EIEF NEWSLETTER: SPRING 2017

EIEFNews

EINAUDI INSTITUTE FOR ECONOMICS AND FINANCE

In this issue:

Luigi Guiso identifies the determinants of the demand for populist policies recently observed in many European countries and of the corresponding offer of populist parties, in turn leading to a reduction of the distance between populist and non-populist political platforms.

EIEF and LUISS have launched the Rome Masters in Economics (RoME), a new two-year graduate course designed for a small group of highly talented students. The program will start in September 2017.

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1. Demand and Supply of Populism
by Luigi Guiso [(1)]

In the last six months, the number of searches for the word "populism" documented in Google Trends increased by a factor of five, compared to its average in 2012-2015. Concerns about the rise of populist movements are voiced both in countries facing protests against inequality and capitalist institutions and in countries where the need to protect the natives from the threats of immigrants and globalization is receiving increasing support.

These grievances and requests sit at different points of the traditional left-right political spectrum, but the movements championing them share three characteristics: (1) they claim to promote the interest of common citizens against the "elites"; (2) they pander to people's fear and enthusiasm; (3) they promote policies offering what we might call *short-term protection*, with no regard for the long-term consequences for the country. We take these three elements as definitional features of populism. Clearly, they support each other. The "anti-elite rhetoric" and the "pandering" can be effectively used to obfuscate the long-term costs of short-term oriented policies, making it easier to win elections. For example, if a non-populist politician counters a populist policy proposal stressing its future costs in terms of, say, debt accumulation or banking crises, the populist challenger might claim that this concern is actually driven by the self-interest of the elites, thus shifting the focus away from the real costs and benefits of alternative policies towards the emotional questioning of the motives behind them.

At the same time, rational and forward-looking voters should see through the obfuscation and reject the short-term protection due to its long-term costs. Instead, why do we see the support for populist policies on the rise, in so many countries at once? What are the main drivers of a "demand for populism"? Is it a global shift in voters' preferences, which is then captured by new political leaders who enter politics? What are the main drivers of a "supply of populism"?

I will address these questions, based on a recent research carried out with Helios Herrera, Massimo Morelli and Tommaso Sonno. Firstly, I will provide a comprehensive identikit of the populist voter in Europe, analyzing the common determinants of the demand for populist platforms in the European countries. In so doing, I will stress the importance of accounting for selection - the fact that some people, with specific characteristics, choose not to vote - as ignoring the voter participation decision may bias the estimates of the drivers of the voting choice and also underestimate the underlying demand for populism. I will then provide evidence on the entry of new populist parties in the political arena over time, and the electoral competition responses of non-populist traditional parties.

A simple conceptual framework

Our empirical analysis was guided by a few hypotheses on the drivers of the demand and supply of populism.

We assume that a populist platform, compared to the standard platform of an incumbent political

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(1) This article draws freely from the paper: "*Demand and Supply of Populism*", written together with Helios Herrera (Warwick University), Massimo Morelli (Bocconi University) and Tommaso Sonno (Université Catholique de Louvain), and published as EIEF Working Paper 2017/03.

party, implies an increased redistribution from higher to lower incomes and an increased job protection, particularly for the jobs most at risk of unemployment: closure to immigration or protectionist policies in trade are examples of populist proposals aimed at generating higher short-term expected income for the workers more threatened by globalization. At the same time, populist policies have a cost, largely borne in the future, which is uncertain and perceived differently by voters, according to their previous experience and level of education and information. We assume that more informed/educated people perceive this cost as being higher. Finally, we assume that the perception of the long-term sustainability of the policies pursued by the incumbent party also matters when deciding whether to vote for the populist party. In sum, we view populist vote intentions as being more likely for voters with:

1. *lower income, or in a situation of financial distress*. While richer voters have more to lose in taking the risk of empowering a populist party, the poorer and more dissatisfied with the status quo might want to take the gamble;

2. *higher perception of job insecurity.* These are the voters who are more exposed to foreign competition in the goods or labor markets, and are thus likely to benefit more from the short-term protection promised by a populist party;

3. *lower confidence in the ability of the incumbent parties to rule*, lower trust in traditional politics to be sustainable or to improve long-run perspectives;

4. *higher confidence in the sustainability of populist policies*.

Vote intentions only matter for those voters who choose to participate in the election. If participation decisions are driven by some of the variables that also influence the party choice, to draw a correct inference about the role of such variables we need to consider jointly the decision to vote for a particular party and the decision to vote at all. It is well documented (see, among others, the comprehensive work of Blais (2000)) that the incentives to turn out depend positively on income and age, on trust in the political system and on education, and depend negatively on the perceived unsustainability of new policies.[2] But these variables also influence, with opposite sign, the choice to vote for a populist party. Therefore, the populist vote preference is positively correlated with abstention. This is important, as it mitigates the populist voting potential.

Concerning the supply of populism, we assume that the decision to create a new party is only worthwhile if, upon entry, the new party can reasonably expect to grab a large enough share of power. This is affected both by voters' preferences and by features of the political system. Finally, we assume that existing parties respond to the entry of populist parties by choosing somewhat more populist policies rather than programs that mark the distance from those of the populist entrant even more.

In the following I will show that most of these theoretical predictions have a clear empirical support; after recalling how the relevant variables are measured empirically, I will consider the decision to

(2) Blais suggests that the reasons for these correlations are that people with these characteristics tend to be integrated into society, so that the act of voting expresses one's sense of belonging to the larger community.

participate in the election and the choice of the party to vote for, the creation of populist parties and the response of the traditional ones to their presence.

The data

Our main source of individual level data is the European Social Survey (ESS), mapping the attitudes, beliefs and behavior patterns of European citizens. The survey covers all European countries, though not all countries participate in all waves. Data collection has taken place every two years, since September 2002, by means of face-to-face interviews. We have used all seven waves available up to now. The ESS asks people whether they voted in the last parliamentary election in their country and which party they voted for. Therefore it is possible to obtain an indicator of participation in the election and to identify whether a populist party was voted for.[3] The ESS contains variables that either represent voters' personal characteristics (e.g. age, sex, level of education, health conditions) or allow for the construction of proxies of the unobservable variables that influence both turnout and voting decisions (e.g. perception of long-run costs of policies, time discounting and risk aversion, economic insecurity, trust in traditional politics and institutions; more details on how these proxies are defined, are in the WP quoted in footnote (1)).

