CSEF

Centre for Studies in Economics and Finance

ACTIVITY REPORT 2011

CENTRE FOR STUDIES IN ECONOMICS AND FINANCE
University of Naples "Federico II"
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What is CSEF?

The Centre for Studies in Economics and Finance (CSEF) is a joint venture of the University of Naples Federico II, the University of Salerno, and Bocconi University. It aims at performing and promoting research in economics and finance, and at linking up researchers in Naples, Salerno and Bocconi with international research via seminars, conferences, exchange of researchers and joint research projects.

CSEF premises are at the Department of Economics of the University of Naples Federico II, where CSEF hosts researchers and doctoral students from other Italian and foreign universities. CSEF runs a weekly research seminar, open to faculty and doctoral students, and collaborates with the Master in Economics and Finance (MEF) at the University of Naples Federico II.

Besides strengthening the networking between its parent institutions, the Centre applies for research grants, organizes workshops and conferences, and runs research projects as an independent entity.

The Centre's administration is entrusted to **Lia Ambrosio, Maria Rosaria Esposito** and **Stefania Maddaluno**

News

This has been a great year for CSEF, with five new Fellows joining its younger cohort: **Luigi Benfratello,** an applied econometrician, **Cristina Cella** and **Andrew Ellul**, both researchers in applied corporate finance, **Pierluigi Conzo**, specializing in experimental and development economics, and **Giuseppe De Marco**, a mathematical economist specializing in game theory.

Young CSEF Fellows also received important professional appointments: **Francesco Drago** and **Marco Pagnozzi** were appointed associate professors at the University of Naples Federico II, and **Salvatore Piccolo** was appointed associate professor at the Catholic University of Milan. **Luigi Benfratello**, formerly at the University of Turin, joined the University of Naples Federico II.

There are also three prestigious research awards to be reported: **Marco Pagnozzi** was awarded a FIRB grant by the Italian Ministry of University and Research (MIUR) for his research on “Bidders' Collusion and Implicit Coordination in Auctions and Market Mechanisms”, **Marco Pagano** received the European Research Council (ERC) Advanced Grant for a project on “Labour and Finance”, and a research project on “Market Transparency and Optimal Regulation” coordinated by **Salvatore Piccolo** was awarded the FARO grant of the University of Naples Federico II.

Last but not least, in 2011 CSEF has benefited from the presence of excellent researchers who carried out joint projects with CSEF Fellows: **Rossella Argenziano** (University of Essex), **Andrew Ellul** (Indiana University), **Cristina Cella** (Stockholm School of Economics), all of whom also taught in the Master in Economics and Finance, and **Mark van Achter** (Rotterdam University).

Main research areas

Research activity at CSEF focuses on three main areas:

(i) Analysis of household choices (saving, portfolio and labor decisions), especially regarding saving, portfolio choice, retirement and labor supply.

(ii) Financial economics (banking, portfolio choice, corporate finance, market microstructure). Main areas of research include law and finance, corporate governance, and issues at the interface between finance and macroeconomics.

(iii) Economic theory, particularly economics of information, contract theory, design and enforcement of regulation, game theory and general equilibrium theory.

Funding

Research projects carried out at CSEF in 2011 were funded by the Compagnia di San Paolo, the Seventh Research and Technological Development Framework Programme, the Italian Ministry of University and Research (MIUR) and the Observatoire de l'Erpagne Européenne (OEE) .

Conferences

Workshop on Equilibrium Analysis under Ambiguity

Held at the Department of Economics of the University of Naples Federico II in January 2011, the workshop was organized by Achille Basile and Maria Gabriella Graziano (CSEF).

JSPS EU-Japan Joint Workshop on *The Real Effects of Financial Integration in East Asia and Europe*

The Workshop on ***The Real Effects of Financial Integration in East Asia and Europe,*** held at the Department of Economics of the University of Naples Federico II on 25 February, was organized by Akira Kohsaka (Osaka University) and Marco Pagano (CSEF). There were two sessions: one devoted to "Financial Integration, Business Cycles and Household Consumption", with presentations by Akira Kohsaka and by Tullio Jappelli (CSEF), and another on "Financial Integration, Corporate Finance and Investment", with presentations by Fumiharu Mieno (Kobe University) and by Giovanni Pica (CSEF).

2nd Workshop ME@Ravello on *Personnel Economics and the Public Sector*

The ***Workshop on Personnel Economics and the Public Sector,*** held at Villa Rufolo, Ravello (near Salerno) on 13-15 May 2011, was organized by Nicola Persico (NYU), Alberto Bennardo (CSEF) and Anna Maria C. Menichini (CSEF).

The workshop was attended by 56 participants, and included presentations by Dilip Mookherjee (Boston University), Giovanni Pica (CSEF), Manuel Bagues (Carlos III University), Ernesto Dal Bò (UC Berkeley), Eleonora Patacchini (University of Rome La Sapienza), David Rahman (University of Minnesota), Giuseppe De Marco (CSEF), Alessandro Bonatti (MIT), Stefano Gagliarducci (University of Rome Tor Vergata), Antonio Merlo (University of Pennsylvania), Alberto Bisin (New York University), and Nicola Persico (New York University).

The workshop ended with a lively panel discussion on the regulation and governance of universities, chaired by Massimo Gaggi (Corriere della Sera). The panel, which compared the Italian and U.S. experience in this area, included presentations by Adalgiso Amendola, Massimo Marrelli, Alberto Bisin, Tullio Jappelli, Antonio Merlo, Marco Pagano and Nicola Persico.

7th Csef-Igier Symposium on Economics and Institutions

From 27 June to 1 July 2011, CSEF and the Innocenzo Gasparini Institute for Economic Research (IGIER Bocconi) held their annual joint **Symposium on Economics and Institutions**, which this year was organized by CSEF Fellows Ciro Avitabile, Marcello D'Amato, Chiara Fumagalli, Vincenzo Galasso, Anna Maria Cristina Menichini and Salvatore Piccolo.

As in past editions, the Symposium allowed for free, informal discussion, with seminars held in the mornings in three parallel sessions, and afternoons being reserved for more informal workshops and collaborative work. The conference program included papers in Microeconomic Theory, Finance, Industrial Organization and Applied Microeconomics.

The invited speakers were Christopher Carroll (Johns Hopkins University), Botond Koszegi (University of California Berkeley), Andrew Newman (Boston University), Alessandro Pavan (Northwestern University), Andrea Prat (London School of Economics), James Snyder (MIT) and Pietro Veronesi (University of Chicago).

Seminars

In 2011 CSEF hosted one or two research seminars per week. Papers were presented both by invited speakers and resident researchers.

January

Francesco Squintani (University of Essex), *A Numerical Analysis of Strategic Information Acquisition and Transmission* (with R. Argenziano and S. Severinov)

Piero Gottardi (Università di Venezia and EUI), *Bankruptcy: Is It Enough to Forgive or Must We Also Forget?*

Carlo Cambini (Politecnico di Torino), *Regulatory independence, Investmetn and Political Interference: Evidence from EU* (with L. Rondi)

Andrea Mattozzi (California Institute of Technology), *Mediocracy* (with A. Merlo)

February

Paolo Buonanno (Università di Bergamo), *Advocatus, et non Latro? Testing the Supplier-Induced Demand Hypothesis for Italian Courts of Justice* (with M.M. Galizzi)

Denis Gromb (INSEAD), *Financially Constrained Arbitrage and Cross-Market Contagion*

Giacomo Calzolari (Università di Bologna), *Competition with Exclusive Contracts and Market-share Discounts* (with V. Denicolò)

Randi Hjalmarsson (School of Economics and Finance, QMUL), *Jury Discrimination in Criminal Trials* (with S. Anwar and P. Bayer)

Hamish Low (University of Cambridge), *Do Consumers Gamble to Convexify?* (with T. Crossley and S. Smith)

March

Andrea Beltratti (Università Bocconi), *The Value Relevance of Write-downs during the Subprime Financial Crisis* (with N. Spear and M.D. Szabo)

Arnold Chassagnon (Paris School of Economics), *Multiple Lenders, Strategic Default and the Role of Debt Covenants*

Giovanni Peri (University of California), *The Wage Effects of Immigration and Emigration*

Shmuel Zamir (The Hebrew University), *Extending the Condorcet Jury Theorem to a General Dependent Jury* (with B. Peleg)

April

Tommaso Nannicini (Università Bocconi), *Do Fiscal Rules Matter? A Difference-in-Discontinuities Design (with V. Grembi and U. Troiano)*

Tommaso Valletti (Imperial College London), *Pharmaceutical Innovation and Parallel Trade (with A.R. Bennato)*

Pierluigi Conzo (Università di Roma "Tor Vergata"), *Violence, Social Capital and Economic Development: Evidence of a Microeconomic Vicious Circle* (with L. Becchetti and A. Romeo)

