Although many Columbia Economics PhD students spend long hours in the library and the computer laboratory, at times their projects take them far beyond the gates of Morningside Heights. Graduate students Raul Sanchez de la Sierra and Corinne Low have both recently completed extensive data collection work for research projects in Africa. Sanchez de Sierra, a fifth-year Ph.D. student working on political economy of development, undertook projects in the Democratic Republic of Congo. In one, a co-authored research project with Columbia Political Science professor Macartan Humphreys and graduate student Peter van der Windt, he evaluated the effectiveness of a Community Driven Development project (CDD). CDD has become the development model of choice
From the Chair  by David Weinstein

One of the duties of the department chair is to update our students, alumni, former faculty, and friends around the world of the news and general goings-on of the department. As my first year of department chair comes to a close, it is a duty which I’ve been looking forward to. At the same time, I’d like to briefly share our vision for the future of this department. More generally, the topic of transitions has been on my mind lately when I think about our department.

This is particularly true, since in early April I attended the retirement party of two of our longest serving faculty members, Phoebus Dhrymes and Ron Findlay.

Phoebus Dhrymes joined us in 1973, after briefly serving on the faculties of Harvard, University of Pennsylvania, and UCLA. He’s authored more than 8 books, including several popular textbooks on Econometrics and Time Series Analysis, and scores of influential scholarly papers. We will all miss Phoebus very much.

Ron Findlay joined us in 1969. He’s the author or editor of 9 books, and nearly a hundred scholarly papers. His students have spread to nearly every part of the world, and serve at all of the top universities. Ron was a major force in the Department, serving as its Chair in the 1990s. As an international economist as well as current Chair, I will sorely miss Ron’s insightful comments, advice, and wisdom.

As news spread of the upcoming retirement of both of these professors, notes and queries arrived from former students, colleagues, and friends, from all over the world with good wishes. The mark that they’ve made on the profession and this department is difficult to calculate, and their presence in the department will be sorely missed. I’ll hope to see them both in the department as often as their retirement plans will allow!

On the topic of transitions, as a result of an enormous junior recruiting effort, we also welcome three new Assistant Professors:

- Francois Gerard comes to us from UC Berkeley, where he earned his PhD in 2013.
- Jennifer La’O comes to us from Chicago’s Booth School of Business, where she has served as an Assistant Professor of Economics since 2012. She earned her PhD from MIT in 2010. She works in Microeconomics and Applied Economic Theory.
- Pietro Ortoleva comes to us from Cal Tech, where he has served on the Faculty of Economics since 2009. He earned his PhD from NYU in 2009. His research focuses on Decision Theory and Game Theory, as well as Experimental Economics.

In addition, I am also delighted to report that José Scheinkman will be joining our senior faculty in the fall from Princeton University. José has received many honors throughout his career including being a member of the National Academy of Sciences, a Fellow of the American Academy of Arts and Sciences, a Fellow of the Econometric Society, and the John Simon Guggenheim Memorial Fellowship. I’m sure that our undergraduates will benefit enormously from his new course on financial economics.

Columbia’s Economics Department had another extremely strong year in terms of our placement with our PhD students accepting offers in many tremendous economics departments, including Stanford, Brown, USC, Boston College, Bocconi and UC Santa Barbara. Given that I feel that the success of a program can be measured by its students, Columbia Economics has become very successful indeed!

As some of our colleagues transition into retirement, and new colleagues transition into their roles as junior faculty, I’d like to call your attention to a vision I mentioned in the last newsletter. With newer and more diverse faculty comes a more diverse and larger class of undergraduates and PhD stu-

continued on page 3
Maya Rossin-Slater was Class Speaker for the Graduate School of Arts and Sciences at this year’s PhD convocation. Maya’s research is in the areas of health and public economics. Her job market paper “Engaging Absent Fathers: Lessons from Paternity Establishment Programs” examines how parents who have children out-of-wedlock navigate their relationship contract options in the U.S. She studied the consequences of a policy that lowered the costs of paternity establishment, which is a legal contract that grants unmarried fathers partial parental rights and responsibilities to their children. The results on family structure, behavior, and well-being provide insights into the trade-offs that these parents face with regards to their relationships with each other and their children. Maya will be joining the faculty of the University of California Santa Barbara in the fall.

Ju Hyun Kim is this year’s winner of the Wueller Prize, granted annually to a fourth-year student, for his paper “Partial Identification of the Distribution of Treatment Effects”. Ju Hyun’s paper covers heterogeneity in treatment effects among observationally equivalent agents, as previously demonstrated by sizable amount of literature in program evaluation. Under heterogeneity in treatment effects, the entire distribution of treatment effects provides much richer information on the policy effects and welfare than the marginal distributions of potential outcomes and average treatment effects. Policy makers would want to differentiate between two projects with the same average benefit, one of which yields most of the benefits to a few people while the other distributes more evenly. Moreover, while the average treatment effects or the marginal distributions of potential outcomes cannot, the distribution of treatment effects (DTE) can answer the following questions: what is the median of treatment effects, how widely are the program gains distributed, how many people in each subgroup are severely affected, and so on.

Despite the importance and usefulness of the DTE, nonparametrically identifying the DTE poses challenges. First, it is difficult to identify the joint distribution of the potential outcomes due to the missing data problem, caused by the mutually exclusive and exhaustive treatments. Second, point-identification of even marginal distributions of potential outcomes is hard under selection on unobservables. To point-identify the marginal distributions, strong assumptions are required such as selection on observables or large support of the instruments, which substantially restrict empirical applications. Given the tension between identification and weakest possible restrictions, identification of the DTE requires finding a set of assumptions that not only help identification, but also are weak and motivated by economic theory.

