RESEARCH HIGHLIGHTS

VOTE DIFFERENTLY
SICK OF OUR LIFESTYLES
TIME TO VALUE YOUR LIFE

HOT TOPIC
INDIA: ECONOMICALLY TERRIFYING?

PARTNERSHIPS
OUR SOCIAelly RESPONSIBLE INVESTMENTS

EVENTS
TSE LAUNCHES THE TIGER FORUM

Meet
RICHARD BLUNDELL...
Dear Friends,

It is with great pleasure that we present you our new TSE magazine - a quarterly publication aimed to bring you a dynamic, diverse and thought-provoking insight into the activities of our community. TSE is all about economics, this ever-challenging science that drives our research, connecting the 160 members of our three research centres - the ARQADE, the GREMAQ, and the LERNA.

Yet TSE is much more - thanks in particular to the undergraduate and graduate programmes of our “École TSE”, as well as the new multidisciplinary institute of advanced studies in social sciences, the IAST, and the venerable institute of industrial economics, the IDEI. Through this magazine we seek to provide a unique platform for all these compelling branches that make up our community within the University of Toulouse 1 Capitole.

We shall let the magazine speak for itself for this first edition, but we are sure that you will find, as we do, that the range of subjects is a timely reminder of the breadth and depth of the work undertaken at TSE and the commitment of the school as a whole to the all-important and emerging social issues of today’s world.

We extend our thanks to all the contributors of this first edition, in particular to our external contributors, who very kindly and with delightful enthusiasm accepted to take part in this new adventure.

Richard Blundell, Chairman of the TSE Scientific Council, accorded us an inspirational and charming interview on his impressive career. Emma Rothschild, professor of History at Harvard and Cambridge, has written a fascinating piece on Adam Smith and his links with Toulouse. Bruno Sire, President of our host University, Toulouse 1 Capitole, brings us up to speed on the new TSE building which will welcome us in 2015.

Last but not least, thanks to each and every member of TSE for their commitment, to our institutional founders (CNRS-EHESS-INRA-UT1) and our partners for their highly valued support, and of course to you all for your continued interest.

Emma Rothschild
Professor of History, Harvard and Cambridge
Adams Smith and his links with Toulouse
Karine Van der Straeten

Vote differently: 4 voting systems tried & tested

A team of researchers in economics and political science made the most of the 2012 French presidential elections to test out a number of different voting systems. They were looking to deepen their understanding of how electoral systems influence voter choices. We examine the feedback with the study’s co-director Karine Van der Straeten, CNRS Research Director at the TSE-GREMAQ research centre.

How did you carry out the study?
Karine Van der Straeten. During the three weeks leading up to the first round of France’s presidential elections, we asked French-speaking internet users to vote in a mock election for the new President of France. They were allowed to try out four different voting systems: the two-round runoff system currently used in France, the proportional system used in Mexico, the alternative vote method used in Ireland (candidates are ranked and then successively eliminated) and the endorsement electoral system that is not currently being used in any country (all voters can endorse as many candidates as they like and the one with the most endorsements is elected).

Tell us about your findings...
KVDS. In our experiment, François Hollande was elected every time, regardless of the voting method. The candidates received quite similar scores in the two-round runoff system, the proportional system and the alternative vote method. However, it should be noted that since participation in the experiment was voluntary, our sample of test voters was neither random nor representative. The results you see here have been adjusted, so to speak, by votes in the first round of the real-life elections in May, but they should be interpreted somewhat loosely.

What conclusions do you draw from these results?
KVDS. It is still too early to draw any clear conclusions from the experiment, but we have managed to collect some detailed data that we are still analysing. Nonetheless, these official preliminary results seem consistent with findings that had already been observed in experiments carried out in France and elsewhere in Europe. Centrist or more consensus candidates are at a disadvantage in the runoff electoral system, which requires a strong voter base. A centrist candidate like François Bayrou is highly favoured by many voters, but few rank him as one of their top choices. On the other hand, in the endorsement system, which allows voters to voice their preferences more accurately by assessing each candidate, François Bayrou is ranked much higher.