Albrecht Glitz (Universitat Pompeu Fabra), *Referral-based Job Search Networks* (with C. Dustmann and U. Schönberg)

May

Fabian Waldinger (University of Warwick), *How Much Did German-Jewish Émigrés Benefit U.S. Invention?*

Maarten Lindeboom (University of Amsterdam), *The Long Run Effects of* *the World War II Famine on Health and Socio-economic Status*

Xavier Freixas (Universitat Pompeu Fabra), *Bank Liquidity, Interbank Markets, and Monetary Policy* (with A. Martin and D. Skeie)

Dezsö Szalay (BGSE, Bonn Universitat), *Screening and the Positive Correlation Between Risk and Incentives*

Daniele Condorelli (University of Essex), *Bilateral Trading in Networks*

Sergey Stepanov (New Economic School (NES), Moscow), *Takeovers under Asymmetric Information: Block Trades and Tender Offers in Equilibrium*

Raffaella Giacomini (UCL), *The Econometrics of DSGE Models*

June

Volker Nocke (University of Oxford), *Vertical Relations under Credit Constraints* (with J. Thanassoulis)

Miguel Palacios (Vanderbilt University), *Debt Aversion*

October

Mark Van Achter (Rotterdam School of Management), *Internalization, Clearing and Settlement, and Liquidity* (with H. Degryse and G. Wuyts)

Gilles Chemla (Imperial College Business School), *Skin in the Game and moral Hazard* (with C.A. Hennessy)

Nicola Borri (Università Luiss), *Sovereign Risk Premia*

Henry Mak (EUI), *Public Report, Price, and Quality* (with C.A. Ma)

Marco Li Calzi (Università Ca' Foscari), *The Power of Diversity Over Large Solution Spaces* (with O. Surucu)

November

Pierluigi Conzo (EEIF), *Public Disclosure of Players? Conduct and Common Resources Harvesting: Experimental Evidence from a Nairobi Slum*

Philippe Bich (CES-Centre d'Economie de la Sorbonne), *Sharing Rule Equilibria for Discontinuous Games*

Partha Deb (Hunter College), *Health Outcomes of Migrants: the Italian Experience* (with V. Atella)

Esther Hauk (Instituto de Análisis Económico), *Immigration and the School System* (with F. Albornoz and A. Cabrales)

December

Hans Degryse (Tilburg University), *On the Non-Exclusivity of Loan Contracts: An Empirical Investigation* (with V. Ioannidou and E. von Schedvin)

Jakub Kastl (Stanford University), *The 2007 Subprime Market Crisis Through the Lens of European Central Bank Auctions for Short-Term Funds* (with N. Cassola and A. Hortacsu)

Francesco Nava (London School of Economics), *Efficiency in Repeated Two-Action Games with Local Monitoring* (with M. Piccione)

ANTONIO ACCONCIA is Associate Professor of Economics at the University of Naples Federico II. In 2011 he wrote the papers "Mafia and Public Spending: Evidence on the Fiscal Multiplier from a quasi experiment" and "Fiscal Policy after a Disaster: Evidence from the 1980-81 Earthquake in the South of Italy", both joint with G. Corsetti and S. Simonelli. He is currently still working on the effect of fiscal policy on output and consumption.

CARLO ALTAVILLA is Associate Professor of Economics at the University of Naples Parthenope and Research Affiliate at CESifo (Munich). He received a Ph.D. in Economics from the Catholic University of Leuven. His research interests cover international monetary policy, time series econometrics and forecasting. He is currently working on real-time forecasting and policy analysis (with M. Ciccarelli, ECB) and on the effects of non-standard monetary policies (with D. Giannone, ULB).

CIRO AVITABILE is an economist in the Social Protection and Health Division of the Inter-American Development Bank. He received a Ph.D. in Economics from the University College London. He has been working on the effect of health information and social norms on the demand for health services. His paper "Does Information Improve the Health Behavior of Adults Targeted by a Conditional Transfer Program?" is forthcoming in the *Journal of Human Resources*. His paper "Cognitive abilities, healthcare and screening tests" (with T. Jappelli and M. Padula) is forthcoming in the *Journal of Population Aging*. He is currently studying the effect of legal status at birth on fertility and parental investment related decisions of immigrants.

ACHILLE BASILE is Professor of Mathematics and Chairman of the Faculty of Economics at the University of Naples Federico II. Recent publications include "Core and Equilibria in Coalitional Asymmetric Information Economies" (with C. Donnini and M.G. Graziano), in the *Journal of Mathematical Economics*, 2009, and "Economies with Informational Asymmetries and Limited Vetoer Coalitions" (with C. Donnini and M.G. Graziano) in *Economic Theory*, 2010. He serves as President of AMASES (the Italian Association of Mathematics Applied to Economics and Social Sciences) for 2011-13.

MATTEO BASSI is a CSEF Post-doctoral Fellow. He received a Ph.D. in Economics from the Toulouse School of Economics, discussing a dissertation on *Behavioral Public Economics*. His current research deals with public economics, political economy, industrial organization and behavioral economics. In 2011 he wrote, with M. Pagnozzi and S. Piccolo, the CSEF Working Paper: "Product Differentiation with Competing Vertical Hierarchies". He also spent a trimester as a visiting researcher at the Université de Franche-Comté in Besançon (France). He is currently working on optimal taxation problems with bounded rationality, on the political economy of social security with time inconsistent agents and on the economics of addiction.

ALBERTO BENNARDO is Professor of Economics at the University of Salerno and CEPR Research Affiliate. His current research focuses on three themes: the effects of information sharing in credit markets with multi-bank lending; private and social incentives to gather information in perfectly and imperfectly competitive financial markets; managers second-best optimal compensation schemes in the presence of manipulation opportunities. In 2011 he revised the paper “Multiple-Bank Lending, Creditor Rights and Information Sharing”, joint with M. Pagano and S. Piccolo, and produced a new paper on “Perks as Second Best Optimal Compensations”, joint with P.A. Chiappori and J. Song.

SALVATORE CAPASSO is Professor of Economics at the University of Naples Parthenope. He holds a Ph.D. in Economics from the University of Manchester. His research focuses on economic growth, contract theory, monetary economics and theory of financial intermediation. Most recent publications include “The Impact of Banking Development on the Size of Shadow Economies”, forthcoming in *Journal of Economic Studies* (joint with N. Bose and M. Wurm), and “Migration Flows, Structural Change and Growth Convergence. A panel data analysis of the Italian Regions”, forthcoming in *The Manchester School* (with M.R. Carillo and R. De Siano). His latest research focuses on the relationship between criminal activity, corruption and growth and on the role of the underground economy in economic development.

CRISTINA CELLA is Assistant Professor of Finance at the Stockholm School of Economics. In 2011 she has worked on several projects. The paper “Investors’ Horizons and the Amplification of Market Shocks”, co-authored with A. Ellul (Indiana University) and M. Giannetti (Stockholm School of Economics) studies price dynamics during market stress induced by the trading horizon of institutional investors. In the paper “Is There Too Much Entry in the Entrepreneurial Activity?”, co-authored with M. Giannetti, she investigates the relationship between entrepreneurs’ social status and entrepreneurial activity and the impact on firm value and welfare. Finally, she has started a new project on “Earning Management and CEO’s Compensation”, together with A. Ellul and N. Gupta (Indiana University) and a project on “Mutual Funds Flow and Individuals’ Holdings”, jointky with P. Sodini (Stockholm School of Economics).

GIOVANNI CESPA is a Reader at Cass Business School and a CEPR Research Affiliate. His research focuses on market microstructure theory and corporate governance. In the former field, he has investigated the effect of short term behaviour in financial markets, the properties of different trading mechanisms, and the relationship between the sale of financial market information and insider trading in a dynamic market. In the latter (with G. Cestone), he investigated the relationship between corporate social responsibility and corporate governance. His recent research focuses on the informational properties of asset prices and consensus opinion in markets with differential information. His paper “Dynamic Trading and Asset Prices: Keynes vs. Hayek (with X. Vives) is forthcoming in the *Review of Economic Studies*. With T. Foucault, he also investigates the market for the sale of price and quote information by focussing on its welfare properties (Insiders-Outsiders, Transparency, and the Value of the Ticker”) and its implication for liquidity (Dealer Attention, Liquidity Spillovers, and Endogenous Market Segmentation).

GIACINTA CESTONE is a Senior Lecturer at Cass Business School and a ECGI Research Associate. Her research focuses on corporate finance, corporate governance and industrial organization. She is particularly interested in the interaction between corporate finance and product market competition. Her paper "The Deep Pocket Effect of Internal Capital Markets" provides empirical evidence that in some industries access to a corporate group's deep pockets represents a source of competitive strength. Giacinta is currently working on a wider research project – coauthored with C. Fumagalli, F. Kramarz and G. Pica – on the role of business groups in the real economy. Giacinta has also contributed to the literature on venture capital financing; in current work, she analyzes how double-sided asymmetric information shapes venture capital syndication deals. She has also studied the relationship between corporate social responsibility and corporate governance. She has published her articles in the *Journal of Finance*, the *Rand Journal of Economics*, and the *Journal of Economics and Management Strategy*.

