Nutritional taxes: do they work?

AXA makes a pledge for research

French economists: a view from Boston

The Bank of France rewards the best researchers

The Economist, the Market and the Nobel Prize

Special Issue
2015 begins with a particularly challenging political and economic climate: Eurozone crisis, concerns about stagflation, energy gluts, unemployment, low growth rates, unsolved global warming challenges, wars and terrorism. In this context, the role of academic economists in supporting decision makers with science-based analysis is increasingly critical. Researchers must strive more than ever to provide timely, solid information on the nature and magnitude of the different phenomena in order to help industries adapt and policy-makers formulate appropriate policy responses. TSE members aim to give their best to this collective endeavour towards optimal policy-making.

These times of radical changes and global crises also bring to light the need to adapt economics teaching to the world we live in, and provide our economists in training with new tools to analyse the world they will soon be contributing to.

The Toulouse economists have endeavoured since the creation of the TSE School in 2011 to broaden our curriculum and embrace new methods. Thanks to the close links forged with the business / policy world over the past 25 years, our professors have been able to put into place a number of actions to connect our students to the real world. Examples include our weekly series of business talks, our annual business networking day, our project-based learning programme, our international internship opportunities and our active alumni network. We also evolve our students in interactive experiments, and send them out to companies to see the problem business leaders are facing. There is no better way to learn how markets work and how regulators manage them than to see it with one’s own eyes.

Our students particularly appreciate evidence-based economics, which notably helps them to handle data (Big data) and filter the information they find there. As our TSE colleague Paul Seabright recently pointed out, economics teachers today are no longer “gurus” but rather “gatekeepers” to information. A challenging but fascinating shift for the teaching community to adapt to.

Our focus also needs to reach out beyond economics into the other sciences. As our teaching communities need to link up to sociology, psychology, politics, history, religion, biology, and many other disciplines to help build and test our economic models, our associated research centre, the Institute for Advanced Study in Toulouse (IAST), taking a leave from the traditional view of rational agents. At TSE, we work closely with our curriculum and embrace new methods. Thanks to the close links forged with the business / policy world over the past 25 years, our professors have been able to put into place a number of actions to connect our students to the real world. Examples include our weekly series of business talks, our annual business networking day, our project-based learning programme, our international internship opportunities and our active alumni network. We also evolve our students in interactive experiments, and send them out to companies to see the problem business leaders are facing. There is no better way to learn how markets work and how regulators manage them than to see it with one’s own eyes.

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Christian Gollier, Director - Toulouse School of Economics
Jean Tirole, Chairman - Toulouse School of Economics

The TSE community is proud to present you the all-new TSE mag, with a revamped design and broader, more in-depth contents. We hope you’ll enjoy it!
**New & Event**

**Thierry Magnac**
elected to the Council of the Econometric Society

The Econometric Society is an international learned society which publishes the journal "Econometrica" as well as two other journals dedicated to economic sciences (Quantitative Economics and Theoretical Economics). It organises major international conferences such as the EEA-ESEM, the annual summit of European economists and econometrists, held jointly with the European Economic Association (EEA).

"The Board discusses congresses, the nominations of editors and the development of the Econometric Society," Thierry Magnac explains. "It meets once or twice a year around the time of the American or European conferences. I will be part of that process and it is essential for TSE that one of its members be in a position to pass on the opinions of the TSE community about the developments in the main learned societies of our profession." Thierry Magnac is a member of TSE and a professor at l'Université Toulouse 1 Capitole. His research focuses on empirical questions in the economics of education, work or consumerism and on methodology in microeconometrics.

**Bruno Jullien & Thomas Mariotti**
elected to the Board of the European Economic Association

Bruno Jullien and Thomas Mariotti, both CNRS research directors at TSE, have also recently been elected as fellows of the Econometric Society. Our congratulations to all three!

**Christian Hellwig**
elected to the Board of the European Economic Association

The European Economic Association (EEA) is the biggest association dedicated to economic sciences in Europe. It publishes the Journal of the EEA and organises congresses, notably the EEA-ESEM, organised by TSE in 2014 with 1500 participants. Having obtained his PhD at the London School of Economics in 2002, Christian Hellwig was Assistant Professor at UCLA before joining TSE as Professor of Macroeconomics, in 2010. He was elected for a 5 year term, during which he will take part in decision making by the Council of the Association as a representative of TSE.

**Nicolas Treich**

Published twice a year, this international journal provides a forum for exchange on all aspects of risk and insurance economics, with emphasis on theoretical, empirical and experimental research in these fields. Director of Research at INRA, member of LERNA and of IDEI, Nicolas Treich is joining his colleagues Christel Gليلer and Bruno Jullien as co-editor-in-chief of this journal. His research focuses on the theory of risk and decision making, environmental economics and the analysis of the cost-benefit ratio. He has published several scientific articles, notably on the precautionary principle, the value of a statistical life and climate policy. He has organised several international congresses and written various articles and reports for general readership, on risk-management policy.

**Yinghua He**
awarded "the Young Researcher in Economics prize 2014"

On 27th November last year, the Banque de France Foundation awarded the Young Researcher in Economics prize to Yinghua He for his research work on "answering policy questions with carefully designed empirical strategies".

**Bruno Jullien & Thomas Mariotti**
based on economic theory and experimental methods.

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More and more companies attending TSE’s Business Networking Day

42 companies came to meet our students at the 3rd edition of the Forum organised by TSE last November. There were opportunities for jobs and internships. The wide range of talks and presentations given by professionals throughout the day gave the students invaluable insight into the work of the companies they may join later.

**The class of 2014 in the spotlight**

"The graduation ceremony marks the end of your studies... and the beginning of your career!" highlighted the patron of the 2014 class, Anne-Juliette Hermant, Director of Development and Training at AXA, on 29 November, during the ceremony led by Bruno Sire, President of l’Université Toulouse 1 Capitole and Jean Tirole, Chairman of the Jean-Jacques Laffont Foundation - TSE.

Nickolas Treich
TSE / INRA researcher
Affiliated researcher at CESifo Group Munich
The fall in oil prices: good or bad news?