How are NCDs spread?
The causes of NCDs are as diverse as genetics, age, or even modifiable risk factors such as smoking, lack of physical activity and unhealthy eating. The considerable rise in the prevalence of NCDs over just a few decades cannot be linked solely to genetic mutations or aging, because we observe that young people are also affected by NCDs, typically in the form of obesity. Since these risk factors are modifiable, NCDs can be qualified as socially, not biologically transmitted. In our paper, we focus on intergenerational transmission, providing an economic model to determine to what extent modifiable risk factors - or habits - transmitted from one generation to the next are responsible for NCD epidemics. Take diet as an example. The probability of developing certain NCDs later in life depends on how one eats as a child. However, children do not generally choose what they eat, but rather they eat what their parents feed them. Parents are not necessarily aware of the impact of these choices on their children’s health. Eating habits are hence transmitted, providing an economic model to determine to what extent modifiable risk factors - or habits - transmitted from one generation to the next are responsible for NCD epidemics. Taxing diet as an example. The probability of developing certain NCDs later in life depends on how one eats as a child. However, children do not generally choose what they eat, but rather they eat what their parents feed them. Parents are not necessarily aware of the impact of these choices on their children’s health. Eating habits are hence transmitted from one generation to the next, introducing a negative externality and potentially leading to NCDs in the case of unhealthy habits. In general we find that, due to the social transmission of NCDs, agents choose lower health conditions and higher unhealthy activities than what we consider to be socially optimal.

How does your work influence policy?
Our aim is to understand the economic implications of NCDs, and determine which policy instruments can be used to enhance welfare. Taxes on unhealthy activities can be used to restore the social optimum, via a decrease in the probability of modifiable risk factors being transmitted. Examples include taxes on cigarettes, junk food or sodas. Don’t these so-called “fat taxes” penalise the poor? One could argue that “fat taxes” penalise the poor, as they are more likely to buy lower quality foods because they are less expensive. However, this is quite a narrow analysis, as we do not simply care about the finances of poorer people, but also their health, and “fat taxes” clearly have a benefit on health, reducing unhealthy consumption. Moreover, the capital raised via these taxes can in turn subsidize health investments which often target the poor, and have a generally positive impact on society.

Sick of our lifestyles

Catarina Goulão

87%

of deaths in high-income countries are caused by non-communicable chronic diseases (NCDs), that’s to say non-infectious medical conditions such as cardiovascular diseases, diabetes, asthma, and many cancers. This staggeringly high prevalence rate points to NCDs as the major cause of death all over the world, except for Sub-Saharan Africa.

In a recent paper, Catarina Goulão and Agustín Pérez-Barahona introduce a theoretical framework that contributes to the understanding of NCD epidemics, investigating the social dimension behind this modern-world problem.

Does your NCD epidemic model apply worldwide?
The economic mechanisms behind NCD epidemics are still far from being understood, but we observe that our model is consistent with the existence of regional discrepancies in the prevalence of obesity and NCDs. For example, France has a low, albeit rising, obesity rate of about 12% compared to 30% in the United Kingdom. We are attempting to further the understanding of these disparities between countries.

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Learn more...
Catarina Goulão (TSE-GREMAQ, INRA) and Agustín Pérez-Barahona (INRA,AgroParisTech and École Polytechnique).
**Time to value your life**

Benefit-cost analysis is a useful tool for evaluating public policies. When those policies are designed to reduce mortality risk, it is necessary to compare the value of reducing mortality risk with the costs of the project.

Our project investigates how people value a reduction in mortality risk depending on how the risk reduction is distributed over time. The study is based on an innovative paper by Nielsen et al. (2010) entitled ‘How would you like your gain in life expectancy to be provided?’ We will survey a random sample of the French population on how they see these issues. The objective of this work is to help understand public preferences for different patterns of mortality risk reduction. This may lead to a more accurate assessment of the benefits of different policies.

We have already observed that the value of a lower mortality risk can change depending on when it occurs. Some policies, such as measures that reduce the risk of dying in a traffic accident, lower the mortality risk across all age groups by the same percentage. Other policies, like those that reduce air pollution, reduce the chance of dying more as the baseline risk of dying increases, i.e., as people get older or their health deteriorates. Lastly, policies aimed at reducing the exposure to chemicals or radiation that cause cancer are not able to immediately lower risk; their effect is felt over time.