DIMITRIS CHRISTELIS is a CSEF Research Fellow. He obtained his Ph.D. in Economics from the University of Pennsylvania in 2003. His research interests include household saving and portfolio choice, imputation of missing data, and panel data estimation methods. Last year he published "Stockholding: Participation, location, and spillovers" (with D. Georgarakos and M. Haliassos), in the *Journal of Banking and Finance*. He is currently working on the estimation of panel discrete choice models (with R. Fonseca), on assessing the influence of capital losses and unemployment on household spending in the US (with D. Georgarakos and T. Jappelli), and on investigating the effect of health insurance on portfolio choice (with D. Georgarakos and A. Sanz-de-Galdeano).

MARCELLO D'AMATO is Professor of Economic Policy at the University of Salerno. His current research focuses on the institutional design of Central Banks, the political economy of social security, education and social mobility, and managerial incentives. Recent publications include "On the determinants of Central Bank independence in open economies" (with B. Pistoresi and F. Salsano), in *International Journal of Finance and Economics*, 2009, and "Political Intergenerational Risk Sharing" (with V. Galasso) in the *Journal of Public Economics*, 2010.

GIUSEPPE DE MARCO is Assistant Professor of Mathematics at the University of Naples Parthenope. His current research focuses on ambiguous games, psychological game theory in moral hazard models, multicriteria games, networks and financial contagion. Recent publications include: "On the Effects of Heterogeneity in One-way Flow Network Formation" in the *International Journal of Intelligent Systems* (2010), "Kalai-Smorodinsky Bargaining Solution Equilibria" (with J. Morgan) in the *Journal of Optimization Theory and Applications* (2010), "A Dynamic Game of Coalition Formation under Ambiguity" (with M. Romaniello) in *Soft Computing* (2011), "On the Dynamics of Coalition Structure Beliefs" (with M. Romaniello), in *Handbook of Optimization Theory: Decision Analysis and Applications* (2011).

ELENA L. DEL MERCATO is Maître de Conférences of Mathematics at University Paris 1 Panthéon-Sorbonne (Paris), and previously Assistant Professor at the University of Salerno (2004-08). Her research focuses on market failure as incomplete markets, externalities and public goods in microeconomic theory. In 2010 she published "Externalities, Consumption Constraints and Regular Economies" (with J.-M. Bonnisseau) in *Economic Theory*. Work in progress includes "Markets for Externalities à la Arrow-Laffont: Equilibrium and Optimality" and "Externalities in Production Economies and Competitive Equilibria: Existence and Regularity" (with V. Platino).

SERGIO DESTEFANIS is Professor of Economics at the University of Salerno, where he heads the Ph.D. Programme in Economics. He is President of the Italian Association of Labour Economics (AIEL). In 2011 he published in *Economics Letters* a paper with G. Mastromatteo on “Assessing the Reassessment. A Panel Analysis of the Lisbon Strategy”, and the Country Report for Italy within the OECD-LEED *Skills for Competitiveness* Project. He also was in charge of the reconstruction of labour market statistics for the Svimez book on “150 Years of Italian Statistics”. His current research deals with the comparison of American and European labour markets (with R. Fonseca and R. Warren, as well as with G. Pica), the evaluation of the OECD Jobs Strategy (with G. Mastromatteo and V. Sena), and the efficiency of banking institutions (with C. Barra and G. Lubrano Lavadera).

FRANCESCO DRAGO is Associate Professor at the University of Naples Federico II and a Research Affiliate at IZA, Bonn. His research interests are in the fields of labour economics, behavioral economics and crime. In fall term of 2011 he visited the Department of Economics at Harvard University. Last year he was one of the three recipients of the Unicredit & Universities Research Grant for young Italian economists. In 2011 he published three papers on crime and behavioral economics in the American Law and Economics Review, the Journal of Economic Psychology and Economic Policy. Another paper on peer effects in crime is forthcoming in the American Economic Journal: Applied Economics. He is currently involved in a research project on network effects in illegal behavior with C. Traxler (University of Marburg) and F. Mengel (University of Nottingham) and in another research project with R. Galbiati (CNRS) and M. Belloc (Università di Roma La Sapienza) on institutional change and beliefs.

SARAH DRAUS is a CSEF Post-doctoral Fellow. Her research aims at understanding the stock market industry, in particular competition and order-flow fragmentation, devices to regulate trading, and the role of information disclosure requirements. Currently she is involved in a project on “circuit breakers” in securities markets with M. Pagano and M. Van Achter (University of Rotterdam). She is also studying the effects of fragmentation of trading volume on the listing requirements determined by stock markets, the channels through which a listing decision certifies the quality of firms, and the effects of changes in mandatory disclosure requirements on the listing decisions of firms. In 2009 she completed a Ph.D. in finance with a thesis on the organisation and the regulation of stock markets at the University of Paris-Dauphine. She is the winner of the Pirou/Aguirre-Basualdo prize for doctoral dissertations defended in economics and management, awarded by the Chancellerie des Universités de Paris. She also earned a special distinction awarded by the jury of the AFFI NYSE Euronext price for doctoral dissertations and her doctorate was nominated for the AFFI FNEGE thesis prize.

ANDREW ELLUL is Associate Professor of Finance and Fred T. Greene Distinguished Scholar at Indiana University’s Kelley School of Business. His research interests focus on empirical corporate finance and market microstructure. He is a Research Associate of ECGI, and serves as Associate Editor of the *Review of Finance* since 2010. In 2011 he has published the paper ”Regulatory Pressure and Fire Sales in the

Corporate Bond Market" in the *Journal of Financial Economics* (101 (3), 596-620), co-authored with C. Jotikasthira and C. Lundblad. He has also finished two new working papers: "Accounting Transparency, Tax Pressure, and Access to Finance" (co-authored with T. Jappelli, M. Pagano and F. Panunzi) and "Historical Cost Accounting, Incentive Distortions and Market Stress" (co-authored with C. Jotikasthira, C. Lundblad, and Y. Wang).

CARLO FAVERO holds the Deutsche Bank Chair in Quantitative Finance and Asset Pricing at Bocconi University and is a CEPR Research Fellow. His current research focuses on the interaction between theory and data for identification, specification and estimation of econometric models relevant for policy analysis and forecasting, and the interaction between demographics and financial markets. Last year he published "Demographics and Stock Market Fluctuations" (with A. Tamoni) in *CESifo Economic Studies.* Moreover, he has four forthcoming articles: "A Spectral Estimation of Tempered Stochastic Volatility Models and Option Pricing" (with J. Li and F. Ortu) in *Computational Statistics and Data Analysis*, "Reconciling VAR based and Narrative Measures of the Tax Multiplier" (with F. Giavazzi) in the *American Economic Journal: Economic Policy*, "Term Structure Forecasting: No-arbitrage Restrictions Versus Large Information Set" (with L. Niu and L. Sala) in the *Journal of Forecasting*, and "Demographic Trends, the Dividend-Price Ratio and the Predictability of Long-Run Stock Market Returns (with A. Gozluklu and A. Tamoni) in the *Journal of Financial and Quantitative Analysis*.

CHIARA FUMAGALLI is Associate Professor of Economics at Bocconi University and a CEPR Research Affiliate. She is also special consultant of Compass Lexecon. She holds a Ph.D. in Economics from Universitat Pompeu Fabra. Her research focuses on industrial organization, in particular on competition policy issues. Part of her work deals with the interaction between firms' financial decisions and competitive behaviour. On this topic, in a paper with X. Boutin, G. Cestone, G. Pica and N. Serrano Velarde, under revision for the *Journal of Financial Economics,* she tests empirically whether internal capital market allocations affect market entry. In 2009 she published the article "On the anticompetitive effect of exclusive dealing when entry by merger is possible" (with M. Motta and L. Persson) in *The Journal of Industrial Economics.* Her research activity on exclusionary practices has produced two new papers: "Exclusive dealing: investment promotion may facilitate inefficient foreclosure" (with M. Motta and T. Ronde), under revision for the *Journal of Industrial Economics,* and "A simple theory of predation" (with M. Motta), which proposes a new rationale for predatory pricing based on the interaction between scale economies, sequential buyers and an incumbency advantage. Moreover, she has contributed to the debate on damages for exclusionary behaviour in a joint paper with J. Padilla and M. Polo, "Damages for exclusionary practices: a primer", published in *Competition Law and Enforcement of art. 102*, edited by F. Etro and I. Kokkoris, OUP, 2010. Finally, she is writing a book with M. Motta, *Monopolization: A Theory of Exclusionary Practices,* in preparation for CUP.