Ju Hyun will dedicate his dissertation to constructing DTE bounds tighter than Makarov bounds. He will propose a new framework of obtaining the sharp DTE bounds under some types of restrictions on the joint distribution satisfied with given minimum probability, based on optimal transportation theory. He will also show how mild assumptions contribute to yielding informative bounds tighter than Makarov bounds under selection on unobservables. Finally, he will clarify how the theoretical results presented can be applied to practice by providing empirical analysis.
for many NGOs and international organizations such as the World Bank, and have been touted for their effects on local participation. Decentralizing the management of aid in the hands of populations and their leaders, these projects embed the promise to transform power relationships in favor of the broader population. But as Sanchez de la Sierra says, “evidence around the transformative effects of this model is thin.” To evaluate whether CDD transforms local governance practices, the researchers randomly assigned a CDD program to 280 groups of communities. They later used a separate unconditional cash transfer program to compare community behavior between 280 communities that had been exposed to years of CDD and 280 that were not. The results from this work have appeared in the Financial Times and the World Bank development blog, owing to their robust suggestion that the transformative promises of this development model are not met.

Field research projects in weak states often pose unanticipated challenges. For the impact evaluation, Sanchez de la Sierra led the training of 100 enumerators, along with Peter van der Windt, and designed and coordinated their data collection. Some surveyors had outbreaks of cholera and malaria, and some teams were ambushed by rebel groups. In one instance, he says, the team had to close research in a prov-
Ph.D. Students in the Field: Data Collection Projects in Africa

Continued from Page 4

ince "because the local authorities believed our teams were spies, that we were campaigning for a candidate opposed to President Kabila for the 2011 elections. Designing data collection projects with sound statistical principles in these environments is therefore particularly challenging, but can yield unique data.

Sanchez de la Sierra is also working on his own research projects in Eastern Congo. He is leading a data collection project in 150 villages to study how armed groups settle in mining villages, implement taxation, and protect villagers. Supervision and safety is particularly challenging in data collection in these remote areas. The communities that are part of this study are frequently out of cellphone coverage and lack access to electricity, being accessible only by foot, and often under the influence of active armed organizations. Some villages turned out to have never existed or had been abandoned as the populations fled the war, and their populations had to be tracked. After leaving Congo, Sanchez de la Sierra has hired a supervisor who is managing the research full-time. For his current projects, Sanchez de la Sierra has received research funding for fieldwork from the National Science Foundation, the Private Enterprise Development in Low-Income Countries (PEDL) and the Russell Sage Foundation.

Corinne Low, a fifth-year Ph.D. candidate who studies gender issues in both the US and developing countries, is working on measuring the impact of negotiation skills training on the health and schooling of eighth grade girls in Zambia. The training is aimed at helping girls negotiate with their partners to avoid HIV and to negotiate with their parents to elicit a greater investment in schooling from them. "Part of what we hope our training program does is help girls overcome ‘bad equilibriums’ with their families, where the parents think the girl is going to leave home when she gets married, and not contribute to the family, and therefore they don’t help her now, and the girl feels she is being mistreated, and therefore wishes to leave the family," Low says.

The project’s data is being collected via three surveys (baseline, midline, and follow-up), with the midline survey including girls and their parents; in addition to gathering administrative data from the schools (on attendance, pregnancy, test scores, and fee payment). The team is using some innovative behavioral outcome measures, including a parent-child trust game, and measuring how many girls take up an additional education opportunity (computer lessons for a small fee).

Low started working in Zambia as an intern for Nava Ashraf, Associate Professor at Harvard Business School, who is now her co-author on the negotiation project. On Low’s first project in Zambia, she acted as a field manager on the ground, supervising surveyors, checking for quality issues in surveys and dealing with the logistics of working with local partner organizations and applying for grants. Currently, she has a full-time field manager in Zambia whom she advises from the U.S. She visits two or three times a year, and on her last trip, she trained coaches who will teach in the program’s schools.

In some respects, through their fieldwork, these students get to experience the immediate social impact of their research. For Sanchez de la Sierra’s research in Congo, the impact of the surveyors’ work is felt immediately with the training and employment of the surveyors, and more globally builds the capacity of the DRC state and international NGOs to collect statistics in a previously unexplored area. For Low, "Working on this project with Zambian women and girls has been constantly inspiring, such as when the coaches we work with to teach our program have helped us to shape it, sharing their own insights to help us improve the curriculum". She describes a case in which one of the girls participating in a pilot of the program described how she had applied what she learned – when she broke a dish; instead of hiding it as she usually would have done, and then getting beaten by her aunt when it was found, she employed her newfound negotiation skills and spoke to her aunt to explain the situation, thereby avoiding punishment. Low says that "stories like that make everything we do worth it!"
From the Director of the Program for Economic Research

Continued from page 1

Onstrations of the how the lab facilities are used, and opportunities for students to have their research proposals critiqued.

Our second initiative in this area was a one-day conference on “Experiments in Macroeconomics and Financial Economics,” held on March 1. The conference, organized by Ricardo Reis and myself, brought leading experimental researchers from several countries to Columbia. It showcased recent work in these areas using both “field” experiments (incentivized surveys) and laboratory experiments. The issues that were addressed using experimental methods included the design of retirement accounts to encourage saving, the effects of inflation expectations on portfolio choice, the conditions under which bank “runs” can occur purely as a result of self-fulfilling expectations, and the degree to which different monetary policy rules should stabilize inflation dynamics.