The fall in oil prices, unprecedented since the 2008 financial crisis, is “good news for the world economy”. So says Christine Lagarde, Managing Director of the International Monetary Fund (IMF), who considers that a fall of 30% in the price of ‘black gold’ should “lead to a surplus (Editor’s note: in growth) of 0.8% for most advanced economies, all of which are oil importers”.

The editors note that while this represents a great growth boost, it may have side effects such as a decrease in oil revenues for the countries that produce it, which could affect their spending and investments.

Since the beginning of the crisis, business insolvencies have shot up by 25%. Is this situation caused by difficulties in accessing funding in a context where banks have had to adjust to new prudential requirements? The French Economic Analysis Council tells us more:

TSE researcher Augustin Landier worked with Jacques Cailloux (Nomura) and Guillaume Plantin (Science Po Paris) on the latest “Note from the Economic Analysis Council” which highlights the funding difficulties of the SMEs and very small businesses targeted: those difficulties affect the smaller companies, they concern short-term financing needs rather than investments and are not unrelated to the observed lengthening in payment times. The authors focus their recommendations on ways to get over the asymmetries in size and information which handicap these companies both in keeping to payment deadlines and accessing credit.

The digitalization of society affects all human activities: it is at the heart of the economic and cultural shifts of the 21st century. The Chair aims to contribute to the understanding of these developments.” Jean Tirole

GDP (IN TRILLIONS OF DOLLARS)

According to figures from the International Monetary Fund, the Chinese GDP has overtaken the American GDP for the first time since 1872. China has thus become the largest economic power in the world.

Expressed in purchasing power parity terms (PPP), the Chinese gross domestic product was 17.632 billion dollars in 2014, whereas the USA’s was 17.416 billion.

China has overtaken the USA to become the world’s largest economic power
Taxes to fight obesity?

Over the last few years, we have been surrounded by more and more nutritional information, on posters, in advertising campaigns and elsewhere. The French, for example, know that they must have their “5 a day”, that they should “eat less, move more”, they even know that “milk is full of natural goodness”. But nothing is working! Obesity rates are creeping up.

To deal with what is fast becoming the world’s top public health problem, the French legislator opted to get heavy-handed: since January 2012 all sweetened soft drinks have been taxed, even those using artificial sweeteners. Was that the bright idea we were waiting for? Maybe not.

A very thorough French study challenges our assumptions. Two TSE researchers, Céline Bonnet, INRA research fellow and Vincent Réquillard, IMRA research director and member of the Institut d’Économie Industrielle, have evaluated the impact of nutritional taxes, Vincent Réquillard tells us about their findings.

Where do nutritional taxes stand among the various initiatives? They are not widely used yet, but they have their place among the measures to be taken to improve eating habits – acting on prices in order to influence consumer choices is a proven method. Most current nutritional policies rely on informing the consumer, but their impact is weak. There is also the option of influencing supply by encouraging the food industry to manufacture healthier products, with less sugar, less salt, less fat. But that is a lengthy, necessarily complex process.

Since prices represent one of the primary means of action, this topic has given rise to significant international research. Several countries have implemented nutritional taxes, often on soft drinks. These are recent policies, consequently we cannot yet measure their actual impact. We have to use modelling to evaluate their potential impact. We simulated the consequences of two policies: a tax on sugar-sweetened soft drinks and a tax like the one currently in use in France, on all sweetened soft drinks (sugar or artificial sweeteners).

What makes your work different to other research? The fact that we take into account the way the industry and retailers react via their pricing decisions. Most research assumes that the tax is passed on to the consumer. There’s no reason that should be the case! Firms are not passive, they develop strategies. They can raise prices more than is strictly necessary to cover the tax or, on the contrary, reduce their profit margins so as to maintain their sales.

That is what we showed. When an excise tax is applied – x centimes per litre – it is more than passed on to the price the consumer pays. If the tax is 10 centimes per litre and the price of the drink is 1 euro, the new price for the drink doesn’t go from 1 € to 1.06 € but to 1.12 € or 1.15 €. Whereas if the tax is set as a percentage, it is not fully passed on to the consumer.

At the same time, there are substitu-
tions within the same family of drinks, or shifts in consumption from taxed drinks to other drinks.

So does the nutritional tax actually contrib-
ute to lowering sugar consumption? Yes, when the tax is only applied to sugar-sweetened drinks, the consump-
tion of added sugars is reduced by 440g per year in France thanks to the substitution of “light” versions of products for their sugar-sweetened equivalents. This is not negligible but it remains low in relation to the health issues at stake. In fact, consump-
tion of soft drinks is not particularly high in France (the British consume two and a half times more than the French and the Americans five times more). When the tax concerns all drinks (as it does in France), the substitution with light drinks (whose prices also go up) no lon-
ger happens. Total consumption of sugars increases because of consumption shifts to fruit juices.

Taxing all drinks, be they sugar-sweetened or light, is counter to health recom-
mendations. In practical terms, the tax implemented does not reach its goal of reducing sugar consumption. It acts pri-
marily as an instrument to increase the State’s budget revenue.

If we take another example: tobacco, the price increases have indeed had the intended deterrent effect... haven’t they? It’s all in the timing! In the case of tobacco, there was a set of actions with the same aim: informative advertising campaigns, the ban on smoking in public, pricing policy and above all, long term measures. And the levels of taxation were much higher than for food. If the aim is to be efficient from a health point of view, the impor-
tant notion is that of a coordinated set of measures, all aiming for the same result.

Wouldn’t it be a possible solution to make healthy products more accessible? That is what was done for cars with the bonus/penalty system. But the intended effect will only become clear in the longer term: the case of food, defining what is good and what is bad when dealing with a large number of nutrients, is complex. What’s more, eating habits change very slowly.

In general, inducing changes between cate-
gories of products – for example reducing consumption of fatty products and eating more vegetables – is very difficult even if the health benefits would be significant! Making changes within the same category is easier: for example consuming drinks which are less sweet instead of very sweet drinks. Although individual gains are more limited, in terms of public health, those changes can have a noticeable effect because a larger section of the population is concerned. This is an important point. Consequently, I lean towards the strategy which requires far less change to eating habits and could also encourage firms to reformulate their products.

So, paradoxically, the least stringent policies can actually be the most suc-
cessful, is that right?

