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EIEFNews

EINAUDI INSTITUTE FOR ECONOMICS AND FINANCE

In this issue:

Daniele Terlizzese argues that prison conditions respectful of human dignity significantly reduce recidivism.

The "Bajola Parisani Chair in Economics, Finance and Institutions" has been awarded to Claudio Michelacci.

Marco Battaglini joined EIEF's faculty as a non-Resident Fellow.

EIEF hired three new Assistant Professors on the 2015 junior job market.

The AXA Rechearch Fund will provide long-term financial support to the AXA Chair in Household Finance and Insurance held by Luigi Guiso.

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1. Something works! Humane prison conditions reduce recidivism

by Daniele Terlizzese[1]

Over recent decades most developed countries have witnessed high and often increasing rates of incarceration. In the United States, in 2012, more than 2.25 of the 310 million residents were behind bars, with a sevenfold increase in the incarceration rate since the early 70s; incarceration rates are high in several other countries, including Italy and the United Kingdom. This process risks, however, to feed on itself, as a large fraction of those who are sent to prison are repeat offenders. Most crimes are committed by a relatively small number of repeat offenders. Therefore, if societies were able to reduce recidivism, victimization and incarceration rates would be reduced as well, generating large benefits. Moreover, given the high costs of building and running prisons, this would also be beneficial for public budgets.

Opinions differ markedly, however, on the best way to curb recidivism. In the U.S. the deterrence effect of experiencing harsh prison conditions is often seen as key. Almost all U.S. states and the federal government have some sort of mandatory prison sentences, whose major justification is that they will teach offenders that crime does not pay. Conversely, in Europe, rehabilitation is widely seen as the way to go. For example, a recommendation of the Council of Europe (2006) stresses that "*the enforcement of custodial sentences and the treatment of prisoners necessitate ... prison conditions which do not infringe human dignity and which offer meaningful occupational activities and treatment programmes to inmates, thus preparing them for their reintegration into society.*" In Italy, rehabilitation is even enshrined in the Constitution, which states (Art. 27) that "*Punishment cannot consist in inhuman treatment and must aim at the rehabilitation of the convicted person*".

Unfortunately, the debate between proponents of rehabilitation and supporters of specific deterrence often occurs in an empirical vacuum: relatively little is known about the effect of incarceration, and of the conditions in which incarceration takes place, on recidivism. A recent review by Nagin et al. (2009) concludes that "*rigorous investigations on the effect of incarceration on reoffending are in short supply. As imprisonment is used in contemporary democratic societies, the scientific jury is still out on its effect on reoffending.*" The lack of reliable empirical results ends up reinforcing the old widely held view that "nothing works" when trying to rehabilitate inmates.

The Bollate prison quasi-experiment

In a recent research, conducted with Giovanni Mastrobuoni (University of Essex), we provide novel and robust evidence supporting the view that rehabilitation reduces recidivism[2]. We compare post-release incarceration rates of inmates who spent different fractions of the same overall sentence in a prison that offers its inmates several opportunities to develop their human and social capital.

We have detailed data on inmates who served time in the Bollate prison, an Italian detention center inaugurated at the end of 2000 near the city of Milan. Bollate is the only pure "open-cell prison" in

(1) This article draws freeely from the paper: "*Rehabilitating Rehabilitation: Prison Conditions and Recidivism*", written with Giovanni Mastrobuoni, EIEF WP 2014/13.

(2) Recidivism is here defined as re-incarceration within three years from the end of a definitive custodial and non-custodial (e.g. home detention, monitored liberty, etc.) sentence. Since our sample comprises inmates released between 2000 and 2009 and we can follow them until 2013, the three year period is never truncated.

Italy, and one of a handful in the world (some open-cell prisons can be found in Nordic countries and in the United Kingdom). In those prisons cells are kept open during the day, and prisoners are trusted to serve their sentences with minimal supervision. Inmates elect their representatives and, within a given budget, have a say on several aspect of their prison life (furniture, food, etc.).They can go to school (up to secondary education), learn English and computer languages. They are trained to become carpenters, electricians, cooks, welders, work in or out of prison for several agricultural and service cooperatives. When children are visiting their parents they can spend their time in dedicated play rooms that are nicely furnished and full of toys.

In such an environment, prison violence is contained and fewer guards are needed, which keeps costs down. Against an average daily cost per inmate of about 130 euros, in 2013, the cost at Bollate was only about 64 euros. It is hard to think of prison conditions that more closely approximate the idea set forth by the previously quoted Recommendation of the Council of Europe. It is therefore natural to ask whether they are effective in preparing inmates for their reintegration into society.

The identification strategy

To answer this question we must of course confront a serious selection problem, as prisoners sent to Bollate are not a random sample of prisoners, and we might expect the selection to negatively correlate with the (unobserved by us) unconditional propensity to misbehave/recidivate. We deal with this issue by exploiting the *length* of the period spent at Bollate: the subjects of our analysis are *all* treated, but they differ for the *dose* of the treatment. What we define as "Bollate treatment" is therefore *the length of the residual sentence spent there* (always controlling for the total sentence). However, we need to argue that the length itself varies in a near-random fashion. We do this by progressively restricting the sources of variability in the length of the treatment.