Alongside these new initiatives we have continued our regular programs to enhance the research environment at Columbia and increase awareness of economic issues on campus. Our research visitors for the spring included a series of seven weekly visitors, and three visiting scholars for the term. Our public events thus far have included a talk about the recently published transcripts of the Bretton Woods conference that established the IMF and World Bank by Kurt Schuler from the Department of the Treasury, and a public lecture on the problems currently faced by the Italian economy by Francesco Giavazzi, Professor of Economics at Bocconi University in Milan and one of Europe’s leading macroeconomists. Other events included a panel discussion on predicting elections with Nate Silver of the New York Times, Philip Tetlock of the Wharton School, and Justin Wolfers from the University of Michigan. This year’s Kenneth J. Arrow Lecture, by Prof. Christian Gollier of the Toulouse School of Economics, discussed methods of discounting the future, with particular reference to cost-benefit analysis of policies to mitigate climate change. We welcomed all friends of the Department to these events.

PER’s planned integration into Columbia’s Institute for Social and Economic Research and Policy (ISERP) later this year will mark an important institutional development. We have already been partners with ISERP on a number of initiatives of common interest, such as the establishment and maintenance of the Social Sciences Computing Cluster and the Columbia Experimental Laboratory for the Social Sciences. Under the new organizational plan, PER will become an autonomous unit within the larger umbrella of ISERP. This will allow PER to continue to run our existing programs at present, but it will also allow the Department of Economics to be part of ISERP’s broader agenda for research in the social sciences. We expect this closer coordination to benefit Columbia researchers in all of the quantitative social sciences, including (but not limited to) the economists in both our Department and in SIPA. We look forward to being able to sponsor an even richer agenda of activities in the future.

Michael Woodford is the Executive Director of the Program for Economic Research and the John Bates Clark Professor of Political Economy.

The 2012–13 Wesley Clair Mitchell Visiting Professors

This year, the department welcomed Olivier Terceux and Giacomo De Giorgi as Wesley Clair Mitchell Visiting Professors. Professor Terceux is currently an assistant professor at the Paris School of Economics. Professor Terceux has made important research contributions in several areas of microeconomic theory, including game theory, evolutionary game theory and mechanism design.

Professor De Giorgi is an assistant professor at Stanford University, and works in the areas of consumption behavior and the effects of climate change on economic behavior in developing economies. He is currently a Faculty Research Fellow at the National Bureau of Economic Research and at Stanford’s Center for International Development.
News from the Graduate Program
Continued from Page 3

Jessica van Parys
was a co-runner up for the Wueller Prize with her paper “Do Medical Malpractice Claims Affect Physician Practice Style? Evidence from Micro-Level Data on Florida Physicians.” Providing efficient medical care is an objective of many healthcare systems. Since physicians are responsible for providing a large proportion of medical care, structuring incentives so that physicians develop more efficient practice styles can increase the efficiency of the healthcare system. Jessica’s project asks how malpractice liability and medical errors affect physician practice style, where “practice style” includes labor supply, patient selection, treatments, and charges. It combines micro data on patients and physicians in Florida hospitals, emergency departments, and outpatient centers from 1997-2011 and uses the variation in the timing of malpractice claims to estimate the direct and spillover effects of claims. Spillover effects measure the extent to which physicians change practice styles following their colleagues’ claims. Patient health outcomes will be evaluated before and after claim dates to determine whether claims deter future negligence. Finally, the costs of any practice style changes will be weighed against the benefits of deterrence to learn how malpractice liability affects the efficient use of medical resources.

Michael Mueller-Smith was the fellow co-runner up, for his paper “Discrimination with Concealable Characteristics: A Study of Same-Sex Attraction in the United States.” This paper studies discrimination and sexual orientation in the United States using a “concealable characteristics” framework. He presents a basic model to formalize this approach with emphasis on the implications for research designs and measurement procedures. Empirical evidence, using a novel instrument for homosexuality, finds that men who are more likely to develop homosexual attraction and are born in more discriminatory areas are less likely to develop same-sex relationships and more likely to make socially conservative identity investments. Large negative mental health penalties accumulate to these individuals; educational attainment is also negatively impacted. Labor market outcomes, however, are relatively neutral across the spectrum of potential discrimination suggesting that disclosure still comes at a price in the labor market. Mike recently presented this paper in a panel entitled “Discrimination, Perception and Public Policy” at the recent Society of Labor Economists Annual Meeting.

Raul Sanchez de la Sierra was recently accepted to the University of Chicago Summer School on Socioeconomic Inequality, where he will attend training on socioeconomic inequality. He will attend training on socioeconomic inequality. Raul’s paper “Bandits or States: Evidence on the Origins of States from Armed Groups in Eastern Congo” was recently selected for presentation at the Working Group in African Political Economy (WGAPE)’s annual meeting, held at MIT in May.

Support Columbia Economics

Your tax-deductible donation can directly provide crucial support for students and faculty through the Economics Department’s Program for Economic Research.

To donate, please use the link on the departmental homepage:
https://giving.columbia.edu/giveonline

You may also write to us at:
Program for Economic Research,
Department of Economics,
Columbia University,
1022 International Affairs Building,
420 W. 118th Street,
New York, NY 10027

Pictured: Jessica van Parys
Recent NBER Working Papers

STEPHANIE SCHMITT-GROHÉ, MARTÍN URIBE
“The Making Of A Great Contraction With A Liquidity Trap and A Jobless Recovery”
NBER Working Paper #18544

ALESSANDRA CASELLA, SEBASTIEN TURBAN
“Democracy Undone. Systematic Minority Advantage in Competitive Vote Markets”
NBER Working Paper #18573

WOJCIECH KOPCZUK
“Taxation of Intergenerational Transfers and Wealth”
NBER Working Paper #18584

LENA EDLUND, CHULHEE LEE
“Son Preference, Sex Selection and Economic Development: The Case of South Korea”
NBER Working Paper #18679

EMI NAKAMURA, JÓN STEINSSON
“Price Rigidity: Microeconomic Evidence and Macroeconomic Implications”
NBER Working Paper # 18705

