5^{th} End-of-Year Conference of Swiss Economists Abroad

December 21^{st} 2010

Study Center Gerzensee

Organizers: Lorenz Küng, Stephan Meier, Dina Pomeranz, Kurt Schmidheiny
Local Organizer: Roland Hodler
Supported by the Swiss National Bank and the Swiss Society of Economics and Statistics
Learn more about our network at www.swisseconomistsabroad.org

5th End-of-Year Conference of Swiss Economists Abroad

Monday, December 20

18:00 - 19:00	**Arrival of Hotel Guests** (see bus schedule on our website)
19:00 - 21:00	**Dinner** (Restaurant Study Center Gerzensee)

Tuesday, December 21

7:30 - 8:30	**Breakfast for Hotel Guests** (Restaurant Study Center Gerzensee)
8:30 - 8:45	**Arrival of Participants, Registration** (see bus schedule on our website for connections from Wichtrach to the hotel)
8:45 - 9:00	**Welcome Session** (Room Zürich)
9:00 - 10:00	**Keynote Address by Philippe Aghion, Harvard University** (Room Zürich)
10:00 - 10:15	**Short Coffee Break**
10:15 - 11:30	**Parallel Sessions 1 - 2**
	1. Finance I (Room Zürich) 2. Public Finance (Room Genf)
11:30 - 11:40	**Short Break**
11:40 - 12:30	**Parallel Sessions 3 - 4**
	3. Labor Economics (Room Zürich) 4. PhD Projects I (Room Genf)
12:30 - 14:00	**Lunch** (Restaurant Study Center Gerzensee)
14:00 - 14:50	**Parallel Sessions 5 - 6**
	5. Finance II (Room Zürich) 6. PhD Projects II (Room Genf)
14:50 - 15:10	**Short Break**
15:10 - 16:00	**Parallel Sessions 7 - 8**
	7. Development Economics (Room Zürich) 8. Macroeconomics (Room Genf)
16:00 - 16:45	**Long Coffee Break**
16:45 - 18:00	**Parallel Sessions 9 - 10**
	9. Econometrics and Economic Geography (Room Zürich) 10. PhD Projects III (Room Genf)
18:00 - 19:00	**Apero and Adjurn** (see bus schedule on our website)

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Detailed Conference Program

8:30 - 8:45	**Arrival, Registration** (Room Zürich)
8:45 - 9:00	**Welcome Session** (Room Zürich)
9:00 - 10:00	**Keynote Address by Philippe Aghion, Harvard University** (Room Zürich)
10:00 - 10:15	**Short Coffee Break**

10:15 - 11:30	**Session 1: Finance I** (Room Zürich)
Pierre-Yves Yanni	Coarse Reputation in Debt Markets
Andras Niedermayer	Search Brokers
Luzi Hail	Capital-Market Effects of Securities Regulation: The Role of Implementation and Enforcement

10:15 - 11:30	**Session 2: Public Finance** (Room Genf)
Frédéric Robert-Nicoud	Productive cities: Sorting, selection and agglomeration
Lorenz Kueng	Expected Income Tax Changes and Household Behavior
Charles B. Blankart	Taxing Expats: A Study in Instrumental versus Expressive Voting

11:30 - 11:40 **Short Break**

11:40 - 12:30	**Session 3: Labor Economics** (Room Zürich)
Patrick Gaule	Micro-evidence on return migration of academic scientists
David Dorn	The Growth of Low Skill Service Jobs and the Polarization of the U.S. Labor Market

11:40 - 12:30	**Session 4: PhD Projects I** (Room Genf)
Florian Chatagny	Asymmetric Information within Incumbent Politicians in the Budgeting Process as a Cause of Tax Revenue Misestimation
Thomas Buser	Handedness Predicts Social Preferences: Evidence Connecting the Lab to the Field

12:30 - 14:00 **Lunch** (Restaurant Study Center Gerzensee)