First, we consider the arguably random *delays* in the (fairly elaborate) selection process to enter into Bollate; due to such delays, some inmates end up spending a smaller fraction of their overall sentence there. It might be argued, however, that delays themselves are not random, as the length of the selection process might be shorter for "better" inmates – inmates with a lower unconditional propensity to misbehave – so that they are overrepresented among those with a larger dose of the treatment, thus spuriously boosting its estimated effect.

We then restrict the analysis to those prisoners who are *displaced* to Bollate because of overcrowding in nearby prisons. As the administration of Bollate prison cannot refuse to accept displaced inmates (as long as there is space left in Bollate), the explicit selection process is sidestepped. Controlling for their total sentence, the length of the residual sentence that they end up spending at Bollate is due to the occurrence of overcrowding in nearby prisons, an event which is plausibly uncorrelated with their propensity to misbehave. One could still be worried that prisoners displaced to Bollate are not randomly chosen by the sending prison. On the one hand, other prisons might have an incentive to get rid of their more dangerous inmates as early as possible. On the other hand, being displaced to Bollate might be used as a reward for the best prisoners. While the first possibility would bias the estimated effect of the treatment towards zero, providing a lower bound of its importance, the second would unduly magnify it.

We therefore exploit the variability in the residual sentence among inmates displaced to Bollate *at the same time and from the same prison*. This ensures that, whatever the selection process implemented by the sending prison, it is the same for all the displaced inmates. Therefore, provided the selection process is not itself based on the residual sentence, the variability of the latter then results solely from the random date in which different inmates started serving their sentence (always controlling for its total length). But the sending prison might indeed select the displaced inmates based on the length of their residual sentence. This would be the case if the sending prison tried to get rid of, in each displacement episode, the inmates likely to produce the largest expected trouble, given by the product of their (per-period) propensity to misbehave and the length of their residual sentence. If so, the displaced inmates with a short residual sentence would be those whose propensity to misbehave is higher, thereby generating a negative correlation between residual sentence and recidivism, independent from the effect of the treatment. We control for this possibility by computing for each displaced inmate a score, counting the number of times in which he could have been displaced in the past, from the same prison, and was not. By revealed preferences, conditional on the total sentence length, this is a measure of the perceived troublemaking potential of the inmate: if the administration of the sending prison could have gotten rid of him earlier and chose not to, he must have been perceived as less of a troublemaker than other inmates who were displaced earlier. By comparing displaced inmates with the same score, we approximate the ideal situation in which they have the same propensity to misbehave/recidivate, which would guarantee a causal interpretation of the estimated effect of the treatment.

What results do we find?

Considering our total sample, which includes both selected and displaced inmates, and comparing recidivism rates of inmates who spent different fractions of their total prison time at Bollate we find that, for a given total sentence (and controlling for many covariates), replacing one year in a traditional "closed cell" prison with one year in an "open cell" one reduces recidivism (over a three-year horizon) by about 10 percentage points (against an average three-year recidivism of about 40 percent).

Focusing on the sample of displaced inmates, controlling for the prison of origin and for the week of displacement, as well as for the score proxying the unobservable propensity to recidivate, we get an even larger effect: a reduction of about 13 percentage points for every year spent at Bollate instead of the prison of origin. This is particularly interesting, since they are a potentially less motivated group of inmates (they did not apply to be at Bollate), usually remain at Bollate for a shorter period and are exposed to a qualitatively less intense treatment.[3]

The effects of the "Bollate treatment" differ across different categories of inmates: the reduction of recidivism is very strong for inmates who were convicted for economically motivated crimes (theft, robbery, extortion, fraud…), while it is not significant for inmates convicted for violent crimes; it is

(3) To be sure, the overall level of recidivism of displaced inmates is larger than for those actively selected into Bollate; yet the marginal reduction in their recidivism in response to the treatment is larger.

stronger for inmates who do not have a long history of recidivism, who are less educated, who have family relationships. Taken together, these heterogeneous responses suggest that the treatment is most effective when administered early enough on those people who are driven to a criminal activity by necessity, who have more to lose and who are less well equipped to deal with the challenges on a non-criminal life.

As to the mechanisms underlying the reduction in recidivism resulting from the "Bollate treatment", we find that the longer the selected inmates stay at Bollate, the more likely they are to be transferred to a Section within the prison which gives access to jobs outside of prison, and to be allowed day releases. This suggests that offering opportunities to work and facilitating the entry (or re-entry) into the labor market is an important ingredient of the treatment.