Not always! An initiative in the UK concerning salt content led to a voluntary agreement to reformulate food products. But with a strong constraint which threatened the industry with strict standards if food composition didn’t change for the better... Success guaranteed! Having said that, despite all the measures implemented, obesity has not been eliminated.
So the authorities pursue their search for efficient measures, and the debates over taxation policies are far from over.

In the UK, more than 2/3 of adults are overweight. A report published by Public Health England (PHE) states that the various health problems due to obesity cost almost 11 billion pounds every year (13.7 billion euros).

In 2013-2014, the inhabitants of Singapore with 84.7kg/year/capita. This is well above the world consumption varying between 25 and 35kg/year/capita. The French have consumed sugar at a relatively stable rate for years now, with consumption varying between 25 and 35kg/year/capita. This is well above the world consumption.

Sugar consumption in the world

<table>
<thead>
<tr>
<th>Country</th>
<th>Sugar Worldwide Turnover</th>
<th>Million People Employed</th>
<th>Million Farmers</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHINA</td>
<td>1.8 $75 Billion</td>
<td>113</td>
<td>18</td>
<td>316.1</td>
</tr>
</tbody>
</table>

Since 1990, sugar consumption in France has stabilised at 35kg/year/capita, having been over 45kg in 1965. The French have consumed sugar at a relatively stable rate for years now, with consumption varying between 25 and 35kg/year/capita. This is well above the world average, which is around 20kg.

Sugar consumption in sweetened products.

Which other aspect is worth looking into? We intend to pursue our research into the notion of reformulation by extending our work in a new direction: taking into account environmental effects. Because when eating habits change, the effects are not only felt on health but also on the environment. The food chain is responsible for between 20 and 25% of greenhouse gas emissions.

Do diet recommendations have a positive or a negative effect on the environment?

And inversely, could environmental policies have an effect on health? It’s a question of throwing light on the notion of sustainable food.

Quality: a Chinese puzzle

Quality goods do not always sell, even if there are consumers willing to pay their price on the market. What explains the domination of low-quality and low-price goods? In their recent paper “Quality in open markets: how larger leads to less”, Calmette et al. demonstrate that differences in home market sizes and predatory strategies by firms of large emerging countries can shut the production of high quality goods down.

Why? The size of the domestic market for the emerging economy firms allows them to behave as leaders. They can avoid paying the price of adapting their quality. In sum, they will maximise their profit by imposing their model of mass-production of low-priced, low-quality goods on their competitors. In other words, the structure of incentives faced by the competing firms is distorted in favour of the actors of the emerging economies when their domestic consumers have a low willingness to pay for quality. This is not just a question of state of affairs, however. Circumstances will allow firms of the large emerging economies to deploy predatory strategies.

One-way trade and predation

There is no account of this pressure in current economic literature. In general, it is predicted that firms competing for the shares of a global market enter a non-cooperative game where they will "leapfrog", differentiating the quality of the goods they offer when markets open up. The firms of the large emerging Chinese economy would satisfy the demand for low-priced, low-quality goods. But the actual context has revealed an unexpected pressure on firms producing quality goods for demanding consumers. In some cases, such as in clothing, free trade leads to less diversity in the range of quality goods available for high-end consumers, while the firms of the large emerging economies would produce expensive goods for high-end consumers, while the firms of the large emerging economies to deploy predatory strategies. When a firm exports without adapting its quality, it will be able to do so at a price that will prevent its high-quality competitors from seeking refuge in other strategies.

China is the most highly populated country in the world, with the largest domestic market.

China is the most highly populated country in the world, with the largest domestic market.
Size matters
This may be a typical Chinese problem because of the size of its domestic market. This is not about the costs of wages or production. Other emerging economies have not seemed able to yield the same constraints on developed economies. The research and models defended here highlight the direct link between the size of the domestic market and the capacity of firms to impose their strategy, preying on high-quality competitors.

While the decrease of diversity in the quality of goods is hence explained, new questions remain to be addressed. Chinese exports in recent years have substantially increased in quality, especially in the domain of high technology. Future research will look to explain the link between size and this leapfrog effect.

At some point in their lives, everyone will need access to healthcare or medical treatment. The unprecedented rise in the cost of healthcare is challenging businesses, households and governments alike, making the subject a magnet for controversy. Furthermore, while health care costs are steadily increasing, higher cost does not necessarily translate as better quality. For example, if we compare the French and American systems, not only are French citizens healthier than the U.S. population, but per capita spending on health care in France is also roughly half as much.

France relies on a mixture of public and private funding, as does the U.S. But unlike Americans, every French citizen has access to basic healthcare coverage through national insurance funds, to which both employers and employees contribute. Some 90% of the population also buys supplementary private insurance to provide benefits that aren't covered, and the government picks up the tab for those out of work who cannot gain coverage through a family member. In the US, only around 25% of individuals opt for additional, private coverage.

In this context, there is clearly room for improvement. Andrea Attar, Thomas Mariotti and François Salanié give us one of the keys to success: in a world where insurers might buy several insurance policies from several distinct insurers and supply is carefully regulated to avoid cross-subsidies between contracts, coverage can be efficiently provided by the private sector.

Unlike traditional policy recommendations from exclusive models of competitive insurance markets under adverse selection, consumers remain sovereign in their decisions to purchase insurance, competition between firms ideally substitutes taxes and subsidies, and there is no need to make basic coverage mandatory.
October 2014, around midday. TSE chairman Jean Tirole was working in his office with a colleague on an important research funding project. His mobile phone began to ring incessantly but, keen to concentrate and reluctant to disturb his colleague, Jean Tirole did not pick up until the 6th call when, seeing the +46 (Sweden) prefix on the screen, a sudden doubt crept into his mind as to the identity of the caller.

With profound apologies to his colleague, he said “Céline, I think I had better take this call…” and from then on began the “Nobel whirlwind”, as we like to call it here at TSE. The day of no return, the great exciting news that was to bring joy and pride to Jean, his family, and the whole academic community around him, both at TSE and worldwide.

Two months and a very exciting journey later, Jean Tirole received his Nobel prize from the King of Sweden during a week of incredible festivities. Jean’s words on receiving the prize

“If economists could manage to get themselves thought of as humble, competent people on a level with dentists, that would be splendid.”