RICHARD CLARIDA
“Hot Tip: Nominal Exchange Rates and Inflation Indexed Bond Yields”
NBER Working Paper # 18726

RICARDO REIS
“The Mystique Surrounding the Central Bank’s Balance Sheet, Applied to the European Crisis”
NBER Working Paper #18730

WOJCIECH KOPCZUK
“Incentive Effects of Inheritances and Optimal Estate Taxation”
NBER Working Paper #18747

JAROMIR NOSAL, GUILLERMO ORDONEZ
“Uncertainty as Commitment”
NBER Working Paper #18766

MARY AMITI, DAVID WEINSTEIN
NBER Working Paper #18890

FRANCESCO CASELLI, MASSIMO MORELLI, DOMINIC ROHNER
“The Geography of Inter-State Resource Wars”
NBER Working Paper #18978

JANET CURRIE, W. BENTLEY MACLEOD
“Diagnosis and Unnecessary Procedure Use: Evidence from C-Section”
NBER Working Paper #18977
The research develops new methods for analyzing two-sided matching, whether it is organized via a decentralized market or a central clearinghouse. The projects focus on college admissions as a possible application, although the new theory is general and will apply to many other contexts. The first project develops a canonical model of a decentralized college admissions game, analyzes the strategic yield management decisions made by colleges and universities, and evaluates the resulting equilibrium outcomes. The second project uses data from Australia, where college admissions are centralized in each state. The data analysis determines the effect of specific features of this centralized process on the resulting assignment of students to universities. The third project is again economic theory; the team seeks to develop new and more general conditions that guarantee existence of stable matching in an asymptotic sense; as applied to college admissions this would mean a match that is stable as the economy grows in the number of students and in the number of college places.

Broader impacts of this project include new insights into the strengths and weaknesses of different ways of encouraging college access through changes in admissions processes.
Sponsored Research Currents

Continued from Page 9

MICHAEL MUELLER-SMITH (WITH CRISTIAN POP-ELECHES)

Individual, Family and Community Impacts of Criminal Sentencing
(National Science Foundation, SES-1260892)

Over the past 30 years, the incarcerated population in the United States has grown by close to 300 percent. The Bureau of Justice Statistics reports that in 2009, 7.2 million adults in the United States, or 1 out of every 31 adults, were under “correctional supervision,” a status that includes probation and parole in addition to incarceration. The wide reach of corrections activity translates into roughly $51.7 billion dollars or 7.4 percent of state budgets in fiscal year 2011. Despite the size of this social program, little reliable evidence exists to quantify the costs and benefits of incarceration and justify its widespread use.

This project seeks to help address this problem through estimating the impacts of criminal sentencing at the individual, family and community level using new data from the United States. Original data collection efforts by the researchers have created a new empirical dataset comprising 30 years of criminal court cases from Harris County, Texas. It includes over 2.7 million distinct cases and 1.1 million unique defendants. Defendants can be followed over time in the court record data, allowing the research to consider affects on recidivism and escalation in criminal behavior.

In addition, unique data sharing agreements with local county agencies will allow the criminal court data to be linked with administrative records concerning defendants’ labor market activity, marital behavior, family formation, children’s educational attainment, and neighborhood arrest records. Linking criminal sentencing to a variety of lifecycle behavior and intergenerational outcomes will generate an unprecedented dataset.

To surmount the challenge of omitted variables bias, the research will leverage a source of plausibly exogenous variation: random assignment of criminal court cases to judges. As criminal charges are filed against defendants, cases are randomly assigned to courtrooms in an effort to maintain balanced caseloads between the judges. The judges in the Harris County criminal court system then hold significant discretion in both the day-to-day operations of their courtrooms as well as the precise sentences delivered to defendants found guilty of a crime. Due to the combination of randomization and discretion, some variation in the sentencing outcome for defendants is due to random chance. This research will seek to isolate that degree of sentencing variation in order to make causal statements regarding the impact of criminal sentencing.

To advance this literature’s methodology, the researchers will further refine their novel estimation technique: heterogeneous response instrumental variables (HRIV). The HRIV model, which non-parametrically estimates the judge’s decision rule process, can reduce bias and improve efficiency in empirical applications.

RAUL SANCHEZ DE LA SIERRA (WITH SURESH NAIDU)

“Bandits or States?”: Evidence on the Origins of States From Armed Groups in Eastern Congo
(National Science Foundation, SES-1261025)

Some states protect their populations, use restraint in taxation and provide public goods, while others engage in arbitrary expropriation and impede economic growth. Why?

This question has recently received substantial attention in economics, but the existing theory remains exploratory and untested with causal inference methods. Since states are supposed to have the monopoly of the use of violence, social sciences have often described strong states forming out of criminal organizations centralizing violence. It is this first step into the formation of strong states that this study will test using armed groups in eastern Democratic Republic of Congo.

Existing explanations emphasize that high expected value of future potential taxation can induce criminal organizations to abandon arbitrary expropriation. Larger levels of expected taxable income from the population indeed can generate incentives to “bandits” to settle and promote growth for the purpose of taxing it, especially when the environment in which they operate is characterized by a weak state. The opposite can in turn reduce the returns of territorial control, and lead bandits to engage in arbitrary violent expropriations that discourage investment or hurt the tax base potential for output generation.

In order to provide for the first time empirical evidence on this question with causal inference methods, this project implements the collection of original historical data (1990-2013) on dozens of armed groups in 120 villages in the eastern part of
the Democratic Republic of Congo (DRC), where armed groups operate and have operated. There is anecdotal and preliminary evidence that these groups engage in violent expropriations, but they often prefer to settle, build local institutions, provide public goods, and tax output on a repeated basis. The wealth of information accessible about the past of this region is often disregarded, but this study demonstrates that it is possible to collect it and produce high quality disaggregated data in DRC of an area and a period that has none.

