Best wishes for a happy and prosperous New Year
Table of Contents

1 Spotlight 1
   1.1 Armin Schmutzler has been elected member of the Swiss Competition Commission 1
   1.2 Fabrizio Zilibotti has been elected Fellow of the Econometric Society 1

2 Events 1
   2.1 Guest Presentations 1
   2.2 Short Courses 2
   2.3 Alumni Events 2

3 Publications 2
   3.1 In Economics 2
   3.2 Others 6
   3.3 Books & Book Chapters 8
   3.4 Working Papers 9
   3.5 Mainstream Publications & Appearances 10

4 People 10
   4.1 Appointments 10
   4.2 Degrees 10
   4.3 Awards 11

5 Miscellaneous 11
   5.1 Congresses, Conferences & Selected Presentations 11
   5.2 Research Stays 12
1 Spotlight

1.1 Armin Schmutzler has been elected member of the Swiss Competition Commission

The protection of competition is an important regulatory task in a market economy. In Switzerland, this task is primarily performed using the instruments provided by the Act on Cartels. The application of the Act is the duty of the Competition Commission and its Secretariat. The Competition Commission is an independent federal authority. The tasks of the Competition Commission are combating harmful cartels, monitoring dominant companies for signs of anti-competitive conduct, enforcing merger control legislation and preventing the imposition of restraints of competition by the state. We congratulate Armin Schmutzler on his election.

1.2 Fabrizio Zilibotti has been elected Fellow of the Econometric Society

The Econometric Society is an international society for the advancement of economic theory in its relation to statistics and mathematics. Fellows represent the highest authority of the Society, electing its Officers, Council, and new Fellows in annual elections. Together with Ernst Fehr (elected Fellow 2010), Felix Kübler (elected Fellow 2008), and Jean-Charles Rochet (elected Fellow 1995), the University of Zurich is now represented by 4 Fellows in the Society. We congratulate Fabrizio Zilibotti on his election, which constitutes a significant recognition of his original contributions to economics.

2 Events

2.1 Guest Presentations

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<th>date</th>
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<tbody>
<tr>
<td>Thu, Feb 2</td>
<td>10.30-11.45</td>
<td>Catherine Tucker, MIT IO-Tour</td>
<td>KOL-F-123</td>
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<tr>
<td></td>
<td></td>
<td>Applied Microeconomics Seminar</td>
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<tr>
<td>Thu, Feb 9</td>
<td>10.30-11.45</td>
<td>Margaret Kyle, Toulouse Applied Microeconomics Seminar</td>
<td>KOL-F-123</td>
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2.2 Short Courses

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<tr>
<td>Mon, Jan 9</td>
<td>09.00-12.30</td>
<td>Joshua Angrist, MIT «Empirical Strategies reloaded»</td>
<td>KOL-H-321</td>
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<tr>
<td>Tue, Jan 10</td>
<td>13.00-16.30</td>
<td>Doctoral Program in Economics</td>
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<tr>
<td>Wed, Jan 11</td>
<td>09.00-12.30</td>
<td>«Empirical Industrial Organization in Practice: Implementing New Methodologies in Matlab» Mini Workshop Doctoral Program in Economics</td>
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<tr>
<td>Mon-Wed, Jan 30 – Feb 1</td>
<td>09.00-12.00</td>
<td>Federico Ciliberto, University of Virginia «Empirical Industrial Organization in Practice: Implementing New Methodologies in Matlab» Mini Workshop Doctoral Program in Economics</td>
<td>BLU-E-003</td>
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2.3 Alumni Events

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<tr>
<td>Thu, Jan 12</td>
<td>from 19.00</td>
<td>1. New Year’s Apéro</td>
<td>Restaurant</td>
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<td></td>
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<td>OEC ALUMNI UZH</td>
<td>uniTurn</td>
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<tr>
<td>Tue, Jan 24</td>
<td>16.30-20.30</td>
<td>Jean-Pierre Danthine (Board Member of the SNB), Jean-Charles Rochet (Professor for Banking at UZH) and D. Wilson Ervin (Senior Advisor of CEO of Credit Suisse) «Financial System Stability: The individual, the banks, and the state - a fatal triangle?» OEC ALUMNI UZH-Forum</td>
<td>KOL-G-201</td>
</tr>
<tr>
<td>Tue, Feb 7</td>
<td>16.30-20.30</td>
<td>Fredy Hasenmaile, Head of Real Estate Analysis of Credit Suisse «Wohin steuert der Schweizer Immobilienmarkt 2012?» OEC ALUMNI UZH-Lunch</td>
<td>Zunfthaus zur Meisen Münsterhof 20 8001 Zürich</td>
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3 Publications

