# Table of Contents

1 **Spotlight**

2 **Events**
   2.1 Economics Research Seminar
   2.2 Guest Presentations
   2.3 Short Courses
   2.4 Alumni Events

3 **Publications**
   3.1 In Economics
   3.2 Others
   3.3 Books & Book Chapters
   3.4 Working Papers
   3.5 Mainstream Publications & Appearances

4 **People**
   4.1 Visiting Guests & Research Stays
   4.2 Degrees
   4.3 Awards

5 **Miscellaneous**
   5.1 Congresses, Conferences & Selected Presentations
   5.2 Grants
1 Spotlight

**Ernst Fehr** was awarded the "Österreichische Ehrenkreuz für Wissenschaft und Kunst". This award is given to individuals who have earned general recognition and an excellent reputation in the fields of science or art.

Congratulations!

**Grit Hein** and co-author’s Neuron paper has been introduced as “research highlight” in the latest issue of NATURE and received broad media attention (for example by NZZ, Swiss television, DIE WELT, Der Standard, ScienceNews etc.).

2 Events

2.1 Economics Research Seminar

<table>
<thead>
<tr>
<th>date</th>
<th>schedule</th>
<th>title</th>
<th>venue</th>
</tr>
</thead>
</table>
| Wed, Nov 10| 16.15-19.00 | Chang-Tai Hsieh, Chicago GSB  
«A Global View of Productivity Growth in China and India»  
Conference „The Great Transformation of China“ | KOL-G-217 |
| Thu, Dec 2  | 17.15-19.00 | Arie Kapteyn, RAND  
«Framing Effects and Social Security Claiming Behaviour»  
Economics Research Seminar | KO2-F-175 |

2.2 Guest Presentations

<table>
<thead>
<tr>
<th>date</th>
<th>schedule</th>
<th>title</th>
<th>venue</th>
</tr>
</thead>
</table>
| Thu, Nov 4 | 10.30-11.45 | David Genesove, Hebrew IO-Tour  
*Applied Microeconomics Seminar* | KOL-F-123 |
| Tue, Nov 9 | 16.15-18.00 | Luca Enriques, Bologna and Consob  
«European Takeover Law: The Case for a Neutral Approach»  
*Lecture in Law & Finance* | KOL-F-121 |
| Wed, Nov 10| 16.15-18.00 | Luca Enriques, Bologna and Consob  
«The Governance of Banking and Financial Supervisors»  
*Workshop in Law & Finance* | ETH IFW A 32.1 |
| Wed, Nov 3 | 16.15-18.00 | Gerard van den Berg, University of Mannheim  
*Macro-Finance-Labor Seminar* | KOL-G-221 |
<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Speaker</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thu, Nov 11</td>
<td>17.15-18.30</td>
<td><strong>Paul Heidhues</strong>, ESMT Berlin</td>
<td>Microeconomics Seminar (ETH/UZH)</td>
</tr>
<tr>
<td>Tue, Nov 16</td>
<td>16.15-17.45</td>
<td><strong>Tommaso Valletti</strong>, Imperial College London</td>
<td>«Pharmaceutical Innovation and Parallel Trade» Lecture on the Law &amp; Economics of Intellectual Property</td>
</tr>
<tr>
<td>Wed, Nov 17</td>
<td>16.15-18.00</td>
<td><strong>Francesco Lippi</strong>, University of Sassari</td>
<td>Macro-Finance-Labor Seminar</td>
</tr>
<tr>
<td>Tue, Nov 23</td>
<td>16.15-18.00</td>
<td><strong>Laura Beny</strong>, Michigan</td>
<td>«Do Insider Trading Laws Matter?» Lecture in Law &amp; Finance</td>
</tr>
<tr>
<td>Thu, Nov 25</td>
<td>10.30-11.45</td>
<td><strong>Stephan Seiler</strong>, LSE</td>
<td>Applied Microeconomics Seminar</td>
</tr>
<tr>
<td>Wed, Dec 1</td>
<td>16.15-17.45</td>
<td><strong>Dan Crane</strong>, Michigan</td>
<td>«Rethinking Merger Efficiencies?» Workshop on the Law &amp; Economics of Intellectual Property</td>
</tr>
<tr>
<td>Wed, Dec 1</td>
<td>16.15-18.00</td>
<td><strong>Klaus Wälde</strong>, University of Mainz</td>
<td>Macro-Finance-Labor Seminar</td>
</tr>
<tr>
<td>Tue, Dec 7</td>
<td>16.15-18.00</td>
<td><strong>Zenichi Shishido</strong>, Hitotsubashi/Tokyo</td>
<td>«The Structure of Enterprise law» Lecture in Law &amp; Finance</td>
</tr>
<tr>
<td>Thu, Dec 9</td>
<td>17.15-18.30</td>
<td><strong>Felix Bierbrauer</strong>, MPI Bonn</td>
<td>Microeconomics Seminar (ETH/UZH)</td>
</tr>
</tbody>
</table>
### 2.3 Short Courses

