EIEF NEWSLETTER: SPRING 2016

EIEFNews

EINAUDI INSTITUTE FOR ECONOMICS AND FINANCE

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Claudio Michelacci and Fabiano Schivardi claim that low education of Italian entrepreneurs might be at the root of the country's long lasting stagnation.

Francesco Decarolis and Luigi Paciello were awarded two Starting Grants from the European Research Council.

A new CEPR network on Household Finance has been established with the contribution of the AXA Chair at EIEF.

EIEF hired a new Assistant Professor in Finance on the 2016 junior market.

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President
Marco Pagano

Director
Daniele Terlizzese

EIEF
Via Sallustiana, 62
00187 Roma
Tel. : +39-06-67 90 013, +39-06-67 97 105
www.eief.it

1. The Uneducated Italian Entrepreneurs: a Cause of Decline?

by Claudio Michelacci and Fabiano Schivardi[1]

Does Education matter for Entrepreneurship?

Entrepreneurial activity can promote a country's prosperity by driving business creation, innovation, and job creation. But we know little about how to stimulate entrepreneurship and in particular on whether skill and formal education have become increasingly important in determining entrepreneurial success. The anecdotal evidence is somewhat mixed. For example the recent boom in the number of high tech firms created by US entrepreneurs with a PhD degree suggests a potential increase in the return to education of entrepreneurs. But it is also true that some of the most successful recent US companies, such as Apple, Microsoft, and Facebook were started up by well-known college drop-outs such as Steve Jobs, Bill Gates, and Mark Zuckerberg. Their cases are all but exceptional: past history contains plenty of examples of successful entrepreneurs who received little or no formal education.[2]

A booming return to higher education

In our recent research we collect novel evidence on the evolution of the educational composition and the return to education of US entrepreneurs. The Survey of Consumer Finances (SCF) was used over the period 1989-2013 to aid us in identifying *entrepreneurs* as individuals whose primary job consists of actively managing one or more privately-held businesses, which they own in part or in full. According to this criterion, around 10% of employed individuals in the US are entrepreneurs. To measure the return to entrepreneurship, we take into account the fact that an important part of the income of entrepreneurs comes from capital gains obtained upon selling the business. An entrepreneur also immobilizes part of his wealth as well as his human capital in his business. Upon exit (due to failure or because the business is sold), the entrepreneur obtains back some wealth, while his human capital can be re-employed in the labor market. Based on these insights we measure the return to entrepreneurship by calculating the average expected yearly income that the entrepreneur obtains during his entrepreneurial experience as resulting from entrepreneurial labor income, dividend payments, and capital gains. We group entrepreneurs depending on whether they have (i) a post-graduate degree, (ii) a college degree, (iii) a high school degree, or (iv) are high school dropouts.

Panel (a) of Figure 1 shows that in the US the composition of entrepreneurs by educational attainment has remained fairly stable over the period. Panel (b) of Figure 1 excludes high school dropouts due to their limited sample size and characterizes the evolution of the return from entrepreneurship for the remaining three educational groups.

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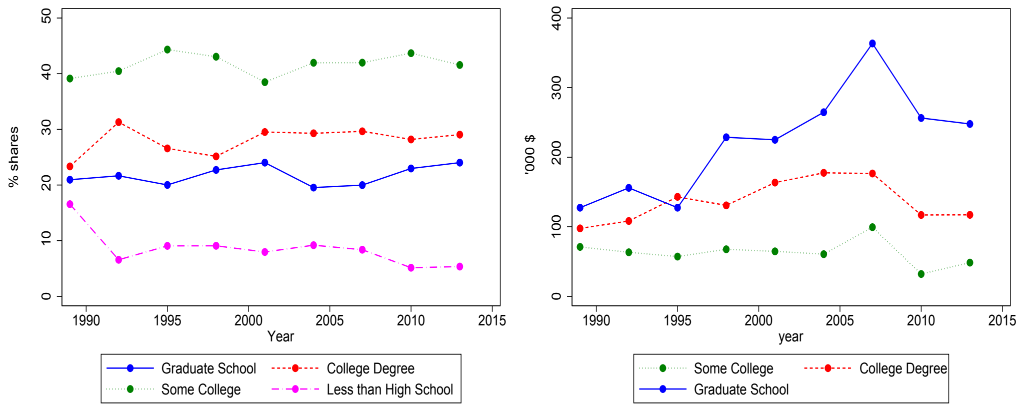
(1) This article draws freely from our paper: "*Are They All Like Bill, Mark, and Steve? The Education Premium for Entrepreneurs*", EIEF Working Paper, forthcoming.