However, displaced inmates are much less likely than selected ones to be given access to work opportunities while in prison; given that they also respond to the treatment, this points to the existence of additional mechanisms. Displaced inmates experience an environment radically different from those of other prisons at Bollate, much more respectful of their dignity, and participate in some of the activities. We then conjecture that conditions respectful of human dignity, coupled with responsibility and productive use of time, as offered by Bollate's environment, in and of themselves positively affect the post release behavior of inmates. Interestingly, the larger effect of the "Bollate treatment" on the displaced inmates, relative to the actively selected prisoners, suggests that the selection to enter into Bollate picks those inmates that benefit relatively less from being there (at least when the benefit is measured in terms of reduced recidivism). To rephrase this conclusion in positive terms, it would seem that a less choosy selection to enter into Bollate would generate more "bang for the buck".This would not be the case, however, if the reduced recidivism were to result from weaker negative peer effects: indeed, Bollate might use the selection to limit the arrival of "bad" peers. If so, the possibility to scale up the Bollate experience would be curtailed, since a less exacting selection process would undermine the effectiveness of the treatment. We measure the effect on recidivism of being exposed to a larger group of displaced fellow inmates during any inmate's stay, proxying the share of worse peers. We find no evidence that such exposure increases recidivism.

Differently from the broad conclusion of the Nagin et al. (2009) survey, which finds that incarceration has a null or mildly criminogenic effect, we show that, when the time spent in prison is appropriately used to offer "*meaningful occupational activities and treatment programmes to inmates*", recidivism can be reduced. The old view that, in terms of rehabilitation, "nothing works", seems therefore incorrect. The two requirements embodied in the Council of Europe's recommendation--dignity of treatment and rehabilitation--appear to be closely linked: prison conditions that respect the dignity of inmates are conducive to rehabilitation and produce security for the society at large. Given the widespread use of incarceration and the expansion of the prison system across most countries, identifying what works and implementing the right correctional policy will have large payoffs.

2. New people at EIEF

Claudio Michelacci holds the "Bajola Parisani Chair in Economics, Finance and Institutions". He joined EIEF's Faculty last September from CEMFI (Madrid), where he was a full Professor of Economics. After getting his Ph.D. at the London School of Economics in 1998, Claudio has primarily taught at CEMFI and held visiting appointments at MIT, University of Southern California, the London School of Economics and the University College London. He is currently a Research Fellow at CEPR and an Editor of the Journal of the European Economic Association. His research focuses on the functioning of labor markets, the determinants of growth and the analysis of business cycles. In these fields he has edited books, organized academic conferences, and published several articles in top academic journals. Among the most recent ones his paper, "Does Idiosyncratic Business Risk Matter for Growth?" with Fabiano Schivardi, shows that OECD countries with lower risk diversification opportunities (as measured by the importance of family firms or of widely held companies) perform relatively worse (in terms of productivity, investment, and business creation) in sectors characterized by high idiosyncratic risk. In 2012 Claudio was awarded a prestigious European Research Council Advanced Grant for a period of five years. The goal of the project is to analyze models with frictions in the labor market and important heterogeneity within households and firms. The focus of the project is on data from the US and other OECD countries, and on studying relevant policy questions, which cannot be addressed with models that abstract from labor market frictions and neglect life cycle considerations. For example, one question that features prominently in the current policy debate is the extent to which policy should respond to the large variation in unemployment risk that individual workers face over their life-cycle. His recent paper "Optimal Life Cycle Unemployment Insurance", co-authored with Hernán Ruffo (published in the *American Economic Review*) provides a methodology to studying this issue and shows that, in the US, overall welfare would be improved substantially if unemployment insurance were increased for relatively young workers (in their mid-twenties and early thirties) and decreased for older workers (in their forties and mid-fifties).

Marco Battaglini joined EIEF's Faculty last January as a non-Resident Fellow. Marco is the Edward H. Meyer Professor of Economics at Cornell University, where he moved last summer after having been at Princeton University for several years and holding visiting appointments at MIT, Yale University, the Institute of Advanced Studies and Northwestern University's Kellogg School of Business. His research focuses on microeconomics, political economy and economic theory and, in these fields, he has published many articles in top academic journals, allowing him to quickly achieve an outstanding international reputation. He is currently a Research Fellow at NBER and CEPR, an editor of Games and Economic Behavior, an associate editor of Econometrica and foreign editor of the Review of Economic Studies; in 2014 he was elected Fellow of the Econometric Society. At EIEF, Marco will be involved in the Graduate Program: in the Spring term he is teaching a course in Economics and Politics covering electoral competition, political agency, legislative organization and bureaucracy.

Stefano Gagliarducci joined EIEF's Faculty in April 2015 as a Research Affiliate. Stefano is an Associate Professor in Economics (with tenure) at the University of Rome "Tor Vergata" while previously he held visiting positions at Boston University, CEMFI, the London School of Economics and the European University Institute. He is also a Research Fellow at the Institute for the Study of Labour (IZA). His main research interests focus on political economy, labor economics and applied microeconometrics. He published several articles in distinguished international journals and, in 2014, he received the Excellence in Refereeing Award from the *Review of Economic Studies*. Stefano has been a regular guest at EIEF for some years and has actively cooperated in the organizations of seminars and conferences. This Spring term he is involved in the teaching activities of EIEF's Graduate Program, giving a course in Economics and Politics.