Regarding the supply side of populism, we have complemented the ESS data with several other datasets, such as the World Bank Database of Political Institutions and the World Bank WITS statistics (UN Comtrade). More importantly, we have used the five waves (1999, 2002, 2006, 2010 and 2014) of the Chapel Hill Expert Survey (CHES) to study whether populism, once it appears, spills over to other non-populist parties.

What results do we find?

The demand for populism

To account for the fact that the party choice only applies to voters who participate in the election, itself a choice variable, we estimate simultaneously the decision of the voter to participate in the election as well as his/her party choice if he/she decides to go to the polls. We use a two-step Heckman probit model. This technique requires that at least one variable affects the participation decision but not the choice of the party conditional on participation; we believe that this is the case for the health status of the voters: health status affects the cost of going to the poll but, per se, it should not affect the voter's preference for populist or non-populist parties, particularly when all other controls are included.

In all specifications we control for age and trust in political parties, we include country-level fixed effects and ESS wave effects, and we use sampling weights to account for differences in sample size across countries. Country fixed effects capture all the (time invariant) features of the country context that may affect the success of populist platforms (for example, the electoral system or the level of corruption). Our final dataset includes 134,834 observations from 24 European countries.

Education - our main proxy for people's ability to foresee the long-term costs of current policies - has a positive and large effect on participation in elections and, conditional on participation, has a

(3) To identify populist parties in Europe we rely on the classification proposed in the most recent and comprehensive study on populism in Europe by van Kessel (2015), who examines all parties that gained some parliamentary representation after national elections between 2000 and 2013. The period and the countries covered by van Kessel match the ones covered by the ESS data.

negative effect on the vote for a populist party. Lengthening education by 4 years (one sample standard deviation) increases the participation rate by 19 percentage points (35% of the sample mean) and lowers the probability of voting for a populist party by 1.75 percentage points - as much as 22% of the sample mean. The proxy for political information, while having a significant impact on the participation probability, has no effect on voting for a populist party.[4]

Interestingly, women are less likely to participate, but, conditional on going to the polls, they are also less likely to support populist platforms. People with orientation to the right are more likely to participate and vote for a populist party - which is consistent with the right wing orientation of most populist parties in Europe (e.g. van Kessel, 2015; Mudde, 2007). Finally, we find that people with greater trust in political parties are more likely to participate in elections and to vote for a non-populist party. Conversely, those who have lost faith in political parties are more likely to abstain from voting, but if they do vote, they are more likely to choose a populist party.

The effects of the measures of economic insecurity are quantitatively relevant. Being unemployed lowers participation by 3.1 percentage points; those who feel they face difficulties living on their current income are 9.6 percentage points less likely to participate compared to those who live comfortably on current income; voters whose fear of immigrants is at the sample mean are 2 percentage points less likely to participate compared to those whose fear is at the minimal level in the sample. Regarding voting choice, being exposed to globalization increases the chance of voting for a populist party by 1.6 percentage points (20% of the sample mean), living with difficulty on current income, compared to living comfortably, increases voting for a populist party by 1 percentage point (9% of the sample mean) while moving immigrants fears from the lowest to the mean value increases the chances of voting for a populist party by more than 1.4 percentage points (17% of the sample mean).

Because economic insecurity induces lower participation among those that suffer from it the most, some people that have a higher chance of supporting a populist party do not express their vote, resulting in a lower share of populist votes among the participants. For instance, the marginal effect on voting for a populist party of an increase in income difficulties would be 26% larger in the absence of any effect on participation, that of an increase in the fear of immigration 10% larger and that of a drop in confidence in political parties 28% larger. The presence of this (adverse to populists) selection effect determines an additional rationalization of the rhetoric that characterizes populist parties: the "anti-elite rhetoric" is a tool to build populist-inclined voter identity and raise their willingness to participate in elections.

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(4) Since we are not able to measure the quality and impartiality of the information transmitted by the media, the variable measures with considerable noise political information and this might explain the non-significant effect on voting decisions. At the same time, regardless of the quality of the information, the choice of acquiring political information is correlated with engagement in the political process and this explains the significant effect on the participation decision.

Economic misfortune and insecurity can also affect participation and voting for a populist party through its effect on people's trust in incumbent parties. Constructing a pseudo-panel to take care of unobserved heterogeneity, we find that this indirect effect is relevant. For example, comparing voters who feel they live comfortably on current income with voters who feel it is very difficult, we observe for the latter a reduced confidence in political parties, that, in turn, induces an increase in the chances of voting populist by 3.8% of the sample mean (this adds to the 9%, direct effect, already mentioned) and a reduction in the probability of voting by 5.6% of the sample mean.

The supply of populism

Populist parties are not always present. In the year 2000, less than 70% of the European countries had a populist party; by year 2009 they all had at least one (though in the later years of the sample some countries lost it). We test whether the variables increasing the demand for populist platforms also facilitate the emergence of populist parties. Including year fixed effects, we find that the supply of populism is higher when/where more people in the population feel it is very difficult to live on their current income, where a larger share have experienced unemployment and where more people feel threatened by immigrant competition - that is, where economic insecurity is more spread in the population. The supply of populism is lower instead where average education is higher and more unevenly distributed in the population. Also, the country exposure to globalization, measured by the average value of imports per capita, has a positive and statistically significant effect on the supply of populism; countries characterized by political fragmentations are more likely to experience a rise of populist parties, while countries with stronger checks and balances are less prone to see them appearing.

Even traditional parties, facing crumbling support and increased demand for *short-term protection*, have started gradually shifting their platforms towards 'more populist' policies. Using different waves of the CHES we have built a distance, for each of several issues, between the position of traditional and populist parties. We find that, in all issues, the distance decreases after populist parties gain consensus: as populist parties gain support, non-populist parties seem to adapt their platforms to reduce the distance from that of the successful populist party. The effects are substantial: increasing the share of votes to the populist party by one standard deviation (16 percentage points) reduces the distance between the non-populist and populist overall platforms by 33% of the sample mean.