(2) Michael Dell founder of Dell Computers and Ralph Lauren CEO and Chairman of Ralph Lauren Corp are examples of well-known entrepreneurs who dropped out of college. George Eastman founder of Kodak, Henry Ford founder of Ford Motor Company, John D. Rockefeller Senior founder of Standard Oil, Ray Kroc founder of McDonald's and Walt Disney founder of the Walt Disney Company are all examples of entrepreneurs who did not even attend college and in some cases (Eastman, Kroc, Rockefeller, and Disney) did not even complete their high school studies.

Figure 1: Evolution of educational shares and individual returns of US entrepreneurs



(a) Educational shares (b) Entrepreneurial Return

Notes: Returns are measured at constant 2010 prices. See Michelacci and Schivardi (2016)

Entrepreneurs with a post-graduate degree now earn more than twice as much as they used to earn in the early 90's. The analogous percentage increase for entrepreneurs with a college degree is at most 50 percent, while for entrepreneurs with less than a college degree the increase is almost absent. Today an entrepreneur with a post-college degree earns on average in a typical year 100,000 dollars more than an entrepreneur with just a college degree. This difference was close to zero back in the late 80's.

The sharp increase in the skill premium for entrepreneurs with post-graduate education is partly due to the higher dividends paid by the firm they ran and partly due to the higher capital gains obtained when selling their business. The premium for postgraduate education has increased substantially more for entrepreneurs than for workers; this holds true both for entrepreneurs with a Master or an MBA degree and for those with a PhD; moreover it has remained high since the Great Recession (despite a drop in absolute returns), and it increases substantially when looking at the higher deciles of the entrepreneurs income distribution. All this suggests that higher education has become increasingly important to promote US entrepreneurship. The experience of "Mark, Bill and Steve" was the exception rather than the rule.

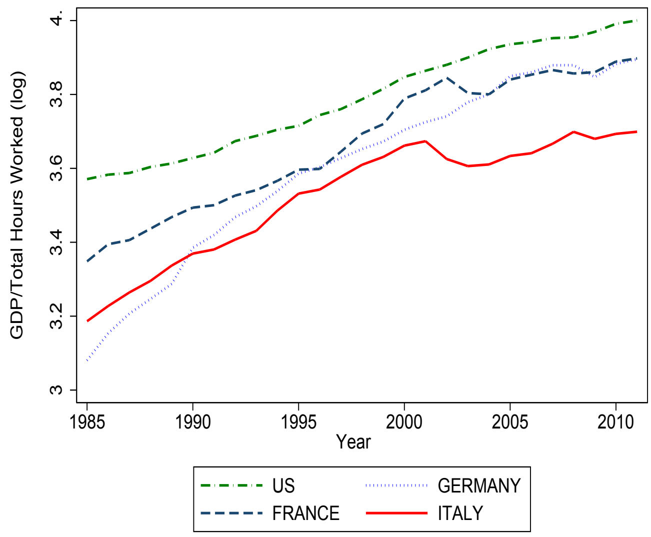
Why has it increased?

There are several reasons that can explain why higher education has become increasingly important to run successful businesses in the US. It could be that higher and better education allows entrepreneurs (i) to select and get specialized in sectors with larger investment opportunities; (ii) to create businesses that embody the better and more advanced technologies made available by the ongoing technological revolution; (iii) to better access external financing; or (iv) to simply better manage their businesses, a skill which is especially relevant in a globalized, more competitive and dynamic economic environment. While (i), (ii) and (iii) play some role in accounting for the evidence, we conclude that most of the increase in the return to skill is due to (iv) and to the paramount importance of advanced sophisticated skills in managing today's businesses.