Vincenzo Galasso is Professor of Economics at Università della Svizzera Italiana, Lugano (Switzerland), Director of the Dondena Center for Research on Social Dynamics at Bocconi University, CEPR Research Fellow and IGIER Research Fellow. He is also associate editor of the European Journal of Political Economy and member of the editorial board of the Journal of Pension Economics and Finance. His current research focuses on the interactions between fertility decisions and welfare state, on the selection of politicians and the political economy of structural reforms. In 2011 he has published "Competing on good politicians", (with T. Nannicini) in the *American Political Science Review,* "The Political Economy of Flexicurity" (with T. Boeri and J.I. Conde-Ruiz) forthcoming in the *Journal of the European Economic Association* and "The role of income effects in early retirement" (with J.I. Conde-Ruiz and P. Profeta) forthcoming in the *Journal of Public Economics Theory*.

Maria Gabriella Graziano is Professor of Mathematics at the University of Naples Federico II. Her current research focuses on general equilibrium theory, infinite dimensional economies, economies with public goods, economies with uncertainty and asymmetric information. She has recently published the papers: "Economies with informational asymmetries and limited vetoer coalitions" (with A. Basile and C. Donnini), Economic Theory (2010); "Coalitional fairness under asymmetric information" (with M. Pesce), Mediterranean Journal of Mathematics (2010); "Linear cost share equilibria and the veto power of the grand coalitions" (with M. Romaniello), Social Choice and Welfare (2011); "Fuzzy cooperative behavior in response to market imperfections", *International Journal of Intelligent Systems* (2011). Recent working papers include: "Fairness properties of constrained market equilibria" (with C. Donnini and M. Pesce); "On mixed markets with public goods" (with A. Basile and M. Pesce); "Stable sets and public projects" (with M. Romaniello); "A solution to the conflict between efficiency and envy freeness in differential information economies" (with A. Basile and M. Pesce).

Giovanni Immordino is Associate Professor of Economics at the University of Salerno. He holds a Ph.D. in Economics from the University of Toulouse. He is currently working on the relationship between organized crime and leniency programs ("Accomplice-Witnesses and Organized Crime: Theory and Evidence from Italy" with A. Acconcia, S. Piccolo and P. Rey), the relationship between legal institutions and innovation ("Legal Institutions, Innovation and Growth", with L. Anderlini, L. Felli and A. Riboni, the role played by reciprocity in the resolution of the partnership problem ("Partnership, Reciprocity and Team Design", with G. De Marco), the optimal way to compensate a whishful thinking agent ("Contracts with Wishful Thinkers", with A. Menichini and M. Romano) and the effect of different strategies to deal with prostitution ("Regulating prostitution: theory and evidence from Italy" with F.F. Russo). His recent research has focused on the design and enforcement of the law ("Legal Standars, Enforcement and Corruption", with M. Pagano, *Journal of the European Economic Association*, 2010; "Incentives to Innovate and Social Harm: Laissez-Faire, Authorization or Penalties?" with M. Pagano and M. Polo, *Journal of Public Economics*, 2011) and on behavioural contract theory ("A simple impossibility result in behavioural contract theory", with A. Menichini and M. Romano, *Economic Letters*, 2011).

TULLIO JAPPELLI is Professor of Economics at the University of Naples Federico II, Research Fellow of CEPR and CFS (Center of Financial Studies) and International Fellow of Netspar (Tilburg); he is one of the Mangaing Editors of *Economic Policy* and of the *Giornale degli Economisti*. In 2011 he published "Financial integration and consumption smoothing" (with L. Pistaferri) in *The Economic Journal* and "The portfolio effect of pension reforms: Evidence from Italy" (with R. Bottazzi and M. Padula) in the *Journal of Pension Economics and Finance.* Two papers have been accepted for publication: "Financial advisors: A case of babysitters?" (with A. Hacketal and M. Haliassos) is forthcoming in the *Journal of Banking and Finance*, and "Cognitive abilities, healthcare and screening tests" (with C. Avitabile and M. Padula) is forthcoming in the *Journal of Population Aging*. Currently he is working on projects on the effect of wealth shocks on consumption in the US and Europe (with D. Christelis and D. Georgarakos), accounting transparency, tax pressure and access to finance (with M. Pagano, A. Ellul and F. Panunzi), financial advise (with M. Haliassos and A. Hackethal), bequest taxation (with G. Pica and M. Padula), financial literacy (with M. Padula) and risk ambiguity (with J. Butler and L. Guiso); with L. Pistaferri he is currently writing a book on consumption theories and applications.

RICCARDO MARTINA is Professor of Economics at the University of Naples Federico II. He received a Ph.D. in Economics from the University of Naples. His research interests are mainly in the areas of industrial organization and public economics. His recent research focuses on the relationship between corruption and tax evasion, on the "second mover advantage" in multi-stage games with sequential choices, and on tax evasion and incentive contracts in oligopolistic markets.

ANNAMARIA MENICHINI is Associate Professor of Economics at the University of Salerno. Her research interests focus on financial economics, contract theory and incomplete contracts. In 2011, she published: "A simple impossibility result in behavioral contract theory" (joint with G. Immordino and M.G. Romano), *Economics Letters;* "Inter-firm Trade Finance in Times of Crisis," *The World Economy;* "Firms Trade Financing Decisions during Crises" (with D. Fabbri), in *Trade Finance during the Great Trade Collapse*, edited by J.-P. Chauffour and M. Malouche for the World Bank; "Inter-Firm Trade Finance: Pain or Blessing during Financial Crises," in *Trade Finance during the Great Trade Collapse*, edited by J.-P. Chauffour and M. Malouche for the World Bank. Her recent research focuses on the role of contract incompleteness in secured lending (with D. Fabbri) and on incentive contracts with optimistic agents (with G. Immordino and M.G. Romano).

JACQUELINE MORGAN is Professor of Game and Decision Theory at the University of Naples Federico II. Her research includes the introduction of refinement concepts for correlated Nash equilibria ("Altruistic Behavior and Correlated Equilibrium Selection", in *International Game Theory Review*, Dec 2011, with G. De Marco) and of models for trading international emission allowances ("Global Emission Ceiling Versus International Cap and Trade: What is the Most Efficient System When Countries Act Non-Cooperatively", 2011 CSEF WP, with F. Prieur). She has also investigated existence of solutions and optimality conditions for bilevel optimal control problems where the upper level, to be solved by a leader, is a scalar optimal control problem and the lower level, to be solved by several followers, is a multiobjective convex optimal control problem (2011 CSEF WP, with H. Bonnel) together with approximations of optimization problems with variational inequality constraints (with M.B. Lignola).

MARIO PADULA is Associate Professor of Econometrics at the University Ca' Foscari of Venice. He has a Ph.D. in Economics from University College London. His current research interests are pension reforms, financial literacy and saving, the effect of law enforcement on credit allocation, and household portfolio choice. In 2011 he published "The Portfolio Effect of Pension Reforms: Evidence from Italy" (with R. Bottazzi and T. Jappelli) in *Journal of Pension Economics and Finance*; "Evidence on the Insurance Effect of Redistributive Taxation" (with C. Grant, C. Koulovatianos and A. Michaelides) in *Review of Economics and Statistics*; "Inflation Dynamics and Subjective Expectations in the United States" (with K. Adam) in *Economic Inquiry*; "The Age-Productivity Gradient: Evidence from a Sample of F1 drivers" (with F. Castellucci and G. Pica) in *Labour Economics*. Last year he has also co-authored "Inequality in Living Standards since 1980", jointly with O.P. Attanasio and E. Battistin, published by the American Enterprise Institute Press.

MARCO PAGANO is Professor of Economics at the University of Naples Federico II, President of EIEF, Research Fellow of CEPR and managing editor of the Review of Finance. In 2011 he has published the article "Incentives to Innovate and Social Harm: Laissez-Faire, Authorization or Penalties?" (with G. Immordino and M. Polo) in the *Journal of Public Economics*, Vol. 95, No. 7-8, August, and two papers of his have been accepted for publication: "Short-Selling Bans around the World: Evidence from the 2007-09 Crisis" (with A. Beber), forthcoming in the *Journal of Finance*, and "Finance and Employment" (with G. Pica), forthcoming in *Economic Policy*. In November 2011 he has been awarded the ERC Advanced Grant for a 5-year research project on "Finance and Labor".