Through that period, unusually large changes in world prices for minerals located in DRC have been well documented. This study exploits these changes, as well as village level dates of surprise mineral discovery and exhaustion, in order to provide a causal explanation of how local conditions - the value and type of the taxable output in the village, often minerals - drive economic institutions, which are believed to be essential for private sector growth. In this context, the objective is understanding how local conditions and changes in world market forces cause armed groups to set up local state-like institutions, and to refrain from violence against civilians in the affected villages.

The project has been designed to generate data that will be the basis of a long term research agenda, and allow for the analysis of the following questions: the mechanisms of formation of community defense groups; the extent and social effects of sexual violence; as well as an embedded real context experiment assessing inter-ethnic trust among conflicted groups and the role of trust-inducing institutions.

RICARDO REIS

New-Style Central Banking
(Institute for New Economic Thinking, INO13-00025)

Following financial crises, the central banks of advanced countries issue trillions of dollars of reserves, pay interest on those reserves, and hold a portfolio of risky assets including some government bonds with default risk. This project will investigate the impact of this new style of central banking on the bank’s solvency, its ability to control inflation, and on economic stability. It suggests new rules for the architecture of central banks, provides quantitative estimates of the financial strength of the main central banks and of how large are their resources, and investigates whether the central bank can prevent or induce self-fulfilling sovereign debt crises.
Visitors to the Program for Economic Research

SPRING 2013

Each week, researchers and scholars visit the Columbia Economics Department under the auspices of the Program for Economic Research (PER). Interactions in workshops and seminars advance the body of knowledge and encourage collaboration between economists at Columbia and throughout the world.

CARS HOMMES
(Universiteit van Amsterdam) February 25-March 1, 2013

RANI SPIEGLER
(Tel Aviv University) March 4-8, 2013

DIEGO PUGA
(CEMFI) April 8-12, 2013

HENRIK KLEVEN
(LSE) April 15-19, 2013

TAYFUN SÖNMEZ
(Boston College) April 22-26, 2013

EDDIE DEKEL
(Northwestern) April 29-May 3, 2013

HARALD UHLIG
(Chicago) May 6-10, 2013

Recent Faculty Articles

DOUGLAS ALMOND, LENA EDLUND, AND KEVIN MILLIGAN
“Son Preference and the Persistence of Culture: Evidence from South and East Asian Immigrants to Canada”

JUSHAN BAI
“Fixed-Effects Dynamic Panel Models, a Factor Analytical Method”
Econometrica Vol. 81, No. 1, January 2013

YEON-KOO CHE, WOUTER DESSEIN, AND NAVIN KARTIK
“Pandering to Persuade”
American Economic Review Vol. 103, No. 1, February 2013

YEON-KOO CHE, IAN GALE, AND JINWOO KIM
“Assigning Resources to Budget-Constrained Agents”
Review of Economic Studies Vol. 80, No. 1, January 2013

SURESH NAIDU AND NOAM YUCHTMAN
“Coercive Contract Enforcement: Law and the Labor Market in Nineteenth Century Industrial Britain”
American Economic Review Vol. 103 No. 1, February 2013

EDMUND PHELPS AND GYLFI ZÓEGA
“Corporatism and Job Satisfaction”
Journal of Comparative Economics Volume 41, No. 1, February 2013

YONGMIN CHEN AND MICHAEL RIORDAN
“Profitability of Product Bundling”
International Economic Review Vol. 54, No. 1, February 2013

JOSEPH E. STIGLITZ.

JOSEPH E. STIGLITZ.
“The Global Crisis, Social Protection and Jobs”
International Labour Review Vol. 152, Issue Supplement s1, January 2013
Professor Thomas Piketty of the Paris School of Economics delivered a lecture on September 27 entitled “Inequality in America: The 1% In International and Historical Perspective” that addressed the question of whether America’s current inequality was distinctively meritocratic. The event was moderated by Columbia Professor Bernard Salanié and co-sponsored by the Program for Economic Research and the Maison Française.

Piketty argued that economic inequality in the U.S. is approaching the record high levels prevailing in the U.K. or France around 1910, although the structure differs somewhat, in that in the U.S. inequality is based upon labor income rather than inherited wealth. His presentation showed how the skepticism of nineteenth century economists regarding wealth distribution patterns was followed by a more optimistic consensus in the twentieth century that growth would result in a more balanced distribution.

Visit Columbia University’s Youtube channel for full event video, http://www.youtube.com/user/columbiauniversity.

PICTURED:
Clockwise: Professor Thomas Piketty, Faculty and students watch as Professor Piketty delivers his lecture, Professor Bernard Salanié.
Photos by: Michael Dames
President Economic Advisers Forum

In the run-up to the 2012 election, Columbia University hosted the Presidential Economic Advisers Forum, a debate between the economic advisers to the Republican and Democratic candidates held in Low Library on October 8. The event was hosted by the World Leaders Forum, the Program for Economic Research, the Committee on Global Thought and the Center on Global Economic Governance. It was moderated by Reuters editor-at-large, Chrystia Freeland, and featured R. Glenn Hubbard, economic adviser to Mitt Romney and Dean of the Columbia Business School; and Harvard Professor Jeffrey Liebman, economic

continued on page 15

PICTURED:

Clockwise from top right: President Bollinger delivers opening remarks to the debate; (Left to Right) Sharyn O’Halloran, Jeffrey Liebman, R. Glenn Hubbard, Joseph Stiglitz, Michael Woodford, Chrystia Freeland, President Lee Bollinger, Dean Hubbard and Professor Liebman debate the economic policies of the presidential nominees; Dean Hubbard.
Photos by: Michael Dames
adviser to President Barack Obama and the Malcolm Weiner Professor of Public Policy at Harvard University. President Lee Bollinger delivered the opening address to the event. The debate was followed by questions from a panel of Columbia University professors: Sharyn O’Halloran, George Blumenthal Professor of Political Economy and Professor of International and Public Affairs; Joseph Stiglitz, University Professor and Michael Woodford, John Bates Clark Professor of Political Economy.
A Conversation With the Honorable Sheila C. Bair

The Program for Economic Research hosted an event on October 4 featuring the Honorable Sheila C. Bair, who served as the Chairman of the Federal Deposit Insurance Corporation from 2006 to 2011, during the turbulence of the recent financial crisis. In that period, she was one of the first to see the dangers of the approaching mortgage crisis and was responsible for implementing measures to create stability and public confidence. Her talk covered material from her recent book, Bull By the Horns: Fighting to Save Main Street From Wall Street and Wall Street From Itself (Simon & Schuster, 2012), in which she describes her experiences during the crisis. A discussion followed, moderated by Richard Clarida, C. Lowell Harriss Professor of Economics at Columbia.

For full event video, visit Columbia University’s Youtube channel, http://www.youtube.com/user/columbiauniversity.
We study the competitive equilibrium of a market for votes where voters can trade votes for a numéraire before making a decision via majority rule. The choice is binary and the number of supporters of either alternative is known. We identify a sufficient condition guaranteeing the existence of an ex ante equilibrium. In equilibrium, only the most intense voter on each side demands votes and each demand enough votes to alone control a majority. The probability of a minority victory is independent of the size of the minority and converges to one half, for any minority size, when the electorate is arbitrarily large. In a large electorate, the numerical advantage of the majority becomes irrelevant: democracy is undone by the market.

In polygyny, the fact that some men take several wives deprives others. This crowding-out has a distinct age dimension: the remarrying men are older. In monogamy, on the other hand, men marry once and, under reasonable assumptions, when young. We study the implications of this age-heterogeneity in a two-sex overlapping generations model, where agents live for two adult periods. Men are fecund in both periods while women only in the first one. We model restrictions on polygyny as a restriction on resources that old men can devote to a new family. Such restrictions result in more women choosing young, i.e., previously unmarried, men. If young men respond to their enhanced familial role by reallocating time from leisure activities to the raising of offspring, then steady-state human capital is boosted. Our model thus captures a link from legal constraints on polygyny to economic development. We argue that the mechanism and results fit with stylized facts of polygyny over time and in the cross-section.

This paper studies the impact of the Government of India financed “New Industrial Policy for Uttarakhand and Himachal Pradesh”, whereby beginning in 2003, new industrial units and existing units upon expansion were given 100% income tax and excise tax exemption. Using a difference-in-differences approach, I find a large increase in employment, number of factories, total output and fixed capital at the 3-digit industry level. Using firm level data, I find that the average employment, output, fixed capital, and additions to plant and machinery increased for existing firms as a result of this policy. Hence I show that the policy change affected both the intensive and extensive margins. I also look at heterogeneity by firm size and find that the policy led to employment and output increases for smaller firms. Finally, I use synthetic control methods (Abadie, Diamond, and Hainmueller (2010)) as a robustness check for the treatment effects of the policy change.

The procyclicality of inventory investment is a central feature of US business cycles. As such, it provides a test for the recent literature on news shocks, which argues that anticipated changes in fundamentals are important sources of aggregate fluctuations. We show that, in a range of inventory models, anticipated shocks to fundamentals generate booms of a peculiar kind: consumption and investment increase, but inventories fall persistently. During these periods...
Recent Discussion Papers
Continued from page 17

booms, production and inventory investment are dominated by intertemporal substitution, as firms satisfy sales out of inventory stock and delay production until the realization of the anticipated shock. This mechanism is surprisingly difficult to overturn. We derive analytical parameter restrictions which guarantee procyclical inventory dynamics in response to news shocks, and show that standard calibrations considered in the literature do not come close to satisfying the restrictions.

Furthermore, the introduction of the frictions studied by the news literature, such as variable capacity utilization and adjustment costs, is not sufficient to restore the procyclicality of inventories. We use the models’ restrictions on the comovement of sales and inventories to identify news shocks in postwar US data.

We find that the identified shock leads to a diffusion in TFP, but has a short implementation lag and accounts for a small fraction of long-run movements in TFP, inventories and sales.

This is the first paper to use the quasi-random assignment of patients to physicians in emergency rooms to estimate how physician human capital affects efficiency. It focuses on commonplace medical conditions, where we might not expect patients to receive different care. It finds that physician experience is the primary characteristic that affects efficiency. Experienced physicians perform fewer invasive procedures and charge less per visit, with no differences in health outcomes. There is evidence that high-quality physicians from top-20 medical schools exit the ER over time, so experienced physicians from lower ranked schools are the most efficient providers of urgent, but routine healthcare.

In spite of the mystique behind a central bank’s balance sheet, its resource constraint bounds the dividends it can distribute by the present value of seignorage, which is a modest share of GDP. Moreover, the statutes of the Federal Reserve or the ECB make it difficult for it to redistribute resources across regions. In a simple model of sovereign default, where multiple equilibria arise if debt repudiation lowers fiscal surpluses, the central bank may help to select one equilibrium. The central bank’s main lever over fundamentals is to raise inflation, but otherwise the balance sheet gives it little leeway.