The Italian experience

This evidence has important and somewhat worrisome implications for the Italian economy. Italian productivity stopped growing approximately at the time when the return to skill in entrepreneurship started to boom. The evidence presented in our research suggests that this might not be coincidental. As shown in Figure 2 the relative fall in Italian labor productivity has been spectacular: since the late 90s' Italy's labor productivity has fallen by around 20-30 percent compared to the US, France and Germany; such a worsening in such a short period, is large by any historical perspective.

Figure 2: The Italian disease: Labor productivity



Source: Penn World Table 8.0.

A revealing, and so far neglected feature of the Italian economy, relative to other industrialized countries, is represented by the low educational level of its entrepreneurs. Table 1 reports the educational composition of entrepreneurs in different economies in 2009-2010, as obtained from the Global Entrepreneurship Monitor (GEM) dataset. An entrepreneur is defined as an individual of 18 to 64 years of age who is actively involved in owning and managing one or more businesses.

Table 1: Educational level of Entrepreneurs in some countries

Country	None	Some secondary	Secondary	Post Secondary	Total
Italy	7	28	46	19	100
France	9	20	34	36	100
Germany	2	32	34	31	100
Spain	7	31	19	43	100
United Kingdom	3	15	33	48	100
United States	2	9	23	65	100
Japan	n.a.	4	41	55	100
Brazil	33	9	45	13	100
China	9	30	34	26	100

Source: Global Entrepreneurship Monitor (GEM) for 2009-2010. An entrepreneur is defined as an individual with 18 to 64 years of age who is actively involved in owning and managing one or more businesses.

The fraction of Italian entrepreneurs with more than secondary education is around 19 percent. The analogous fraction for France and Germany is above 30, it is around 50 in the UK and around 65 in the US. Along this dimension Italy compares favourably just with Brazil, but performs substantially worse than emerging economies such as China. A similar ranking emerges when looking at newly created businesses or when focusing on large businesses (with more than 100 employees). If entrepreneurial skills matter increasingly more for the success of today's businesses, some natural concerns emerge for the present and future prospects of the Italian economy.

Inadequate higher education or improper entrepreneurial environment?

The low skill level of Italian entrepreneurs is likely to reflect the poor quality of higher education in Italy as well as the low educational level of the Italian population as a whole. It could also be due to an unfriendly economic environment for high skill entrepreneurial activities that might prompt the most talented Italians to either migrate or look for a career different from becoming entrepreneur. Whatever the reason, the Italian economy keeps losing ground compared to other advanced economies. Increasing the educational attainments of those choosing to become entrepreneurs might be a key step to reverting this trend.

2. New people at EIEF

Francesco Decarolis joined EIEF's Faculty in February 2016 as an Associate Professor, after having been an Assistant Professor at the University of Wisconsin at Madison and, more recently, at Boston University. He obtained his Ph.D. at the University of Chicago and held visiting positions at the University of Pennsylvania and Stanford University. He is also a Research Affiliate in the Industrial Organization programme of the CEPR. His research interest focuses on industrial organization, market design and health economics. He published several articles in distinguished international journals and he was recently awarded a prestigious Starting Grant from the European Research Council (ERC) for his research project on reputation and corruption in public procurement (more details are provided in the next article of this Newsletter). Francesco has been a visiting professor at EIEF for several years and his presence will strengthen the micro-applied group of researchers at the Institute.

In January 2016 EIEF participated in the **junior job market** in San Francisco and hired one new Assistant Professor with a tenure-track position: Luana Zaccaria from the London School of Economics and Political Science, who will join EIEF's faculty next summer.