14:00 - 14:50	**Session 5: Finance II** (Room Zürich)
Philippe Mueller	Tracing the Effects of Lending Supply Shocks
Andrea Vedolin	Equilibrium Volatility Risk Premia

14:00 - 14:50	**Session 6: PhD Projects II** (Room Genf)
Marco Pecoraro	Estimating the wage effects of overeducation among Swiss graduates
Stephen Kastoryano	Dynamic Evaluation of Job Search Training

14:50 - 15:10 **Short Break**

15:10 - 16:00	**Session 7: Development Economics** (Room Zürich)
Stephan Litschig	The Short Arm of the Law: Judicial Institutions and Local Governance in Brazil
Manuel Oechslin	Targeting Autocrats: Economic Sanctions and Regime Change

15:10 - 16:00	**Session 8: Macroeconomics** (Room Genf)
Francesco Furlanetto	New Perspectives on Capital Depreciation Shocks as Sources of Business Cycle Fluctuations
Alain Gabler	Relative Price Fluctuations in a Multi-Sector Model with Imperfect Competition

16:00 - 16:45 **Long Coffee Break**

16:45 - 18:00	**Session 9: Econometrics and Economic Geography** (Room Zürich)
Blaise Melly	Nonseparable sample selection models
Kurt Schmidheiny	Spatial Sorting

16:45 - 18:00	**Session 10: PhD Projects III** (Room Genf)
Christian Hepenstrick	Per-capita incomes and the extensive margin of bilateral trade
Juerg Adamek	The Swiss Economic Crisis of the 1990s - A Business Cycle Accounting Investigation
Daniela Hauser	Monetary policy and Labor Mobility

18:00 - 19:00 **Apero and Adjurn**

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Abstracts

10:15 - 11:30 Session 1: Finance I (Room Zürich)

Pierre-Yves Yanni (University of California at Los Angeles)

Coarse Reputation in Debt Markets

I analyze a model in which investors finance entrepreneurs and only observe if they ever defaulted in the past or not. I show that reputation concerns can induce entrepreneurs to be too conservative: The economy becomes stuck in an inefficient equilibrium in which entrepreneurs choose the safe project because they are excluded from financial markets if they fail. In this case a social planner can reach the socially optimal risky equilibrium by taxing entrepreneurs and subsidizing investment in a way that balances the budget and is a Pareto improvement.

Andras Niedermayer (Universität Mannheim) and Art Shneyerov (Concordia University)

Search Brokers

We consider a market with dynamic random matching and bargaining with two-sided private information. Traders know their valuation for the good before entering the market and steady state distributions in the market are endogenously determined in equilibrium. The market is organized by a profit maximizing broker. We compare the case where the broker can only charge participation fees to buyers and sellers and can influence neither the matching technology nor the bargaining protocol with two other cases. In the first alternative case, the broker can choose the bargaining protocol, but not the matching. In the second case, he can choose both (fully centralized mechanism). We find that the broker gets the same level of profits in optimum in all three cases. Further, the broker makes sure that the same mass of buyers and sellers enters the market in each period and that buyers and sellers trade immediately after entering. We further find that the ratio of (participation) fees in the fully decentralized setup is equal to the ratio of bargaining weights of the buyer and seller and independent of the elasticities of demand. Further, the price structure (i.e. ratio of fees) matters even if bargaining (or price setting) between buyers and sellers is not restricted by the broker.

Luzi Hail (The Wharton School, University of Pennsylvania), Hans Christensen (Booth School of Business, University of Chicago), and Christian Leuz (Booth School of Business)

Capital-Market Effects of Securities Regulation: The Role of Implementation and Enforcement

This paper examines capital market effects of changes in securities regulation. We focus on two key capital market directives in the European Union (EU) pertaining to transparency and market abuse regulation. All EU member states are required to adopt these two directives but their exact implementation into national law and the strength of enforcement regimes differ across member states. We use this setting to highlight that implementation and enforcement of regulation play an important role for regulatory outcomes. To identify the effects on EU capital markets, our research design exploits the differential timing of when countries implement the two directives. We find that, on average, market liquidity increases and firms' cost of capital decreases as EU member states improve the enforcement regimes for transparency and insider trading regulation. The capital-market effects are stronger in countries with stricter implementation, in countries with traditionally stricter securities regulation and in countries with a history of higher regulatory quality. The latter findings underscore that the success of regulation depends critically on how well new regulation is implemented and enforced.