We study the role that price transparency plays in determining the efficiency and surplus division in a sequential bargaining model of price formation with asymmetric information. Under natural assumptions on type distributions, and for any discount factor, we show that the unobservability of past negotiations leads to lower prices and faster trading. The lack of transparency therefore enhances the “Coasian effect” by fostering efficiency and diverting more of the surplus to the player who possesses private information. In addition, we show that the equilibrium is unique and is in pure strategies in the non-transparent regime; this stands in sharp contrast to the existing literature and allows for a better understanding of the role of transparency.

continued on page 19
Recent Discussion Papers

Continued from page 18

MARINA HALAC, QINGMIN LIU, NAVIN KARTIK
Optimal Contracts for Experimentation 1213 17

This paper studies long-term contracts for experimentation in a principal-agent setting with adverse selection about the agent’s ability (pre-contractual hidden information), dynamic moral hazard, and private learning about project quality. We show that profit maximization by the principal generally leads to under-experimentation by an agent of low ability, even though there would be no distortion in the absence of either adverse selection or moral hazard. The structure of optimal contracts is shaped by a variety of considerations including dynamic agency costs and the possibility of post-contractual hidden information about project quality. We derive two explicit menus of contracts that can be used to implement the second-best solution: “bonus contracts” and “clawback contracts”. Both feature history-contingent dynamic streams of transfers.

RICHARD HOLDEN, NAVIN KARTIK, OLIVIER TERCIEUX
Simple Mechanisms and Preferences for Honesty 1213 18

We consider full implementation in abstract complete-information environments when agents have an arbitrarily small preference for honesty. We offer a condition called separable punishment and show that when it holds and there are at least two agents, any social choice function can be implemented by a simple mechanism in two rounds of iterated deletion of strictly dominated strategies. We also extend our result to settings of incomplete information so long as there is non-exclusive information.

ERIC EYSTER, ANDREWA GALEOTTI, NAVIN KARTIK, MATTHEW RABIN
Congested Observational Learning 1213 19

We study observational learning in environments with congestion costs: as more of one’s predecessors choose an action, the payoff from choosing that action decreases. Herds cannot occur if congestion on an action can get so large that an agent would prefer to take a different action no matter what his beliefs about the state. To the extent that “switching” away from the more popular action also reveals some private information, social learning is improved. The absence of herding does not guarantee complete asymptotic learning, however, as information cascades can occur through perpetual but uninformative switching between actions. Our main contribution is to provide conditions on the nature of congestion costs that guarantee complete learning and conditions that guarantee bounded learning. We find that asymptotic learning can be virtually complete even if each agent has only an infinitesimal effect on congestion costs. We further show that congestion costs have ambiguous effects on the proportion of agents who choose the superior action. We apply our results to markets where congestion costs arise through responsive pricing and to queuing problems where agents dislike waiting for service.

MARY AMITI, DAVID WEINSTEIN

We show that supply-side financial shocks have a large impact on firms’ investment. We do this by developing a new methodology to separate firm credit shocks from loan supply shocks using a vast sample of matched bank-firm lending data. We decompose loan movements in Japan for the period 1990 to 2010 into bank, firm, industry, and common shocks. The high degree of financial institution concentration means that individual banks are large relative to the size of the economy, which creates a role for granular shocks as in Gabaix (2011). As a result, idiosyncratic bank shocks—i.e., movements in bank loan supply net of borrower characteristics and general credit conditions—can have large impacts on aggregate loan supply and investment. We show that these idiosyncratic bank shocks explain 40 percent of aggregate loan and investment fluctuations.

continued on page 20
Recent Discussion Papers

Continued from page 19

We examine the role of defaults in high-frequency, small-scale choices using unique data on over 13 million NYC taxi rides. We exploit a shift in the set of default tip suggestions presented to customers prior to payment, as the base fare changes from below $15 to above $15. Using a regression discontinuity design, we show that default suggestions have a large impact on tip amounts. These results are supported by a secondary analysis that uses the quasi-random assignment of customers to different cars to examine default effects on all fares above $15. Finally, we highlight a potential cost of setting defaults too high, as a higher proportion of customers opt to leave no credit card tip when presented with the higher suggested amounts.

We establish a theoretical as well as empirical framework to assess the role of resource endowments and their geographic location for inter-state conflict. The main predictions of the theory are that conflict tends to be more likely when at least one country has natural resources; when the resources in the resource-endowed country are closer to the border; and, in the case where both countries have natural resources, when the resources are located asymmetrically vis-a-vis the border. We test these predictions on a novel dataset featuring oilfield distances from bilateral borders. The empirical analysis shows that the presence and location of oil are significant and quantitatively important predictors of inter-state conflicts after WW2.

Most countries have automatic rules in their tax-and-transfer systems that are partly intended to stabilize economic fluctuations. This paper measures how effective they are. We put forward a model that merges the standard incomplete-markets model of consumption and inequality with the new Keynesian model of nominal rigidities and business cycles, and that includes most of the main potential stabilizers in the U.S. data, as well as the theoretical channels by which they may work. We find that the conventional argument that stabilizing disposable income will stabilize aggregate demand plays a negligible role on the effectiveness of the stabilizers, whereas tax-and-transfer programs that affect inequality and social insurance can have a large effect on aggregate volatility. However, as currently designed, the set of stabilizers in place in the United States has barely had an effect on volatility. According to our model, expanding safety-net programs, like food stamps, has the largest potential to enhance the effectiveness of the stabilizers.

How does immigration affect natives’ local wages? A vast literature considers this, much of it focused on Mexican immigration to the United States. Prior work emphasizes the importance of instrumenting for immigrant destinations, the key role of experience-skill cells, and the potential for spillovers to national markets. I build on these, using the Mexican ‘Tequila Crisis’ of the mid-1990s as an exogenous shock to immigration. Instrumentation thus includes both a time dimension for the shock period, plus a destination dimension as in prior work. The 1.5% immigration shock of the Tequila Crisis lowered the wages of young low skilled US natives by 1 to 1.5 percent. It also prompted interstate labor reallocation. The share of low skilled workers is estimated to decrease by 2 percentage points as a result of the shock. This explains why within five years, national markets adjust, leaving no evidence of differential spatial impact.
CELSS Opens

The new Columbia Experimental Laboratory for the Social Sciences (CELSS) was opened this semester with a celebratory reception on December 12.