Luana Zaccaria's main fields of interest are corporate finance and governance, financial intermediation and entrepreneurship; her research interests well match those of other researchers at EIEF. Her job market paper: "Are Family and Friends the Wrong Investors? Evidence from U.S. Startups" asks the question of whether, and in which direction, funding by family and friends (*informal funding*) in the initial stages of an entrepreneurial firm affects the firm's subsequent access to capital. To empirically address these questions Luana created a new and rich dataset, whose data is hand-collected from SEC filings (Form Ds), which are mandatory for any private placements by U.S. firms. The obvious difficulty in estimating the effects of *informal funding* on firm's subsequent access to capital is endogeneity: *informal funding* is not randomly assigned to firms, and firms using it might have unobservable characteristics that hamper subsequent access to funding. Luana addresses this problem with an instrumental variable strategy based on the idea that entrepreneurs' access to *informal funding* is affected by the size of their family networks. In particular, she proposes an instrument based on the frequency with which founders' last names occur in the Census survey, with infrequent last names identfying small extended family networks. The estimates indicate that in a first round of financing *informal funding* reduces between 15% and 19% the probability that an entrepreneurial firm receives a second round of financing.

3. Two ERC Starting Grants

Luigi Paciello and Francesco Decarolis, both Associate Professors at EIEF, were awarded two Starting Grants from the European Research Council (ERC) in the most recent and highly selective competition for European funds given to young researchers. From 2016 the Grants will finance two multi-year projects and EIEF will be the host institution. It is worth recalling that four other EIEF researchers (Pierpaolo Benigno, Francesco Lippi, Claudio Michelacci and Marco Pagano) currently hold an ERC Advanced or Consolidator Grant.

Luigi's research proposal: "*Macroeconomic Dynamics with Product Market Frictions*" aims to study the underpinnings of aggregate demand dynamics, its interaction with firm pricing, and its implication for the transmission of monetary and fiscal policy. Using a comprehensive dataset on households' purchases, the research will produce novel empirical evidence on the dynamics and composition of demand at the household level. The project highlights the importance of the extensive margin of demand: how many and which suppliers a household is buying from at a given point in time. This empirical analysis is crucial both to advance our knowledge of which margins are relevant in firm's pricing decisions, and to quantify the relevance of the relationship between a firm's customer base and its pricing for macro dynamics. A working paper by Luigi, coauthored with Andrea Pozzi and Nicholas Trachter: "Price Dynamics with Customer Markets" suggests that incentives of customers to search for alternative suppliers vary with the business cycle, influencing firms' competition for customers and demand elasticity. Dynamics in the dispersion of prices affect consumers' incentives to search for new suppliers, and offer a new perspective to the transmission of aggregate inflation and monetary policy to firm's pricing. The resulting counter-cyclical markups amplify the impact of demand shocks on output and employment fluctuations.

Francesco's research proposal is on "*The Role of Reputation and Corruption in Procurement*". Nearly all activities in which the public sector is involved, from defense to transportation, from education to healthcare, require the public sector to procure works or goods from private contractors. Thus, it is crucial that the procedures through which procurement occurs be designed to avoid waste and enhance social welfare. Preventing corruption and ensuring contractor compliance with their obligations constitute primary design goals. Nevertheless, very limited evidence exists as to how different awarding methods are susceptible to corruption, and how contractors' past reputations should be used to award new tenders. Francesco's project aims to fill in these gaps. The analysis of reputational mechanisms in procurement, developed jointly with Giancarlo Spagnolo, will take advantage of the evidence produced by the large field experiment conducted by an Italian contracting authority that introduced a vendor rating system for its contract procurement. The analysis of corruption, developed jointly with Ray Fisman and Paolo Pinotti, will exploit data on corruption and criminal infiltrations in Italian procurement auctions for construction contracts with the objective to assess the relative performance of different procurement formats: first price auctions, scoring rule auctions and negotiations. Finally, the performance of these same procurement formats will be analyzed in a third project in the context of the European healthcare procurement with the aim to tie together what was learned in the previous research on reputation and corruption and to provide a market design view of the current reform of the EU procurement system.

