

TSE Student Workshop – tentative schedule
(Friday 18th April, MS001)

Please indicate your interest and participation for lunch and coffee:

<http://doodle.com/24ex746yx5a5d2wk>

Time	Student	Discussant	Topic
9:00-9:35	Georgios Petropoulos	Marti Mestieri	The Relationship Between Competition and Innovation: How Important are the Financial Constraints?
9:40-10:15	Sinem Hidir	Takuro Yamashita	Strategic Inaccuracy in bargaining?
10:20-11:00	Timothy Yeung	Patrick Le Bihan	Legal systems and electoral rules
11:00-11:30		Coffee	
11:30-12:05	Olga Rozanova	Stephane Caprice	Integration vs Separation when Upstream investment matters
12:10-12:45	Alejandro Lombardi	Stephane Straub	Incentive contracts and the allocation of talents
12:50-14:00		Lunch	
14:00-14:35	Suxiu Yu	Milo Bianchi	Belief based information preference and a model of informed trading
14:40-15:15	Milena Petrova	Paul Scott	Impact of domestic air alliances on airlines' bids for travellers
15:20-16:00	Yann Kervinio	Karine van der Straeten	How to share the cost of polluting facility

Abstracts

Sinem Hidir:

Strategic Inaccuracy in bargaining?

This paper studies a buyer-seller game with pre-trade communication followed by bargaining over choices. The buyer who has private information about her preferences sends a costless message to the seller who responds by an offer. The amount of information transmitted determines the gains from trade, as well as how this surplus will be shared between the two parties. Lack of commitment by the seller creates a hold-up problem and a trade off between efficiency and rent extraction. Coarse information arises as a result of the concerns on the terms of the transaction. As the preferences get less important, information transmission becomes less precise. The buyer's optimal message strategies are found in static and dynamic settings, and it is shown that the messages are just informative enough to ensure trade. When extended to the dynamic setting, the buyer benefits from sending informative messages only at the first period implying no gradualism in information revelation.

Georgios Petropoulos:

The Relationship Between Competition and Innovation: How Important are the Financial Constraints?

This paper studies the relationship between product market competition and innovation. It illustrates that apart from the well-studied impact of product market competition on the incentives of firms to innovate, it also affects their ability to have access to the necessary funds in order to innovate. Due to the fact that innovation projects are by definition risky and external financing subject to moral hazard concerns, lenders may be reluctant to finance projects in which the involved firms are not considered credible borrowers. We develop a step-by-step innovation model and show how product market competition may restrict the ability of firms to be credible borrowers. This effect can become the main driving force for R&D activities if firms are financial constrained. The relationship between competition and innovation is inverted-U shaped but the peak of the curve moves to lower levels of competition as financial constraints become more intense.

Timothy Yeung:

Legal systems and electoral rules

This paper explains the adoption of different types of electoral rules by the difference in the ease of implementing targeted transfer. Following Rokkan (1970), I model the choice of electoral system as a choice of the political elite (the rich) who holds the political power under a winner-takes-all system (WTA) before universal suffrage is enacted. If the elected party is more able to transfer tax revenue to the people it represents, the political elite is more likely to adopt proportional representation (PR) so as to avoid any undesirable redistribution associated with a leftist government. I argue that civil-law countries are associated with a statist constitution that aims at facilitating the government's freedom. Hence the transfer constraint is loose and we expect that civil-law countries are more likely to adopt PR. In the extension, I explain the adoption of the superposition mixed electoral system given that the choice of electoral system is determined by a referendum. This type of mixed system is only attractive to a small subset of common-law countries, while the poorer civil-law countries are more likely to switch to the mixed system than the richer

ones.

Olga Rozanova:

Integration vs Separation when Upstream investment matters

The work studies how the predictions of the standard/classical vertical relationship model change if we add to it rather reasonable and not less classical assumption that producers set not only prices, but also choose the level of demand-enhancing investments. The analysis shows that this modification of the benchmark model may add some predictions that are interesting from the policy perspective. The central result of the paper is that consumers may be better off in the presence of passive intermediaries compared to the situation without intermediaries. For linear in price demand function the presence of upstream market competition is an important condition for this result to hold.

Alejandro Lombardi:

Incentive contracts and the allocation of talents

Why are incentive contracts not common in the Public Sector? We model an economy in which the private and the public sector need to attract risk neutral workers to make use of technologies to produce private and public goods respectively. Although both technologies improve their output with workers' hidden effort, only the private sector's technology is sensible to the worker's entrepreneurial talent. Agents' limited liability forces private and public organizations to give information rents to induce effort. In this context, the Government may face a trade-off when trying to provide incentives: rents improve public sector efficiency but decrease private sector productivity because of talents misallocation. This trade-off allows for having a striking result: workers in the public sector may be subject to less powered incentive schemes than those in the private sector, even when performing tasks within a comparable contracting framework.

Suxiu Yu:

Belief based information preference and a model of informed trading

This paper proposes an information choice model where information varies conditional on the true state. In other words, it is an information structure with different probabilities of Type I and Type II errors. It is shown that an investor prefers to collect information from the direction that is more likely to confirm his initial belief, which is similar to the "confirmation bias", but it is a rational behaviour under endogenous information choice. Applying it to an informed trading game, it is shown that an informed trader would like to search information that is more likely to be consistent with his prior belief, and a market maker, expecting this, will involve it in the pricing strategy. The model predicts that prices (or market beliefs) would respond more to negative information than positive information (contained in selling / buying orders, respectively) when the market belief is high enough, and react the other way around when the market belief is low enough.

Milena Petrova:

Impact of domestic air alliances on airlines' bids for travellers

Airline alliances are an established form of cooperation between market players in the U.S. domestic market but their competitive effects are ambiguous, and the industry dynamics have greatly changed in the years since the majority of analysis on the subject was done. In this paper, we make innovative use of the DB1B industry data: by modelling airlines as competing on price, we are able to use the observational equivalence between Bertrand competition the reverse English auction. This allows us to use auction methodology to estimate the effect of industry cost determinants on the distribution of costs and the market price, and specifically the effect of airline alliance membership. We find that alliance

membership is a positive cost shifter which causes prices to be on average 10 percent higher.

Yann Kervinio:

How to share the cost of polluting facility

We consider the problem of locating a locally undesirable public facility and sharing its costs. We first motivate our normative approach on the basis of recent experimental evidence. Next, we carry out an axiomatic analysis. We characterize allocation rules on the basis of efficiency, no-envy, individual rationality and axioms related to the interpretation of the costs. Our results suggest that the nature of the cost would crucially influence fair allocations. We contrast them with existing results from the cooperative game theory and the mechanism design literature.