In January 2015 EIEF participated in the **junior job market** in Boston searching for four Assistant Professors in applied microeconomics, finance and macroeconomics. In this market EIEF hired three new Assistant Professors with a tenure-track position: **Salomé Baslandze** (University of Pennsylvania), **Juan Passadore** (MIT) and **Anton Tsoy** (MIT), who will join EIEF's faculty next summer.

Salomé Baslandze's main fields of interest are macroeconomics, economic growth, innovation and firm dynamics. Her job market paper, "The Role of the IT Revolution in Knowledge Diffusion, Innovation and Reallocation", is about the role of information technology (IT) revolution on growth. While standard growth theories acknowledge a direct impact of IT on productivity and growth, Salome's insight is that IT has a large, and perhaps more important, indirect effect on making ideas available to a wider range of firms. This spill-over effect makes R&D efforts less expensive, thus spurring innovation and growth. By analysing patent data for the US she shows that the indirect effect of IT has become more important over time. To explain this empirical evidence, Salomé develops a general equilibrium growth model with two types of innovation: those that improve a firm's product line, and those that allow a firm to capture the product lines of other firms. By using the aforementioned patent data, she calibrates this growth model and decomposes the impact of IT on economic growth into its direct and indirect effects, showing that the latter have grown from being negligible in the 1970s to becoming the dominant force in the 2000s.

Juan Passadore's main fields of interest are macroeconomics and international finance. In his job market paper "Robust Conditional Predictions in Dynamic Games: An Application to Sovereign Debt", co-authored with Juan Xandri, the main goal is to provide a methodology to obtain robust predictions in dynamic policy games featuring a wide range of equilibria. In particular, they focus on robust predictions that hold for all subgames perfect equilibria consistent with observed history. As a starting point, they show that the model of sovereign debt proposed by Eaton and Gersovitz features multiple Markov equilibria when debt is sufficiently constrained. Then they focus on predictions for bond yields or prices showing that the highest bond price is independent from the history, while the lowest one is strictly positive and depends on past history. Though the focus is on a model of sovereign debt, the proposed methodology can be readily applied to other dynamic policy games as capital taxation or monetary policy, as for them too there is a time consistency problem.

Anton Tsoy's main fields of interest are finance, bargaining and market microstructure. In his job market paper, "Trade Delay, Liquidity, and Asset Prices in Over-the Counter Markets", Anton argues that, in the analysis of over-the-counter markets, we should distinguish between *search frictions* (how long does it take to find a potential counterparty?) and *bargaining frictions* (how long does it take to realize gains from trade once a counterparty has been found?). His paper captures both of them by introducing an asset-specific trade delay into a standard search-and-bargaining model. He considers both exogenous and endogenous specifications of trade delay. In particular, he uses the model with endogenous trade delay to derive comparative statics compared to parameters affecting the severity of search and bargaining frictions, showing that a reduction in the severity may have opposite effects on market liquidity depending on the source of the friction. This suggests that explicit modelling of both frictions is important to get the predictions right. Finally, Anton shows that this model can easily be extended to explain dried up liquidity and flight-to-quality during periods of increased market uncertainty.

Kirill Shakhnov is the winner of the 6th Foscolo Europe Fellowship awarded by Unicredit and Universities Foundation in 2015 and will spend his fellowship at EIEF. Kirill is completing his Ph.D. at the European University Institute and will join the ranks of EIEF's young researchers next fall. His main interests are macroeconomics, international macroeconomics and development. In his paper: "The allocation of talent: finance versus entrepreneurship", Kirill addresses a key policy issue: is the rapid growth of the financial sector socially desiderable? To answer this question, he develops a model based on the role of skilled financial intermediaries in enhancing the efficiency of the allocation of capital. By becoming bankers, talented individuals efficiently match investors with entrepreneurs, but do not internalize the negative effect on the pool of talented entrepreneurs. Thus, the financial sector is inefficiently large in equilibrium. Kirill shows that his model can match, at least qualitatively, observed facts regarding the growth of the financial sector and how this process goes hand-in hand with the increase of inequality.

3. The Permanent AXA Chair

In 2012, with the key financial support of the AXA Research Fund (AXA-RF), EIEF established the AXA Chair on Households Finance and Insurance, held by Luigi Guiso. In view of the young age of the Einaudi Institute, at that time AXA-RF committed to support the Chair for an initial period of 3 years. Building on the experience so far acquired, on the positive results obtained and, above all, on a positive assessment of the future research program and plan of activity of the Chair - arrived at through a highly competitive selection process - AXA-RF recently confirmed its financial support for the Chair, for an extended 15 years period (see the official video by AXA announcing the establishment of the Permanent Chair). This long-term commitment by AXA-RF will allow a steep increase in the activities of the existing Chair, developing a research program that breaks new ground and transform EIEF's head start in this relatively new field into a solid and long-lasting leadership.

The Chair on Household Finance and Insurance intends to advance empirical research on new models of behaviour in the face of risk and uncertainty, allowing for frictions and imperfections in market settings and for heterogeneity and diversity in the characterization of households beliefs and preferences for risk. Over the past three years, Luigi Guiso has significantly contributed to advancing this research program, focusing primarily on issues of elicitation and characterization of households beliefs and preferences for risk (further information on the Chair activities and references to the papers produced can be found here). This program so far has largely relied on surveys and experiments.