Summing up, we can describe the situation of European countries in the last decade as a global crisis that has affected both markets and sovereign states at the same time, leaving people without a safety net. This did not happen before: the crisis in the 70s was mainly a market crisis, while various types of state crises in the 90s were government crises in a context of thriving markets. The combination of markets and governments' inability to guarantee economic security has shaken the confidence in traditional political parties and institutions, favoring an increase in fear, in turn aggravated by threats such as mass migration. I have documented how this global dual crisis has affected the demand and supply of populism. Hopefully, a deeper understanding of the drivers of peoples' fears and demand for protection will increase awareness of the political consequences of social inequality.

2. The Rome Masters in Economics: RoME

What is RoME?

The Rome Masters in Economics (RoME), offered jointly by EIEF and LUISS, is a new, two-year graduate program (*Laurea magistrale*), entirely taught in English, designed for a small group of selected students with high drive and potential. It will start in September 2017 and applications are already open. RoME's ambition is to compete with the best European Master's programs in Economics and Finance.

RoME students will receive intense supervision, participate actively in the learning process and be exposed to a stimulating and international research environment. Admission to the program is based strictly on merit. A significant share of students shall receive a full fee waiver and scholarship covering living expenses. Family income is taken into account in awarding scholarships. For more information on RoME and to apply to the program one can visit the website www.romemaster.it

Why is it useful?

Even if more than 60 Master's programs in Economics are currently offered in Italy (see http://www.cestor.it/atenei/lm056.htm), RoME will be useful because:

i. *It will facilitate and speed up the access to leading PhD programs and to the job market for qualified professionals.* Students sometimes find that the Master's in Economics currently available in Italy do not guarantee the basic training needed to attend a top PhD program: with the exception of students with a Master's degree from Bocconi university or a foreign university, 85% of the Italian students who received a PhD in Economics from abroad between 2008 and 2016 had attended an additional one year course (often abroad) after their Master's degree, before starting their PhD. Anecdotal evidence suggests that this delay also applies to students entering the qualified job market. By adopting internationally high standards, RoME will contribute to reducing this delay and its implied costs for students. This is especially useful for students coming from families with fewer means.

ii. *It will attract talented students.* High-quality graduate education gives a competitive edge in a globalized world and helps attract talented students from abroad, who enrich the country where they study, not only during the period of their study but also afterwards. By explicitly targeting the top segment of the students' quality range, RoME will add to Italy's ability to tap this promising market and will provide top talented Italian students with a valuable alternative to leading Master's programs elsewhere in Europe. Even if students later on decide to continue their studies in universities abroad, RoME will reinforce their personal and cultural links with Italy and will make their future return more likely.

iii. *It will allow capable and deserving pupils to attain the highest quality education at contained costs.* High-quality graduate education is expensive. In absence of a properly designed student loan system, the costs are often unsustainable for many students who could benefit greatly from it. By offering scholarships and fee waivers to a sizeable fraction of its students, RoME will contribute to the fulfillment of Art. 35 of the Italian Constitution which states that "Capable and deserving pupils, including those without adequate finances, have the right to attain the highest levels of education".

A **small class, active learning** and **intense tutoring**

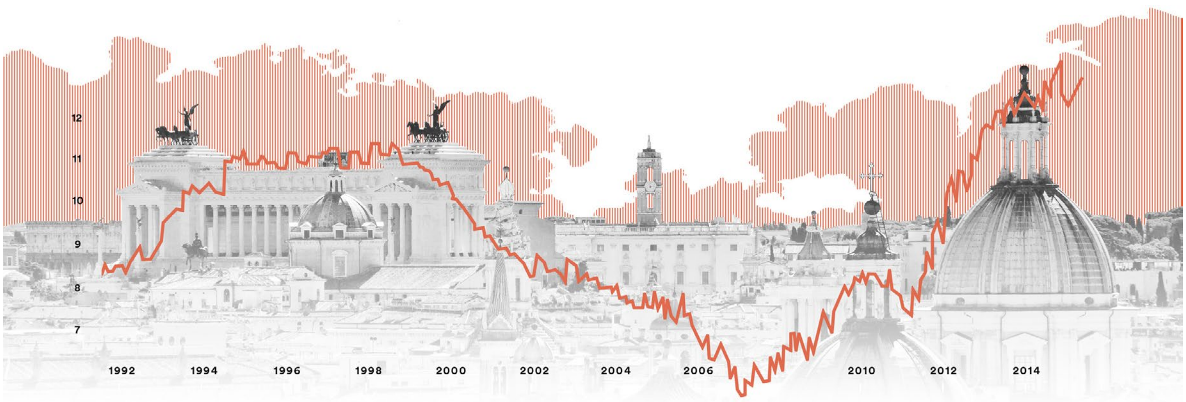
iv. *It can be a first step toward the creation of a "Rome School of Economics".* A good Master's is the natural precondition for having a high-quality PhD program comparable to the best foreign ones. RoME might be a stepping stone towards involving other universities and qualified academic resources in the area of Rome to offer world-class graduate training at various levels, eventually leading to the creation of a "Rome School of Economics" – similar in spirit to those already present in several other European cities such as Barcelona, London, Paris, Stockholm, Toulouse. This would reinforce the ability of Italy to appeal to talented students and successful researchers.

A gateway to the **world's best PhD programs** and a **successful professional career**

How is it organized?

RoME will adopt the quality standards of the other leading European Master's programs. To this effect:

i. RoME's Scientific Directors have full autonomy in the choice of professors, teaching standards and course design; they are subject to an *ex-post* control by a Steering Committee which includes a majority of independent academics with sterling international standing, namely Pierre-



André Chiappori (Columbia University), Luigi Pistaferri (Stanford University) and Aleh Tsyvinski (Yale University);

ii. the selection and retention of students in the program are subject to strict criteria, based solely on academic merit;

iii. to maximize peer effects – highly valuable in a pool of talented students – the organization of teaching keeps the class in step, preventing students from falling into separate study paths. In particular, each exam is to be held at the end of the corresponding course and cannot be repeated;

iv. students are encouraged to play an active role in the learning process, by solving challenging homework and discussing it with peers and professors, participating in reading groups and workshops, based on advanced material, where students are called to present and defend their view;

v. students are exposed to an international research environment, through academic seminars, short courses and more generally by sharing the workspace with leading international academics;

vi. each entering class is small (about 15 students), to ensure that students get appropriate tutoring and enough chances to interact and discuss their views in front of the class.