**Publications**
India: economically terrifying?

Jean-Paul Azam, professor at TSE, specialises in development economics, mostly in African countries. He has been studying a conflict affecting an indigenous population in central and eastern India.

How do you link terrorism and economics?

Jean-Paul Azam. In the wake of the September 11 attacks, I wanted to find out if terrorism was a conventional conflict. In 2005, I published an article describing how it derives from basic microeconomic concepts. A terrorist sacrifices his life for future generations. Since that behaviour is rational, we can find a rational way of ending it. The response to transnational terrorism – when a citizen of a poor country attacks a rich country – is international aid. According to our research, countries that receive aid and focus on building educational capital produce fewer terrorists. Conversely, countries with a strong American military presence produce more terrorists.

How did you analyse the situation?

JPA. We conducted econometric tests that helped us develop a theory of provocation. The presence of minerals leads to violence. It is perpetrated by the local government, which is supporting clashes between police forces and Maoist militants living in the Adivasis territories. The real goal is to drive the inhabitants from the forest so mining companies can move in.

How can your analysis help the situation?

JPA. Our job is not to advise governments, but rather to inform voters. Our scientific evidence will allow them to vote responsibly. The article that we will be publishing with Kartika Bhatia should influence civil society in India, which incidentally is fully capable of making itself heard.


Kartika Bhatia

> Kartika Bhatia travelled from New Delhi to complete her final year of graduate school at TSE, where she began working with Jean-Paul Azam on the Naxalite conflict in India, initially for her Master’s thesis and now for her PhD dissertation.

FURTHER READING

Publications
Alpa Shah, «In the Shadows of the State. Indigenous Politics, Environmentalism, and Insurgency in Jharkhand»
Felix Padel and Samarendra Das, «Out of This Earth. East India Adivasis and the Aluminium Cartel»

INTERVIEW WITH JEAN-PAUL AZAM

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Why did you choose to study India?

JPA. In 2009, a young student from India, Kartika Bhatia, came to see me on the recommendation of the economists Jean Drèze and Michael Walton. She told me the story of the Adivasis, a group of different Indian tribes living in the forests of central and eastern India. Over the past few years, Indian and foreign industrialists have been eyeing up the Adivasis’ land, as it boasts an abundance of mineral resources, particularly bauxite. This is giving rise to violence that is putting the indigenous population in the direct line of fire.

How did you analyse the situation?

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Jean-Paul AZAM

> Jean-Paul Azam completed his PhD in economics at LSE in 1980 and is now a professor of economic sciences at the University of Toulouse I Capitole and a researcher at the TSE-ARQADE laboratory (Quantitative Research Lab Applied to Economic Development). As a senior member of the Institut Universitaire de France, he studies economic and political development in poor countries, focusing on international aid, migration, ethnic discrimination, conflicts and terrorism.

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Mark this new annual rendezvous in your diaries – beginning with 5-7 June 2013, the first week of June each year is now to be known as the TSE TIGER Forum week. Why TIGER? To express the fields of expertise that TSE, today among the top 10 centres of research in economics worldwide, has become renowned for: “Toulouse - Industry - Globalisation - Environment - Regulation”. The TIGER Forum aims to become the global meeting place for economic science, reputed for its scientific excellence and ability to provide the keys to understanding the major issues of our times.

At the heart of TIGER, TSE researcher Marc Ivaldi and his colleagues have created a forum where the world’s leading economists can rub shoulders at scientific events, open round tables, prestigious prize awards and cultural highlights.

The programme for the first forum is still being finalised, but it is already packed:

> 3 international scientific conferences moderated by TSE researchers:
  - “Pricing long-term projects and assets in an uncertain world”, organised by Christian Gollier,
  - “The economics of intellectual property, software and the Internet”, co-organised by Jacques Crémer and Paul Seabright,
  - “Information processing in macroeconomics and finance”, organised by Franck Portier,

> a plenary session on a current topic where corporate leaders, elected officials and representatives of civil society can exchange ideas with major figures in global economics,

> the award ceremony for the prestigious Laffont Prize organised by the IDEI and the Toulouse City Hall (recent winners include Robert Townsend, Robert Wilson, Roger Myerson, Richard Blundell and Stephan Ross),

> a gala evening in a distinguished Toulouse setting where economics meets with culture,

> the TSE Scientific Council meeting including 3 Nobel Prize winners.