The new research program of the Chair makes a decisive step forward by bringing administrative records of households' financial choices to bear on the analysis of their behaviour. The novelty is not on the use of administrative data per se, but in the breadth of the new data that the Chair has been able to assemble, which will shed new light on classic and new questions in household finance - difficult to answer relying solely on survey data or lab experiments. Even more fundamentally, the richness of the new data has the potential to bring under the spotlight of rigorous research aspects of households' financial behaviour that nobody so far has been able to tackle.

Do households receive biased advice from the seller of the financial products they buy?

How do they time their entry and exit into the stock market?

Is there insurance within the family?

By answering questions like these, the Chair will be able to steer the future developments within the field, providing inspiration and food for thought for new generations of researchers.

4. Conferences and other events

In 2014 EIEF hosted or organized, in co-operation with other institutions, several conferences and events. Some highlights are presented below, while further information is available here or by clicking on the links below.

In June, EIEF hosted and organized the third edition of the Rome Junior Conference on Macroeconomics. The spirit of this event is to bring together junior "high-flier" macro economists from around the world, to discuss pioneer research in a friendly and highly interactive environment. The presenters included: Javier Bianchi (University of Wisconsin-Madison), Saki Bigio (Columbia Business School), Sebastian Di Tella (Standford Graduate School of Business), Ali Shourideh (Wharton School at the University of Pennsylvania) and Nicholas Trachter (Federal Reserve Bank of Richmond).

In September, EIEF, in collaboration with the Bank of Italy, the Collaborative Research Center "Statistical Modelling of Nonlinear Dynamic Processes" (SFB 823) and the Deutsche Forschungsgemeinschaft (DFG), organized and hosted two international Workshops in econometrics. The first was on New Developments in Econometrics and Time Series; the second, on Dynamic Factor Models and Structural VAR Analysis, was in celebration of Marco Lippi's 70th birthday and highlightened his substantial contributions to structural VAR analysis. The presenters included: Manfred Deistler (Technische Universitat Wien), Carlo Favero (Università Bocconi), Lucrezia Reichlin (London Business School) and Paolo Zaffaroni (Imperial College London). The workshop concluded with an invited lecture given by Mark Watson (Princeton University) on recent developments in Structural VARs.

Always in September, EIEF, the Center of Excellence on Sustainable Architecture for Finance (SAFE) at Goethe University Frankfurt, HEC Paris and the Swedish House of Finance (SHoF) organized the fifth edition of the European Conference on Household Finance, hosted by the University of Stockholm.

Always in September, EIEF, together with the Bank of Italy, hosted the Strategic Forum 2014, sponsored by SAS, and promoted by the International Statistical Institute (ISI), the International Economic Association (IEA) and the High-Level Expert Group at OECD on the *Measurement of Economic Performance and Social Progress on Intra-generational and Inter-generational Sustainability.* On the first day the meeting, held at EIEF, was devoted to discussing the problems underlying the construction of capital accounts for various type of capital (e.g. human, natural and cultural). Another issue addressed was how to measure and assess inter-generational equity and sustainability in particular in the aftermath of the financial crisis.

In October, EIEF hosted the 10th Annual Central Bank Workshop on the Microstrucure of Financial Markets. The workshop is the tenth in a series of annual events that gives researchers, policy-makers and practioners the opportunity to discuss theoretical work, empirical findings and policy implications related to the microstructure of financial markets. The papers presented analysed the provision of liquidity in different contexts, the regulatory problems arising in presence of high-frequency trading and the issue of price discovery when markets are segmentated. Keynote speakers were Terry Hendershott (University of California at Berkeley) and Dimitri Vayanos (London School of Economics).

Always in October, EIEF hosted the 60th

Economic Policy Panel that was jointly organized by the editors of Economic policy, CEPR and the Bank of Italy. Papers commissioned for the journal were presented and discussed by the members of the Panel.

In December EIEF hosted and organised the 13th edition of the Workshop on Macroeconomic Dynamics: Theory and Applications. The presenters included: Stefania Albanesi (Federal Reserve Bank of New York), Luigi Guiso (EIEF), Guido Menzio (University of Pennsylvania), Claudio Michelacci (EIEF) and Fabrizio Perri (Federal Reserve Bank of Minneapolis).

In January 2015 EIEF hosted the presentation of the World Development Report of the World Bank for 2015, Mind, Society and Behavior, co-organized with the World Bank Group and the Italian Treasure Ministry. This year the report highlights the importance of experimental economics as a method for understanding problems related to the development and design of the policies which support it.

Forthcoming Conferences and Workshops in 2015

On May 8, EIEF will host the next edition of the *"4nations cup"*, a one-day contest among the most promising young scholars in four countries in the field of financial economics. Further information is available on the official site of the 4nations cup.

