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1 Spotlight

THE NEW ORGANIZATIONAL UNIT “INSTITUT FÜR VOLKSWIRTSCHAFTSLEHRE (IVW) / DEPARTMENT OF ECONOMICS (ECON)” IS ESTABLISHED

The request of the Faculty of Economics to transfer the economic institutes (IEW, SOI, WWI, STS) into a Department of Economics and the business management institutes into an Institute of Business Administration was approved by the University Management and the University Council on August 23, 2010.

On December 8, 2010 the assembly of the Department of Economics took place where Prof. Ernst Fehr has been appointed Chairman and Armin Schmutzler Vice Chairman of the Department of Economics. From January 1, 2011, the economic institutions will be fully merged and the common journey begins. We are pleased that we now officially form a single institution. With our continued commitment we will surely be successful together

TODD HARE ASSISTANT PROFESSOR OF NEUROECONOMICS

Todd Hare was appointed Assistant Professor of Neuroeconomics on November 1, 2010. Congratulations!

2 Events

2.1 Alumni Events

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<tr>
<th>date</th>
<th>schedule</th>
<th>title</th>
<th>venue</th>
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<tbody>
<tr>
<td>Tue, Jan 18</td>
<td>12.00-14.00</td>
<td>Prof. Urs Birchler, Institut für schweiz. Bankwesen «Eine Bilanz der „too big to fall“-Diskussion»</td>
<td>Beef-Club Mövenpick</td>
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3 Publications

3.1 In Economics


This paper studies the effect of income rank on satisfaction. We hypothesize that a person's satisfaction depends on a comparison of own rank and rank of one's parents. Estimates using data from the German Socio-Economic Panel support the relative rank hypothesis.

http://dx.doi.org/10.1007/s10640-010-9380-7

Billions of dollars are now spent annually in the United States and Europe for spatially delineated environmental services such as agricultural landscape management and river restoration programs, yet little is known about the spatial distribution of the benefits from these policies. This paper develops a framework for recovering information on this question from the spatial pattern of votes cast for referenda on the provision of spatially delineated public goods. We specify a model linking voter support for environmental improvement to the distance at which such improvements are expected to occur. The empirical application is to a river restoration referendum in the Swiss canton of Bern. Our results indicate that the benefits from river restoration have a strong local component, sufficiently strong that voter approval would not occur if only canton-wide benefits were at stake. Surprisingly, support for river restoration is no greater, and in some specifications is actually lower, in locations where rivers are a prominent feature in the environment.


http://dx.doi.org/10.1007/s11127-010-9681-y

Measuring individual welfare using data on reported subjective well-being has made great progress. It offers a new way of confronting public choice hypotheses with field data, e.g., with respect to partisan preferences or rents in the public bureaucracy. Insights from public choice also help to assess the role of happiness measures in public policy. We emphasize that maximizing aggregate happiness as a social welfare function neglects incentive problems and political institutions while citizens are reduced to metric stations. The goal of happiness research should be to improve the nature of the processes through which individuals can express their preferences.


http://dx.doi.org/10.1016/j.econlet.2010.09.019

This paper provides a tractable characterization of feasibility of asymmetric reduced form auctions. Using this, auction design problems can be stated in terms of the reduced form only. This allows to solve optimal auction problems when classical solution techniques fail.


http://dx.doi.org/10.1111/j.1468-2516.2010.00342.x

Research output in economics is commonly measured based on the reputation of the journals in which an author has published. Using data from the 2010 Handelsblatt ranking of economists in German speaking countries and citation data from the Web of Science, we examine the relationship between reputation and citation frequency at the level of individual researchers. We find that the variation (variance) in individual researcher citations explains only a small fraction of the scores based on traditional measures of reputation. Our findings suggest that individual citation data are indispensable for a relevant measurement of individual research output and for providing more productive incentives in academic research.


http://dx.doi.org/10.1080/13571516.2010.513812

This paper sheds light on some unexpected consequences of health insurance regulation that may pose a big challenge to insurers’ risk management. Because mandated uniform contributions to health insurance trigger risk-selection efforts, risk adjustment (RA) schemes become necessary. A good deal of research into the optimal RA formula has been performed. A recent proposal in
Switzerland has been to add 'Hospitalization exceeding three days during the previous year' as an indicator of high risk. Applying the new formula to an individual Swiss health insurer, its payments into the RA scheme are predicted to increase substantially, reaching up to 13% of premium income. Its mistake had been to implement Managed Care successfully, resulting in low rates of hospitalization. The expected risk management response is to extend hospital stays beyond three days, contrary to stated policy objectives.