How is it going?

Applications are already being collected following three deadlines: at the end of January, at the end of March and at the end of July. By the first deadline, about 40 applications were received, 10 of which from Italian students. By the second deadline the applications totaled more than 70, 20 of which from Italian students. Foreign applicants are from all over the world: Eastern Europe, other European countries, China, South America, Africa. The academic quality of most applications is excellent, which creates healthy competition for admissions, and provides an early signal that RoME will find its place in the international map of the high-quality higher education institutions.

3. Conferences and other events

In 2016 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 "1st Rome Junior Finance Conference". The goal of the conference was to bring together junior researchers active in empirical and theoretical finance and create an opportunity for informal discussions and other academic-related activities. The presenters included: Jean Edouard Colliard (HEC Paris), Maryam Farboodi (Princeton University), Andres Liberman (New York University) and Anton Tsoy (EIEF).

Always in June, EIEF hosted and organized the "1st Rome Junior Conference on Applied Microeconomics". The aim was to foster interaction and dissemination of idea among researchers active in different areas of applied microeconomics. The invited presenters were selected favoring faculty at the early stages of their career. The presenters included: Abigail Adams (Oxford University).Mattheus Backus (Columbia Business School), Camille Landais (London School of Economics) and Pietro Tebaldi (Stanford University),

Always in June, EIEF hosted and organized the fifth edition of the Rome Conference on Macroeconomics, a.k.a. "Pizzanomics". The spirit of this event is to bring together "high-flier" macro economists from around the world in order to discuss pioneer research in a friendly and highly interactive environment. The presenters included: Salomé Baslandze (EIEF), Luigi Bocola (Northwestern University), Ilse Lindelaub (Yale University) and Gregor Jarosch (Standford University). Refreshments were, of course, pizza-based.

In July, EIEF hosted and organized the "2nd Summer Workshop on Political Economy" whose aim is to analyze topics related to the institutional underpinning of fiscal policies. The papers focused on research at the intersection of political economy, public finance, and macroeconomics. The main topics covered were: (i) the political determination of public policies (fiscal and monetary policy, social insurance, taxation, transfer programs, public investment, public employment, regulation, education, and health); (ii) the effects of political reforms; (iii) the impact of budgeting rules; (iv) political polarization and partisan conflict; (v) economic policy uncertainty and its determinants. Participants received an invitation from the organizing committee. The presenters included: Helios Herrera (University of Warwick), Massimo Morelli (Bocconi University), Shanker Satyanath (New York University), Francesco Squintani (University of Warwick), Pierre Yared (Columbia University). Most papers were discussed by EIEF's visitors and researchers.

In September, the Centre for Studies in Economics and Finance (CSEF), EIEF and the Stanford Institute for Theoretical Economics (SITE) organized a conference on 'Finance and Labor', which was held in Capri. Preference was given to papers dealing with the effects of the interaction of financial markets and employees, as opposed to focusing on executive compensation. The conference aimed to bring together researchers from financial and labor economics to discuss issues from the point of view of both disciplines. It was funded by two ERC Advanced Grants, awarded respectively to Claudio Michelacci (EIEF) and Marco Pagano (University of Naples Federico II and EIEF). Related conferences were organized by CSEF in 2013, by SITE in 2014 and by EIEF in 2015.

Always in September, the CEPR, the Copenhagen Business School, EIEF, HEC Paris, the Observatoire de l'Epargne Européenne (OEE), and the Swedish House of Finance (SHoF) organized the seventh edition of the European Conference in Household Finance, held in Paris. The aim of this annual conference is to present the state-of-the art empirical research and empirically motivated theoretical research on household financial behavior. The participants included: Laurent Calvet (EDHEC Business School), Joao Cocco (London Business School), Luigi Guiso (EIEF), Michael Haliassos (Goethe University Frankfurt), Tullio Jappelli (University of Naples Federico II), Paolo Sodini (Stockholm School of Economics).

Forthcoming Conferences and Workshops in 2017

On May 30-31, EIEF will host and organize the *"2nd Rome Junior Finance Conference"*. Further information will be available here.

On June 22-23, EIEF will host and organize the *"2nd Rome Junior Conference on Applied Microeconomics"*. Further information will be available here.

On June 26-27, EIEF will host and organize the *"6th Rome Conference on Macroeconomics"*, a.k.a. Pizzanomics. Further information will be available here.