83 years and much research later, we would perhaps aspire to be compared with “meteorologists” or “doctors”, whose scientific accomplishments have been truly outstanding and yet have to face challenges that are rather down-to-earth. Our failure to foresee or prevent the financial crisis is a sore reminder of the dangers of hubris. True enough, we had worked on most of its ingredients. But like a virus that keeps mutating, new dangers emerged when we thought we had understood and avoided the existing ones.

The need to be humble applies also to the field that was rewarded by the Prize. Recognizing that industries are different from each other and evolve rapidly, researchers in industrial organization have patiently built a body of knowledge that has helped regulators to better understand market power and the effects of policy interventions, and helped firms to formulate their strategies. They have thereby contributed to making this world a better place, the economist’s first mission. Yet, there is so much we still have to learn, and the world changes faster than our understanding can keep up.

Humility is not easy to preserve when receiving such a prestigious award. Albert Camus in his acceptance speech wondered how he, “rich only in his doubts and his work still in progress, could cope with being at the center of a glaring light.” His answer was that he could not live without his art. The great French scientist Henri Poincaré described the unmatched pleasure of discovery: “Thought is only a flash in the middle of a long night. But this flash means everything.”

Wisdom therefore encourages me to return as soon as possible to my lab, to the colleagues to whom I am indebted for the Prize, in short to the wonderful life of a researcher. But I shall be profoundly and permanently grateful to the Committee for the immense honor it has bestowed upon me, and to the Nobel Foundation and Sweden for their astounding mission of drawing attention to Science year after year.”

The Highlights of the Ceremony

On 10th December, the anniversary of the death of Alfred Nobel, the proud laureates attend a ceremony whose meticulous protocol is timed to perfection, at the Stockholm Concert Hall.

The ceremonies, rehearsed on the very morning of the prize giving, are presided over by the sovereign of Sweden or of Norway, before the royal families, representatives of civil society, diplomats and many dignitaries, all in full regalia.

A symphony orchestra accompanies the proceedings. Following the ceremony, there is a banquet for 2000 guests. Dishes arrive in carefully choreographed procession, announced by fanfares. Each of the laureates, in white tie and tails or evening gown, hears a short speech praising their work. While standing assistants bow slightly, the laureate walks across the floor to the King who presents them with the prestigious medal.

Perhaps the most surprising element of the Nobel ceremonies actually takes place 3 days later on 13th December, Saint Lucy’s day, symbol of light: numerous young Swedish women and men, dressed in white robes, line up at the foot of the laureate’s bed to awaken them singing Saint Lucy’s song.

> Follow the Nobel Prize lecture: www.nobelprize.org
> Jean Tirole biography, publications and CV: www.tse-fr.eu
> Official resources on the Nobel Prize: www.nobelprize.org
> Nobel Prize Banquet, Sweden, 10 December 2014.

The Economist, the Market and the Prize
All you ever wanted to know about the Nobel Prize

There are astonishing statistics to be found on the Nobel Foundation’s website...

Why Jean Tirole?

Jean Tirole’s Nobel Prize has generated much excitement for those of us working alongside him at Toulouse School of Economics (TSE). Tirole’s prize comes as recognition for over 30 years of work on a wide range of topics, from banking and finance to the regulation of network businesses.” as Assistant Professor Daniel Garrett writes in an article originally published in The Indian Express.

The Nobel committee’s award specifically focuses on Tirole’s “analysis of market power and regulation”. There are two central questions. First, how will firms behave when there are only a few of them in the market? What prices will they set, what range of goods will they offer, and what will be the quality level of these goods? Second, if competition among firms is insufficient to constrain prices, what policies should regulators use for the benefit of consumers and society at large?

To answer these questions, Tirole has championed the approach offered by information economics, which centres on the role of information that individuals and firms hold privately. A classic example is the regulation of a firm’s pricing, say a privately owned network that supplies electricity to homes and businesses. Such distribution networks are examples of “natural monopolies”: firms that face no competitors because replication of their infrastructure is infeasible or too costly. Other examples include railroads, ports and phone lines.

The question for a regulator of a natural monopoly is how to set the firm’s prices, given that it has better information about its technology. One possibility is to simply let the firm recover all of its costs. But this gives the firm’s managers little reason to reduce expenditures. Indeed, the management might engage in wasteful spending that benefits only themselves, knowing that the firm will be reimbursed. Alternatively, the regulator could fix a price that does not depend on the firm’s cost. The firm then keeps any reduction in expenditures for itself; that is, there are strong incentives to reduce spending. Unfortunately, this also means that very efficient firms make large profits to the detriment of consumers.

Laffont and Tirole also studied dynamic models of regulation, noting that regulators do not set firm incentives once and for all but typically revise them over time. They analysed the problem of a regulator that cannot commit to its future policies, showing how a firm will be led to reveal its true costs only gradually.

Tirole has considered a host of other issues, specific to different markets. Together with Jean-Charles Rochet, he has been a leader in the study of platforms operating in “two-sided markets”. Here, a platform is a firm that provides services to users on each side. Credit cards provide services not only to cardholders but also to merchants who accept those cards. Newspapers not only attract readers, but also sell advertising space to companies that want to reach these readers. Tirole studied pricing and competition in these markets, influencing thinking on the regulation of credit-card interchange fees (the fees paid by a merchant’s bank to a customer’s bank).

Another example is his study of “patent pools” (in collaboration with Josh Lerner), where companies come together to cross-license patents needed for a given technology. Such arrangements seem increasingly important in high-tech industries such as software development and biotechnology. However, because companies set prices for the pooled patents cooperatively, it is natural to worry that the practice could hurt consumers. Lerner and Tirole argued that it is difficult to assess whether this is the case, and that it depends on the market in question. But they were still able to provide robust policy advice.

Tirole has also studied regulatory issues in banking and finance, of special interest in view of the recent financial crisis. He studied the implications of government bailouts in banking and considered how a government can restore a frozen asset market - the dilemma that was faced in the US market for mortgage-backed securities. As these examples attest, Tirole’s prize was not rewarding a single contribution but a wide-ranging body of work. He has been successful in identifying topics of importance for practitioners, such as regulatory policymakers. The running theme is careful modelling of the incentives faced by individual actors. He has devised models that are detailed enough to capture the relevant complexities, but simple enough to be accessible to a wide readership of economists.