On June 22-23, EIEF will host and organize the fourth edition of the *"Rome Junior Conference on Macroeconomics"*. Further information will be available here.

On August 28-30, EIEF will host a major conference on *"Labor and Finance"*, co-organized with CSEF and SITE. For more details, see the Call for papers.

On September 11-12, EIEF, SAFE, HEC Paris and SHoF will organize the sixth edition of the *European Conference on Household Finance*, hosted by Goethe University Frankfurt. The submission deadline is April 30. For more details, see the Call for papers.

5. Visitors

Winter 2014/Spring 2015

Fernando Alvarez
University of Chicago

Luca Anderlini
Georgetown University

Joshua Angrist
MIT

Sandro Brusco
Stony Brook University

Sebastian Buhai
Stockholm University

Dan Cao
Georgetown University

Robert S. Chirinko
University of Illinois at Chicago

Elena Cottini
Università Cattolica del Sacro Cuore

Luca De Benedictis
Università di Macerata

Francesco Decarolis
Boston University

Pasquale Della Corte
Imperial College London

Swati Dhingra
London School of Economics

Joan Esteban
Barcellona GSE

Paola Giuliano
University of California, Los Angeles

Gene Grossman
Princeton University

Veronica Guerrieri
Chicago Booth School of Business

Elhanan Helpman
Harvard University

Helios Herrera
HEC Montreal

Rozbeth Hosseini
Arizona State University

Anastasios Karantounias
Federal Reserve Bank of Atlanta

Edi Karni
John Hopkins University

Aubhik Khan
Ohio State University

Marie Lalanne
Research Center SAFE

Giuseppe Lopomo
Duke University's Fuqua School

Guido Lorenzoni
Northwestern University

Kiminori Matsuyama
Northwestern University

Laura Mayoral
Barcellona GSE

Gianmarco Ottaviano
London School of Economics

Adrien Matray
HEC Paris

Ed Nosal
Federal Reserve Bank of Chicago

Francesco Pappadà
HEC Lausanne

Ganna Pogrebna
University of Warwick

Enrichetta Ravina
Columbia University

Debraj Ray
New York University

Lorenza Rossi
Università di Pavia

Nicolas Roys
University of Wisconsin

Tano Santos
Columbia University

Lucio Sarno
Cass Business School

Amit Seru
Chicago Booth School of Business

Giancarlo Spagnolo
Stockholm School of Economics

Julia Thomas
Ohio State University

Jeff Thurk
University of Notre Dame

Stijn Van Nieuwerburgh
New York University Stern

Laura Veldkamp
New York University Stern

Andrea Vindigni
IMT Institute for Advanced Studies Lucca

Michael Weber
Chicago Booth School of Business

Pierre Yared
Columbia University

William Zame
University of California, Los Angeles

Anastasia Zervou
Texas A&M University

Further information on 2015 Visiting Program is available here.

6. Grants

In Fall 2013 EIEF invited applications to fund eight new, one-year research projects, carried out by young researchers based in an Italian institution. In April 2014 EIEF awarded eight new grants to:

Elena COTTINI
Università Cattolica del Sacro Cuore di Milano
"Job disamenities and worker risk profiles"

Leo FERRARIS
University of Rome, "Tor Vergata"
"On the coexistence of money and collateralized credit"

Antonio FILIPPIN
Università degli Studi di Milano
"The measurement of risk attitudes in the field: an application to disordered gambling"

Tommaso OLIVIERO
University of Naples, Federico II
"CEO incentives, capital structure, regulation and bank-risk taking: theory and evidence from cross-country analysis "

Raimondello ORSINI
Alma Mater Studiorum - Università di Bologna
"Exploring the link between just deserts and honesty: a cross-country experiment"

Marcello PUCA
University of Naples, Federico II
"Collective decision making when communication is costly"

Cristina TEALDI
IMT Institute for Advanced Studies, Lucca
"Temporary workers, educational mismatch and firm productivity"

Antonella TRIGARI
Università Bocconi
"Unemployment fluctuations, match quality, and the wage cyclicality of new hires"

In Fall 2014 EIEF invited again applications to fund eight new research projects. 38 proposals were received. The process of selection is still under way. The list of awarded grants will be available here.

7. Graduate Program

The 2014-15 edition of the EIEF Graduate Program began, as in the last few years, with review classes in Micro, Macro, Econometrics and Finance. These classes, held in September-October 2014, before the start of the regular courses, are meant to be a quick refresher on topics that should be largely familiar and also as a self-assessment tool, helping students to identify those areas of their background training that need to be worked on.

Following these review courses, the topics covered in the Fall 2014 session were: Industrial Organization, Theory of Money, Latent Variables Models, Topics in Macroeconometrics, Corporate Finance, Theoretical and Empirical Asset Pricing.

The courses offered in the Spring 2015 session include Economics and Politics, Economics of Networks, Fluctuations and Empirical Issues in a Monetary Economy, Macroeconomic Policy, Bootstrap and Asymptotic Refinements, Advanced Econometrics, Topics in VAR Modelling, Finite Mixture Models, Econometrics of DSGE Models, Household Finance and Banking.