3.1 In Economics


Heterogeneity in size and productivity is central to models that explain which manufacturing firms export. This study presents descriptive evidence on similar heterogeneity among international banks as financial services providers. A novel and detailed bank-level data set reveals the volume and mode of international activities for all German banks. Only a few, large banks have a commercial presence abroad, consistent with the size pecking order documented for manufacturing firms. However, the relationship between internationalization and productivity also yields two inconsistencies with recent trade models. First, virtually all banks hold at least some foreign assets, irrespective of size or productivity. Second, some fairly unproductive banks maintain commercial presences abroad.
http://dx.doi.org/10.1007/s11166-011-9129-x

A large body of experimental research has demonstrated that, on average, people violate the axioms of expected utility theory as well as of discounted utility theory. In particular, aggregate behavior is best characterized by probability distortions and hyperbolic discounting. But is it the same people who are prone to these behaviors? Based on an experiment with salient monetary incentives we demonstrate that there is a strong and significant relationship between greater departures from linear probability weighting and the degree of decreasing discount rates at the level of individual behavior. We argue that this relationship can be rationalized by the uncertainty inherent in any future event, linking discounting behavior directly to risk preferences. Consequently, decreasing discount rates may be generated by people’s proneness to probability distortions.

http://dx.doi.org/10.1111/j.1468-0297.2011.02479.x

Does culture shape the demand for social insurance against risks to health and work? We study this issue across language groups in Switzerland where a language border sharply separates social groups at identical actual levels of publicly provided social insurance. We find substantially stronger support for expansions of social insurance among residents of French, Italian or Romansh-speaking language border municipalities compared with their German-speaking neighbours in adjacent municipalities. Informal insurance does not vary enough to explain stark differences in social insurance but differences in ideology and segmented media markets potentially contribute to the discrepancy in demand for social insurance.

http://dx.doi.org/10.1111/j.1468-0297.2011.02478.x

Economists have traditionally treated preferences as exogenously given. Preferences are assumed to be influenced by neither beliefs nor the constraints people face. As a consequence, changes in behaviour are explained exclusively in terms of changes in the set of feasible alternatives. Here we argue that the opposition to explaining behavioural changes in terms of preference changes is illfounded, that the psychological properties of preferences render them susceptible to direct social influences, and that the impact of “society” on preferences is likely to have important economic and social consequences.

http://dx.doi.org/10.1257/jep.25.4.3

Neuroeconomics combines methods and theories from neuroscience psychology, economics, and computer science in an effort to produce detailed computational and neurobiological accounts of the decision-making process that can serve as a common foundation for understanding human behavior across the natural and social sciences. Because neuroeconomics is a young discipline, a sufficiently sound structural model of how the brain makes choices is not yet available. However, the contours of such a computational model are beginning to arise; and, given the rapid progress, there is reason to be hopeful that the field will eventually put together a satisfactory structural model. This paper has two goals: First, we provide an overview of what has been learned about how the brain makes choices in two types of situations: simple choices among small numbers of familiar stimuli (like choosing between an apple or an orange), and more complex choices involving tradeoffs between immediate and future consequences (like eating a healthy apple or a less-healthy chocolate cake). Second, we show that, even at this early stage, insights with important
implications for economics have already been gained.


This paper argues that the “Economics of Crime” concentrates too much on punishment as a means of preventing crime, which is unwise for several reasons. There are important instances in which punishment simply cannot reduce crime. Several feasible alternatives to punishment exist, such as offering positive incentives or handing out awards for law abiding behavior. These alternative approaches tend to create a positive sum environment. When people appreciate living in a society that is to a large extent law abiding, they are more motivated to observe the law.

http://dx.doi.org/10.1111/j.1468-0297.2011.02476.x

Well-functioning groups enforce social norms that restrain opportunism. Here we study how the assignment to the top or bottom of an extreme social hierarchy – the caste system – affects individuals’ willingness to punish violations of a cooperation norm altruistically. We find that individuals at the bottom of the hierarchy exhibit a much lower willingness to punish norm violations that hurt members of their own caste. We can rule out self-selection into castes and control for wealth, education and political experience. We thus plausibly identify the impact of caste status on individuals’ willingness to punish norm violations. The lower willingness to punish may impair the low castes’ ability to enforce contracts, to ensure their property rights, and to sustain cooperation.

http://dx.doi.org/10.1162/REST_a_00123

Consumption risk sharing among U.S. states increases in booms and decreases in recessions. These business cycle fluctuations in interstate risk sharing are driven mainly by states in which small businesses account for a large share of income or employment. State-level banking deregulation during the 1980s loosened the dependence of interstate risk sharing on the business cycle, mainly through its impact on states with many small firms. Our results establish a major benefit from bank deregulation: small firms’ access to credit and, with it, interstate risk sharing have improved mainly when it is most urgently needed: in nationwide economic downturns.