<table>
<thead>
<tr>
<th>date</th>
<th>schedule</th>
<th>title</th>
<th>venue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tue, Nov 30</td>
<td>09.00-10.30</td>
<td><strong>Arie Kapteyn</strong>, Director Labor and Population, RAND</td>
<td>KO2-F-152</td>
</tr>
<tr>
<td></td>
<td>11.00-12.30</td>
<td>«New Developments in Survey Design &amp; Methodology»,</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Doctoral Program in Economics</strong></td>
<td>KO2-F-123</td>
</tr>
<tr>
<td>Wed, Dec 1</td>
<td>14.00-15.30</td>
<td><strong>Enrique Mendoza</strong>, University of Maryland</td>
<td>SOE-F-7</td>
</tr>
<tr>
<td></td>
<td>16.00-17.30</td>
<td>«International Macroeconomics, Incomplete Markets and Financial Frictions»</td>
<td></td>
</tr>
<tr>
<td>Thu, Dec 2</td>
<td>10.15-11.45</td>
<td><strong>Doctoral Program in Economics</strong></td>
<td></td>
</tr>
</tbody>
</table>

### 2.4 Alumni Events

<table>
<thead>
<tr>
<th>date</th>
<th>schedule</th>
<th>title</th>
<th>venue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thu, Nov 25</td>
<td>12.00-14.00</td>
<td>Dr. Arthur Rutishauser, Chefredaktions Tages/Anzeiger «Printmedien: Welches Geschäftsmodell hat Zukunft?» (OEC ALUMNI UZH-Lunch)</td>
<td>Beef-Club Mövenpick</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong><a href="http://www.oecalumni.uzh.ch">http://www.oecalumni.uzh.ch</a></strong></td>
<td></td>
</tr>
</tbody>
</table>
3 Publications

3.1 In Economics

http://dx.doi.org/10.2202/1935-1682.2119

Standard economic theory suggests that more choice is usually better. We address this claim and investigate whether people can cope with the increasing number of television programs and watch the amount of TV they find optimal for themselves or whether they are prone to over-consumption. We find that heavy TV viewers do not benefit but instead report lower life satisfaction with access to more TV channels. This finding suggests that an identifiable group of individuals experiences a self-control problem when it comes to TV viewing.

http://dx.doi.org/10.1007/s10683-010-9250-8

The paper analyzes the effects of more intense competition on firms’ investments in process innovations. More intense competition corresponds to an increase in the number of firms or a switch from Cournot to Bertrand competition. We carry out experiments for two-stage games, where R&D investment choices are followed by product market competition. An increase in the number of firms from two to four reduces investments, whereas a switch from Cournot to Bertrand increases investments, even though theory predicts a negative effect in the four-player case. The results arise both in treatments in which both stages are implemented and in treatments in which only one stage is implemented. However, the positive effect of moving from Cournot to Bertrand competition is more pronounced in the former case.

http://dx.doi.org/10.1561/0700000035

The relation between the intensity of competition and R&D investment has received a lot of attention, both in the theoretical and in the empirical literature. Nevertheless, no consensus on the sign of the effect of competition on innovation has emerged. This survey of the literature identifies sources of confusion in the theoretical debate. My discussion is mainly based on a unified model that simplifies the comparison of different results. This model is also applied to show which factors work in favor of a positive relation between competition and innovation.