4. Visitors

Winter 2016/Spring 2017

Andrea Ajello
Board of Governors of the Federal Reserve

Luca Anderlini
Georgetown University

Joshua Angrist
MIT

Olivier Armantier
Federal Reserve Bank of New York

Vladimir Asriyan
Universitat Pompeu Fabra

Klenio Barbosa
Sao Paulo School of Economics, FGV

Paul Beaudry
Vancouver School of Economics

Nicoletta Berardi
Banque de France

Saki Bigio
Columbia University

David Blau
The Ohio State University

Laura Bottazzi
Bocconi University

Francesca Carapella
Board of Governors of the Federal Reserve

Robert Chirinko
University of Illinois at Chicago

Jason Donaldson
Washington University in St. Louis

Maryam Farboodi
Princeton University

Andreas Fischer
Swiss National Bank

Alessandra Fogli
Federal Reserve Bank of Minneapolis

Nathan Foley-Fisher
Board of Governors of the Federal Reserve

Astrid Gamba
University of Milan - Bicocca

Josh Gottlieb
Vancouver School of Economics

Veronica Guerrieri
Chicago Booth School of Business

Henry Hansmann
Yale University

Helios Herrera
Warwick University

Gur Huberman
Columbia Business School

Felipe Iachan
Graduate School of Economics, FGV

Hubert Kempf
Ecole Normale Supérieure de Cachan

Tong Li
Vanderbilt University

Giuseppe Lopomo
Duke's Fuqua School of Business

Guido Lorenzoni
Northwestern University

Rocco Macchiavello
London School of Economics

Adrien Matray
Princeton University

Kiminori Matsuyama
Northwestern University

Daniel Monte
Sao Paulo School of Economics

Christian Moser
Columbia University

Marc Muendler
University of California, San Diego

Ed Nosal
Federal Reserve Bank of Chicago

Marcella Nicolini
University of Pavia

Jacob Oded
Tel Aviv University

Nicola Pavanini
Tilburg University

Fabrizio Perri
Federal Reserve Bank of Minneapolis

William Peterman
Board of Governors of the Federal Reserve

Carolin Pflueger
University of British Columbia

Giorgia Piacentino
Washington University in St. Louis

Andrew Postlewaite
University of Pennsylvania

Roberto Robatto
University of Wisconsin Madison

Nicholas Roys
University of Wisconsin Madison

Dov Samet
Tel Aviv University

Francesco Sangiorgi
Stockholm School of Economics

David Schmeidler
Tel Aviv University

Ilya Segal
Stanford University

Matthew Shapiro
University of Michigan

Konrad Stahl
University of Mannheim

Emanuele Tarantino
University of Mannheim

Pietro Tebaldi
University of Chicago

Michela Tincani
University College London

Victoria Vanasco
Stanford University

Pierre Yared
Columbia University

William Zame
University of California, Los Angeles

Further information on 2017 Visiting Program is available here.

5. Grants

In Fall 2015 EIEF invited applications to fund eight new, one-year research projects, carried out by young researchers based in an Italian institution. In June 2016 EIEF awarded eight new grants to:

Alessandro BARATTIERI
Collegio Carlo Alberto, Torino
"Banks Interconnectivity and Leverage"

Rosario CRINÒ
Università Cattolica del Sacro Cuore, Milano
"Fighting Mobile Crime"

Francesco DRAGO
Università degli Studi di Messina
"Human Capital and Institutional Change"

Alessio FARCOMENI
Sapienza - Università di Roma
"An Appraisal of Material Depravation Based on Static and Dynamic Latent Class Models"

Caterina GIANNETTI
Università degli Studi di Pisa
"The Effect of Ethics Meetings on Risk-Taking Behaviour: an Experiment"

Elena MANZONI
Università degli Studi di Milano - Bicocca
"Do Individual Heterogeneity and Spatial Correlation Matter? An Innovative Approach to the Characterization of the European Political Space"

Saverio SIMONELLI
Università degli Studi di Napoli Federico II
"Does Vote Counting Count? Labour Productivity through the Lens of an Electoral Task"

Lorenzo SPADONI
University of Tuscany Siena
"The Effects of Competition on Risk-Taking: An Experimental Study"

In Fall 2016 EIEF invited again applications to fund four new research projects. 38 proposals were received. The process of selection is still under way. The list of awarded grants will be available here.

Published Projects financed by EIEF Grants

In the following, we provide the list of research projects financed by EIEF Grants which were published in international peer-reviewed journals. Given the long time needed for publication, for more recent years the list is obviously incomplete.

Grants 2008

"*Non-exclusive competition in the market for lemons*" by **Andrea Attar**, with Thomas Mariotti and Francois Salanié, **Econometrica**, 2011, Volume 79, Issue 6, pages 1869-1918.

Latent Markov Models for Longitudinal Data (book) by **Francesco Bartolucci**, with Antonietta Mira, Fulvia Pennoni and Alessio Farcomeni, **Chapman&Hall/CRC**, March 2013.

"*Cooperative strategies in anonymous economies: an experiment*" by **Marco Casari**, with Gabriele Camera and Maria Bigoni, **Games and Economic Behavior,** 2012, Volume 75, Issue 2, pages 570-586.

"*Life expectancy, schooling, and lifetime labor supply: Theory and evidence revisited*" by **Matteo Cervellati**, with Uwe Sunde and Paolo Vanin, **Econometrica,** 2013, Volume 81, Issue 3, pages 2055-2086.

"*Tenure in Office and Public Procurement*" by **Decio Coviello**, with Stefano Gagliarducci, **American Economic Journal: Economic Policy**, forthcoming.

"*Indirect Effects of a Policy Altering Criminal Behavior: Evidence from the Italian Prison Experiment*" by **Francesco Drago**, with Roberto Galbiati, **American Economic Journal: Applied Economics,** 2012, Volume 4, Issue 2, pages 199-218.

"*Effective Reminders*" by **Mattia Nardotto**, with Giacomo Calzolari, **Management Science**, forthcoming.

Grants 2011

"*In a Small Moment: Moral Hazard and Class Size in Italian Mezzogiorno*" by **Erich Battistin** and **Daniela Vuri**, with Joshua Angrist, **American Economic Journal: Applied Economics**, forthcoming.

"*Minimality of State Space Solutions of DSGE models and Existence Conditions for their VAR Representation*" by **Massimo Franchi**, with Paolo Paruolo, **Computational Economics**, 2015, Volume 46, Issue 4, pages 613-626.

"*Social Risk and the Dimensionality of Intentions*" by **Joshua Miller**, with Jeffrey Butler, **Management Science**, forthcoming.

"*The Preference for Belief Consonance*" by **Luca Zarri**, with Russel Golman, George Loewenstein and Karl Ove Moene, **Journal of Economic Perspectives,** 2016, Volume 30, Issue 3, pages 165-188.

Grants 2012

"*Preference Shifts and the Change of Consumption Composition*", by **William Addessi**, **Economics Letters**, 2014, Volume 125, Issue 1, pages 14-17.

"*Impact of Changes in Consumer Preferences on Sectoral Labour Reallocation: Evidence from the Italian Economy*" by **William Addessi,** with Federico Sallusti, **Oxford Bulletin of Economics and Statistics**, forthcoming.