“On a sombre note, it also comes at a time when TSE members are commemorating a decade since the passing of Tirole’s collaborator, Jean-Jacques Laffont, who, Tirole noted, “would have deserved to be with me” in receiving the prize.”

Daniel Garrett
The history

Partnership research before the Nobel

The Institut d’Économie Industrielle, a.k.a. “IDEI”, is a bridge between academics and enterprises, both public and private. Business leaders, managers, policy-makers and researchers come together to discuss and analyse the challenges faced by various sectors and provide relevant insights on a wide range of issues.

To help understand the DNA of the Institute, Herné Ossard, the current director, takes us back to the origins of the institute. In late 1980s and early 1990s, Jean-Jacques Laffont was returning from a gap year in the United States, where he had formerly accomplished his Ph.D. at Harvard University. “He was convinced that it was feasible to set up, in Toulouse, a department of economics based on matching ambitious excellence with suitable resources, similar to how it was done across the Atlantic then. It was he who persuaded the heads of EDF, amongst whom Marcel Boiteux, to commit to a high level partnership over several years. At the time, such a model of research collaboration was unheard of in France.” This set-up appealed to Jean Tirole, who was teaching at MIT at the time and consequently, he also chose Toulouse over Boston! All the ingredients were there; the adventure was about to begin.

EDF, a historic partner and exemplary partnership “It was a very lively partnership”remember Thomas-Olivier Léautier, TSE / IDEI researcher. “Jean really got involved, he frequently met the heads of EDF in Paris. One of them even came to spend a year in Toulouse, in order to work on matters linked to the opening of the electricity market.” At the time, the big question among politicians and academics was restructuring. Many people thought that the invisible hand of the markets would solve all the problems. “Jean Tirole was one of the first to point out the adverse effects and to suggest rules to address them. His work has greatly contributed to the understanding of electricity markets.”

What use is economic theory in all this? Since those early days, many other companies and organisations have partnered with the IDEI for long-term research: Orange, La Poste, SGCR, Banque de France... and these are partnerships that go beyond sponsorship. As Herné Ossard sees it, partnership-based research isn’t just a question of substantial resources dedicated to research. There

The IDEI develops four distinct activities:

- Basic research: researchers develop formal models to analyse, interpret and understand industrial structures and the behaviour of economic agents.
- Applied research: researchers at IDEI have developed customized methodologies designed for decision-making assistance. The Institute shares its expertise.
- Conferences and seminars: the IDEI offers an international forum for debates between theorists and practitioners on economic problems.
- Training: IDEI organizes training sessions for company managers in the disciplines required to master the workings of the economy and of finance.

The stories

“Jean Tirole nearly ruined my teaching career (…) always very polite, he repeatedly asked very penetrating questions.”
Eric Maskin (Harvard), Nobel laureate 2007 & Jean’s PhD advisor

“Jean is remarkable. Working with him is like playing tennis against a wall – some six feet away. You work hard on a problem and fax something to him one evening only to wake up the next morning to a ten page reply with comments, corrections, analyses and extensions, all logically presented and neatly written by hand.”
Bengt Holmström (MIT), co-author since 1985

“Jean was my teacher at MIT in the 1980s. We have been friends and co-authors ever since. His work on banking supervision is among the best for understanding financial crisis. He combines inventiveness with great ability to craft models. It’s very difficult to get a paper rejected from a top journal with Jean!”
Mathias Dewatripont (Vice-governor, Belgian National Bank), colleague since 1984

“I extend my warmest congratulations to Jean Tirole. This Nobel Prize highlights the quality of research in our discipline.”
François Hollande, President of the French Republic

“Jean Tirole’s Nobel Prize shows that the ERC is clearly funding the best of the best – researchers who truly push the frontiers of knowledge. Europe is and will remain on the map when it comes to first-class research.”
Carlos Moedas, EU Commissioner for Research, Innovation and Science

“The history was about to begin...”
Hervé Ossard, IDEI director

Watch video tributes on our YouTube channel: www.tse-fr.eu/fr/media/videos
For extended tributes to and anecdotes about Jean Tirole by his long-time friends and co-authors, check out the latest edition of the TSE student magazine, the TSEconomist www.tseconomist.com/latest-issue.html


are instead in-depth discussions about the content of the research. “First, the companies come up with major ideas that even the most brilliant researchers say they wouldn’t have identified alone. Moreover, they sometimes have economists within their teams, allowing us to work together and hence understand each other.” Having said that, there’s no focus on finding arguments for lobbying. ‘That’s not where our expertise lies. What we do best is answering the question: what does economic theory say about this topic?’ Then we undertake research in order to provide answers that complement what is already known. Through research, we try to estimate what is likely to happen and accordingly anticipate the consequences.

There’s a ‘before’ and an ‘after’ the Nobel.

Today, with the office flooded with requests for appointments and the telephone ringing incessantly, Henri Osand says calmly: ‘We sort things out as he knows perfectly well, managing 10 partnerships is quite different to managing 100. Of course, the Nobel reflects on the entire community. The Institute’s institute has changed. We no longer have to convince anyone of the quality of our work. More and more companies are seeking us out! But some things don’t change’ he adds. We are loyal to our partners; we’re not going to change our agreements, it’s thanks to that we exist. Our scientific standard has not changed any more than our way of working... but until today, we were practically the only ones to know that. Today, everyone also knows that the scientist director accompanying the IDEI since its inception is none other than Jean Tirole! An actively involved director who pays close attention to the general aims of every contract, even those on which he isn’t working himself. ‘He is a very thorough, very demanding but also a very understanding director’. And Jean Tirole, the researcher? ‘He’s very active, on the issue of banking regulation for example, which has been of key concern since the subprime crisis. If anyone thinks being a scientific director boils down to just holding a title, they’re wrong. Jean plays an invaluable, reassuring role for us. I am delighted that he shares the clarty of his analysis with the IDEI. It is a strength for our group and as director, I feel very lucky to have Jean.’

And Jean Tirole, the researcher?