What impact has financial globalization had on risk sharing? In theory, financial globalization should improve international consumption risk sharing. While the answer to this question is of utmost policymaking concern, results in the empirical literature are inconclusive. The paper surveys the extant literature and tries to identify which factors influence the answer: i) consumption risk sharing seems to have increased among industrialized countries but much less in the emerging world. ii) The increase in risk sharing is generally found to be stronger in studies that focus on the trends rather than purely cyclical variation in the data. iii) globalization has not only affected consumption responses to output shocks but also the structure of these shocks themselves. This, in turn, has affected the measurement of risk sharing. The paper examines the relevance of these points on a sample of East Asian Economies. My results indicate that risk sharing in East Asia has started to increase once the region had recovered from the Asian crisis.
http://www.dievolkswirtschaft.ch/editions/201106/Hotz-Hart.html


http://dx.doi.org/10.1007/s00148-010-0318-8

This paper uses microdata to evaluate the impact on the steady-state unemployment rate of an increase in maximum benefit duration. We evaluate a policy change in Austria that extended maximum benefit duration and use this policy change to estimate the causal impact of benefit duration on labor market flows. We find that the policy change leads to a significant increase in the steady-state unemployment rate and, surprisingly, most of this increase is due to an increase in the inflow into rather than the outflow from unemployment.

http://dx.doi.org/10.1002/wilm.10036

Applied researchers often test for the difference of the variance of two investment strategies; in particular, when the investment strategies under consideration aim to implement the global minimum variance portfolio. A popular tool to this end is the F-test for the equality of variances. Unfortunately, this test is not valid when the returns are correlated, have tails heavier than the normal distribution, or are of time series nature. Instead, we propose the use of robust inference methods. In particular, we suggest constructing a studentized time series bootstrap confidence interval for the ratio of the two variances and declaring the two variances different if the value one is not contained in the obtained interval. This approach has the advantage that one can simply resample from the observed data as opposed to some null-restricted data. A simulation study demonstrates the improved finite-sample performance compared to existing methods.

http://dx.doi.org/10.1016/j.joep.2011.08.013

Traditional tools of welfare economics identify the envy-related welfare loss from conspicuous consumption only under very strong assumptions. Measured income and life satisfaction offers an alternative for estimating such consumption externalities. The approach is developed in the context of luxury car consumption (Ferraris and Porsches) in Switzerland. Results from household panel data and fixed effects panel regressions suggest that the prevalence of luxury cars in the municipality of residence has a negative impact on own income satisfaction.
3.2 Others

http://dx.doi.org/10.1152/jn.00471.2011

Rewards in the natural environment are rarely predicted with complete certainty. Uncertainty relating to future rewards has typically been defined as the variance of the potential outcomes. However, the asymmetry of predicted reward distributions, known as skewness, constitutes a distinct but neuroscientifically underexplored risk term that may also have an impact on preference. By changing only reward magnitudes, we study skewness processing in equiprobable ternary lotteries involving only gains and constant probabilities, thus excluding probability distortion or loss aversion as mechanisms for skewness preference formation. We show that individual preferences are sensitive to not only the mean and variance but also to the skewness of predicted reward distributions. Using neuroimaging, we show that the insula, a structure previously implicated in the processing of reward-related uncertainty, responds to the skewness of predicted reward distributions. Some insula responses increased in a monotonic fashion with skewness (irrespective of individual skewness preferences), whereas others were similarly elevated to both negative and positive as opposed to no reward skew. These data support the notion that the asymmetry of reward distributions is processed in the brain and, taken together with replicated findings of mean coding in the striatum and variance coding in the cingulate, suggest that the brain codes distinct aspects of reward distributions in a distributed fashion.