10:15 - 11:30 Session 2: Public Finance (Room Genf)

Frédéric Robert-Nicoud (University of Geneva)

Productive cities: Sorting, selection and agglomeration

Large cities produce more output per capita than small cities. This may occur because more talented individuals sort into large cities, because large cities select more productive entrepreneurs and firms, or because of agglomeration economies. We develop a model of systems of cities that combines all three elements and suggests interesting complementarities between them. The model can replicate stylised facts about sorting, agglomeration, and selection in cities. It can also generate Zipf's law for cities. Finally, it provides a useful framework within which to reinterpret existing empirical evidence.

Lorenz Kueng (University of California, Berkeley)

Expected Income Tax Changes And Household Behavior

The misalignment of the econometrician's and the agent's information set potentially biases previous evaluations of fiscal policy shocks. I realign the information sets to obtain unbiased estimates by using a bond no-arbitrage condition. To identify changes in expectations about future income taxes, I use the fact that Treasury bonds are taxable while municipal bonds are tax-exempt. No arbitrage between the two bonds identifies expected future tax rates as the parameters that equalize the after-tax yields on both bonds. The efficiency of bond markets in processing information implies that the information set identified by the no-arbitrage condition is the largest set available to an economic agent. Since the household's information is a subset of the information in the bond markets, the econometrician's and the household's information sets align and the estimated responses are unbiased. Moreover, the term structure of municipal bond yields also identifies the expected persistence of the tax shocks. I collect new high-frequency municipal bond data from 1983 to 2006 and prices from political prediction markets during the presidential elections of 1992 and 2000. The latter provides an alternative quasi-experimental source of shocks to expectations about future tax rates, since both candidates had different reform proposals for the top income rate. Therefore, changes in election probabilities directly measure changes in expected future tax rates. I estimate the response of household consumption to changes in the expected tax rates and contrast it with the household's reaction to statutory tax rate changes.

Charles B. Blankart (Humboldt University Berlin) and Simon Margraf (Humboldt University Berlin)

Taxing Expats: A Study in Instrumental versus Expressive Voting

It is a matter of common knowledge that mobile individuals are difficult to tax. Governements accommodate these difficulties by granting special tax reductions to these people. For it is expedient, they say, to make some money on those individuals than to lose them as tax payers completely. Taxing according to expediency is, however, criticized by ordinary tax payers who say that the basic principles of tax justice are violated. Therefore governments have to solve a difficult trade off between the two goals in order to survive. The variables entering in this optimization process remain disguised in the normal case of a representative democracy. In a direct democracy, however, the trade-off between tax expediency and tax principles is revealed by voters. In this paper we distinguish between high cost situations where voters vote instrumentally in favour of tax expediency and low cost situations where voters vote expressively in favour of tax principles. A vote in the canton of Zurich serves as a natural experiment for testing the instrumental versus expressive voter hypothesis. We find that instrumental voting prevails in small, expressive voting in large municipalities. It is shown that expressive voting can lead to outcomes which differ substantially from what the traditional textbook hypothesis of instrumental voting suggests.

