a simple framework where agents have hyperbolic preferences and effort in period t can only be observed in period $t+1$, so that prizes awarded to employees in period t can only depend on effort levels in periods up to period $t-1$. We show that, unlike in the case where agents discount exponentially, mechanisms where prizes in period t are awarded purely based on performance in period $t-1$ will not be optimal. We then characterize the optimal mechanism under different restrictions imposed on the mechanism designer. A general feature of those mechanisms turns out to be that, even though in our model all agents are identical and there are no learning effects, in equilibrium agents who won a prize in period t will be more likely to win a prize in period $t+1$ than agents who did not win a prize in period t .

Departmental Workshop

Jochen Laps

"Demographic Risk and the Optimal Size of Social Security"

Many modern societies finance pension benefits on a pay-as-you-go basis. This paper provides sufficient conditions for the existence and uniqueness of stationary equilibria in an overlapping generations economy that features production, stochastic fertility and social security. Further, the paper uses the concept of long run optimality to determine the time-invariant optimal size of a pay-as-you-go pension system for the stochastic economy. The optimal size depends on the induced crowding-out of private saving, the stochastic properties of fertility shocks and the system's capability to share this kind of risk. A suitable parametrization allows solving for the optimal size of the system analytically.

Talks and Research Visits

Jan Schnellenbach gave a talk on "Is behavioral economics relevant for political economics?" at a conference on the theory of economic policy organized by the HWWI Hamburg on Schloss Ettersburg on December 9, and a talk on "The Political Economy of Soft Paternalism" on December 17 at a conference on new frontiers in normative economics in Freiburg, jointly organized by the Max Planck Institute for Economics and by the Eucken Institute.

New Publications

Lars P. Feld, Jan Schnellenbach & Thushy Baskaran, "Creative Destruction and Fiscal Institutions: A Long-Run Case Study of Three Regions", Journal of Evolutionary Economics, forthcoming.

New and Leaving Staff

Julia Müller, former Ph. D. student at the chair of Jörg Oechssler, has taken up a postdoc position at the Erasmus University Rotterdam in January 2012. She will be a member of the Behavioral Economics Group.

**Editorial deadline for issue 2/2012 of the newsletter:
Wednesday, January 11, 2012, 12 o'clock
newsletter@awi.uni-heidelberg.de**

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