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So during these last 2½ years, our role has been to accompany major changes in companies, restructurings, processes etc. and the IDEI plays another less-known but very important role; training senior management and disseminating economic culture within business but also within high-level civil service, particularly among regulatory authorities, whose decisions can have major consequences.

“Nowadays, people really listen to Jean... and they listen to us too!”

On 6 November 2014, Thomas-Olivier Laututter was sitting in the hemicycle at the French Assemblée Nationale (parliament) to speak before the Commission of inquiry on electricity prices. Three former EDI charmen, Marcel Beuteux, François Roussily and Henri Proglio had spoken the day before... A mere coincidence? Certainly not. Rather a consequence of the new visibility enjoyed by TSE researchers in general and particularly by one who had as PhD advisor at MIT a certain... Jean Tirole!

The “theory and practice” to-and-fro: a distinguishing feature of the Toulouse approach

Like others before him, Patrick Rey came to Toulouse for a year... and never left! In the 1990s, Jean-Jacques Laffont and Jean Tirole invited him to come and work on regulation and competition in the field of telecommunication. He stayed on to become director of the IDEI from 2007 to 2011, senior researcher at TSE and co-author of Jean Tirole on several publications. Here Patrick Rey, freshly back from Stockholm, still moved by the recognition of the work on market power and regulation he had been so involved in, tells us more about it.

Patrick Rey TSE / UT1 researcher

“It’s a very active research topic which is still very much relevant today. You only need to open a newspaper to see issues around these questions, with Google, Microsoft or Amazon! It’s also one of the first subjects the IDEI worked on. One of the defining traits of the Toulouse approach is the way the researchers go back and forth between theoretical analysis and reality. Once a practical issue has been identified, we take a step back from the economic reality so as to analyse it, then we go back to the company with a suitable conceptual framework and relevant empirical ways of looking at it.

Thanks to our partners, we have thus been able to identify interesting research topics on which we have been pioneers! Today, for example, we are looking at business cooperation in high tech industries. How to choose the best business combinations to facilitate the adoption of patents without taking the risk of encouraging collusion or setting off a price war? The mechanism that we recommend can be transposed to the competition between airlines, for example, or the management of copyright... Our conclusions were used by the European Commission for license agreements. So you seen we really do always come back to reality!”

Nobel creations: an alternative take on Tirole’s work

Who would have thought that Jean Tirole’s research into the regulation of market power could be portrayed via a haute couture dress, a modern sculpture or a musical melody? This is exactly what has been achieved via the fascinating “Nobel creations” exhibition at the Stockholm museum dedicated to Alfred Nobel and his legacy. For each of this year’s six different Nobel prizes, students from Swedish design and music colleges have created artistic interpretations of the discoveries and achievements of the laureates. The result is something rather special: “providing new gateways to understanding and opening the way to another creative universe”, as explains Olaf Arne- lin, Nobel Museum Director.

TSE Mag is proud to present the works of art inspired by Jean Tirole’s work.

Object interpretation

Benjamin Curtis, Isa Andersson

“The organic-like form represents uncontrollable growth, while the grid represents Jean Tirole’s research, his framework, which regulates and orders the markets’ growth.”

Fashion interpretation

Angelica Eichler, Linchao Zhang

“Drawing inspiration from Jean Tirole’s extensive body of work, we have discussed the complex problems that arise when you attempt to regulate a dynamic environment. This inspired us to portray what is an inexorable duality within economics, on the one hand, on the other hand” that must simultaneously protect the interests of both society and the individual.”

Musical interpretation

Anna Berglund

“Most inspiration for my composition has come from regulation, balance, and Jean Tirole’s thoughts on how companies within the telecom industry give and take from one another in a way that benefits both the market and society. The different melodies of individual instruments are regulated accordingly, and ultimately arrive at the same phrase in balanced parts.”
Research and Protection

AXA’s primary mission is to protect both its clients and the wider community against risks. The Group believes that today’s research leads to tomorrow’s improved protection, which is why they founded the AXA Fund for Research in 2007 and signed a partnership with TSE. Its aim: to understand and anticipate risks but also to adapt to regulatory changes and technological revolutions. Denis Duverne, Deputy CEO of AXA gave us his analysis of the challenges facing the insurance industry.

As 2015 begins, what major challenges is the AXA Group facing?

The first challenge is the digital revolution which is changing the industry on every level. All of our contact with our clients is changing; the way we communicate, the way clients get information about and purchase the products...

There’s also the Big Data revolution. Nowadays, we have access to vast amounts of information; that changes risk analysis and the information can also help clients change their behaviours so as to reduce their exposure to risks.

The second challenge is the very low level of interest rates because of the efforts made by central banks in order to provide liquidity after the 2008 crisis. People who invest their savings in life insurance and companies that entrust us with the management of some of their assets or their pension funds count on us to invest that money and make it work for them with a certain return.

The third big challenge is regulatory. There has been a major change in the European rules on insurance company capital, called Solvability II. What’s more, AXA is also a ‘systemic insurance company’ which means we are subject to even tighter rules. We need to adapt to the recent strengthening of consumer protection regulations. Those are the three challenges facing us.

How do you go about adapting to these changes?

What a vast question! When it’s a question of the climate or new risks like terrorism, we adapt through modelling and through a certain discemement in the sale of policies. To grasp the opportunities offered by connected things, we often work with start-ups in order to progress.

Do you work with futurists?

We do! We have a Data Innovation Lab staffed with scientists who handle large volumes of data, within that lab we have expertise in future forecasting. This is new expertise. We have an AXA Lab in San Francisco which is an open window onto Silicon Valley, where things change fast. We are in contact with scientists whose research we fund through the AXA Fund for Research. We also have risk management teams who adapt our models to the various data as and when it appears.

Is that how the partnership with TSE came about?

We were among the first companies to support the TSE Foundation. We work closely with Christian Gollier on topics related to insurance and more recently, we’ve been working on the problem of systemic risk in insurance. It would appear that the theoretical foundations of the new regulations currently being implemented are not sound. TSE’s role is to produce work which can improve risk analysis.

I would like to add that we are very proud to support the institution that nourished a Nobel Prizewinner! The Prize was of course awarded to Jean Tirole, but it reflects on the students, teachers and establishments working with TSE. The benefits for the school will be huge.