Further information on these courses is available here.

8. Seminars

As in previous years, EIEF has organized an intense program of seminars. The Institute offers two weekly seminars (one more macro/theory and the other more applied/empirical) and less regular series of lunch seminars and special lectures.

Regarding the **macro/theory** series, presenters included: **Tobias Adrian** (Federal Reserve Bank of New York), **Laurence Ales** (Carnegie Mellon University), **Marnix Amand** (HEC Lausanne), **Bo Becker** (Stockholm School of Economics), **David Berger** (Northwestern University), **Tobias Broer** (Stockholm University), **Nicola Gennaioli** (Università Bocconi), **Piero Gottardi** (European University Institute), **Pierre-Olivier Gourinchas** (UC, Berkeley), **Oleg Itskhoki** (Princeton University), **Peter Karadi** (European Central Bank), **David Laibson** (Harvard University), **Giorgio Primiceri** (Northwestern University), **Morten Ravn** (University College London), **Dmitriy Sergeyev** (Università Bocconi), **Neil Wallace** (Pennsylvania State University), **Fabrizio Zilibotti** (University of Zurich).

Regarding the **applied/empirical** series, presenters included: **Stanislav Anatolyev** (New Economic School), **Susanto Basu** (Boston College), **Stefano Della Vigna** (UC, Berkeley), **Rosa Ferrer** (Universitat Pompeu Fabra), **Paul Grieco** (Pennsylvania State University), **Botond Koszegi** (Central European University), **Thierry Mayer** (Science - Po), **Ryan McDevitt** (Duke University's Fuqua School of Business), **Itay Saporta-Eksten** (Tel Aviv University), **Matthias Sutter** (European University Institute), **Catherine Thomas** (London School of Economics), **Tommaso Valletti** (Imperial College London), **Fabian Waldinger** (University of Warwick).

Further information on past and forthcoming seminars is available here.

9. Latest Working Papers

Highlights of some recent EIEF Working Papers are presented below. The full list is available here.

WP 2015/03

In "The Flattening of the Phillips Curve and the Learning Problem of the Central Bank", Jean-Paul L'Huillier and William Zame illustrate an intuitive channel through which price stickiness limits the ability of a Central Bank to improve welfare through stabilization policy. They consider a Central Bank with a dual objective: stabilization of economic activity from nominal disturbances in the short run, and achievement of an inflation target in the long run. In their microfounded information-based model, price stickiness is derived endogenously, as a function of the parameters of the economic environment, including monetary policy itself. Their analysis shows that, when taking into account how agents react to the adoption of inflation targeting, both objectives are not always compatible with each other. In particular, inflation targeting limits the ability of the Central Bank to get information about nominal disturbances, and this makes it unable to stabilize the economy.

WP 2015/02

In "Cash burns: An inventory model with a cash-credit choice" Francesco Lippi and Fernando Alvarez present a model that characterizes the relationship between optimal dynamic cash management and the choice of the means of payment. The sequential nature of the payments choice is a novel feature of this framework: in each instant the agent can choose to pay with either cash or credit. The model predicts that the current level of cash holdings determines whether the agent uses cash or credit. Cash is used whenever the agent has enough of it, while credit is used when cash holdings are low, a pattern recently documented by households' data from several countries. The average level of cash holdings and the average share of expenditures paid in cash depend on the opportunity cost of cash relative to the cost of credit. The model produces a rich set of over-identifying restrictions for consumers' cash-management and payment choices, which can be tested using recent households' surveys and diary data.

WP 2015/01

In "Corporate Culture, Societal Culture, and Institutions" Luigi Guiso, with Paola Sapienza and Luigi Zingales, show that, while both culture and institutions help foster cooperation, culture is the more primitive of the two and itself sustains formal institutions. Although in the last twenty years economists have resorted to the role of the latter to explain the causes of national prosperity, the authors claim that informal institutions (that is culture) are at least as important. While disentangling the effects of the two is difficult in large societies, it can be more easily achieved inside corporations. Thus corporate culture is not only interesting per se, but is also as a laboratory to study the role of societal culture and the way it can be changed.

10. Recently published papers

Forthcoming

"*Unemployment and Productivity in the Long Run: The Role of Macroeconomic Volatility*", Pierpaolo Benigno (with Ricci, L. A., and P. Surico), **Review of Economics and Statistics**.

"*Inequality and Relative Ability Beliefs*", Jeffrey V. Butler, **Economic Journal**.

"*Trust and Cheating*", Jeffrey V. Butler and Luigi Guiso (with P. Giuliano), **Economic Journal**.

"*Trust, Values and False Consensus*", Jeffrey V. Butler and Luigi Guiso (with P. Giuliano), **International Economic Review**.

"*Corporate Culture, Societal Culture, and Institutions*", Luigi Guiso (with Sapienza, P., and L. Zingales), **American Economic Review (Papers & Proceedings)**.