This survey intends to portray the two main approaches of economic research on religion. The first investigates the impact of religion on the economy. Religion and the internalized value system are found to influence economic attitudes output in a favorable way. The second approach is to explain religious behavior with economic models showing how an individual can derive utility from religion. Modern happiness research makes it possible to measure the impact of religion on subjective well-being empirically. The literature finds a positive correlation of religion and happiness, with a robust effect of churchgoing and protestant confession, while the results on internal religiosity are more ambiguous. In our analyses for Switzerland we are able to confirm these results and show that the effect of church going on happiness is quite sizeable.


With rapid urban expansion and loss of open space, attractive local landscapes will continue to gain importance in location decisions and on political agendas. The present study reviews the evidence on the local economic role of landscape amenities from two major strands of empirical research, migration and regional economic models, and hedonic pricing models. Following common amenity definitions we identify 71 relevant peer-reviewed studies and systematically assess the reported effects of the landscape amenity variables. The migration and regional economic studies suggest that migrants are attracted by amenities nearly as often as by low taxes. Reported effects of amenities on income and employment are less consistent. The hedonic studies suggest that nature reserves and land cover diversity have mostly, open space and forest often, and agricultural land rarely positive effects on housing prices. Studies at larger geographic scales and studies involving urban areas were more likely to identify significant amenity effects. Some limitations of the evidence may be overcome with better datasets and modeling approaches. However, in line with other recent work, the limitations also highlight the need for complementary information from the analysis of political preferences for land-use management.

3.2 Others


Evaluating the performance of a classification algorithm critically requires a measure of the degree to which unseen examples have been identified with their correct class labels. In practice, generalizability is frequently estimated by averaging the accuracies obtained on individual cross-validation folds. This procedure, however, is problematic in two ways. First, it does not allow for the derivation of meaningful confidence intervals. Second, it leads to an optimistic estimate when a biased classifier is tested on an imbalanced dataset. We show that both problems can be overcome.
by replacing the conventional point estimate of accuracy by an estimate of the posterior distribution of the balanced accuracy.


The precision-recall curve (PRC) has become a widespread conceptual basis for assessing classification performance. The curve relates the positive predictive value of a classifier to its true positive rate and often provides a useful alternative to the well-known receiver operating characteristic (ROC). The empirical PRC, however, turns out to be a highly imprecise estimate of the true curve, especially in the case of a small sample size and class imbalance in favour of negative examples. Ironically, this situation tends to occur precisely in those applications where the curve would be most useful, e.g., in anomaly detection or information retrieval. Here, we propose to estimate the PRC on the basis of a simple distributional assumption about the decision values that generalizes the established binormal model for estimating smooth ROC curves. Using simulations, we show that our approach outperforms empirical estimates, and that an account of the class imbalance is crucial for obtaining unbiased PRC estimates.


Conventional decoding methods in neuroscience aim to predict discrete brain states from multivariate correlates of neural activity. This approach faces two important challenges. First, a small number of examples are typically represented by a much larger number of features, making it hard to select the few informative features that allow for accurate predictions. Second, accuracy estimates and information maps often remain descriptive and can be hard to interpret. In this paper, we propose a model-based decoding approach that addresses both challenges from a new angle. Our method involves (i) inverting a dynamic causal model of neurophysiological data in a trial-by-trial fashion; (ii) training and testing a discriminative classifier on a strongly reduced feature space derived from trial-wise estimates of the model parameters; and (iii) reconstructing the separating hyperplane. Since the approach is model-based, it provides a principled dimensionality reduction of the feature space; in addition, if the model is neurobiologically plausible, decoding results may offer a mechanistically meaningful interpretation. The proposed method can be used in conjunction with a variety of modelling approaches and brain data, and supports decoding of either trial or subject labels. Moreover, it can supplement evidence-based approaches for model-based decoding and enable structural model selection in cases where Bayesian model selection cannot be applied. Here, we illustrate its application using dynamic causal modelling (DCM) of electrophysiological recordings in rodents. We demonstrate that the approach achieves significant above-chance performance and, at the same time, allows for a neurobiological interpretation of the results.