http://dx.doi.org/10.1371/journal.pcbi.1002280

This article presents the first attempt to formalize the optimization of experimental design with the aim of comparing models of brain function based on neuroimaging data. We demonstrate our approach in the context of Dynamic Causal Modelling (DCM), which relates experimental manipulations to observed network dynamics (via hidden neuronal states) and provides an inference framework for selecting among candidate models. Here, we show how to optimize the sensitivity of model selection by choosing among experimental designs according to their respective model selection accuracy. Using Bayesian decision theory, we (i) derive the Laplace-Chernoff risk for model selection, (ii) disclose its relationship with classical design optimality criteria and (iii) assess its sensitivity to basic modelling assumptions. We then evaluate the approach when identifying brain networks using DCM. Monte-Carlo simulations and empirical analyses of fMRI data from a simple bimanual motor task in humans serve to demonstrate the relationship between network identification and the optimal experimental design. For example, we show that deciding whether there is a feedback connection requires shorter epoch durations, relative to asking whether there is experimentally induced change in a connection that is known to be present. Finally, we discuss limitations and potential extensions of this work.

http://dx.doi.org/10.5502/jiw.v1i2.5

Little is known in the scholarly literature about the effect of war and peace on happiness; but they have a large number of direct and indirect effects on happiness, difficult or impossible to capture due mainly to issues of causality and attribution. The paper concentrates on three fundamental claims regarding the effect of war and peace on happiness: ‘War brings happiness’; ‘People adjust to wars’; and ‘The happiness of the dead is irrelevant’. An attempt is made to discuss different solutions to deal with these claims but it is made clear that each one has grave disadvantages. Bruder Klaus, whose full name was Niklaus von Flüe, is the patron saint of Switzerland. This paper describes Bruder Klaus as a creator of peace and, based on the claims mentioned above, as a
felicitator or wellbeing facilitator.


Decision-making can be broken down into several component processes: assigning values to stimuli under consideration, selecting an option by comparing those values, and initiating motor responses to obtain the reward. Although much is known about the neural encoding of stimulus values and motor commands, little is known about the mechanisms through which stimulus values are compared, and the resulting decision is transmitted to motor systems. We investigated this process using human fMRI in a task where choices were indicated using the left or right hand. We found evidence consistent with the hypothesis that value signals are computed in the ventral medial prefrontal cortex, they are passed to regions of dorsomedial prefrontal cortex and intraparietal sulcus, implementing a comparison process, and the output of the comparator regions modulates activity in motor cortex to implement the choice. These results describe the network through which stimulus values are transformed into actions during a simple choice task.


Cultural differences in the perception of positive affect intensity within an advertising context were investigated among American, Japanese, and Russian participants. Participants were asked to rate the intensity of facial expressions of positive emotions, which displayed either subtle, low intensity, or salient, high intensity expressions of positive affect. In agreement with previous findings from cross-cultural psychological research, current results demonstrate both cross-cultural agreement and differences in the perception of positive affect intensity across the three cultures. Specifically, American participants perceived high arousal (HA) images as significantly less calm than participants from the other two cultures, while the Japanese participants perceived low arousal (LA) images as significantly more excited than participants from the other cultures. The underlying mechanisms of these cultural differences were further investigated through difference scores that probed for cultural differences in perception and categorization of positive emotions. Findings indicate that rating differences are due to (1) perceptual differences in the extent to which HA images were discriminated from LA images, and (2) categorization differences in the extent to which facial expressions were grouped into affect intensity categories. Specifically, American participants revealed significantly higher perceptual differentiation between arousal levels of facial expressions in high and intermediate intensity categories. Japanese participants, on the other hand, did not discriminate between high and low arousal affect categories to the same extent as did the American and Russian participants. These findings indicate the presence of cultural differences in underlying decoding mechanisms of facial expressions of positive affect intensity. Implications of these results for global advertising are discussed.


Sequential regularities are abstract rules based on repeating sequences of environmental events, which are useful to make predictions about future events. Here, we tested whether the visual system is capable to detect sequential regularity in unattended stimulus sequences. The visual mismatch negativity (vMMN) component of the event-related potentials is sensitive to the violation of complex regularities (e.g., object-related characteristics, temporal patterns). We used the vMMN component as an index of violation of conditional (if, then) regularities. In the first experiment, to investigate emergence of vMMN and other change-related activity to the violation of conditional rules, red and green disk patterns were delivered in pairs. The majority of pairs
comprised of disk patterns with identical colors, whereas in deviant pairs the colors were different. The probabilities of the two colors were equal. The second member of the deviant pairs elicited a vMMN with longer latency and more extended spatial distribution to deviants with lower probability (10 vs. 30%). In the second (control) experiment the emergence of vMMN to violation of a simple, feature-related rule was studied using oddball sequences of stimulus pairs where deviant colors were presented with 20% probabilities. Deviant colored patterns elicited a vMMN, and this component was larger for the second member of the pair, i.e., after a shorter inter-stimulus interval. This result corresponds to the SOA/(v)MMN relationship, expected on the basis of a memory-mismatch process. Our results show that the system underlying vMMN is sensitive to abstract, conditional rules. Representation of such rules implicates expectation of a subsequent event, therefore vMMN can be considered as a correlate of violated predictions about the characteristics of environmental events.