Contact: tiger@tse-fr.eu
Meet Richard Blundell: world-renowned economist and econometrician, celebrated internationally for his pioneering work in microeconometrics applied to the analysis of labour supply, welfare reform and consumer behaviour.

How would you describe your work?
Richard Blundell. What really inspires me is the intersection between economics and econometrics. That is seeing how ideas from economic theory work out when confronted by data on the observed actions of economic agents. Then putting the results to work in addressing key policy questions. More specifically, I have always had a keen interest in understanding household behaviour - whether it be consumer choice, individual and family labour supply decisions, or the life-time allocations of income and savings. These various aspects of household behaviour raise many fascinating economic and econometric questions. The answers to which are key in the policy debate concerning tax and welfare design, as well as in public policy more generally.

How does this work feed into public policy?
RB. The key to getting my research into the policy domain had been my association with the Institute for Fiscal Studies. IFS has established itself as a key source of rigorous policy research on taxation, welfare reform, education policy, inequality, pension and savings policy etc. Since 1986, when I became the IFS Research Director, I have split my time 50-50 between UCL and IFS. This has provided an exceptional research environment for bringing together theory, econometrics and policy.

What do you consider to be the highlights of your career?
RB. My research path began through my interactions with the brilliant economist Terence Gorman, while I was studying at LSE. He was always willing to challenge any point of view and really understood the power of economic modelling in gaining insights into human behaviour. Most importantly he stimulated my interest in the study of consumer behaviour. My career really took off after a series of early visits to North America: in particular to UBC, Berkeley, Chicago, Toronto, MIT and Princeton, where I was lucky enough to meet and discuss ideas with many inspirational colleagues, perhaps most notably Dan McFadden and Jim Heckman. Back in the UK together with a group of wonderful colleagues and students, I was fortunate to be given the opportunity to help build the vibrant research group at UCL and IFS. An ongoing highlight over the years has been discovering the power of careful microeconometric analysis to deliver a rigorous understanding of economic behaviour. Really though, when it comes down to what matters, it is seeing talented students and younger colleagues become great economists and econometricians. The fact that they continue to let me work with them is the icing on the cake!

A careful microeconometric analysis can deliver a rigorous understanding of economic behaviour.

How do retirement ages?
RB. How do retirement ages respond to changing economic circumstances?

> How do retirement decisions themselves respond to changing economic circumstances?
> How can we avoid unnecessary parametric restrictions when modelling heterogeneous decisions?
> How can we robustly assess whether consumers behave rationally?
> What are the returns to education for different types of individuals?
> How do savings decisions adapt to changes in retirement ages?
> How do individuals and families deal with adverse economic shocks?

> How does family labour supply interact with the workings of the tax and benefit system?
> How does this work feed into public policy?
> How would you describe your work?
> Richard Blundell is...
Our socially responsible investments

In 2007, the multidisciplinary teams at the Institute of Industrial Economics (IDEI) and the Ecole Polytechnique created the Sustainable Finance and Responsible Investment Chair (FDIR).

Sebastien Pouget, TSE researcher and professor of finance at the University of Toulouse 1 Capitole (IAE), is co-director of the FDIR chair. He talks to us about the chair’s objectives.

INTERVIEW WITH SÉBASTIEN POUGET

Why did you create a chair on this subject?
Sebastien Pouget. A growing number of institutional and private clients are starting to encourage portfolio managers to make a meaningful commitment to sustainable development by favouring investments that have established and controlled extrafinancial, environmental and social impacts. These managers are also looking for analysis tools and extrafinancial investment strategies to complement the financial instruments already in their arsenal. The FDIR chair’s objective is to further the understanding of what motivates socially responsible investing (SRI), and provide both the conceptual and empirical bases for this type of investment. The chair is that much more important given the challenges currently facing our planet, such as climate change and inequalities between rich and poor countries.

What types of issues does the chair address?
SP. The main research themes focus on understanding what inspires investors to gravitate toward SRI, defining and measuring what makes an investment socially responsible and the impact SRI has on investors, companies and society as a whole. By definition, these issues are multidisciplinary and combine elements of economics, psychology and sociology. They draw upon a number of fields in economic science (environmental, labour and risk economics, public economics, financial economics, etc.). The diverse and cross-cutting nature of the research carried out at TSE and the IDEI make these research centres an ideal base for developing research within the FDIR chair.