11:40 - 12:30 Session 3: Labor Economics (Room Zürich)

Patrick Gaule (National Bureau of Economic Research)

Micro-evidence on return migration of academic scientists

Many countries are concerned about losing their best scientists, engineers and other high-skilled individuals to migration to foreign countries and the United States in particular. The welfare impact of high-skilled migration for sending countries depends crucially on the extent to which high-skilled migrants return to their home countries. Yet, scant evidence exists on return migration of highly-skilled indviduals. Using a novel hand-collected data set covering foreign faculty in US chemistry departments, I show that return migration is very infrequent with an annual incidence rate of 0.6%. I find large life-cycle effects where return migration occurs almost exclusively before the age of 45. Differences in faculty compensation appear to explain a large part of cross-country heterogeneity. Finally, I show that return migration is associated with a temporary dip in scientific productivity.

David Dorn (CEMFI) and David Autor (MIT)

The Growth of Low Skill Service Jobs and the Polarization of the U.S. Labor Market

The shape of U.S. employment and earnings sharply polarized between 1980 and 2005, yielding a distinct U-shaped relationship between skill levels and employment and wage growth. This paper offers a unified explanation and empirical analysis of the employment and wage polarization of the U.S. labor market, focusing in particular on the rapid rise of low skill in-person service occupations. We hypothesize that polarization is due to the interaction between consumer preferences, which favor variety rather than specialization, and non-neutral technological progress, which greatly reduces the cost of accomplishing routine, codifiable job tasks but has minimal impact on low skill tasks that require dexterity, flexible communications, and physical proximity. We formalize these ideas in a spatial equilibrium model of unbalanced technological progress and develop testable implications at the level of local labor markets. The model predicts, and the data confirm, that between 1980 and 2005, local labor markets that were initially specialized in routine, readily-computerized job activities exhibited: (1) greater adoption of information technology; (2) greater reallocation of low skill workers from routine task-intensive occupations into service occupations (i.e., employment polarization); (3) greater wage growth at both ends of the occupational skill distribution (i.e., wage polarization); and (4) larger net inflows of both high and low skill labor attracted by these demand shifts. We evaluate a panoply of alternative explanations for these findings.

11:40 - 12:30 Session 4: PhD Projects I (Room Genf)

Florian Chatagny (University of Warwick)

Asymmetric Information within Incumbent Politicians in the Budgeting Process as a Cause of Tax Revenue Misestimation

Using a two stage budgeting model with separation of powers, I intend to show that asymmetric information in favour of the finance minister may lead to misestimated tax revenue. Depending on the finance minister fiscal preferences, I intend to show under which circumstances either under- or overestimation may arise. Subsequently I intend to extend the model to a two-period setting in order to show how this asymmetric information between incumbent politicians may affect fiscal deficits and public debt accumulation rate.

Thomas Buser (University of Amsterdam)

Handedness Predicts Social Preferences: Evidence Connecting the Lab to the Field

The literature on social preferences is vast and is characterised by findings of strong differences between individuals. It is now commonly accepted that some people are substantially more altruistic, more trusting, or more reciprocal than others. The origins of these individual differences are, however, mostly unexplored. In this study, we analyse the impact of handedness, which is correlated with important and well-studied neurological differences, on choices in a range of social preference games in the lab. We find that left-handed men are significantly more generous in the trust and ultimatum games, exhibit more positive reciprocity in the trust game, and are less likely to reject in the ultimatum game. Left-handed women on the other hand show none of these effects but are significantly less generous in the dictator game.

We also gathered information on handedness from the respondents of an ongoing large-scale internet panel and are therefore able to link our lab results on handedness to survey data on altruistic behaviour in the field and attitude questions concerning trust and reciprocity. We indeed find that left-handed women are less likely to donate money to charity. Left-handed men on the other hand are more likely to see themselves and others as trustworthy and reciprocal and favour a more equal distribution of income. Our findings help to shed light on the neural origins of social preferences and provide us with an easily measurable predictor for economic behaviour in social situations. Our survey results confirm the external validity of our laboratory findings both by showing that they apply to a diverse and representative non-student population and by connecting them to real-world behaviour.