The core difficulty in developmental dyslexia across languages is a “phonological deficit”, a specific difficulty with the neural representation of the sound structure of words. Recent data across languages suggest that this phonological deficit arises in part from inefficient auditory processing of the rate of change of the amplitude envelope at syllable onset (inefficient sensory processing of rise time). Rise time is a complex percept that also involves changes in duration and perceived intensity. Understanding the neural mechanisms that give rise to the phonological deficit in dyslexia is important for optimising educational interventions. In a three-deviant passive ‘oddball’ paradigm and a corresponding blocked ‘deviant-alone’ control condition we recorded ERPs to tones varying in rise time, duration and intensity in children with dyslexia and typically developing children longitudinally. We report here results from test Phases 1 and 2 when participants were aged 8–10 years. We found an MMN to duration, but not to rise time nor intensity deviants, at both time points for both groups. For rise time, duration and intensity we found group effects in both the Oddball and Blocked conditions. There was a slower fronto-central P1 response in the dyslexic group compared to controls. The amplitude of the P1 fronto-centrally to tones with slower rise times and lower intensity was smaller compared to tones with sharper rise times and higher intensity in the Oddball condition, for children with dyslexia only. The latency of this ERP component for all three stimuli was shorter on the right compared to the left hemisphere, only for the dyslexic group in the Blocked condition. Furthermore, we found decreased N1c amplitude to tones with slower rise times compared to tones with sharper rise times for children with dyslexia, only in the Oddball condition. Several other effects of stimulus type, age and laterality were also observed. Our data suggest that neuronal responses underlying some aspects of auditory sensory processing may be impaired in dyslexia.

3.3 Books & Book Chapters


3.4 Working Papers


### 3.5 Mainstream Publications & Appearances


### 4 People

#### 4.1 Appointments

Andreas Hefti declined an appointment as lecturer at the University of East Anglia, England, and an appointment as lecturer at the University of Waikato, New Zealand.

Stephan Meier, former member of the Chair of Political Economy, Prof. Bruno S. Frey, has been appointed Named Associate Professor („Regina Pitaro Professor of Business“) at Business School, Columbia University, New York.

#### 4.2 Degrees

MASTER THESIS

Elisabeth Beusch (Prof. Zweimüller). October 2011. Subject: «The Direction of Technological Innovation and its Effect on Unemployment»

Flurina Strasser (Prof. Fehr). December 2011. Subject: «The effects of affective context on time preferences»

Beinan Ye (Prof. Ewerhart). November 2011. Subject: «Recent Developments in the Study and Regulation of Repo Markets»

BACHELOR THESSES

Didier Ansermet (Prof. Winkelmann). November 2011. Subject: «Explaining Differences in Swiss House Prices: An Econometric Analysis»


Fei Liu (Prof. Woitek). December 2011. Subject: «Die Auswirkungen der deutschen Kolonialpolitik auf den Konjunkturzyklus»

4.3 Awards

Ernst Fehr has been elected member of the Council of the Econometric Society for the period 2012-2014.

5 Miscellaneous

5.1 Congresses, Conferences & Selected Presentations

Ernst Fehr was invited to the OLB Foundation Fellowship 2011 at the Hanse-Wissenschaftskolleg [Institute for Advanced Study], Delmenhorst, Germany, November 21-23, 2011.

Ernst Fehr was invited to present the Tanner Lecture on Human Values, Clare Hall, Cambridge, November 7-9, 2011.


Keynote Lecture of Bruno S. Frey on «Political Economy: Success or Failure?» at the 5th Workshop on Political Economy, CESifo Dresden, December 2, 2011.
Invited Plenary Talk of Todd Hare on «The neurobiology of self-control: Individual differences and hints at how we might facilitate it» at the Kavli Frontiers of Science Symposium, Irvine CA, November 19, 2011.


5.2 Research Stays

Reto Cueni (Prof. Frey) will visit Columbia University (NY) from March 2012 to August 2012, funded by an SNF Fellowship for Prospective Researchers.

Newsletter 52 will appear on February 16, 2012