What influence does SRI have on the financial markets at this time?
SP. The latest figures issued by Eurosif suggest that about 10% of the assets being managed in Europe are socially responsible. So, SRI is shifting from being a niche market to an integrated part of the approaches used by many portfolio managers.

WHAT IS SRI?
«Socially responsible investment (SRI) is the application of sustainable development to financial investing. In other words, it is a type of investing that accounts for factors related to Environmental, Social and Governance criteria (also known as ESG criteria) and, of course, traditional financial criteria».

A partnership has been formed with Qualcomm (USA) in the field of innovation economics, focusing on intellectual property and information technologies. This agreement complements a number of existing research partnerships with industrial actors in the "digital society" field, significantly boosting the development of the IDEI-TSE research in this area.

A new partnership has also been established with RFF (Réseau Ferré de France), the owner and manager of the railway system in France. In addition, another agreement has been met with RTE (Réseau de Transport d’électricité), the French company that manages the high-voltage and very high-voltage electricity transport network. These two companies are interested in research that manages the high-voltage and very high-voltage electricity distribution industry.

The IDEI, collaborative research centre closely linked to TSE & its researchers, has recently established a series of new contracts. Hervé Ossard, Director of IDEI, shares the details with us.

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Jean-Philippe Lesne was recently named Dean of the “École TSE”, our teaching faculty. A graduate of Polytechnique and ENSAE with a PhD in economics from TSE, since 2008 he has been senior vice-president at BVA, a market and opinion survey institute. With his extensive experience as a professor and corporate manager, Lesne is keen on educating world-class economists and statisticians who are tuned into market needs.

**INTERVIEW WITH JEAN-PHILIPPE LESNE**

What are your plans for the school?

Jean-Philippe Lesne. We have to take the best of both of France’s 200-year-old systems of higher education: the Grandes Écoles system and the university system. Education and research have always gone hand in hand in the universities. That is especially true at TSE; its economics research centre is among the top 10 in the world, meaning we can put some of the best economists in the classrooms. So, our school attracts students from all over the world, many of whom go into academic careers after their PhD. But we also want to give the school the advantages of the Grandes Écoles which are able to round off the students’ education through, for example, feedback they can give from internships, the junior enterprise programme, or activities with the Student Association (BDE). But the atmosphere at the school should maintain the benefits of the university system. There are no competitive entrance exams, instead we prefer an application-based selection process that rewards the hard work of the students during their first two undergraduate years. Another advantage, welfare-wise, is the modest tuition fees we apply, on the same level as all public universities. The absence of a post-high school selection system coupled with these low tuition costs enables us to attract a very broad population of young students, including those with more difficult financial and cultural backgrounds. Through all this, we aim to uphold the academic level of excellence while continuing to fulfil our role in promoting diversity.

But there is still a selection process?

JPL. Of course. It is mostly for students entering their third undergraduate year but also in the graduate programme for applicants from French or foreign universities who want to attend the school. Some people are surprised and even offended when they learn we apply a selection process within the university system. That is because they do not understand it well, or pretend not to get it... but we stand by this selection method, which is a measure of excellence and does not create hang-ups, even more so since all the students coming out of our two-year preparatory programme are offered several academic paths, mainly in economics and management.

Are you currently visible on the international scene?

JPL. We already have an extensive foreign student recruitment programme, and now we have to increase career opportunities abroad. In the longer term, we are thinking about creating dual-degree programmes with major international universities.

TSE won the IDEFI call for projects (Initiatives of excellence in innovative education). What changes will this bring about?

JPL. Let’s take two examples. We are going to introduce problem-based learning, which is already widely used in engineering sciences but not so much in our field. The professor puts the students in groups to solve a real problem related to their coursework. In the long-term, we plan to involve companies to set the problems to be solved. We are also planning to use experimental economics to teach economic concepts: «serious games» help students to become more actively involved in their own learning.
Joining our ranks...