4. The CEPR network on Household Finance

Luigi Guiso, AXA Chair Professor of Household Finance and Insurance at EIEF, is one of the founding members of the new CEPR network on household finance, established in 2015, hosted by CEPR and led by Michael Haliassos of Goethe University in Frankfurt.

The new network aims to promote outstanding scientific research on household finance and to encourage close interaction among academics, practitioners, and policy makers. Together with the annual European Conference in Household Finance, whose seventh edition will be held in Paris (information on the previous editions is available here), the network will organize other activities, which will be non-partisan, independent of industry and political parties.

In particular, on the scientific front, the network will promote rigorous research by helping to coordinate the creation and dissemination of household finance data, and by launching a high-quality academic field journal on Household Finance. The network will also establish a new annual "Workshop on Household Finance", whose main goal is to nurture research in this emerging field, giving the possibility to doctoral students working on household finance to discuss their job-market papers with a highly qualified audience. The first workshop will take place in London, on 6-7 May 2016 (the programme is available here). Another goal will be the dissemination of research findings to practitioners and policy makers while drawing on their insights in terms of research questions that have practical and policy relevance. To foster this process, the network plans to organize either an annual 'Summer Academy' for practitioners and policymakers or a Summer School for Ph.D. students. More information on future events and initiatives will be available here.

5. Conferences and other events

In 2015 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 May, EIEF hosted the 2015 edition of the 4nations cup with contestants coming from universities in Denmark, Great Britain, Italy and Sweden. The contest brought together the most promising young scholars in financial economics in one day of 'mini seminars' lasting 40 minutes each. Steffen Anderson and Morten Sørensen from the Copenhagen Business School were the winners of the competition at the end of a very exciting struggle, and thoroughly enjoied the ice-cream cup that crowned their effort!

In June, EIEF hosted and organized the fourth edition of the Rome Junior Conference on Macroeconomics, a.k.a. "Pizzanomics". 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: Greg Kaplan (Princeton University), Guillermo Ordoñez (University of Pennsylvania), Luigi Paciello (EIEF) and Stefanie Stantcheva (Harvard University). Refreshments were, of course, pizza-based.

In August, EIEF, the Centre for Studies in Economics and Finance (CSEF) and the Stanford Institute for Theoretical Economics (SITE) organized a conference on 'Finance and Labor' that brought together researchers from financial and labor economics in order to discuss the topic from the point of view of both disciplines. The conference was funded by two ERC Advanced Grants, respectively awarded to Claudio Michelacci (EIEF) and Marco Pagano (University of Naples Federico II and EIEF). Related conferences were organized by CSEF in 2013 and by SITE in 2014.

In September, EIEF, the research center on Sustainable Architecture for Finance (SAFE) at Goethe University Frankfurt, the Copenhagen Business School, HEC Paris and the Swedish House of Finance (SHoF) organized the sixth edition of the European Conference on Household Finance, held in Frankfurt.

In November, EIEF hosted the presentation of the Global Monitoring Report of the World Bank and the International Monetary Fund for 2015-2016, "Development Goals in an Era of Demographic Change", co-organized with the World Bank Group. The report assesses the progress towards ending extreme poverty by 2030, provides updated estimates for the number of people living in this condition, and analyzes how profound demographic shifts could alter the course of global development.

Always in November, EIEF hosted the 2015 Strategic Forum on "Measuring economic, social and environmental resilience", a joint initiative of the International Economic Association (IEA), the International Statistical Institute (ISI), OECD and the OECD-hosted High-Level Expert Group on the Measurement of Economic Performance and Social Progress, sponsored by SAS and supported by the Bank of Italy and the Italian National Institute of Statistics (Istat). The meeting was devoted to discussing how the concept of resilience, originally developed in physical sciences, can be extended and applied to the economic and financial systems and also to ecosystems. In the final roundtable several suggestions were put forward with the aim to design innovative policies and business strategies able to make social and ecological systems more resilient.