"*Earthquakes, Religion, and Transition to Self-Government in Italian Cities*", by **Marianna Belloc**, with Francesco Drago and Roberto Galbiati, **Quarterly Journal of Economics**, 2016, Volume 131, Issue 4, pages 1875-1926.

"*Organized Crime and Electoral Outcomes. Evidence from Sicily at the Turn of the XXI Century*" by **Paolo Buonanno**, with Giovanni Prarolo and Paolo Vanin, **The European Journal of Political Economy**, 2016, Volume 41, pages 61-64.

"*Sovereign Credit Risk, Liquidity and ECB Intervention:* Deus ex machina?" by **Loriana Pelizzon**, with Davide Tomio, Jun Uno and Marti G. Subrahmanyam, **Journal of Financial Economics,** 2016, Volume 122, Issue 1, pages 86-115.

Grants 2013

"*CEO Compensation, Regulation, and Risk in Banks: Theory and Evidence from the Financial Crisis*", by **Oliviero Toscano**, with Vittoria Cerasi, **International Journal of Central Banking**, 2015, Volume 11, Issue 3, pages 241-297.

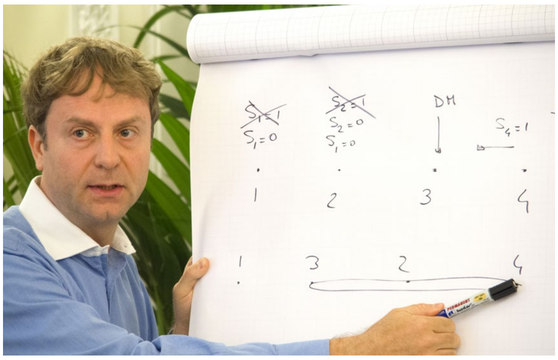
6. Graduate Program

The 2016-17 edition of the EIEF Graduate Program began, as in the past few years, with review classes in Micro, Macro, Econometrics and Finance. These classes, held in September-October 2016, 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 2016 session were: Empirical Industrial Organization, Behavioral and Experimental Economics, International Macroeconomics, Heterogeneous - Agent Models, Latent Variables Models, Topics in Macroeconometrics, Corporate Finance and Theoretical Asset Pricing.

The courses offered in the Spring 2017 session include Topics in Auctions and Public Procurement, Economics and Politics, Economics of Innovation and Growth, Empirical Monetary Economics, Financial Frictions, Topics in VAR Modeling, Finite Mixture Models, Econometrics of DSGE Models, Advanced Econometrics, Household Finance, Evidence and Methodologies in Empirical Banking, Banking.

Further information on these courses is available here.



7. 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: **Fernando Alvarez** (University of Chicago), **Darrell Duffie** (Stanford University), **Glenn Ellison** (MIT), **Jeffrey Ely** (Northwestern University), **Pablo Fajgelbaum** (University of California, Los Angeles), **Emmanuel Farhi** (Harvard University), **Marcin Kacperczyk** (Imperial College London), **John Leahy** (University of Michigan), **Alberto Martin** (CREI), **Adrian Matray** (Princeton University), **Fabrizio Perri** (Federal Reserve Bank of Minneapolis) **Torsten Persson** (Institute for International Economic Studies), **Diego Puga** (CEMFI), **José-Victor Rios-Rull** (University of Pennsylvania), **Yuliy Sannikov** (Princeton University).

Regarding the applied/empirical series, presenters included: **Joaquin Blaum** (Brown University), **Thomas Chaney** (Toulouse School of Economics), **Alberto Galasso** (Rotman School of Management), **Alessandro Gavazza** (London School of Economics), **Patrik Guggenberger** (Pennsylvania State University), **Andrea Ichino** (EUI), **Juan Ortner** (Boston University), **Juan F. Rubio-Ramirez** (Emory University), **Uta Schoenberg** (University College London) **Otto Toivanen** (KU Leuven), **Ruey Tsay** (University of Chicago Booth School of Business), **Frank Verboven** (KU Leuven), **Guillaume Vuillemey** (HEC Paris), **Matthijs Wildenbeest** (Kelley School of Business, Indiana University).

Further information on past and forthcoming seminars is available here.

8. Latest Working Papers

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

WP 2017/01

In "Ambiguous Policy Announcements", **Claudio Michelacci** and **Luigi Paciello** study the effects of monetary policy announcements in a New Keynesian model, where ambiguity-averse households with heterogeneous net financial wealth use a worst-case criterion to assess the credibility of the announcements. In this framework, an announcement of a future monetary tightening is always contractionary, while an announcement of a future loosening is less expansionary than under full credibility, and it can even be contractionary if the inequality in wealth is sufficiently pronounced. This occurs because wealthy creditor households are more prone to believe the announcement of loosening than poor, indebted households. Hence there is a fall in perceived aggregate wealth, which, if large enough, can cause a contraction in aggregate demand.

WP 2017/02

In "Firm-Related Risk and Precautionary Saving Response", **Luigi Guiso**, Andreas Fagereng and Luigi Pistaferri, develop a strategy that allows them to simultaneously identify the strength of the precautionary motive and the degree of self-insurance of labor income risk. To address endogeneity problems, they use Norwegian administrative data to identify a credible instrument for consumption risk, which is the variance of firm-specific shocks. At the same time, they provide a framework for studying the precautionary saving response of structural changes in wage insurance provided by the firm. They find a strong precautionary motive, a partial ability to self-insure labor income risk and a large reduction of precautionary savings in response to firm adoption of high powered wage contracts.

WP 2017/03

In "Demand and Supply of Populism", **Luigi Guiso**, Helios Herrera, Massimo Morelli and Tommaso Sonno study the drivers of the demand and supply of populism by making use of individual level data from multiple waves of the European Social Survey. Firstly, they find that lower income, financial distress and higher economic insecurity drive the populist vote. Economic insecurity also has an indirect effect on voting because it lowers the trust in incumbents. All these variables induce voters to either abstain from voting or, if they do participate, to vote more for populist parties. Aggregating all effects, the authors show that strong negative economic shocks (such as the 2008 crisis) and the collapse of trust in traditional parties they induce, boost the demand for populist policies. Secondly, the paper shows that in response to the consensus the populist parties have gained, the traditional ones have gradually shifted their platforms towards more populist oriented policies.