MARCO PAGNOZZI is Associate Professor of Economics at the University of Naples Federico II. He has a Ph.D. in Economics from Oxford University and a Doctorate in Applied Mathematics from the University of Naples Federico II. His research focuses on auction theory and industrial organization. In 2010 he published "Are Speculators Unwelcome in Multi-Object Auctions?" in the American Economic Journal: Microeconomics and "On-Net/Off-Net Price Discrimination and 'Bill-and-Keep' vs. 'Cost-Based' Regulation of Mobile Termination Rates" (with D. Harbord) in the Review of Network Economics, and in 2011 he published "Bids as a Vehicle of (Mis)Information: Collusion in English Auctions with Affiliated Values" in the Journal of Economics and Management Strategy. His paper "Vertical Separation with Private Contracts" (with S. Piccolo) is forthcoming in Economic Journal. He has recently completed a paper on "Product Differentiation by Competing Vertical Hierarchies" (with M. Bassi and S. Piccolo), and is currently working with Krista Jabs Saral on an experimental analysis of the effects of resale and speculators in multi-object auction, with A. Rosato on a model of takeovers with endogenous targets, and with Salvatore Piccolo on information sharing between vertical hierarchies.

MARIALAURA PESCE is Assistant Professor of Mathematics at the University of Naples Federico II. Her current research focuses on general equilibrium theory, economies with uncertainty and asymmetric information, economies with public goods. In 2011 she published the paper: “Core and equilibria under ambiguity” (with L. De Castro and N.C. Yannelis) in *Economic Theory*, and the paper “Incentive compatibility with interdependent preferences” (with N.C. Yannelis) is under review at *International Journal of Economic Theory*. She has recently submitted the following papers: “Fairness properties of constrained market equilibria” (with C. Donnini and M.G. Graziano), “Mixed markets with public goods” (with A. Basile and M.G. Graziano) and “Are asymmetrically informed agents envious?”. She is now working on the papers “A solution to the conflict between efficiency and envy freeness in differential information economies” (with A. Basile and M.G. Graziano), “The veto power of big and small coalitions in differential information economies”, and “Relationship between partition and type model in general equilibrium with asymmetric information” (with L. De Castro and N.C. Yannelis).

GIOVANNI PICA is Associate Professor of Economics at the University of Salerno and IGIER visiting fellow. He specializes in labor economics, international economics and macroeconomics. In 2011 he published “Who’s Afraid of a Globalized World? Foreign Direct Investment, Local Knowledge and Allocation of Talents” (with J.V. Rodriguez Mora) in the *Journal of International Economics* and “The age-productivity gradient: evidence from a sample of F1 drivers” (with F. Castellucci and M. Padula) in *Labour Economics*. With M. Pellizzari he has contributed to a volume on the design of growth-enhancing reforms in Italy. The paper “Finance and Employment” (with M. Pagano) is forthcoming in *Economic Policy*. Recent working papers include ”The deep-pocket effect of internal capital markets” (with X. Boutin, G. Cestone, C. Fumagalli and N. Serrano Velarde) under revision (second round) for the JFE and “Who Pays for It? The Heterogeneous Wage Effects of Employment Protection Legislation” (with M. Leonardi) under revision for the *Economic Journal*. Currently he is working on projects on the relationship between intergenerational mobility, estate taxation and economic outcomes; on occupational licensing; and on the real effects of finance, especially during banking crises.

SALVATORE PICCOLO is Associate Professor of Economics at the Università Cattolica del Sacro Cuore (Milan). He holds a Ph.D. in Economics at Northwestern University. His research focuses on contract theory and mechanism design, with applications to industrial organization, management, auctions and banking. He has published in the IO and Micro Area. Recently he has published in the *Journal of Economics and Management Strategy*, *Management Science*, *Economic Journal* and *Economics Letters*.

GIOVANNI WALTER PUOPOLO Assistant Professor of Finance at Bocconi University. He received a Ph.D. in Finance from University of Lausanne and Swiss Finance Institute. His research focuses on investment-based asset pricing, portfolio choice problems with transaction costs, information and learning in the markets. He has a recent project which investigates the mean-reverting dynamics of market-to-book ratios and its link with stock returns. His current work with Bernard Dumas computes the optimal size of the no-trading region in presence of transaction costs and predictability in expected returns.

MARIA GRAZIA ROMANO is Assistant Professor of Economics at the University of Salerno. She received a Ph.D in Applied Mathematics at the University of Naples Federico II. She also has a Master in Financial Markets and Intermediaries at the University of Toulouse. Her research focuses on market microstructure, corporate finance, microeconomics. In 2011 she published “A simple impossibility result in behavioral contract theory” in *Economics Letters*. She is currently working on two research projects: with H. Sabourian she is studying herd behavior in financial markets with continuous investment decisions and, with G. Immordino and A.M. Menichini, emotional agency.

FRANCESCO FLAVIANO RUSSO is Assistant Professor of Economics at the University of Naples Federico II. He received a PhD in Economics from Boston University. His research focuses on informal and illegal economic markets. In the paper: “Informality: the doorstep of the legal system” he shows that the cross country differentials in the degree of entry regulation can explain the differentials size of the informal sectors, while tax and labour market regulations differentials cannot. In the paper: “Cocaine: the complementarity between legal and illegal trade” he proposes an explanation for the decreased price of cocaine in al the world’s biggest markets based on a decreased detection probability, which is a consequence of the increased flow of trade across country that makes it very costly to inspect all the shipments of legal goods. He is also involved in two research projects on the analysis of legalizing and regulating the drug market and the prostitution market.

GIUSEPPE RUSSO is Assistant Professor of Economics at the University of Salerno. He holds a Ph.D in Economic Analysis and Policy from the Paris School of Economics. His research focuses on political economy, labour market institutions, and the economics of human migrations. His latest publications include “Aggregate Employment Dynamics and (Partial) Labour Market Reforms” (with R. Jimènez-Rodriguez), in *Bulletin of Economic Research*; “Voting over Selective Immigration Policies with Immigration Aversion”, in *Economics of Governance*; “A Note on Contribution Games with Loss Functions” (with L. Senatore), forthcoming in *Economics Letters*. His current projects concern the credibility of immigration amnesties and the relationship between electoral systems and openness to immigration

SAVERIO SIMONELLI is Assistant Professor of Economics at the University of Naples Federico II. He holds a PhD in Economics from the University of Naples Federico II, and a Master in Economics from University Pompeu Fabra. His current research focuses on real business cycle, dynamic factor models and forecasting in real-time. In 2011 he published “International Comovements, Business Cycle and Inflation: a Historical Perspective” (with H. Mumtaz and P. Surico) in Review of Economic Dynamics. His recent papers include “Mafia and Public Spending: Evidence on the Fiscal Multiplier from a Quasi-experiment” (with A. Acconcia e G. Corsetti), “The Dunlop-Tarshis Observation Revisited” (with M. Ravn) and “Investment-Specific Technology Shocks in the US and European Business Cycle”. He is currently working on the effect of fiscal policy on output and consumption (with A. Acconcia and G. Corsetti) and on short- term forecasting (with D. Giannone, L. Reichlin and C. Cicconi).

Rossella Argenziano Visited CSEF during the Winter term to teach the first course of the Microeconomics sequence in the Master of Economics and Finance and to further develop her research agenda on cheap talk models of expert advice. Her main research focus is on timing games and coordination games. Rossella's work has been presented at major conferences around the world (including the SAET, the EARIE and the Econometric Society World Congress), has been published in leading academic journals (including the *RAND Journal of Economics*), and received several awards (including the EARIE Young Economist Essay Award). She obtained a PhD degree in Economics from Yale University and held a post-doc position at the GREMAQ in Toulouse. She is a permanent lecturer at the University of Essex.

Mark van Achter Visited CSEF in October and December to work on a joint project with Sarah Draus and Marco Pagano on so called "circuit breakers". His main research focus is on the market microstucture of financial markets. Mark's obtained a PhD degree in Economics from the Catholic University of Leuven, and held positions at the Universities of Bonn and Mannheim before joining RSM Erasmus University.

Here is the full list of the Working Papers published by CSEF. The papers can be downloaded from the URL http://www.csef.it/wpcsef.htm

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269 G. De Marco and J. Morgan, *Altruistic Behavior and Correlated Equilibrium Selection*

270 F. Drago and R. Galbiati, *Indirect Effects of a Policy Altering Criminal Behaviour: Evidence from the Italian Prison Experiment*

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271 C. Avitabile, *Spillover Effects in Healthcare Programs: Evidence on Social Norms and Information Sharing*

Although cervical cancer is considered one of the most preventable types of cancer, mortality rates in many developing countries are extremely high. This paper exploits the randomized research design of a large welfare program - PROGRESA - to study the size and determinants of spillover effects in cervical cancer screening in rural Mexico. I find significant evidence of increased demand for Papanicolaou cervical cancer screening among women ineligible for the transfer, yet no evidence of similar externalities in non-gender specific tests, such as blood pressure and blood sugar checks. Different pieces of evidence from the randomized evaluation sample and the nationwide rollout are consistent with the hypothesis that the PROGRESA program has weakened the social norm related to husbands' opposition to screening of their wives by male doctors. I find no support for the hypothesis that the spillover effect is driven by higher levels of health information.

