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AWI This Week

Monday, 12.5.14

Departmental Seminar

17.15-18.45

AWI 00.010

Aurelien Baillon, Erasmus School of Economics, Rotterdam

"Higher Order Ambiguity Attitudes:
Theory and experiment"

Tuesday, 13.5.14

Economics & Politics Seminar

14.15-15.45

AWI 02.036

Mark Copelovitch, University of Wisconsin-Madison

"The Unipolar Fallacy: Common Agency, American Interests,
and the International Financial Institutions"

Wednesday, 14.5.14

Internal Seminar

12.15-13.15

AWI 00.010

Jonas Dovern, University of Heidelberg

"Does Joint Modeling of the World Economy Pay Off?
Evaluating Multivariate Forecasts from a GVAR"

Departmental Seminar

Aurelien Baillon

"Higher Order Ambiguity Attitudes: Theory and experiment"

Recent evidence has shown that higher order risk preferences (risk prudence and risk temperance) are significantly correlated with saving and investment decisions. In many decisions, however, probabilities that are relevant for financial decisions are unknown, i.e., people face ambiguity. I will first present definitions of higher order ambiguity preferences (ambiguity prudence and ambiguity temperance) and derive implications for several ambiguity models. For instance, ambiguity prudence and temperance are implied by Hansen and Sargent's (2001) multiplier preferences. Ambiguity prudence also provides an additional motive for precautionary saving. I will then present the results of an experiment designed to measure both higher order risk attitudes and higher order ambiguity attitudes in a sample of students. The experimental results show that that DMs are significantly ambiguity averse, ambiguity prudent and ambiguity temperate.

(Based on: "Prudence (and more) towards uncertainty" and "Measuring higher order ambiguity attitudes" (joint with Harris Schlesinger, university of Alabama, and Gijs van de Kuilen, Tilburg university))

Economics & Politics Seminar

Mark Copelovitch

"The Unipolar Fallacy: Common Agency, American Interests, and the International Financial Institutions"

Recent years have seen significant growth in the literature dedicated to the political economy of the international financial institutions (IFIs). Much of this work incorrectly models the relationship between the IFIs and their member states by treating the U.S. as the sole political principal of these organizations. Scholars adopting this "unipolar" approach assume (implicitly or explicitly) that the US is the sole country that can direct lending and policy decisions at the IFIs, either in general or in cases of great geopolitical importance to the U.S. government. However, as we elaborate in this paper, such unipolar arguments are at odds with both the formal rules that govern these institutions and the findings of recent scholarship emphasizing the collective nature of decision-making within the IFIs. Despite strong evidence that a broader set of countries influence IFI decisions, the "unipolar fallacy" persists as the conventional wisdom within the IPE literature. Using a new dataset drawn from the Aid Data project, we show that the U.S. is not as dominant in these institutions as conventional wisdom suggests. Our results cast doubt on the relative explanatory power of the unipolar model and suggest strongly that scholars need to more carefully model the intensity and heterogeneity of the full range of IFI member states in order to explain lending outcomes. These findings have important implications for our understanding of policymaking within the IFIs, as well as theories of governance with international organizations (IOs).

Internal Seminar

Jonas Dovern

"Does Joint Modeling of the World Economy Pay Off? Evaluating Multivariate Forecasts from a GVAR"

Global vectorautoregressive (GVAR) models have recently become popular for modeling the world economy and analyzing the global transmission of structural shocks. However, little research has been done on the forecasting properties of GVAR models. Those few studies that deal with GVAR forecasts resort to essentially univariate methods for evaluating forecast performance. A distinct feature of GVAR models, however, is their high dimensionality. In this paper, I make a first attempt to assess the forecast performance of a standard GVAR model for the world economy by means of multivariate evaluation methods. My analysis helps to answer the question, whether GVAR models provide better and more coherent forecasts for the world economy than a vector of univariate forecast models. The evidence is mixed. On the one hand, the GVAR forecasts seem to replicate historical dependencies across variables and countries better than the benchmark models. On the other hand, the univariate accuracy of the GVAR forecasts is rather disappointing, so that the usefulness of GVAR models for forecasting is limited overall.

Talks and Research Visits

Marta Curto presented the paper "Voter's responsiveness to employment policies", at the Spring Meeting for Young Economists, Vienna, April 24-26 and "Do election incentives curb partisan favoritism?" at the 2014 ZEW Public Finance Conference, Mannheim, April 28-29.

Andreas Löschel gave a talk on "Die Energiewende in Deutschland - Gerade begonnen oder schon am Ende?", at Heidelberg Geographische Gesellschaft, Heidelberg, May 6.

Visitors

Manoel Bittencourt, University of Pretoria, was invited by Axel Dreher to stay for research visit at the AWI until June 26 (room 01.012a).

New Working Papers

Jörg Rieger: *Financial Transaction Tax and Financial Market Stability with Diverse Beliefs*, AWI Discussion Paper Series No 563, University of Heidelberg, April 2014.

Florian Kauffeldt and Boris Wiesenfarth: *Confidence, Pessimism and their Impact on Product Differentiation in a Hotelling Model with Demand Location Uncertainty*, AWI Discussion Paper Series No 562, University of Heidelberg, April 2014.

New Publications

Bing Liu, Andreas Löschel und Chu Wei (2013): *An Empirical Analysis of the CO2 Shadow Price in Chinese Thermal Power Enterprises*, *Energy Economics*, 40, 22-31.

Trautmann, S.T., (2014): *Empirical Knowledge in Legislation and Regulation: A Decision Making Perspective*, *The Theory and Practice of Legislation* (formerly: *Legisprudence*) 1, 533–542.

Conrad, C. and Loch, K. (2014): *Anticipating long-term stock market volatility*, *Journal of Applied Econometrics*, forthcoming.

**Editorial deadline for issue 11/2014 of the newsletter:
Wednesday, May 14, 2014, 12 o'clock
newsletter@awi.uni-heidelberg.de**

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please contact the address above.