"*The value of corporate culture*", Luigi Guiso (with Sapienza, P., and L. Zingales), **Journal of Financial Economics.**

"*Matching Firms, Managers and Incentives*", Luigi Guiso (with Bandiera, O., Prat, A., and R. Sadun), **Journal of Labor Economics**.

"*How Much can Financial Literacy Help?*", Luigi Guiso (with E. Viviano), **Review of Finance**.

"*Accounting Transparency, Tax Pressure and Access to Finance*", Marco Pagano (with Ellul, A., Jappelli, T., and F. Panunzi), **Review of Finance**.

"*Immigration, Housing Discrimination and Employment*", Eleonora Patacchini (with Boeri, T., De Philippis, M., and M. Pellizzari), **Economic Journal**.

"*Endogenous Network Production Functions with Selectivity*", Eleonora Patacchini (with Horrace, W.C., and X. Liu), **Journal of Econometrics**.

"*Unexplored Dimensions of Discrimination in Europe: Homosexuality and Phisical Appearance*", Eleonora Patacchini (with Ragusa, G., and Y. Zenou), **Journal of Population Economics**.

"*Ranking scientific journals via latent class models for polytomous item response data*", Franco Peracchi (with Bartolucci, F., and V. Dardanoni), **Journal of the Royal Statistical Society: Series A**.

"*Spending Biased Legislators: Discipline through Disagreement*", Facundo Piguillem (with A. Riboni), **Quarterly Journal of Economics**.

"*Managerial Practices and Students' Performance*", Fabiano Schivardi (with Di Liberto, A., and G. Sulis), **Economic Policy**.

"*Exports and Wages: Rent Sharing, Workforce Composition or Returns to Skills?*", Fabiano Schivardi (with M. Macis), **Journal of Labor Economics**.

"*Trust, Leniency and Deterrence*", Giancarlo Spagnolo (with Bigoni, M., Le Coq, C., and S. Fridolfsson), **Journal of Law, Economics and Organization**.

2015

"*The Simple Micro-Economics of Public-Private Partnerships*", Elisabetta Iossa (with D. Martimort), **Journal of Public Economic Theory**, 2015, Volume 17, Issue 1, pages 4-48.

"*Dynamic Factor Models with Infinite-Dimensional Factor Spaces: One-Sided Representations*", Marco Lippi (with Forni, M., Hallin, M., and P. Zaffaroni), **Journal of Econometrics**, 2015, Volume 185, Issue 2, pages 359-371.

"*Predicting the Distribution of Stock Returns: Model Formulation, Statistical Evaluation, VaR Analysis and Economic Significance*", Daniele Massacci, **Journal of Forecasting**, 2015, Volume 34, Issue 3, pages 191-208.

"*Optimal Life Cycle Unemployment Insurance*", Claudio Michelacci (with H. Ruffo), **American Economic Review**, 2015, Volume 105, Issue 2, pages 816-859.

"*Multiple-Bank Lending, Creditor Rights, and Information Sharing*", Marco Pagano (with Bennardo, A., and S. Piccolo), **Review of Finance**, 2015, Volume 19, Issue 2, pages 519-570.

"*Static and Dynamic Networks in Interbank Markets*", Eleonora Patacchini (with Cohen-Cole, E., and Y. Zenou), **Network Science**, 2015, Volume 3, Issue 01, pages 98-123.

"*Migration, Friendship Ties, and Cultural Assimilation*", Eleonora Patacchini (with Facchini, G., and M. F. Steinhardt), **Scandinavian Journal of Economics**, 2015, Volume 177, Issue 2, pages 619-649.

"*Model Averaging Estimation of Generalized Linear Models with Imputed Covariates*", Franco Peracchi (with Dardanoni, V., De Luca, G., and S. Modica), **Journal of Econometrics**, 2015, Volume 184, Issue 2, pages 452-463.

"*Testing for Time-Invariant Unobserved Heterogeneity in Generalized Linear Models for Panel Data*", Franco Peracchi (with Bartolucci, F., and F. Belotti), **Journal of Econometrics**, 2015, Volume 184, Issue 1, pages 111-123.

"*Bibliometric Evaluation vs. Informed Peer Review: Evidence from Italy*", Franco Peracchi (with Bertocchi, G., Gambardella, A., Jappelli, T., and C.A. Nappi), **Research Policy**, 2015, Volume 44, Issue 2, pages 451-466.

"*Time Horizon and Cooperation in Continuous Time*", Giancarlo Spagnolo (with Bigoni, M., Casari, M., and A. Skrzypacz), **Econometrica**, 2015, Volume 83, Issue 2, pages 587-616.

"*Legalizing Bribe Giving*", Giancarlo Spagnolo (with M. Dufwenberg), **Economic Inquiry**, 2015, Volume 53, Issue 2, pages 836-853.

"*Prisoners' other Dilemma*", Giancarlo Spagnolo (with M. Blonski), **International Journal of Game Theory**, 2015, Volume 44, Issue 1, pages 61-81.

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"*Debt Deleveraging and The Exchange Rate*", Pierpaolo Benigno (with F. Romei), **Journal of International Economics**, 2014, Volume 93, Issue 1, pages 1-16.

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