272 T. Jappelli and M. Padula, *Investment in Financial Literacy and Saving Decisions*

We present an intertemporal consumption model of consumer investment in financial literacy. Consumers benefit from such investment because their stock of financial literacy allows them to increase the returns on their wealth. Since literacy depreciates over time and has a cost in terms of current consumption, the model determines an optimal investment in literacy. The model shows that financial literacy and wealth are determined jointly, and are positively correlated over the life cycle. Empirically, the model leads to an instrumental variables approach, in which the initial stock of financial literacy (as measured by math performance in school) is used as an instrument for the current stock of literacy. Using microeconomic and aggregate data, we find a strong effect of financial literacy on wealth accumulation and national saving, and also show that ordinary least squares estimates underestate the impact of financial literacy on saving.

273 S. Piccolo, *Communicating Vertical Hierarchies: the Adverse Selection Case*

I study the rationale for information sharing in a model where two principals, which exert production externalities one on another, endogenously decide whether to exchange information about their exclusive agents. I show that one novel effect shapes communication decisions when agents are privately informed about production costs. This effect is absent under complete information and it turns out to be of first-order magnitude relative to those emerging in such benchmark. Roughly, what matters is how sharing information impacts contracting relationships within opponent organizations, and therefore its effect on equilibrium outputs. Information exchange induces strategies to be correlated via the distortions channel. Because of those distortions, the equilibrium value of communication depends on the interplay between the nature of upstream externalities and the sign of cost correlation. When upstream externalities and cost correlation have the same sign, there exists a unique symmetric equilibrium with no communication. By contrast, when upstream externalities and cost correlation have opposite signs there exists a unique symmetric equilibrium where both principals share information. I also show that, unlike in previous models, under asymmetric information principals might run into a prisoner dilemma when there is no communication at equilibrium. Information sharing is also shown to have an unambiguous negative effect on rents. Moreover, there exists a system of transfers such that the equilibrium outcome obtained when both principals share information is collusion-proof.

274 C. Altavilla and M. Ciccarelli, *Monetary Policy Analysis in Real-Time. Vintage Combination from a Real-time Dataset*

This paper provides a general strategy for analyzing monetary policy in real time which accounts for data uncertainty without explicitly modelling the revision process. The strategy makes use of all the data available from a real-time data matrix and averages model estimates across all data releases. Using standard forecasting and policy models to analyze monetary authorities' reaction functions, we show that this simple method can improve forecasting performance and provide reliable estimates of the policy model coe¢cients associated with small central bank losses, in particular during periods of high macroeconomic uncertainty.

275 J. Morgan and F. Prieur, *Global Emission Ceiling Versus International Cap and Trade: What is the Most Efficient System when Countries Act Non-cooperatively?*

We model climate negotiations as a two-stage game. In the first stage of the game, players have to agree on a global emission cap (GEC). In the second stage, they non-cooperatively choose either their emission level or their emission quota, depending on whether emission trading is allowed, under the cap that potentially binds them together. A three heterogenous player quadratic game serves as a base for the analysis. In this framework, when the cap is non-binding, there exists a unique Nash equilibrium. When the emission cap is binding, among all the coupled constraints Nash equilibria, we select a normalized equilibrium by solving a variational inequality, which has a unique solution. In both scenarios – with and without emission trading – we show that there exists a non-empty range of values for which setting a binding cap improves all players' payoff. It also appears that for some values of the cap, all players get a higher payoff under the GEC system alone than under the international cap and trade (ITC) system alone. Thus, the introduction of a GEC outperforms the ITC system both in terms of emission reduction and of payoff gains.

276 G. Cespa and X. Vives, *Higher Order Expectations, Illiquidity, and Short-term Trading*

We propose a theory that jointly accounts for an asset illiquidity and for the asset price potential over-reliance on public information. We argue that, when trading frequencies differ across traders, asset prices reflect investors' Higher Order Expectations (HOEs) about the two factors that influence the aggregate demand: fundamentals information and liquidity trades. We show that it is precisely when asset prices are driven by investors' HOEs about fundamentals that they over-rely on public information, the market displays high illiquidity, and low volume of informational trading; conversely, when HOEs about fundamentals are subdued, prices under-rely on public information, the market hovers in a high liquidity state, and the volume of informational trading is high. Over-reliance on public information results from investors' under-reaction to their private signals which, in turn, dampens uncertainty reduction over liquidation prices, favoring an increase in price risk and illiquidity. Therefore, a highly illiquid market implies higher expected returns from contrarian strategies. Equivalently, illiquidity arises as a byproduct of the lack of participation of informed investors in their capacity of liquidity suppliers, a feature that appears to capture some aspects of the recent crisis.

277 D. Christelis and G. Weber, *Expected Bequests and Current Wealth of Older Households*

We use the subjective probabilities of bequests to be given in the future and current asset holdings, as reported in three household surveys (HRS, ELSA, and SHARE) covering thirteen countries, in order to assess whether, and to what extent, households plan to decumulate assets in old age. We model intended bequests as a function of household demographic and economic characteristics, and estimate their expected value using quasi-maximum likelihood methods. By comparing the current wealth holdings with the expected intended bequests we compute the pattern of future saving by households, and assess its cross-country variability with respect to housing wealth.

278 D. Christelis, *Imputation of Missing Data in Waves 1and 2of SHARE*

The Survey of Health, Ageing and Retirement in Europe (SHARE), like all large household surveys, suffers from the problem of item non-response, and hence the need of imputation of missing values arises. In this paper I describe the imputation methodology used in the first two waves of SHARE, which is the fully conditional specification approach of van Buuren, Brand, Groothuis-Oudshoorn, and Rubin (2006). Methods for assessing the convergence of the imputation process are also discussed. Finally, I give details on numerous issues affecting the implementation of the imputation process that are particular to SHARE.

279 D. Christelis, D. Georgarakos and T. Jappelli, *Wealth Shocks, Unemployment Shocks and Consumption in the Wake of the Great Recession*

We use data from the 2009 Internet Survey of the Health and Retirement Study to examine the consumption impact of wealth shocks and unemployment during the Great Recession in the US. We find that many households experienced large capital losses in housing and in their financial portfolios, and that a non-trivial fraction of respondents have lost their job. As a consequence of these shocks, many households reduced substantially their expenditures. We estimate that the marginal propensities to consume with respect to housing and financial wealth are 1 and 3.3 percentage points, respectively. In addition, those who became unemployed reduced spending by 10 percent. We also distinguish the effect of perceived transitory and permanent wealth shocks, splitting the sample between households who think that the stock market is likely to recover in a year's time, and those who don't. In line with the predictions of standard models of intertemporal choice, we find that the latter group adjusted much more than the former its spending in response to financial wealth shocks.

280 E. Hauk and G. Immordino, *Parents, Television and Cultural Change*

This paper develops a model of cultural transmission where television plays a central role for socialization. Parents split their free time between educating their children, which is costly, and watching TV which though entertaining might socialize the children to the wrong trait. The free to air television industry maximizes advertisement revenue. We show that TV watching is increasing in cultural coverage, cost of education, TV's entertainment value and decreasing in the perceived cultural distance between the two traits. A monopolistic television industry captures all TV watching by both groups if the perceived cultural distance between groups is small relative to the TV's entertainment value. Otherwise, more coverage will be given to the most profitable group where profitability increases in group size, advertisement sensitivity and perceived cultural distance. This leads to two possible steady states where one group is larger but both groups survive in the long run. Competition in the media industry might lead to cultural extinction but only if one group is very insensitive to advertisement and not radical enough not to watch TV. We briefly discuss the existing evidence for the empirical predictions of the model.

281 A. Acconcia, G. Corsetti and S. Simonelli, *Mafia and Public Spending: Evidence on the Fiscal Multiplier from a Quasi-experiment*

We estimate the multiplier by relying on differences in spending in infrastructure across Italian provinces and an instrument identifying investment changes that are large and exogenous to local cyclical conditions. We derive our instrument from the Italia law mandating the interruption of public work on evidence of mafia infiltration of city councils. Our IV estimates on cross sectional data allow us to address common problems in time series analysis, such as the risk of estimating spuriously high multipliers because of endogeneity and reverse causation, or the risk of confounding the effects of fiscal and monetary measures. While accounting for contemporaneous and lagged effects, and controlling for the direct impact of anti-mafia measures on output, our results suggest a multiplier as high as 1.4 on impact, and 2 including dynamic effects.