14:00 - 14:50 Session 5: Finance II (Room Zürich)

Philippe Mueller (London School of Economics)

Tracing the Effects of Lending Supply Shocks

We investigate the real effects of bank liquidity shocks on borrowing firms in the context of Germany, a developed economy with well-developed financial markets. Tracing the effect of liquidity shocks is fraught with empirical challenges since bank liquidity shocks are often accompanied by changes in firms' investment opportunities. In addition, the analysis is complicated due to the fact that good firms are matched to good banks and vice versa. To bypass these challenges, we exploit a quasi-natural experiment approach. Specifically, we exploit cross sectional differences in interbank liabilities maturities to proxy for the ex ante exposure of banks to a liquidity shock. Using a differences-in-differences research design, we find that banks that are more likely to be affected by the liquidity shock do in fact end up lending less. More importantly, we find a marked reduction in leverage ratios of the borrowing firms linked to affected banks. Further, we document considerable changes to the debt structure of firms---firms reduce the usage of bank debt and debt becomes more concentrated.

Andrea Vedolin (London School of Economics)

Equilibrium Volatility Risk Premia

Volatility risk premia compensate agents for holding assets whose payoffs correlate with times of high return variation. This paper takes a structural approach to explain the cross-section of volatility risk premia of stocks using a Lucas orchard with heterogeneous beliefs, stochastic macro-economic uncertainty, and default risk. I study two manifestations of uncertainty, namely (i) agents' disagreement and (ii) time-varying volatility of fundamental growth rates. The paper shows that while the former source of risk accounts for the level of the risk premia, the latter mainly affects the higher order moments of the risk premium distribution. Together with uncertainty, default risk associated with levered trees implies a non-monotonic equilibrium link between stock returns and volatility which allows for positive or negative risk premia. Calibrating the economy, I show that the model accounts for predictability of excess stock returns and corporate credit spreads. I construct volatility risk premia from option and stock prices and document that in the time-series, volatility risk premia of individual stocks can be positive or negative, and switch sign rather often. In the cross-section, they are only weakly related to traditional risk factors. I then test the model predictions and find that empirical proxies for investors' uncertainty about expected growth rates and macro-economic uncertainty are priced risk factors that convey information over and above those contained in other standard factors to explain these risk premia. In line with the model predictions, I present predictability evidence of individual volatility risk premia for stock excess returns and corporate credit spreads.

14:00 - 14:50 Session 6: PhD Projects II (Room Genf)

Marco Pecoraro (Université Catholique de Louvain)

Estimating the wage effects of overeducation among Swiss graduates

Using two periods' panel data from the Swiss Graduate Survey, this study indicates that the omission of fixed unobserved ability substantially biases cross-sectional estimates of wage effects associated with overeducation. The results of the fixed effects panel estimation show that once sources of time constant unobserved ability are controlled for, wage penalty associated with overeducation is upward biased in cross-sectional analyses. Distinguishing between apparently well-matched workers (who are adequately educated and overskilled), apparently overeducated workers (who are overeducated but utilizes their skills) and genuinely overeducated workers (who are overeducated and overskilled), we find that the latter are the most penalized in terms of earnings compared with well-matched graduates who utilize their skills. This result is still valid when estimates are based on the fixed effects approach, while the pay penalty associated with other types of mismatch is no more significant. This indicates that the wage effects for apparently well-matched or apparently overeducated workers are mainly due to a lack of account for unobserved ability.

Stephen Kastoryano (University of Amsterdam) and Bas van der Klaauw (VU University Amsterdam)

Dynamic Evaluation of Job Search Training

This paper evaluates job search training for unemployment insurance recipients. We use a unique administrative data set on individuals entering unemployment from the primary school sector. The dynamic assignment of the treatment allows us to assess the effects of the treatment on reemployment using different methods. In particular, we use timing-of-events, propensity score and regression discontinuity methods. We provide an extensive discussion of the identifying assumptions underlying the different methods with a particular focus on the issue that assignment to training is a dynamic process. We use the estimation results to investigate the targeting effciency of the job search training.