WP 2017/04

In "Credit Misallocation During the European Financial Crisis", **Fabiano Schivardi,** with Enrico Sette and Guido Tabellini, address the question of whether banks with low capital extend excessive credit to weak firms, and whether this matters for aggregate efficiency and economic growth. Using a unique data set that covers almost all bank-firm relationships in Italy during the period 2004-2013, they find that undercapitalized banks were more reluctant to cut credit to non-viable firms. Credit misallocation increased the failure rate of healthy firms and reduced that of non-viable firms. Nevertheless, the negative effects of credit misallocation on the growth rate of healthier firms were negligible. These results show that while banks with low capital can be an important source of aggregate inefficiency in the medium run, they cannot be blamed for having aggravated or prolonged the recession induced by the European financial crisis.

9. Recently published papers

Forthcoming

"Comparing Procurement Auctions", Francesco Decarolis, **International Economic Review**.

"Insurers' Response to Selection Risk: Evidence from Medicare Enrollment Reforms", Francesco Decarolis (with A. Guglielmo), **Journal of Health Economics.**

"Tenure in Office and Public Procurement", Stefano Gagliarducci (with D. Coviello), **American Economic Journal: Economic Policy.**

"Firm-Related Risk and Precautionary Saving Response", Luigi Guiso (with Fagereng A., and L. Pistaferri), **American Economic Review (Papers & Proceedings)**.

"An Empirical Study of the Interaction-Based Aggregate Investment Fluctuations", Luigi Guiso (with Lai, C., and M. Nirei), **Japanese Economic Review**.

"I will put my law in their minds: Social control and cheating behavior among Catholics and Protestants", Luigi Guiso and Jean-Paul L'Huillier (with Quiamzade, A., Sommet, N., and J. Burgos Laborde), **Journal for the Scientific Study of Religion**.

"Time Varying Risk Aversion", Luigi Guiso (with Sapienza. P., and L. Zingales), **Journal of Financial Economics**.

"Portfolio Choices, Firm Shocks and Uninsurable Wage Risk, Luigi Guiso (with Fagereng, A. , and L. Pistaferri), **Review of Economic Studies**.

"Maintaining Dynamic Competition in Procurement: The Case of London Bus Tendering", Elisabetta Iossa (with M. Waterson), **Transport Policy**.

"Bad News in the Great Depression, the Great Recession, and Other U.S. Recessions: A Comparative Study", Jean-Paul L'Huillier (with D. Yoo), **Journal of Economic Dynamics and Control**.

"Monetary Shocks in Models with Observation and Menu Costs", Francesco Lippi and Luigi Paciello (with F. Alvarez), **Journal of the European Economic Association**.

"Are State and Time dependent models really different?", Francesco Lippi and Juan Passadore (with F. Alvarez), **NBER Macroeconomics Annual, 2016, Volume 31**.

"Noisy News in Business Cycles", Marco Lippi (with Forni, M., Gambetti, L., and L. Sala), **American Economic Journal: Macroeconomics**.

"Noise Bubbles", Marco Lippi (with Forni, M., Gambetti, L., and L. Sala), **Economic Journal**.

"ESBies: Safety in the Tranches", Marco Pagano (with Brunnermeier, M.K., Langfield, S., Reis, R., Van Nieuwerburgh, S., and D. Vayanos), **Economic Policy**.

"Financial Disclosure with Costly Information Processing", Marco Pagano (with M. Di Maggio), **Review of Finance**.

"Peer Effects in Bed Time Decisions among Adolescents: A Social Network Model with Sample Data", Eleonora Patacchini (with Xiaodong, L., and E. Rainone), **The Econometrics Journal**.

"Growing up in wartime: Evidence from the era of two world wars", Franco Peracchi (with E. Havari), **Economics & Human Biology**.

"The Effect of Discretion on Procurement Performance", Giancarlo Spagnolo (with Coviello, D., and A. Guglielmo), **Management Science**.

"Court Efficiency and Procurement Performance", Giancarlo Spagnolo (with Coviello, D., Moretti, L., and P. Valbonesi), **Scandinavian Journal of Economics.**

2017

"Self-Control and Peer Groups: An empirical Analysis", Marco Battaglini and Eleonora Patacchini (with C. Diaz), **Journal of Economic Behavior and Organization**, 2017, Volume 134, pages 240-254.

"Public Protests and Policy Making", Marco Battaglini, **Quarterly Journal of Economics**, 2017, Volume 132, Issue 1, pages 485-549.

"Safe Assets, Liquidity, and Monetary Policy", Pierpaolo Benigno (with S. Nisticò), **American Economic Journal: Macroeconomics**, 2017, Volume 9, Issue 2, pages 1-47.

"Asset Market Participation and Portfolio Choice over the Life-Cycle", Luigi Guiso (with Fagereng, A., and C. Gottlieb), **Journal of Finance**, 2017, Volume 72, Issue 2, pages 705-750.

"Heterogeneous peer effects in education", Eleonora Patacchini (with Rainone, E., and Y. Zenou), **Journal of Economic Behavior and Organization**, 2017, Volume 134, pages 190-227.

"Unhealthy Retirement?", Franco Peracchi (with F. Mazzonna), **Journal of Human Resources**, 2017, Volume 52, Issue 1, pages 128-151.

"Equilibrium Trust", Daniele Terlizzese (with L. Anderlini), **Games and Economic Behavior**, 2017, Volume 102, pages 624-644.

2016

"Taxation and the International Mobility of Inventors", Salomé Baslandze (with Akcigit, U., and S. Stantcheva), **American Economic Review**, 2016, Volume 106, Issue 10, pages 2930-2981.

"The Dynamic Free Rider Problem: A Laboratory Study", Marco Battaglini (with Nunnari, S., and T. Palfrey), **American Economic Journal: Microeconomics**, 2016, Volume 8, Issue 4, pages 268-308.

"Political economy of debt and growth", Marco Battaglini (with L. Barseghyan), **Journal of Monetary Economics**, 2016, Volume 82, pages 36-51.