In December, EIEF hosted the 5th EIEF-UNIBO-IGIER Bocconi Workshop on Industrial Organization, jointly organized with the Bologna Center for Law and Economics (BCLE-University of Bologna) and IGIER-Bocconi. The workshop aims to strengthen the relationship among Italian economists working in this field, both in Italy and abroad. Contributions in theoretical and empirical Industrial Organization were equally represented. The presenters included: Vincenzo Denicolò (Università di Bologna), Giancarlo Spagnolo (Stochkolm School of Economics and EIEF) and Tommaso Valletti (Imperial College London).

In February 2016 EIEF hosted the presentation of the World Development Report of the World Bank 2016: Digital Dividends, co-organized with the World Bank Group. The report documents how digital technologies have boosted growth and welfare in many contexts, but it also finds that the benefits have gone especially to those best equipped to take advantage of the digital revolution. The event was introduced by Salvatore Rossi, Senior Deputy Governor of the Bank of Italy and, to follow, the report was presented by Uwe Deichmann (World Bank) and discussed by Aura Bertoni (Bocconi University) and Antonio Nicita (Autorità per le Garanzie nelle Comunicazioni).

Forthcoming Conferences and Workshops in 2016

On June 6-7, EIEF will host and organize the "*1st Rome Junior Finance Conference*". Further information will be available here.

On June 23-24, EIEF will host and organize the "*1st Rome Junior Conference on Applied Microeconomics*". Further information will be available here.

On June 27-28, EIEF will host and organize the fifth edition of the "*Rome Conference on Macroeconomics*". Further information will be available here.

On July 4-5, EIEF will host and organize the second edition of the "*Summer Workshop in Political Economy*", focussing on research at the intersection of political economy, public finance, and macroeconomics. Further information will be available here.

On September 8-9, the CSEF, EIEF and SITE will organize a conference on 'Labor and Finance', which will be held in Capri. The submission deadline is April 30, 2016. For more details, see the Call for Papers.

6. Visitors

Winter 2015/Spring 2016

Luca Anderlini
Georgetown University

Joshua Angrist
MIT

Costa Arkolakis
Yale University

Sohnke Bartram
University of Warwick

Luigi Bocola
Northwestern University

Fernanda Brollo
University of Warwick

Robert S. Chirinko
University of Illinois at Chicago

Pascal Courty
University of Victoria

Francesco D'Acunto
University of Maryland

Jean Pierre Danthine
Université de Lausanne

Alessandro Dovis
Pennsylvania State University

Sebastian Dydra
University of Toronto

Juan Escobar
University of Chile

Pablo Fajgelbaum
University of California, Los Angeles

John Gregg Fernald
Federal Reserve Bank of San Francisco

Raquel Fernandez
New York University

Andrea Ferrero
University of Oxford

Vasiliki Fouka
Stanford University

Pietro Garibaldi
Collegio Carlo Alberto, University of Turin

Paola Giuliano
University of California, Los Angeles

Mikhail Golosov
Princeton University

Juan Carlos Gozzi Valdez
University of Warwick

Antonio Guarino
University College London

Henry Hansmann
Yale Law School

Helios Herrera
HEC Montreal

Hugo Hopenhayn
University of California, Los Angeles

Thibaut Lamadon
University of Chicago

Giuseppe Lopomo
Duke's Fuqua School of Business

Sydney Ludvigson
New York University

Neale Mahoney
Chicago Booth School of Business

Adrien Matray
Princeton University

Guido Menzio
University of Pennsylvania

Mikko Mustonen
Aalto School of Economics

Jaromir Nosal
Columbia University

Toan Phan
University of North Carolina at Chapel Hill

Maria Jose Prados
University of Southern California

Nancy Qian
Yale University

Alessandro Riboni
Ecole Polytechnique

Bee-Yan Roberts
Pennsylvania State University

Mark Roberts
Pennsylvania State University

Orly Sade
Hebrew University

Thomas Sampson
London School of Economics

Francesco Sangiorgi
Stockholm School of Economics

Raphael Schoenle
Brandeis University

Felix Tintelot
University of Chicago

Nicholas Trachter
Federal Reserve Bank of Richmond

Giorgio Valente
City University of Hong Kong

Michael Weber
Chicago Booth School of Business

Further information on 2016 Visiting Program is available here .