The goal of dynamic causal modelling (DCM) of neuroimaging data is to study experimentally induced changes in functional integration among brain regions. This requires (i) biophysically plausible and physiologically interpretable models of neuronal network dynamics that can predict distributed brain responses to experimental stimuli and (ii) efficient statistical methods for parameter estimation and model comparison. These two key components of DCM have been the focus of more than thirty methodological articles since the seminal work of Friston and colleagues published in 2003. In this paper, we provide a critical review of the current state-of-the-art of DCM.
We inspect the properties of DCM in relation to the most common neuroimaging modalities (fMRI and EEG/MEG) and the specificity of inference on neural systems that can be made from these data. We then discuss both the plausibility of the underlying biophysical models and the robustness of the statistical inversion techniques. Finally, we discuss potential extensions of the current DCM framework, such as stochastic DCMs, plastic DCMs and field DCMs.


Little is known about the neural networks supporting value computation during complex social decisions. We investigated this question using functional magnetic resonance imaging while subjects made donations to different charities. We found that the blood oxygenation level-dependent signal in ventral medial prefrontal cortex (VMPFC) correlated with the subjective value of voluntary donations. Furthermore, the region of the VMPFC identified showed considerable overlap with regions that have been shown to encode for the value of basic rewards at the time of choice, suggesting that it might serve as a common valuation system during decision making. In addition, functional connectivity analyses indicated that the value signal in VMPFC might integrate inputs from networks, including the anterior insula and posterior superior temporal cortex, that are thought to be involved in social cognition.


In goal-directed decision-making, animals choose between actions that are associated with different reward outcomes (e.g., foods) and with different costs (e.g., effort). Rapid advances have been made over the past few years in our understanding of the computations associated with goal-directed choices, and of how those computations are implemented in the brain. We review some important findings, with an emphasis on computational models, human fMRI, and monkey neurophysiology studies.
3.3 Books & Book Chapters


3.4 Working Papers


3.5 Mainstream Publications & Appearances


4 People

4.1 Visiting Guests & Research Stays

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<th>Prof. Fehr</th>
<th>Sunhae Sul, Seoul National University, South Korea</th>
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<tr>
<td>Oct 4, 2010 - Sep 30, 2011</td>
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<tr>
<td>Nov 22 - Dec 31</td>
<td>Ozan Aksoy, Dept. of Sociology-ICS, Utrecht University</td>
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<td>Oct 1, 2010 - Mar 31, 2011</td>
<td>Saskia Klein, Ilmenau Technical University</td>
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<th>Prof. Ruff</th>
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<th>Prof. Tobler</th>
<th>Jolien ten Velden, University of Amsterdam</th>
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<th>Prof. Woitek</th>
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<td>Nov 3 - 13</td>
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<td>Dec 8 - 10</td>
<td>Bernd Süßmuth, University of Leipzig</td>
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4.2 Degrees

Doctoral Theses


Bachelor Theses

Alienor Nina Burghartz (Prof. Woitek). November 2010. Subject: «Malthusianische Mechanismen in Entwicklungs- und Schwellenländern»


Michael von Gunten (Prof. Hotz-Hart). November 2010. Subject: «Humankapitalgrenze für die Entwicklung der Wirtschaft am Standort Schweiz: Zeichnet sich ein Fachkräftemangel ab?»

Ziad Malki (Prof. Hoffmann). November 2010. Subject: «Capital Controls in Emerging Market Economies: Role and Effectiveness»
4.3 Awards

**Ernst Fehr** was invited to present the Lindahl Lectures at Uppsala University in Uppsala, Sweden. These prestigious lectures are given every two years in honor of Erik Lindahl, a distinguished Swedish economist (1891 – 1960), Professor of Economics at Uppsala University 1942 – 1958. Other lecturers include Nobel Laureate Joseph Stiglitz and Mervin King, Governor of the Bank of England.

5 Miscellaneous

5.1 Congresses, Conferences & Selected Presentations


Keynote Lecture of **Ernst Fehr** on «Die Ökonomie und Biologie kognitiver und nichtkognitiver Fähigkeiten» at the Jacobs Foundation Symposium, University of Zurich, Zurich, December 3, 2010.

Keynote Lecture of **Ernst Fehr** on «Testosteron und Sozialverhalten» at the Berlin-Brandenburgische Akademie der Wissenschaften, Berlin, November 19, 2010.


5.2 Grants

**Johannes Haushofer** received a grant from the National Institute of Health (USA) for the project “Poverty, Stress, and Discounting: A Potential Micro-Mechanism for Behavior Change” (USD 1’250’000, 5 years).

**Johannes Haushofer** received a grant from the Cogito Foundation (Switzerland) for the project “The Neurobiology and Behavioral Economics of Poverty” (CHF 164’000, 3 years).
5.3 Research Stays

**Mathias Hoffmann** will visit the Hong Kong Institute for Monetary Research (HKIMR) as a research fellow in January/February 2011.

Newsletter 46 will appear on February 17, 2011