"Participation and Duration of Environmental Agreements", Marco Battaglini (with B. Harstad), **Journal of Political Economy**, 2016, Volume 124, Issue 1, pages 160-204.

"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**, 2016, Volume 136, April, pages 45-61.

"A Political Economy Theory of Fiscal Policy and Unemployment", Marco Battaglini (with S. Coate), **Journal of the European Economic Association**, 2016, Volume 14, Issue 2, pages 303-337.

"Globalization, Pass-Through and Inflation Dynamics", Pierpaolo Benigno (with E. Faia),

International Journal of Central Banking, 2016, Volume 12, Issue 4, pages 263-306.

"*Trust and Cheating*", Jeffrey V. Butler and Luigi Guiso (with P. Giuliano), **Economic Journal**, 2016, Volume 126, Issue 595, pages 1703-1738.

"*Inequality and Relative Ability Beliefs*", Jeffrey V. Butler, **Economic Journal**, 2016, Volume 126, Issue 593, pages 907-948.

"*The Right Amount of Trust*", Jeffrey V. Butler and Luigi Guiso (with P. Giuliano), **Journal of the European Economic Association**, 2016, Volume 14, Issue 5, pages 1155-1180.

"*Detecting Bidders Groups in Collusive Auctions*", Francesco Decarolis (with T. G. Conley), **American Economic Journal: Microeconomics**, 2016, Volume 8, Issue 2, pages 1-38.

"*Heterogeneity in Returns to Wealth and the Measurement of Wealth Inequality*", Luigi Guiso (with Fagereng, A., Malacrino, D., and L. Pistaferri), **American Economic Review (Papers & Proceedings)**, 2016, Volume 106, Issue 5, pages 651-655.

"*Monnet's Error*", Luigi Guiso (with Sapienza, P., and L. Zingales), **Economic Policy**, 2016, Volume 31, Issue 86, pages 247-297.

"*Cultural Differences and Institutional Integration*", Luigi Guiso (with Herrera, H., and M. Morelli), **Journal of International Economics**, 2016, Volume 99, Supplement 1, pages S97-S113.

"*Long-Term Persistence*", Luigi Guiso (with Sapienza, P., and L. Zingales), **Journal of the European Economic Association**, 2016, Volume 14, Issue 6, pages 1401-1436.

"*Corruption in PPPs, Incentives and Contract Incompleteness*", Elisabetta Iossa (with D. Martimort), **International Journal of Industrial Organization**, 2016, Volume 44, Issue 1, pages 1013-1036.

"*Public and Private Values*", Jean-Paul L'Huillier (with Ariely, D., and A. Bracha), **Journal of Behavioral Decision Making**, 2016, Volume 29, Issue 5, pages 550-555.

"*The real effects of monetary shocks in sticky price models: a sufficient statistic approach*", Francesco Lippi (with Alvarez, F. , and H. Le Bihan), **American Economic Review**, 2016, Volume 106, Issue 10, pages 2817-2851.

"*Monetary Shocks in Models with Inattentive Producers*", Francesco Lippi and Luigi Paciello (with F. Alvarez), **Review of Economic Studies**, 2016, Volume 83, Issue 2, pages 421- 459.

"*Labor Supply with Job Assignment under Balanced Growth*", Claudio Michelacci (with J. Pijoan), **Journal of Economic Theory**, 2016, Volume 163, pages 110-140.

"*The Sovereign-Bank Diabolic Loop and EBSies*", Marco Pagano and others, **American Economic Review (Papers & Proceedings)**, 2016, Volume 106, Issue 5, pages 508-512.

"*Bank Bias in Europe: Effects on Systemic Risk and Growth*", Marco Pagano (with S. Langfield), **Economic Policy**, 2016, Volume 31, Issue 85, pages 51-106.

"*Transparency, Tax Pressure and Access to Finance*", Marco Pagano (with Ellul, A., Jappelli, T., and F. Panunzi), **Review of Finance**, 2016, Volume 20, Isssue 1, pages 37-76.

"*Seeking Alpha: Excess Risk Taking and Competition for Managerial Talent*", Marco Pagano (with Acharya, V., and P. Volpin), **Review of Financial Studies**, 2016, Volume 29, Issue 10, pages 2565-2599.

"*Bend It Like Beckham: Ethnic Identity and Integration*", Eleonora Patacchini (with Bisin, A., Verdier, T., and Y. Zenou), **European Economic Review**, 2016, Volume 90, pages 146-164.

"*Endogenous Network Production Functions with Selectivity*", Eleonora Patacchini (with Horrace, W.C., and X. Liu), **Journal of Econometrics**, 2016, Volume 190, Issue 2, pages 222-232.

"*Residential Choices of Young Americans*", Eleonora Patacchini (with T. Arduini), **Journal of Housing Economics**, 2016, Volume 34, pages 69-81.

"*Social Networks and Parental Behavior in the Intergenerational Transmission of Religion*", Eleonora Patacchini (with Y. Zenou), **Quantitative Economics**, 2016, Volume 7, Issue 3, Pages 969-995.

"*Racial Identity and Education in Social Networks*", Eleonora Patacchini (with Y. Zenou), **Social Networks**, 2016, Volume 44, Issue 1, pages 85-94.

"*The Whole Is Greater than the Sum of Its Parts: Complementary Reforms to Address Microeconomic Distortions*", Facundo Piguillem (with Bergoeing, R., and N. Loyza), **The World Bank Economic Review**, 2016, Volume 30, Issue 2, pages 268-305.

"*Demand or Productivity: What Determines Firm Growth?*", Andrea Pozzi and Fabiano Schivardi, **RAND Journal of Economics**, 2016, Volume 47, Issue 3, pages 608-630.

"*Exports and Wages: Rent Sharing, Workforce Composition or Returns to Skills?*", Fabiano Schivardi (with M. Macis), **Journal of Labor Economics**, 2016, Volume 34, Issue 4, pages 945-978.

"*Privatization and quality: Evidence from elderly care in Sweden*", Giancarlo Spagnolo (with Bergam, M., Johansson, P., and S. Lundberg), **Journal of Health Economics**, 2016, Volume 49, pages 109-119.