7. Grants

In Fall 2014 EIEF invited applications to fund eight new, one-year research projects, carried out by young researchers based in an Italian institution. In June 2015 EIEF awarded eight new grants to:

Marianna BELLOC
Sapienza Università di Roma, CESifo
"Top Income Distribution in the Long Run"

Astrid GAMBA
Università degli Studi di Milano - Bicocca
"Mis-Judging Merit"

Simone MORICONI
Università Cattolica del Sacro Cuore, Milano
"Is there a Cultural Dimension of Unemployment Attitudes? Theory and Evidence from International Migration"

Öznur ÖZDAMAR
Alma Mater Studiorum - Università di Bologna
"The Causal Effect of Air Pollution on Infant and Child Health Outcomes: A Natural Experiment Using the London Congestion Charge Policy"

Loriana PELIZZON
Università Ca' Foscari di Venezia
"The Impact of QE Interventions on Market Liquidity and Limits to Arbitrage"

Giovanni PRAROLO
Alma Mater Studiorum - Università di Bologna
"Geography, Demographic Shocks and Political Institutions: a Cell Level Disaggregated Analysis of Long-Term Development of Pre-Industrial Europe "

Matteo RIZZOLI
Libera Università Maria SS. Assunta LUMSA
"Being Bourgeois: Cross-cultural Experiments on the Establishment of Private Property"

Francesco SOBBRIO
Università Cattolica del Sacro Cuore, Milano
"War of the Wawes: Radio Propaganda, Violence and Political Polarization"

In Fall 2015 EIEF invited again applications to fund eight new research projects. 43 proposals were received. The process of selection is still under way. The list of awarded grants will be available here.

8. Graduate Program

The 2015-16 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 2015, 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 2015 session were: Topics in Industrial Organization, Theory of Money, Latent Variables Models, Topics in Macroeconometrics, Corporate Finance, Theoretical and Empirical Asset Pricing.

The courses offered in the Spring 2016 session include Empirical Industrial Organization, Economics and Politics, Monetary Policy, Heterogeneous-Agent Models, Empirical Macroeconomics, Topics in VAR Modelling, Advanced Econometrics, Finite Mixture Models, Econometrics of DSGE Models, Household Finance, Prices and Information in Financial Markets, Evidence and Methodologies in Empirical Banking, Microeconomics of Banking and Financial Markets Regulations.

Further information on these courses is available here.

9. 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: **Wei Cui** (University College London), **Jared Diamond** (University of California, Los Angeles), **Martin Dufwenberg** (Bocconi University), **Jordi Gali** (Universitat Pompeu Fabra), **Gene Grossman** (Princeton University), **Pat Kehoe** (University of Minnesota), **Nenad Kos** (Bocconi University), **Enrico Perotti** (University of Amsterdam), **Jose-Luis Peydrò** (Universitat Pompeu Fabra), **Edouard Schaal** (New York University), **Andre Silva** (Universidade Nova de Lisboa), **Peter Norman Sørensen** (University of Copenhagen), **Guido Tabellini** (Bocconi University), **Ludo Visschers** (University of Edinburgh), **Gianluca Violante** (New York University).

Regarding the **applied/empirical** series, presenters included: **Mark Bils** (University of Rochester), **Antonio Ciccone** (University of Mannheim), **A. Kerem Cosar** (Stockholm School of Economics), **Jeremiah Dittmar** (London School of Economics), **Christian Dustmann** (University College London), **Rodolfo Manuelli** (Washington University in St. Louis), **Anders Rahbek** (University of Copenhagen), **Carlos Santos** (NOVA School of Business and Economics), **Fabio Schiantarelli** (Boston College), **Alan Sorensen** (University of Wisconsin), **Matthias Thoenig** (HEC Lausanne), **Pietro Veronesi** (Chicago Booth School of Business), **Noam Yuchtman** (University of California, Berkeley).