3.2 Others

http://dx.doi.org/10.3389/fnins.2010.00176

The majority of decision-related research has focused on how the brain computes decisions over outcomes that are positive in expectation. However, much less is known about how the brain integrates information when all possible outcomes in a decision are negative. To study decision-making over negative outcomes, we used fMRI along with a task in which participants had to accept or reject 50/50 lotteries that could result in more or fewer electric shocks compared to a reference amount. We hypothesized that behaviorally, participants would treat fewer shocks from the reference amount as a gain, and more shocks from the reference amount as a loss. Furthermore, we hypothesized that this would be reflected by a greater BOLD response to the
prospect of fewer shocks in regions typically associated with gain, including the ventral striatum and orbitofrontal cortex (OFC). The behavioral data suggest that participants in our study viewed all outcomes as losses, despite our attempt to induce a status quo. We find that the ventral striatum showed an increase in BOLD response to better potential gambles (i.e. fewer expected shocks). This lends evidence to the idea that the ventral striatum is not solely responsible for reward processing but that it might also signal the relative value of an expected outcome or action, regardless of whether the outcome is entirely appetitive or aversive. We also find a greater response to worse gambles in regions previously associated with aversive valuation, suggesting an opposing but simultaneous valuation signal to that conveyed by the striatum.


Individuals can learn by interacting with the environment and experiencing a difference between predicted and obtained outcomes (prediction error). However, many species also learn by observing the actions and outcomes of others. In contrast to individual learning, observational learning cannot be based on directly experienced outcome prediction errors. Accordingly, the behavioral and neural mechanisms of learning through observation remain elusive. Here we propose that human observational learning can be explained by two previously uncharacterized forms of prediction error, observational action prediction errors (the actual minus the predicted choice of others) and observational outcome prediction errors (the actual minus predicted outcome received by others). In a functional MRI experiment, we found that brain activity in the dorsolateral prefrontal cortex and the ventromedial prefrontal cortex respectively corresponded to these two distinct observational learning signals.


Like other species, humans are sensitive to the decisions and actions of conspecifics, which can lead to herd behavior and undesirable outcomes such as stock market bubbles and bank runs. However, how the brain processes this socially derived influence is only poorly understood. Using functional magnetic resonance imaging (fMRI), we scanned participants as they made decisions on whether to buy stocks after observing others’ buying decisions. We demonstrate that activity in the ventral striatum, an area heavily implicated in reward processing, tracked the degree of influence on participants’ decisions arising from the observation of other peoples’ decisions. The signal did not track non-human, non-social control decisions. These findings lend weight to the notion that the ventral striatum is involved in the processing of complex social aspects of decision making and identify a possible neural basis for herd behavior.


Cognitive processes, such as spatial attention, are thought to rely on extended networks in the human brain. Both clinical data from lesioned patients and fMRI data acquired when healthy subjects perform particular cognitive tasks typically implicate a wide expanse of potentially contributing areas, rather than just a single brain area. Conversely, evidence from more targeted interventions, such as transcranial magnetic stimulation (TMS) or invasive microstimulation of the brain, or selective study of patients with highly focal brain damage, can sometimes indicate that a single brain area may make a key contribution to a particular cognitive process. But this in turn raises questions about how such a brain area may interface with other interconnected areas within a more extended network to support cognitive processes. Here, we provide a brief overview of
new approaches that seek to characterise the causal role of particular brain areas within networks of several interacting areas, by measuring the effects of manipulations for a targeted area on function in remote interconnected areas. In human participants, these approaches include concurrent TMS-fMRI and TMS-EEG, as well as combination of the focal lesion method in selected patients with fMRI and/or EEG measures of the functional impact from the lesion on interconnected intact brain areas. Such approaches shed new light on how frontal cortex and parietal cortex modulate sensory areas in the service of attention and cognition, for the normal and damaged human brain.