What led AXA to create the AXA Fund for Research in 2007?

Firstly, we wanted to bring the world of business closer to the world of research, because as we see it, research cannot be financed by state funding alone. Then of course, we aimed to expand knowledge in the fields linked to our industry, so linked to systemic risk in insurance. It would appear that the theoretical foundations of the new regulations currently being implemented are not sound. TSE’s role is to produce work which can improve risk analysis.

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It’s undeniable: economists are very popular in the United States. But what struck Fabien Fieschi when he arrived in Boston was just how well-known the Toulouse School of Economics founded by Jean-Jacques Laffont was, in a region housing prestigious universities such as Harvard and the Massachusetts Institute of Technology.

The Consulate General of France in Boston is our oldest establishment in the United States. It opened in 1779, in the midst of the War of Independence, though if we are still here today, it is not to bear witness to that history, but to play an important role in high-level Franco-American cooperation. Boston has built a long academic tradition going back to the foundation of Harvard, to become one of the main centres of knowledge production in the world. Today, the area is home to over 100 universities and colleges, some of which are amongst the most prestigious, like Harvard and the Massachusetts Institute of Technology (MIT), totalling over 300,000 students. In this environment, the Consulate has several objectives, such as: organizing and informing the community of French speaking students, teachers and researchers. To this end, we organise networking events, such as our ‘Cafés des Sciences’ or ‘Cafés des Entrepreneurs’ and we hold information days on grants and job opportunities in research both in the region and in France. The recent creation of the worldwide France Alumni network will further improve our reach.

The Consulate is also active in promoting academic cooperation: we can assist institutions with contacts, helping them to identify potential establishments for cooperation, as well as drawing up more complex agreements, such as the creation of an international joint research unit on the physics of materials. Finally, since Boston is a major hub of innovation, particularly in biotechnologies, ‘big data’, or green technologies, the Consulate has set up various exchange programmes in these fields.

In the United States, economists are very popular, why do you think that is? Knowledge and understanding of economics is quite different in the United States, particularly when it concerns the understanding of companies’ activities. It’s hard to say whether that is due to education or rather to Americans’ daily reality. People in the US are more exposed to the economic situation: be it employment, social protection which is often closely linked, or the amount of their capital funded pension which depends on the performance of many economic indicators, particularly in stock markets. The American employees are encouraged to follow and understand what is happening in the economic arena and on the markets if they want to be able to anticipate and avoid unpleasant surprises which can have a major impact on their standard of living, their health or their children’s education.

Economists are therefore listened to, they are not considered as magicians or oracles, but neither are they generally accused of having a particular political agenda. French economists have an original point of view in this economic landscape: they have often been trained on both continents and have been exposed to very different economic and social systems, consequently, they can draw attention to problems which may have gone unnoticed on one side of the Atlantic, and offer alternative solutions.

The issues that come to mind are the debates on inequalities and taxation, the organization and efficiency of the markets and the efficiency of development policies.

What changes have you noticed in people’s view of French economists in general and of TSE in particular, since Jean Tirole was awarded the Nobel Prize in Economics? It is mainly the general public’s perception that will be modified by the fact that Jean Tirole was awarded the Nobel Prize in Economics. When I arrived in Boston, I was struck by how widely known the Toulouse School of Economics was among economists working for the most prestigious American institutions. I would go so far as to say that it was a revelation to me. Not only is Toulouse School of Economics ‘on the map’, but many of these economists have already visited to attend conferences or as guest professors.

The aura around the Nobel should mean the end of TSE’s status as ‘best kept secret’ and interest wider circles, particularly our ‘Cafés des Sciences’ and ‘Cafés des Entrepreneurs’. I hope, among young researchers and students on American campuses. More broadly, I hope that this Nobel Prize will encourage higher education establishments to follow the example set by TSE and be both innovative and ambitious. TSE is not the only possible template but it shows that in France, we would be wrong to give up the international competition for scientific excellence.

47 companies benefited from the NETVA (New Technology Venture Accelerator) programme between 2010 and 2014. NETVA is an initiative from the Office for Science and Technology (TNIT) totaling over 300,000 students. In this environment, the Consulate has several objectives, such as: organizing and informing the community of French speaking students, teachers and researchers. To this end, we organise networking events, such as our ‘Cafés des Sciences’ or ‘Cafés des Entrepreneurs’ and we hold information days on grants and job opportunities in research both in the region and in France. The recent creation of the worldwide France Alumni network will further improve our reach.

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Fabien Fieschi
Fabien Fieschi is a graduate of l’Institut d’Études Politiques in Paris. He has been Advisor to the French Ministry of Foreign Affairs, First Secretary in charge of Human Rights at the United Nations Organisation in New York and Advisor to French Prime Minister François Fillon’s cabinet. From 2001 to 2006, he was First Secretary of Foreign Affairs, First Secretary d’Etudes Politiques in Paris. He has been Advisor to the French Ministry of Economic Affairs and Finance since 2006, and since 2010, he has been Advisor to the French Ministry of Higher Education, Research and Innovation. Since 2012, he has been French Consul General to Boston.

For more information: www.consulfrance-boston.org

47 WINNING COMPANIES

www.netvafrance.com and www.yeifrance.com
Anne Le Lorier, First Deputy Governor, tells us more. The BdF (Banque de France: Bank of France) has been a partner of the Jacques Laffont-TSE Foundation since its creation in 2007, via a three-year convention with the Institut d’Économie Industrielle (Institute of Industrial Economics). This bicentennial institution, which is also France’s central bank, plays a major role in supporting research and teaching in Economics. Ivan Werning, Jean Tirole and Ralph Koijen.

For the second time, the BdF-TSE Senior Prize has been awarded to an economist whose research has centred on financial frictions. This is that a deliberate sign sent to the economics community?

Ivan Werning
PhD Harvard
Professor of Economics
University of Princeton

“I am extremely honored to receive the Banque de France – Toulouse School of Economics Senior Prize in Monetary Economics and Finance. Many parts of the world are still waiting to recover from the recent financial crisis, including Europe and Japan. I hope to continue making contributions to our better understanding of what causes financial crises, why long stagnation may follow and how we can avoid such a trap in the future.”