CELSS is an interdisciplinary laboratory that allows researchers to conduct experiments in the social sciences and is supported by the departments of Economics, Political Science, Sociology, the Business School, SIPA and ISERP. The lab is being used to conduct research, and has been the site of a mini-course on experimental economics.

For more information about CELSS, visit http://econ.columbia.edu/celss
In its history since Independence, India has seen widely different economic experiments: from Jawharlal Nehru’s pragmatism to the rigid state socialism of Indira Gandhi to the brisk liberalization of the 1990s. So which strategy best addresses India’s, and by extension the world’s, greatest moral challenge: lifting a great number of extremely poor people out of poverty?

Bhagwati and Panagariya argue that only one strategy will help the poor to any significant effect: economic growth, led by markets overseen and encouraged by liberal state policies. Their message has huge consequences for economists, development NGOs and anti-poverty campaigners worldwide. There are vital lessons here not only for Southeast Asia, but for Africa, Eastern Europe, and anyone who cares that the effort to eradicate poverty is more than just good intentions.

The essays in this collection confront the quest for security arising out of the social, economic, environmental, and political crises and transformations of our century. Joseph E. Stiglitz and Mary Kaldor begin with an expansive, balanced analysis of the global landscape and the factors contributing to the growth of insecurity. While earlier studies have touched on how globalization has increased economic insecurity and how geopolitical changes may have contributed to military insecurity, this volume looks for some common threads: in a globalized world without a global government, with a system of global governance not up to the tasks, how do we achieve security without looking inward and stepping back from globalization? In each of their areas of expertise, contributors seek answers to questions about how we achieve protection of those people who are most insecure without resorting to economic, military, or mafia protectionism.

Policymakers and economists largely agree that “rule of law” and property rights are essential for a sound economic policy, particularly for most developing countries. But it is becoming increasingly apparent that transplanting legal frameworks from one society to another doesn’t work—even though neoliberal orthodoxy has held that it should. China’s economic development offers a backdrop for developing alternative viewpoints on these issues. In this book, economists, academics, and policymakers wade straight into the discussion, using China as a concrete reference point.
Faculty Books: Spring 2013
Continued from page 22

JEFFREY D. SACHS
To Move the World: JFK’s Quest for Peace
(Random House, June 2013)

The last great campaign of John F. Kennedy’s life was not the battle for reelection he did not live to wage, but the struggle for a sustainable peace with the Soviet Union. To Move the World recalls the extraordinary days from October 1962 to September 1963, when JFK marshaled the power of oratory and his remarkable political skills to establish more peaceful relations with the Soviet Union and a dramatic slowdown in the proliferation of nuclear arms.

Kennedy and his Soviet counterpart, Nikita Khrushchev, led their nations during the Cuban Missile Crisis, when the two superpowers came eyeball to eyeball at the nuclear abyss. This near-death experience shook both leaders deeply. Jeffrey D. Sachs shows how Kennedy emerged from the Missile Crisis with the determination and prodigious skills to forge a new and less threatening direction for the world. Together, he and Khrushchev would pull the world away from the nuclear precipice, charting a path for future peacemakers to follow.

EDMUND S. PHELPS
Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge, and Change
(Princeton University Press, September 2013)

In this book, Nobel Prize-winning economist Edmund Phelps draws on a lifetime of thinking to make a sweeping new argument about what makes nations prosperous—and why the sources of that prosperity are under threat today. Why did prosperity explode in some nations between the 1820s and 1960s, creating not just unprecedented material wealth but “flourishing”—meaningful work, self-expression, and personal growth for more people than ever before? Phelps makes the case that the wellspring of this flowering was modern values such as the desire to create, explore, and meet challenges. These values fueled the grassroots dynamism that was necessary for widespread, indigenous innovation. Most innovation wasn’t driven by a few isolated visionaries like Henry Ford; rather, it was driven by millions of people empowered to think of, develop, and market innumerable new products and processes, and improvements to existing ones. Mass flourishing—a combination of material well-being and the “good life” in a broader sense—was created by this mass innovation. A book of immense practical and intellectual importance, Mass Flourishing is essential reading for anyone who cares about the sources of prosperity and the future of the West.
Program for Economic Research
Events Listing—Spring 2013

FEBRUARY 11, 2013
The Bretton Woods Transcripts: New Findings
Kurt Schuler, United States Department of the Treasury
Co-sponsored by the Rare Book & Manuscript Library; the Herbert H. Lehman Center for American History and the Center for Financial Stability

FEBRUARY 18, 2013
Italy’s Future: Reform or Decline?
Francesco Giavazzi, Universita Bocconi
With discussant Michael Woodford, Columbia University

MARCH 27, 2013
Predicting Elections
With Nate Silver, the New York Times; Justin Wolfers, University of Michigan and Phil Tetlock, University of Pennsylvania
Moderated by Navin Kartik, Columbia University

APRIL 25, 2013
The Sixth Annual Kenneth J. Arrow Lecture: Pricing the Planet’s Future: The Economics of Discounting Under an Uncertain Future
With Christian Gollier, Paris School of Economics
With discussants Bernard Salanie, Columbia University; Joseph Stiglitz, Columbia University and Kenneth J. Arrow, Stanford University
Co-sponsored by the Committee on Global Thought and the Columbia University Press