Haushofer, Johannes; Biletzki, Anat & Kanwisher, Nancy (2010). «Both Sides Retaliate in the Israeli-Palestinian Conflict.», PNAS, 107(42), 17927-17932. [http://dx.doi.org/10.1073/pnas.1012115107]

Ending violent international conflicts requires understanding the causal factors that perpetuate them. In the Israeli–Palestinian conflict, Israelis and Palestinians each tend to see themselves as victims, engaging in violence only in response to attacks initiated by a fundamentally and implacably violent foe bent on their destruction. Econometric techniques allow us to empirically test the degree to which violence on each side occurs in response to aggression by the other side. Prior studies using these methods have argued that Israel reacts strongly to attacks by Palestinians, whereas Palestinian violence is random (i.e., not predicted by prior Israeli attacks). Here we replicate prior findings that Israeli killings of Palestinians increase after Palestinian killings of Israelis, but crucially show further that when nonlethal forms of violence are considered, and when a larger dataset is used, Palestinian violence also reveals a pattern of retaliation: (i) the firing of Palestinian rockets increases sharply after Israelis kill Palestinians, and (ii) the probability (although not the number) of killings of Israelis by Palestinians increases after killings of Palestinians by Israel. These findings suggest that Israeli military actions against Palestinians lead to escalation rather than incapacitation. Further, they refute the view that Palestinians are uncontingently violent, showing instead that a significant proportion of Palestinian violence occurs in response to Israeli behavior. Well-established cognitive biases may lead participants on each side of the conflict to underappreciate the degree to which the other side’s violence is retaliatory, and hence to systematically underestimate their own role in perpetuating the conflict.


Little is known about the neurobiological mechanisms underlying prosocial decisions and how they are modulated by social factors such as perceived group membership. The present study investigates the neural processes preceding the willingness to engage in costly helping toward ingroup and outgroup members. Soccer fans witnessed a fan of their favorite team (ingroup member) or of a rival team (outgroup member) experience pain. They were subsequently able to choose to help the other by enduring physical pain themselves to reduce the other’s pain. Helping the ingroup member was best predicted by anterior insula activation when seeing him suffer and by associated self-reports of empathic concern. In contrast, not helping the outgroup member was best predicted by nucleus accumbens activation and the degree of negative evaluation of the other. We conclude that empathy-related insula activation can motivate costly helping, whereas an antagonistic signal in nucleus accumbens reduces the propensity to help.


The prefrontal cortex (PFC) is thought to modulate the neural network state in favor of the processing of task-relevant sensory information prior to the presentation of sensory stimuli. However, this proactive control mechanism cannot always optimize the network state because of
intrinsic fluctuation of neural activity upon arrival of sensory information. In the present study, we have investigated an additional control mechanism, in which the control process to regulate the behavior is adjusted to the trial-by-trial fluctuation in neural representations of sensory information. We asked normal human subjects to perform a variant of the Stroop task. Using functional magnetic resonance imaging, we isolated cognitive conflict at a sensory processing stage on a single-trial basis by calculating the difference in activation between task-relevant and task-irrelevant sensory areas. Activation in the dorsolateral PFC (DLPFC) covaried with the neural estimate of sensory conflict only on incongruent trials. Also, the coupling between the DLPFC and anterior cingulate cortex (ACC) was tighter on high-sensory conflict trials with fast response. The results suggest that although detection of sensory conflict is achieved by the DLPFC, online behavioral adjustment is achieved by interactive mechanisms between the DLPFC and ACC.