15:10 - 16:00 Session 7: Development Economics (Room Zürich)

Stephan Litschig (Universitat Pompeu Fabra) and Yves Zamboni

The Short Arm of the Law: Judicial Institutions and Local Governance in Brazil

This paper estimates the effect of state judiciary presence on governance at the local level. We measure local governance as violations of public management regulations by local administrators. The unique dataset we use is at the level of individual inspections, thus allowing us to control for local government size as well as potential inspection bias. Our estimation strategy exploits an institutional feature of state judiciary branches in Brazil according to which prosecutors and judges are assigned to the most populous among contiguous municipalities forming a judiciary district. As a result of this assignment mechanism there are municipalities with nearly identical populations, some with and some without local judicial presence, which we exploit using an IV approach. Consistent with local randomization conditional on population, we show that observable municipality characteristics are balanced across treatment and comparison groups. Results suggest that local judiciary presence reduces the incidence of mismanagement irregularities by about 10 percent.

Manuel Oechslin (Tilburg University)

Targeting Autocrats: Economic Sanctions and Regime Change

When it comes to international economic sanctions, the most frequent goal is regime change and democratization. Up to now, however, such sanctions have most often failed to achieve their stated goal. Paradoxically, in some cases, they even made the targeted regimes resort to policies which severely compounded the economic hardship. The present political-economy model offers an intuitive explanation for these observations: To avoid sanctions-induced challenges, threatened regimes lower the supply of public services in order to reduce private-sector productivity and hence the resources of potential challengers. This defense strategy only stops working if the sanctions reach a certain intensity. Yet, in practice, the required level might be very high. According to the model, it depends — among other things — on the state's bureaucratic capacity and on the degree to which the private sector relies on "modern" technologies.

15:10 - 16:00 Session 8: Macroeconomics (Room Genf)

Francesco Furlanetto (Norges Bank) and Martin Seneca (Norges Bank)

New Perspectives on Capital Depreciation Shocks as Sources of Business Cycle Fluctuations

In this paper we study the transmission for capital depreciation shocks. The existing literature in the Real Business Cycle tradition has concluded that these shocks are irrelevant for business cycle fluctuations. We show that these shocks are a potentially important drivers of aggregate fluctuations in a New Keynesian model. Nominal rigidities and some persistence in the shock process are the key ingredients to generate co-movement across real variables.

Alain Gabler (Université Laval)

Relative Price Fluctuations in a Multi-Sector Model with Imperfect Competition

Countercyclical fluctuations in the price of investment in consump- tion units are often attributed to investment-specific technology shocks. This paper examines two alternative sources for such fluctuations: sector-specific markup variations, and cross-sectoral differences in the intensity of materials usage. Procyclical competition and the higher variability of investment relative to consumption decreases the relative price of investment during expansions. Secondly, greater use of inter- mediate inputs, which amplifies productivity shocks, in investment- producing sectors has a similar effect. Empirically, I find that each of these two mechanisms accounts for about one-sixth of the observed fluctuations in the price of investment.

16:45 - 18:00 Session 9: Econometrics and Economic Geography (Room Zürich)

Blaise Melly (Brown University) and Martin Huber (Universität St. Gallen)

Nonseparable sample selection models

This paper analyzes the nonparametric identification of nonseparable models in the presence of sample selection. Most existing sample selection models assume that the effect of the observed variables on the outcome distribution are homogeneous (location shift). In contrast, we allow for essential heterogeneity by assuming the outcome to be an unknown nonseparable function of the explanatory variables and the disturbance term. Our other assumptions are similar to those found in traditional sample selection models. We impose a quantile restriction on the disturbance term to derive sharp bounds on the functions of interest such as the partial effects. The identified set shrinks to a single point if separability holds or if some observations are observed with probability one. We also provide a consistent estimator for the identified set in the linear quantile regression model and apply it to estimate the female wage regression.