282 J.V. Butler, L. Guiso and T. Jappelli, *The Role of Intuition and Reasoning in Driving Aversion to Risk and Ambiguity*

Using information on a large sample of retail investors and experimental data we find that risk aversion and risk ambiguity are correlated: individuals who dislike risk also dislike ambiguity. We show that what links these traits is the way people handle decisions. Intuitive thinkers are less averse to risk and less averse to ambiguity than individuals who base their decisions on effortful reasoning. We confirm this finding in a series of experiments. One interpretation of our results is that the high-speed of intuitive thinking puts intuitive thinkers at a comparative advantage in situations involving high risk and ambiguity, making them less averse to both. Consistent with this view we show evidence from the field and from the lab that intuitive thinkers perform better than deliberative thinkers when making decisions in highly ambiguous and risky environments. We also find that attitudes toward risk and ambiguity are related to different individual characteristics and wealth. While the wealthy are less averse to risk, they dislike ambiguity more, a finding that has implications for financial puzzles.

283 M. Pagano and G. Pica, *Finance and Employment*

How does finance affect employment and inter-industry job reallocation? We present a model that predicts that financial development (i) increases employment and/or labor productivity and wages, with a smaller impact at high levels of the equilibrium wage and financial development; (ii) may induce either more or less reallocation of jobs depending on whether shocks to profit opportunities or to cash flow predominate; (iii) amplifies the output and employment losses in crises, firms that rely most on banks for liquidity being hit the hardest. Testing these predictions on international industry-level data for 1970-2003, we find that standard measures of financial development are indeed associated with greater employment growth, although only in non-OECD countries, and are not correlated with labor productivity or real wage growth. Moreover, they correlate negatively with inter-industry dispersion of employment growth. Finally, there is some evidence of a "dark side" of financial development, in that during banking crises employment grows less in the industries that are more dependent on external finance and those located in the more financially developed countries.

284 G. Cespa and T. Focault, *Learning from Prices, Liquidity Spillovers, and Market Segmentation*

We describe a new mechanism that explains the transmission of liquidity shocks from one security to another ("liquidity spillovers"). Dealers use prices of other securities as a source of information. As prices of less liquid securities convey less precise information, a drop in liquidity for one security raises the uncertainty for dealers in other securities, thereby affecting their liquidity. The direction of liquidity spillovers is positive if the fraction of dealers with price information on other securities is high enough. Otherwise liquidity spillovers can be negative. For some parameters, the value of price information increases with the number of dealers obtaining this information. In this case, related securities can appear segmented, even if the cost of price information is small.

285 D. Christelis, L.I. Dobrescu, A. Motta, *Early Life Conditions and Financial Risk–Taking in Older Age*

Using life-history survey data from eleven European countries, we investigate whether childhood conditions, such as socioeconomic status, cognitive abilities and health problems influence portfolio choice and risk attitudes later in life. After controlling for the corresponding conditions in adulthood, we find that superior cognitive skills in childhood (especially mathematical abilities) are positively associated with stock and mutual fund ownership. Childhood socioeconomic status, as indicated by the number of rooms and by having at least some books in the house during childhood, is also positively associated with the ownership of stocks, mutual funds and individual retirement accounts, as well as with the willingness to take financial risks. On the other hand, less risky assets like bonds are not affected by early childhood conditions. We find only weak effects of childhood health problems on portfolio choice in adulthood. Finally, favorable childhood conditions affect the transition in and out of risky asset ownership, both by making divesting less likely and by facilitating investing (i.e., transitioning from non-ownership to ownership).

286 G.W. Puopolo, *Firm Migration and Stock Returns*

This paper studies the asset pricing implications of a general equilibrium model in which real investment is reversible at a cost. Firms face higher costs in contracting than in expanding their capital stock and decide to invest when their productive capital is scarce relative to the overall capital of the economy. Positive shocks to the production process of the firm increase the size of the firm and reduce the value of growth options. As a result, the firm is burdened with more unproductive capital and its value lowers with respect to the accumulated capital. The optimal consumption policy alters the optimal allocation of resources and affects firm's value, generating mean-reverting dynamics for the M/B ratios. The model (1) captures convergence of price-to-book ratios - negative for growth stocks and positive for value stocks - (firm migration), (2) generates deviations from the classic CAPM in line with the cross-sectional variation in expected stock returns and (3) generates a non-monotone relationship between Tobin's q and conditional volatility consistent with the empirical evidence.

287 F. Delgado, B. Dumas and G. W. Puopolo, *Hysteresis Bands and Transaction Costs*

In the presence of transactions costs, no matter how small, arbitrage activity does not necessarily render equal all riskless rates of return. When two such rates follow stochastic processes, it is not optimal immediately to arbitrage out any discrepancy that arises between them. The reason is that immediate arbitrage would induce a definite expenditure of transactions costs whereas, without arbitrage intervention, there exists some, perhaps sufficient, probability that these two interest rates will come back together without any costs having been incurred. Hence, one can surmise that at equilibrium the .nancial market will permit the coexistence of two riskless rates that are not equal to each other. For analogous reasons, randomly fluctuating expected rates of return on risky assets will be allowed to differ even after correction for risk, leading to important violations of the Capital Asset Pricing Model. The combination of randomness in expected rates of return and proportional transactions costs is a serious blow to existing frictionless pricing models.

288 M. Bassi, M. Pagnozzi and S. Piccolo, *Transparency and Product Differentiation with Competing Vertical Hierarchies*

We revisit the choice of product differentiation by competing firms in the Hotelling model, under the assumption that firms are vertically separated, and that retailers choose products' characteristics. We show that retailers with private information about their marginal costs choose to produce less differentiated products than retailers with no private information, in order to increase their information rents. Hence, information asymmetry increases social welfare because it induces firms to sell products that appeal to a larger number of consumers. The socially optimal level of transparency between manufacturers and retailers depends on the weight assigned to consumers' surplus and trades of two effects: higher transparency reduces price distortion but induces retailers to produce excessively similar products.

289 G. Russo, *Voting over Selective Immigration Policies with Immigration Aversion*

Selective immigration policies set lower barriers to entry for skilled workers. However, simple economic intuition suggests that skilled majorities should welcome unskilled immigrants and protect skilled natives. This paper studies the voting over a selective policy in a two-country, three-factor model with skilled and unskilled labor, endogenous migration decisions, costly border enforcement and aversion to immigration. Results show that heterogeneity in capital distribution forces skilled voters to form a coalition with unskilled voters, who become pivotal. The voting outcome is therefore biased towards the preferences of the latter, and consists in a selective protectionism. Finally, immigration aversion helps to explain why skilled majorities do not bring down entry barriers against unskilled workers.

290 C. Barra, S. Destefanis and G. Lubrano Lavadera, *Risk and Regulation: The Efficiency of Italian Cooperative Banks*

In this paper we analyse the determination of cost efficiency in a sample of Italian small banks located in different geographical areas and including two great institutional categories: cooperative banks (CB's) and other banks. We highlight the effect of environmental factors (asset quality, local GDP per capita) on banks' performance, and provide novel evidence in favour of the "bad luck" hypothesis suggested by Berger and De Young (Journal of Banking and Finance, 1997). Local GDP per capita strongly affects the territorial differentials for technical efficiency, especially for CB's. This can be easily rationalised, as current regulations hamper CB's vis-à-vis other banks in their capability to diversify territorially. Our estimates provide us with a tentative quantitative measure of the costs of missing diversification, ranging between 2 and 7 percentage points. Correspondingly, our evidence suggests that there is potentially strong endogeneity in some currently available bank performance indicators.

291 R. Martina and S. Piccolo, *A Note on the Value of Residual Claimancy with Competing Vertical Hierarchies*

In this short paper we study a competing vertical hierarchies model where the allocation of residual claimancy is endogenous and is determined jointly with production and contractual decisions. We find a set of circumstances in which the (equilibrium) allocation of residual claimancy is affected by competition in a non trivial manner. More precisely, although revenue-sharing contracts foster agents. (non-contractible) surplus enhancing effort, we show that competing principals dealing with exclusive and privately informed agents might still prefer to retain a share of the surplus from production when dealing with inefficient types. This is because reducing the surplus share of inefficient types reduces the information rent given up to efficient types. Hence, the equilibrium allocation of residual claimancy follows a pro-cyclical rule.

292 Maria Laura Pesce, *Are Asymmetrically Informed Agents Envious?*

In most economies, a fair allocation does not exist. Thus, it seems that we are condemned to live in an unfair world, since we are not happy with what we have and we look at the others with envious eyes. In this paper we want to give an hope for a more equitable society.