Naumer *, Marcus J.; Ratz, Leonie; Yalachkov, Yavor; Polony, Andrea; Doehrmann, Oliver; Van De Ven, Vincent; Müller, Notger G.; Kaiser, Jochen; Hein*, Grit (2010). «Visuohaptic convergence in a corticocerebellar network», European Journal of Neuroscience, 31, 1730-1736. *shared first authorship
http://dx.doi.org/10.1111/j.1460-9568.2010.07208.x

The processing of visual and haptic inputs, occurring either separately or jointly, is crucial for everyday-life object recognition, and has been a focus of recent neuroimaging research. Previously, visuohaptic convergence has been mostly investigated with matching-task paradigms. However, much less is known about visuohaptic convergence in the absence of additional task demands. We conducted two functional magnetic resonance imaging experiments in which subjects actively touched and/or viewed unfamiliar object stimuli without any additional task demands. In addition, we performed two control experiments with audiovisual and audiohaptic stimulation to examine the specificity of the observed visuohaptic convergence effects. We found robust visuohaptic convergence in bilateral lateral occipital cortex and anterior cerebellum. In contrast, neither the anterior cerebellum nor the lateral occipital cortex showed any involvement in audiovisual or audiohaptic convergence, indicating that multisensory convergence in these regions is specifically geared to visual and haptic inputs. These data suggest that in humans the lateral occipital cortex and the anterior cerebellum play an important role in visuohaptic processing even in the absence of additional task demands.

http://dx.doi.org/10.3389/fnins.2010.00017

Despite considerable interest in the neural basis of valuation, the question of how valuation affects cognitive processing has received relatively less attention. Here, we review evidence from recent behavioral and neuroimaging studies supporting the notion that motivation can enhance perceptual and executive control processes to achieve more efficient goal-directed behavior. Specifically, in the context of cognitive tasks offering monetary gains, improved behavioral performance has been repeatedly observed in conjunction with elevated neural activations in task-relevant perceptual, cognitive and reward-related regions. We address the neural basis of motivation-cognition interactions by suggesting various modes of communication between relevant neural networks: (1) global hub regions may integrate information from multiple inputs providing a communicative link between specialized networks; (2) point-to-point interactions allow for more specific cross-network communication; and (3) diffuse neuromodulatory systems can relay motivational signals to cortex and enhance signal processing. Together, these modes of communication allow information regarding motivational significance to reach relevant brain regions and shape behavior.
3.3 Books & Book Chapters


3.4 Working Papers


3.5 Mainstream Publications & Appearances


4 People

4.1 Visiting Guests & Research Stays

**PROF. FEHR**
Oct 11 - Oct 15

**Alessio Fracasso**, Università di Trento, Italy

**PROF. HOFFMANN**
Oct 11 - Oct 15

**Toshihiro Okubo**, Kobe University and University of Oxford

Oct 19 - Oct 21

**Bent Sorensen**, Houston University

**PROF. TOBLER**
Aug 13 - Oct 16

**Uuri Fujiwara**, Tohoku University, Sendai, Japan

**PROF. WINKELMANN**
Nov 29 - Dec 3

**Arie Kapteyn**, Director Labor and Population, RAND

**PROF. ZILIBOTTI**
Oct 20 - Oct 28

**Matthias Doepke**, Northwestern University Evanston

4.2 Degrees

**DOCTORAL THESSES**


Iryna Stewen (Prof. Hoffmann). October 2010. Subject: «Regional Financial Deregulation, international Portfolios and Risk sharing – three Essays»
MASTER THESSES


Philippe Delley (Prof. Winkelmann). September 2010. Subject: «Returns to Overeducation – An Econometric Analysis for Switzerland»


BACHELOR THESSES

Isabelle Anderhalden (Prof. Hoffmann). October 2010. Subject: «Sovereign Debt Crisis in the Euro Area – how frequently, how costly?»