Kurt Schmidheiny (Universitat Pompeu Fabra), Jan Eeckhout (Universitat Pompeu Fabra), and Roberto Pinheiro (University of Colorado at Boulder)

Spatial Sorting

We document that the wage distribution in larger and more productive cities nearly everywhere first-order stochastically dominates that in less productive cities. This confirms earlier evidence on the city size--wage premium. Yet, because this premium reflects higher house prices, this does not necessarily imply that this stochastic dominance relation also exists in the distribution of skills. We propose a model that entails evidence quite to the contrary: instead of first-order, there is second-order stochastic dominance in the skill distribution. We show that this is due to patterns of sorting across cities in a model with mobility. Our model predicts a ``Sinatra'' as well as an "Eminem" effect: both the very high and the very low skilled workers disproportionately locate in the biggest cities. Firms in larger cities have a comparative advantage in employing both high as well as low skill workers. Based on our theory, the pattern of spatial sorting can be explained by a VES technology (Varying Elasticity of Substitution) by skill. Using CPS data on wages and Census data on house prices, the VES technology with the elasticity of substitution decreasing in skill density is consistent with the observed patterns of skills. We propose a theory of agglomeration externalities that gives rise to this technology.

16:45 - 18:00 Session 10: PhD Projects III (Room Genf)

Christian Hepenstrick (Harvard University)

Per-capita incomes and the extensive margin of bilateral trade

ects in determining the extensive margin of trade⁄Richer countries simultaneously export and import more varieties. Whereas a standard Ricardian mechanism indeed predicts that richer countries export more varieties, it immediately implies that these countries import less varieties. Remaining in the Ricardian framework I bring forward a demand side explanation, namely that agents adjust their extensive margin of consumption with rising incomes. Incorporating non-homothetic preferences into the Eaton and Kortum (2002)-model formalizes this intuition. I calibrate the new model using aggregate trade volumes and US consumption data and find that the behavior of its extensive margin of bilateral trade is indeed consistent with what we observe in the data. The paper concludes with two counterfactual experiments that highlight the quantitative importance of demand side effects in determining the extensive margin of trade.

Juerg Adamek (Columbia University)

The Swiss Economic Crisis of the 1990s - A Business Cycle Accounting Investigation

Switzerland suffered a severe economic crisis during the early to mid-1990s. Despite the fact that several possible explanations for this downturn are identified by various authors, there is a lack of examinations based on theoretical models in the literature. This lack might be due to the variety of possible explanations and the potentially large number of models that can capture aspects of the respective explanations. In order to provide guidance for the selection of promising models, the present paper examines the Swiss economic crisis of the 1990s using the business cycle accounting method proposed by Chari, Kehoe, and McGrattan (2007). It turns out that efficiency- and investment wedges together account for almost all the fluctuations in output and labor and also explain a considerable part of the movements of investment. Yet in order to fully account for the variation in investment, a detailed model also needs to imply either labor- or government consumption wedges. Consequently, researchers should focus on models with features and frictions that map into three wedges, two of which are the efficiency- and the investment wedge, when examining this episode.

Daniela Hauser (Universitat Autonoma de Barcelona)

Monetary policy and Labor Mobility

The discussion on optimal monetary policy has been based on the assumption of a fixed labor force and thus on labor immobility across countries. Given the observed increase in labor mobility modifications in the labor force via labor migration may be an important adjustment mechanism after asymmetric shocks and thus an important element to be taken into account in the design of monetary policy. In presence of asymmetric shocks monetary policy has to react differently in different economies such that coordination of monetary policy becomes costly. These costs are higher the more pronounced the asymmetries, the more severe nominal rigidities and the less mobile is labor. The implications of labor mobility are therefore of particular interest for member countries of a monetary union where monetary policy can no longer be used as a stabilizing instrument in response to asymmetric shocks. We analyze the effects of labor mobility on the conduct of monetary policy in both countries with independent monetary policies and in member countries of a monetary union, which are subject to asymmetric shocks. In particular, we analyze the potential of labor mobility as an alternative adjustment mechanism and its role in the propagation of business cycles.