Newsletter 11/2014

AWI This Week

Monday, 19.5.14   **Departmental Seminar**

17.15-18.45   Martin G. Kocher, LMU München

AWI 00.010   "Unleashing animal spirits: Self-control and bubbles
                      in experimental asset markets"

Tuesday, 20.5.14   **Economics & Politics Seminar**

14.15-15.45   Aina Gallego, CSIC, Madrid

AWI 02.036   "Issue bundling: An experimental approach"

Wednesday, 21.5.14   **Internal Seminar**

12.15-13.15   Tymofiy Mylovanov, University of Pittsburgh

AWI 00.010   "Optimal Persuasion"

Departmental Seminar

Martin G. Kocher

"Unleashing animal spirits: Self-control and bubbles in experimental asset markets"*

We exogenously vary the ability to exert self-control to study trading behavior in experimental asset markets. Markets with participants with lower self-control capacities exhibit substantially higher price bubbles. Not only does mispricing increase compared to the control condition, but also overpricing is much stronger when participants lack the resources to exert self-control. Our treatment effect cannot be explained by differences in cognitive abilities or risk attitudes, as both seem unaffected by our treatment variation. This study therefore suggests that reduced self-control can have a severe impact in market settings.

*with Konstantin E. Lucks and David Schindler

Economics & Politics Seminar

Aina Gallego

"Issue bundling: An experimental approach"*

This paper studies vote choices in two-dimensional policy spaces. In particular, it focuses on policy disagreements related to economic redistribution and to religion, two dimensions that have continued to provide structure to political conflict in many societies around the world. One of the most basic claims in comparative political science is that multi-dimensional politics plays out very differently in countries with multiple political parties than in countries with only two parties. In a multi-party system, parties can more fully occupy a two-dimensional issue space, providing alternatives for cross-pressured voters—those with right-of-center preferences on one issue but left-of-center preferences on the other—to find parties with proximate views on both dimensions. By contrast, a strict two-party system in which economic and moral issues are bundled together by the parties offers no such alternatives.

We ask: what are the implications of the policy-bundling that forces such choices upon cross-pressured voters in two-party systems? There are a number of claims in the literature, but most are extremely difficult to substantiate with traditional survey data within or across countries. This paper uses a survey experiment to examine the implications of policy bundling for vote choice.

We present results of survey experiments conducted in the US and in Spain that vary the information provided about candidate. We contrast conditions with and without issue bundling, and discover that in a hypothetical two-party system with policy bundling, the economically left-wing party receives far fewer votes than in the other conditions. Our survey experiments allows for a direct comparison of the limited menu of choices available in a two party system with the fuller menu of candidates that is typical of a system of proportional representation. This approach reveals a rather striking asymmetry that is consistent with the classic Marxist story: policy-bundling favors the candidates of the economic right, in large part because religious voters are less willing to suppress their moral values preferences than are secular voters.

*with Jonathan Rodden

Internal Seminar

Tymofiy Mylovanov

"Optimal Persuasion"*

We study Bayesian persuasion by an information monopolist (government); the novelty of the model is heterogeneity of the audience. We establish equivalence of persuasion by targeted (private) and public communication. We also provide conditions under which heterogeneity of the audience forces the monopolist to fully disclose information. Our results underscore the importance of audience diversity and privacy of individual position as safeguards against censorship. From the methodological perspective, the paper solves a novel mechanism design problem without transfers in which information serves as a screening tool, shows that the problem is isomorphic to that of Holmstrom's optimal delegation, and draws a technical analogy with the classic monopoly problem.

*with Anton Kolotilin, Andriy Zapechelnyuk, and Ming Li

Talks and Research Visits

Andreas Löschel gave a talk on "Internationale Wettbewerbsfähigkeit und Energiekosten im verarbeitenden Gewerbe", at *Energietisch der Versorger*, Ludwigshafen, May 7.

New Publications

Wei Chu, Andreas Löschel and Bing Liu (2013): *An Empirical Analysis of the CO_2 Shadow Price in Chinese Thermal Power Enterprises, Energy Economics*, 40, 22-31.