Anne Le Lorier
First Deputy-Governor of The Banque de France, appointed by the Council of Ministers of 4th January, 2012.

Anne Le Lorier had previously spent most of her career at the Ministry of Economy and Finance where she was Civil Administrator for the Treasury. She has worked on both national and international questions.

Nobuhiro Kiyotaki
Senior Prize 2014
PhD Harvard
Professor of Economics
University of Princeton

“ar is an area I am very interested in, both from a macroeconomic and public finance perspective. I had the pleasure to visit Toulouse before and I now look forward to spending some time again at TSE and getting to know BdF better.”

Nobuhiro Kiyotaki and Christian Noyer, Governor of The Bank of France

Application procedure and deadlines:

www.banque-france.fr/fr-la-banque-de-france/ organisation/organigramme/anne-le-lorier.html
Independent learning

In French universities, this active learning process started to come into use four or five years ago. Even if there can be no tangible, physical results, the principle is the same: allowing the students to work independently. Philippe Alby, researcher at TSE, lecturer and head of pedagogical innovation, reviews the first experiments carried out at the school.

What is project-based learning exactly, and how was it set up at TSE?

This ‘active’ learning is based on the idea that students will find it much easier to grasp and master knowledge and concepts if they go and find them themselves. We set an ‘active’ task, a first goal, let them get to know each other through group work. Then, we decided on a theme – this year, it was the labour market. The students had to come up with the topic they wanted to work on, which was a new exercise for them. Next, we organized 1.5 hour sessions each week from September to November, during which the tutors guided each group and followed the progress of the projects. The goal was to guide rather than to teach. We also required some work on data – we considered it important that the students see the link between theory and practice.

What does it teach the students? What are the advantages of this type of methodology?

As it’s one of the first things the students do at the school, it allows them to get to know each other. They then learn to work in a group, without having decided who to work with, which is another constraint to be dealt with. They learn to do research and to use academic literature or empirical data. Of course they learn to define their topic themselves, which is, I think, the most difficult part for them. Finally, they develop their writing skills drafting a concise project document, and their presentation skills by giving an oral presentation, which is another novel exercise for them.

How did the students react to this type of teaching technique?

The first sessions were rather laborious. Some of them were very anxious at not knowing what to do, nor how to do it. They were just left, almost entirely alone, with a tutor whose role was simply to guide them; it was completely different to what they were used to. On the contrary, others were very enthusiastic, keen to get involved in vast projects or work on topics that would usually have required one or even two PhD students to be resolved! But they got to grips with their subject and I think overall, they worked well. Some even said they would have liked to have more time to go into greater depth! I found that what they produced was of very good quality. They also learned what we call ‘soft skills’; how to work in a group, how to measure whether something is possible; how to formulate a question, what to look for, how to identify the information you need... without realising it, they made tremendous progress.

Feedbacks

“We had to use our theoretical knowledge to solve ‘real’ problems and we almost felt like real, professional economists.”
Sophia, 3rd year student

“For Sophie Vermeille, research centres such as TSE play a leading role in promoting these changes in a country’s regulatory framework. Through the encouragement of interdisciplinary research in law and economics, they create synergies of high interest to public authorities.

Since the beginning of the crisis in 2007, a large number of analysts have predicted a reduction of the banks contribution to the European economy. This evolution invites us to re-examine French law and its impact on the development of alternative methods to traditional bank financing. In France, and in Europe, investors currently perceive a climate of legal uncertainty, as a consequence, companies have difficulties accessing to credit, and when they do, it is at a high cost. This situation has effects on the country’s innovation and business development.

Sophie Vermeille began looking into this issue while confronted with the Chapter 11 of United States bankruptcy law in one of her cases as a lawyer. The striking differences between a more flexible American regulation and the rigid, outdated French system caught her attention. Ever since, Sophie Vermeille has studied the reasons behind the inflexibility of French bankruptcy law, and how it could be improved. In her view, French law is too favorable to shareholders. Based on a traditional model of firms, now obsolete, it focuses excessively on preserving jobs and confines preserving a business’ assets with preserving its legal entity. Sophie Vermeille and her think-tank advocate for a reform of French bankruptcy law both from a law and economics perspective. In cases of insolvency, the goal should be first to create and preserve as much value as possible, and only after realise such value.

For Sophie Vermeille, using a joint law and economics perspective is the best way to comprehend the problem which is often branded as a “free-market” tool, it has great potential if used the right way.”

Sophie Vermeille
Sophie Vermeille is a researcher at the Paris II University. She holds a Master’s degree from Paris II and from London King’s College, and is preparing a PhD in Law and Economics from Paris II. Her research interests lie principally in corporate finance, personal and corporate insolvency law, corporate law, banking law and law of security interest.

She is also a French qualified lawyer at the Paris office ofDLA Piper. She founded and manages the “Rules for Growth” institute, a French think tank where faculty members from various universities work together with practitioners mainly in the field of corporate finance.
Training Tomorrow’s Experts

Graduate recruitment figures

The success rate for TSE graduates is high. That is the conclusion of a 30 month study carried out by the French Observatory of Training and Recruitment.

15-20% of graduates go into academia; the others go into careers in business or the public sector.

90% of graduates found a job between 3 and 6 months after graduation (not including further studies).

34% of graduates were directly taken on by the company where they did their 2nd year Master’s degree internship.

80% of graduates were directly taken on by the company where they did their 2nd year Master’s degree internship.

50% of graduates find a first job abroad; 88% go straight into management.

88% go straight into management.

90% of graduates consider that their job is suited to their career plan and their education.

80% of graduates were directly taken on by the company where they did their 2nd year Master’s degree internship.

17% Other service activities

15% Financial and Insurance

9% Logistics

13% Specialised scientific or technical activities

2% Industries

2% Agriculture, forestry, fishing

7% Information and communication

7% Business

15-20% of graduates go into academia; the others go into careers in business or the public sector.

Where are they now?

Some examples of careers our graduates go into:

(Source OFIP)

As a TSE grad, you can be a: research manager, consultant, analyst, statistician, head of risk management, market economist, lecturer-researcher, ...

Learn how TSE prepares its students for successful careers, via our quick presentation video: youtube.com/tsechannel

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