With the academic year 2012-13, TSE and IAST are proud to welcome our new faculty members:

**PhD in economics from MIT and assistant professor at the University of Chicago since 2005, Thomas Chaney is internationally recognised for his work in international trade economics.**

**PhD in finance from the University of Chicago, Booth School of Business, Marianne Andries specialises in financial asset valuation and behavioural finance.**

**PhD in economics from Northwestern University, Daniel Garrett specialises in theoretical economics and industrial economics.**

**2012-2013 TSE VISITING PROFESSOR**

Mike Riordan
> University of Columbia
> Industrial economics

**IAST POST-DOC**

Simone Spets
> University of Arizona
> Law

Jörgen Werhual
> Stockholm School of Economics
> Evolutionary economics

Robert Bridle
> University of Vanderbilt
> Literary theory

**IAST POST-DOC**

Gerdawas Mataré obtained her PhD in sociology from the University of California, Berkeley. Based on visual sociology, she studies people’s livelihoods and ways of life in the urban outskirts.

2012-2013 IAST VISITING PROFESSORS

**SENIOR TSE CHAIR**

**JUNIOR TSE CHAIR**

**JUNIOR TSE CHAIR**

And the winners are...

**NEWS FLASH**

**“BEST ARTICLE” PRIZES IN TRANSPORT ECONOMICS**

At the Kuhmo Nectar Conference of the International Transportation Economics Association (ITEA) in Berlin, 18-22 June 2012:

**BEST JUNIOR RESEARCHER**

Augustin Landier, TSE researcher specialising in finance, and co-winner David Thesmar (HEC Paris) were awarded the Best Junior Researcher Prize by the Institut Louis Bachelier and the Institut Europlace de Finance. The prize honours young researchers who have published articles in the top specialised international reviews.

**RECIPIENT OF THE 2012 R. BARRE CHAIR**

Patrick Rey, TSE researcher, was awarded the Raymond Barre Chair by the J. W. Goethe University in Frankfurt. He gave a conference entitled “General concepts and influences from Germany, France and the United Kingdom in the European Union” to the French-German Society in Frankfurt, Germany on 22 May.

**BEST JUNIOR RESEARCHER**

**SENIOR MEMBER OF THE IUF**

Michel Le Breton, professor of economics and TSE researcher, was reinstated for his second five-year term as a senior member of the Institut universitaire de France by the French Ministry of Higher Education.

**THREE HONORIS CAUSA DOCTORATES**

In recent months, TSE Chairman Jean Tirole was awarded three Honoris causa doctorates, from the University of Rome 2 «Tor Vergata», the Athens University of Economics and Business, and the University of Mannheim.

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**NOMINEE FOR THE TROPHÉES DES FEMMES 2012**

Karine Van der Straeten, CNRS researcher at the TSE-GREMAQ laboratory, was nominated in the Female Researcher category.

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Deciphering the war of the sexes

Paul Seabright

In his book “The War of the Sexes: How Conflict and Cooperation Have Shaped Men and Women from Prehistory to the Present”, TSE researcher Paul Seabright tackles the age-old issue of the war of the sexes through the lens of various research fields.

Paul Seabright shows that clashes between the sexes are, paradoxically, the product of their cooperation.

Men and women today have an unprecedented opportunity to achieve equal power and respect. But if we are to finally escape the legacy of our primate ancestors and achieve greater harmony and equality between the sexes, we first need to understand the mixed inheritance of conflict and cooperation developed in our remote evolutionary past. Drawing on biology, sociology, anthropology, and economics, Seabright shows that conflict between the sexes is, paradoxically, the product of cooperation. The evolutionary niche – the long dependent childhood – carved out by our ancestors requires the highest level of cooperative talent. But it also gives couples more to fight about. Men and women became experts at influencing one another to achieve their cooperative ends, but also became trapped in strategies of manipulation and deception in pursuit of sex and partnership. In early societies, economic conditions moved the balance of power in favour of men, as they cornered scarce resources for use in the sexual bargain. But it also gave them the opportunity to pass away the time. Smith wrote to David Hume, soon after he arrived, and a few weeks later, he looked to a life of “gayety and amusement.” He made friends, in particular, with three Norwegians, who gave him the opportunity of correcting and extending his ideas. He visited Bordeaux; he travelled on the way home with his enterprising new friends, and in particular, with three Norwegian sailors, who later became officials and reformers of the Danish Asiatic Company.

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