Xiaojun Chen (Prof. Fehr). August 2010. Subject: «The Effects of Worker Discretion on Wages and Job Satisfaction: An Empirical Analysis»


David Khan (Prof. Hoffmann). October 2010. Subject: «How does Inflation targeting impact the government budget deficit cycle? A cross-country comparison of time series data»


Pascal Rast (Prof. Schmutzler). August 2010. Subject: «Qualitätsanreize im Procurement»


4.3 Awards

Ernst Fehr was awarded the “Deutsche Fairness Preis 2010”. The Fairness Foundation in Frankfurt honored Fehr with this prize for his contributions in raising the awareness of the importance of cooperation and fairness in the economy. Congratulations!

Michael König was awarded the Semesterpreis for his Master Thesis written under the supervision of Prof. Fabrizio Zilibotti. Congratulations!
5 Miscellaneous

5.1 Congresses, Conferences & Selected Presentations


Invited Plenary Talk of Bruno S. Frey on «Local and global governance for sustainable development» at the Festival Internazionale del Lavoro “Glocal Governance” in Rocca di Papa, Rome, October 2010.

Keynote Lecture of Bruno S. Frey on «Economics of Happiness» and «Economist View of Democracy» at the School of Advanced Social Studies, Ljubljana, October 2010.


Plenary Talk of Klaas Enno Stephan on «Model-based inference on abnormal learning and decision-making in psychiatric disorders» at the Symposium 2010 Clinical Neuroscience & Psychiatry, Lausanne, on September 2, 2010.

Plenary Talk of Klaas Enno Stephan on «Model-based inference on synaptic mechanisms of (mal)adaptive behaviour» at the Bernstein Conference on Computational Neuroscience, Berlin, on October 1, 2010.

Philippe Tobler held an invited lecture entitled «Neural segregation and integration of reward value and risk» at the Berlin Decision Neuroscience Workshop, Max Planck Institute for Human Development, Berlin, Germany, on September 25, 2010.

The Conference “The Great Transformation of China: Real and Financial Factors” organized by Fabrizio Zilibotti puts together leading economists from top Universities around the globe who have contributed to the debate on the causes and effects of the economic growth of China. The list of speakers includes: Chong-En Bai (Tsinghua U.), Jo Van Biesebroeck (K.U. Leuven), Keyu Jin (London Sch. Ec.), Chang-Tai Hsieh (Chicago GSB), John Van Reenen (London Sch. Ec.), Zheng Song (Fudan U.), Shang-Jin Wei (Columbia GSB), Dennis Yang (Ch. U. Hong Kong), Kjetil Storesletten (Fed. Reserve Bank), Xiaodong Zhu (U. Toronto). The conference takes place on November 10, 2010, 8.30-18.00, KOL-G-217. Registration (no fees) under ywang@iew.uzh.ch.

The 1st Zurich Workshop on the Economics of Conflict is organized by Fabrizio Zilibotti and Dominic Rohner. This international conference will analyse theories and empirical evidence about economical and political conflict in the development process. The list of speakers includes: Joan Maria Esteban (IAE Barcelona), Lars-Erik Cederman (University of Zurich), Massimo Morelli (Columbia University and EUI), Uwe Sunde (University of St. Gallen). The conference takes place on November 25, 2010, 12.30-18.15, KOL-G-212. Information: drohner@iew.uzh.ch
5.2 Grants

**Armin Schmutzler** SNF Grant: «Competition, Long-Term Decisions, and Welfare» (CHF 313'488)

**Josef Zweimüller**, Reto Föllmi (University of Bern) and Peter Egger (ETH Zürich) received a project grant from the Swiss National Science Foundation (SNF) for the Sinergia project “Economic Inequality and International Trade” (Duration: 3 years, Amount: CHF 970'000).