



ALFRED-WEBER-INSTITUT FÜR WIRTSCHAFTSWISSENSCHAFTEN
BERGHEIMER STR. 58, 69115 HEIDELBERG, TEL. 06221/54-2941, FAX: 06221/54-3592
REDAKTION: FREYA SCHADT, EMAIL: NEWSLETTER@AWI.UNI-HEIDELBERG.DE

AWI This Week

Monday, 29.10.12

Departmental Seminar

17.15-18.45
AWI 00.010

Fabian Herweg, LMU
"A Theory of Ex Post Inefficient Renegotiation"

Tuesday, 30.10.12

Economics & Politics Seminar

14.15-15.15
AWI 02.036

Sandra Sequeira, LSE
"Displacing Corruption"

Wednesday, 31.10.12

Departmental Workshop

17.15-18.15
AWI 00.010

Jürgen Eichberger, University of Heidelberg
"Randomization and Dynamic Consistency"

Jour Fix

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

Fabian Herweg

"A Theory of Ex Post Inefficient Renegotiation"

We propose a theory of ex post inefficient renegotiation that is based on loss aversion. When two parties write a long-term contract that has to be renegotiated after the realization of the state of the world, they take the initial contract as a reference point to which they compare gains and losses of the renegotiated transaction. We show that loss aversion makes the renegotiated outcome sticky and materially inefficient. The theory has important implications for the optimal design of long-term contracts. First, it explains why parties often abstain from writing a beneficial long-term contract or why some contracts specify transactions that are never ex post efficient. Second, it shows under what conditions parties should rely on the allocation of ownership rights to protect relationship-specific investments rather than writing a specific performance contract. Third, it shows that employment contracts can be strictly optimal even if parties are free to renegotiate.

Economics & Politics Seminar

Sandra Sequeira

"Displacing Corruption"

We generate primary data to investigate how corrupt public officials adjust to policy reforms that change opportunities for the extraction of bribes. We take advantage of an exogenously determined trade liberalization program that affected opportunities to extract bribes through a particular method -"selling" tariff evasion-, to identify changes in the incidence, the distribution, and in the level of bribes paid during different stages of the process of clearing goods through international borders. We show that a reduction in tariff rates is associated with a significant decline in the incidence of bribe payments to customs officials for tariff evasion. This is however partially offset by the displacement of corruption both within customs, as corrupt officials resort to alternative forms of bribe extraction, and across stages of the clearing process through an income effect that increases the ability of shippers to pay bribes to other border officials. Overall, despite the reduction in total bribes paid, these displacement effects resulted in an increase in average bribes per transaction and a shift from collusive to more coercive forms of corruption. We then provide suggestive evidence on how firms respond to these changes in bribe patterns by adjusting their sourcing decisions: firms that experience an increase in the probability of paying a coercive bribe, are more likely to source a higher percentage of their inputs domestically, with significant implications for firm performance. These unintended effects of policy reform should therefore motivate the design of trade and anti-corruption policies that prevent the displacement of corruption into more harmful forms of bribe extraction.

Departmental Workshop

Jürgen Eichberger

"Randomization and Dynamic Consistency"*

This paper studies attitudes to randomization. It has been suggested that ambiguity-aversion will cause a strict preference for randomization Raiffa (1961). However we show that dynamic consistency implies that individuals will be indifferent to randomization. Our analysis is model free and does not assume that the decision-maker is ambiguity-averse. The theory would also apply to some nonexpected utility models which do not involve ambiguity.

*with Simon Grant and David Kelsey

Talks and Research Visits

Christine Binzel presented her work "Does the Arrival of Formal Financial Institutions Affect Informal Sharing? Experimental Evidence from Village India" (joint with Rohini Pande and Erica Field) at the Science of Generosity Conference in Philadelphia, PA, USA, October 19-20.

**Editorial deadline for issue 23/2012 of the newsletter:
Wednesday, October 31, 2012, 12 o'clock
newsletter@awi.uni-heidelberg.de**

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