293 C. Altavilla and F.E. Caroleo, *Asymmetric Effects of National-based Active Labour Market Policies*

Labour market policies settled at national level imply a “one-size-fits-all” labour market strategy. This strategy might not sufficiently take into account region-specific economic structures. We employ a panel factor-augmented vector autoregression (FAVAR) to evaluate whether active labour market programmes (ALMPs) might asymmetrically affect labour markets at regional level in a data-rich environment. The paper focuses on Italian regions. Our results suggest that while in the South employment is mainly driven by social and economic context variables, in the North the employment dynamics is significantly explained by policy interventions. Finally, we suggest two main policy implications. First, the success of active policies depends on the regional labour market conditions. Second, policymakers should adjust labour policy strategy to the regional economic structure

294 S. Piccolo and E. Tarantino, *Managerial Compensations and Information Sharing under Moral Hazard: Is Transparency Good?*

We study the effects of information sharing on optimal contracting in a vertical hierarchies model with moral hazard and effort externalities. The paper has three main objectives. First, we determine and compare the equilibrium contracts with and without communication. We identify how each principal relates her agent’s wage to the opponent’s performance when they share information about agents’ performances. It turns out that the type of effort externalities across organizations is the main determinant of the responsiveness of each agent’s reward to the opponent’s performance. Second, in order to throw novel light on the emergence of information sharing agreements, we characterize the equilibria of a non-cooperative game where principals first decide whether to share information and then offer contracts to their exclusive agents. We explore the implications of introducing certification costs and show that three types of equilibria may emerge depending on the nature and (relative) strength of effort externalities: principals bilaterally share information if agents’ effort choices exhibit strong complementarity; only the principal with stronger monitoring power discloses information in equilibrium for intermediate levels of effort’s complementarity; principals do not share information if efforts are substitutes and for low values of effort’s complementarity. Moreover, differently from the common agency framework studied in Maier and Ottaviani (2009), in our model a prisoner’s dilemma may occur when efforts are substitutes and certification costs are negligible: if a higher effort by one agent reduces the opponent’s marginal productivity of effort the equilibrium involves no communication although principals would jointly be better off by sharing information. Finally, the model also offers novel testable predictions on the impact of competition on the basic trade-off between risk and incentives, the effects of organizations' asymmetries on information disclosure policies as well as on the link between corporate control and the power of incentives.

295 A. Acconcia, A. Del Monte and L. Pennacchio, *Underpricing and Firm's Distance from Financial Centre: Evidence from three European Countries*

We provide international evidence on the relationship between the extent of underpricing related to initial public offerings (IPOs) and the distance of the issuing firm from the financial centre of a country: for France, Germany and Italy, the higher the distance, the higher the level of underpricing. Under the maintained assumption that headquarters of institutional investors and underwriters are part of a financial centre, our evidence is consistent with the hypothesis that ex ante uncertainty regarding the value per share of an issuing firm increases with the firm's physical distance from the underwriter. As financial centres are usually located in the richest areas of the countries concerned, spatial difference in the cost of equity financing may contribute to the persistence or the widening of local disparities.

296 S. Draus, *Does Inter-Market Competition Lead to Less Regulation?*

This paper presents a model to analyze the consequences of competition in order-flow between a profit maximizing stock exchange and an alternative trading platform on the decisions concerning trading fees and listing requirements. Listing requirements, set by the exchange, provide public information on listed firms and contribute to a better liquidity on all trading venues. It is sometimes asserted that competition induces the exchange to lower its level of listing standards compared to a situation in which it is a monopolist, because the trading platform can free-ride on this regulatory activity and compete more aggressively on trading fees. The present analysis shows that this is not always true and depends on the existence and size of gains related to multi market trading. These gains relax competition on trading fees. The higher these gains are, the more the exchange can increase its revenue from listing and trading when it raises its listing standards. For large enough gains from multi-market trading, the exchange is not induced to lower the level of listing standards when a competing trading platform appears. As a second result, this analysis also reveals a cross - subsidization effect between the listing and the trading activity when listing is not competitive. This model yields implications about the fee structures on stock markets, the regulation of listings and the social optimality of competition for volume.

297 S. Draus, *The Certification Role of Listings*

The model developed in this paper shows that differences in incentives of firms to list can have an impact on the decision of exchanges concerning the level of listing requirements they set, and on the gains obtained by firms when they list on an exchange with stringent listing requirements. When firms bear listing costs that are uncorrelated with their quality, changing the level of listing requirements or introducing additional segments with different listing requirements changes the distribution of listed firms and affects thereby indirectly the values of listed firms. This indirect effect can either enforce or weaken the direct impact of more precise information on the value of firms. If the difference in the incentives to list among firms of the same quality is small, the exchange might be induced to set a high level of listing requirements, which leads to a high information efficiency in the economy. If these differences are large, the exchange never sets a high level of listing requirements and efficiency is impeded.

298 S. Capasso and T. Jappelli, *Financial Development and the Underground Economy*

We provide a theoretical and empirical study of the relation between financial development and the size of the underground economy. In our theoretical framework agents allocate investment between a low-return technology which can be operated with internal funds, and a high-return technology which requires external finance. Firms can reduce the cost of funding by disclosing part or all of their assets and pledging them as collateral. The disclosure decision, however, also involves higher tax payments and reduces tax evasion. We show that financial development (a reduction in the cost of external finance) can reduce tax evasion and the size of the underground economy. We test the main implications of the model using Italian microeconomic data that allow us to construct a micro-based index of the underground economy. In line with the model's predictions, we find that local financial development is associated with a smaller size of the underground economy, controlling for the potential endogeneity of financial development and other determinants of the underground economy.

299 G. De Marco and M. Romaniello, *A Limit Theorem for Equilibria under Ambiguous Beliefs Correspondences*

Previous literature shows that, in many different models, limits of equilibria of perturbed games are equilibria of the unperturbed game when the sequence of perturbed games converges to the unperturbed one in an appropriate sense. The question whether such limit property extends to the equilibrium notions in ambiguous games is not yet clear as it seems; in fact, previous literature shows that the extension fails in simple examples.The contribution in this paper is to show that the limit property holds for equilibria under ambiguous beliefs correspondences (presented by the authors in a previous paper). Key for our result is the sequential convergence assumption imposed on the sequence of beliefs correspondences. Counterexamples show why this assumption cannot be removed.

300 M. D'Amato and C. Di Pietro, *Occupational Mobility and Wealth Evolution in a Simple Model of Educational Investment with Credit Market Imperfections*

We consider a model of occupational choice with credit market imperfections and local non convexities in education investment. The implications of individual heterogeneity for the evolution of wealth distribution and policies are studied. Convergence of the wealth distribution is obtained whenever the (exogenous) distribution of education costs entails the presence inefficient types, regardless of how "large" the support of the random ability parameter is. Conversely, poverty traps can emerge only if investment is efficient for every single agent in the economy. We explore conditions under which wealth accumulation eliminates the effects of financial market imperfection. Interestingly we show that, a necessary feature of steady states with occupational mobility is that wealth constraints, whenever they bind investment choices in the long run, they must bind for households in both occupations. Persistence of wealth constraints motivates our exploration of policies. Compared to the case of homogeneous ability, we show that heterogeneity requires more persistent policies to achieve similar results in terms of enhanced investment opportunities and income per capita. It is also shown that the scope for policies is larger under heterogeneity: policies can be effective in environments where they would fail in a world of homogeneous abilities.

301 H. Bonnel and J. Morgan, *Optimality Conditions for Semivectorial Bilevel Convex Optimal Control Problems*

We present optimality conditions for bilevel optimal control problems where the upper level, to be solved by a leader, is a scalar optimal control problem and the lower level, to be solved by several followers, is a multiobjective convex optimal control problem. Multiobjective optimal control problems arise in many application areas where several conflicting objectives need to be considered. Minimize several objective functionals leads to solutions such that none of the objective functional values can be improved further without deteriorating another. The set of all such solutions is referred to as efficient (also called Pareto optimal, noninferior, or nondominated) set of solutions. The lower level of the semivectorial bilevel optimal control problems can be considered to be associated to a “grande coalition” of a p-player cooperative differential game, every player having its own objective and control function. We consider situations in which these p-?players react as “followers” to every decision imposed by a “leader” (who acts at the so-called upper level). The best reply correspondence of the followers being in general non uniquely determined, the leader cannot predict the followers choice simply on the basis of his rational behavior. So, the choice of the best strategy from the leader point of view depends of how the followers choose a strategy among his best responses. In this paper, we will consider two (extreme) possibilities: (i) the optimistic situation, when for every decison of the leader, the followers will choose a strategy amongst the efficient controls which minimizes the (scalar) objective of the leader; in this case the leader will choose a strategy which minimizes the best he can obtain amongst all the best responses of the followers: (ii) the pessimistic situation, when the followers can choose amongst the efficient controls one which maximizes the (scalar) objective of the leader; in this case the leader will choose a strategy which minimizes the worst he could obtain amongst all the best responses of the followers. This paper continues the research initiated in [17] where existence results for these problems have been obtained.

302 G. Russo and L. Senatore, *A Note on Contribution Games with Loss Functions*

Decisions on joint funding of continuous public goods between two agents often involve heterogeneous targets. We introduce loss functions in a contribution game in order to study the effect of this conflict. Unlike Varian (1994), joint contribution occurs only if the players’ targets are sufficiently close and the sequential game reduces free riding problems, while total contribution is higher in the simultaneous game.