Further information on past and forthcoming seminars is available here.

10. Latest Working Papers

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

WP 2016/03

In "The Sovereign-Bank Diabolic Loop and ESBies" **Marco Pagano** and other economists present a simple model to analyze the feedback loop between sovereign and bank solvency risk and to explore whether and how this loop can be defused by restricting banks' portfolio of sovereign holdings. Firstly, they show that the diabolic loop can equivalently be defused by raising banks' equity requirements or by restricting their holdingsof domestic sovereign debt. Secondly, restricting banks to hold only a senior tranche of domestic sovereign debt is more effective than requiring them to diversify their sovereign portfolios across countries. Thirdly, requiring banks to hold only the senior tranche of an internationally diversified sovereign portfolio (ESBies in the euro-area context) turns out to be even more effective.

WP 2016/04

In "Short-Selling Bans and Bank Stability" **Marco Pagano**, with Alessandro Beber and Daniela Fabbri, test the effectiveness of bans on short sales imposed by regulators in both the 2008-09 subprime crisis and in the 2011-12 euro debt crisis to avoid that a collapse in a bank's stock price could lead to funding problems, triggering further price drops, hence undermining bank stability. To this aim, they estimate panel data regressions for 13,473 stocks in 2008 and 16,424 stocks in 2011 in 25 countries, taking the endogeneity of short-selling bans into account. The results show that, contrary to the regulators' intentions, in neither crisis were the bans associated with increased bank stability. Instead, when financial institutions were subjected to a short-selling ban, they displayed larger share price drops, greater return volatility and higher probability of default.

WP 2016/05

In "Politics in the Family. Nepotism and the Hiring Decisions of Italian Firms" **Stefano Gagliarducci**, with Marco Manacorda, estimate the effects of family connections to public officials on individuals' labor market outcomes in Italy. By exploiting the unique piece of information available in two Italian databases, the authors are able to match public officials and workers based on similar last names and place of birth and to identify relatively small groups of individuals, hence offering the possibility to identify, although imprecisely, family connections. They estimate that the monetary return to having a politician in the family is in the order of 3.5 per cent of private sector earnings per year and that each politician is able to extract rent for his family worth between one fourth and one full private sector job per year. Moreover, the effect of nepotism is long lasting, extending well beyond the period in office.

WP 2016/06

In "Memory and Markets" **Sergei Kovbasyuk** and **Giancarlo Spagnolo** notice that, though an increasing volume of past outcomes is being recorded and made publicly accessible, part of the information is erased from the public records after some time. They investigate to what extent deletion of public records affects long-term information and market outcomes in a dynamic market model with heterogeneous sellers whose quality can change over time and where buyers can leave positive or negative feedback on sellers. The authors find that when average seller quality is low, so that buyers would not be willing to trade with no information at all on sellers, a perfect, infinite memory of past records leads to a market breakdown. They also find that in the same market configuration with limited records, stationary equilibria with trade are sustainable in the long run if the memory of positive records is short and the memory of negative ones is long.

11. Recently published papers

Forthcoming

"*Taxation and the International Mobility of Inventors*", Salomé Baslandze (with Akcigit, U., and S. Stantcheva), **American Economic Review**.

"*The Dynamic Free Rider Problem: A Laboratory Study*", Marco Battaglini (with Nunnari, S., and T. Palfrey), **American Economic Journal: Microeconomics**.

"*Growth and Fiscal Policy: a Positive Theory*", Marco Battaglini (with L. Barseghyan), **Journal of Monetary Economics**.

"*The Costs and Benefits of Balanced Budget Rules: Lessons from a Political Economic Model of Fiscal Policy*", Marco Battaglini, (with Azzimonti, M., and S. Coate), **Journal of Public Economics**.

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

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

"*The Right Amount of Trust*", Jeffrey V. Butler and Luigi Guiso (with P. Giuliano), **Journal of the European Economic Association**.

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