Dear reader

In this edition, you will find information as well as recent updates on the research activities and events of our department. We are pleased to show you the many accomplishments the department and our scientific staff have achieved since the last issue of our newsletter.

In a time where ethical behavior in companies and institutions is linked to corporate culture and leadership, the main question is whether leaders influence unethical behavior of their followers. Professor Roberto Weber alongside his colleagues Giovanna d’Adda and Donja Darai have conducted research in a laboratory environment to address the many concerns regarding real-world unethical behavior. You will find an interesting article on this issue on the next two pages.

Beginning in September, the Department of Economics has a new professor for “International Trade and Labor Markets”. David Dorn, former associate professor of economics at the CEMFI in Madrid, will teach and research at the University of Zurich. He will be affiliated with the UBS Center of Economics in Society in Zurich. I would like to give a warm welcome to our newest faculty member.

Furthermore, I would like to extend a warm welcome to Andrei Levchenko who is joining the department for a visiting professorship, presently planned for one year. Levchenko is an internationally recognized economist and belongs to the leading experts in the areas of globalization, economic development, and macroeconomics.

Finally, we would like to give credit, where credit is due. Some of our members have achieved great awards and distinctions this year. Others have been very busy and published various articles in renowned journals. We congratulate all of you for your successes and are proud to have such excellent talents working for the department.

We wish you much interest while reading this newsletter.

Ernst Fehr
Chairman of the Department of Economics
Imagine an environment in which groups compete and where dishonest behavior enhances group earnings to the detriment of social welfare. Would you as group member act dishonestly and thus increase the group’s earnings despite the negative consequences for the society? Would it make a difference if your superior encourages dishonest behavior, either through personal statements or by promising financial rewards? It is not hard to imagine this kind of scenario because we know the pressure of a competitive environment and we are all quite familiar with scandals that involve unethical or dishonest behavior of individuals, companies, or other organizations.

Responses to unethical conduct in organizational, political or social settings often turn attention to the role of leaders in facilitating or encouraging such behavior. For example, accounts of corporate fraud often emphasize the influence of CEOs and other senior executives. However, despite the widespread belief that leaders play a critical role in producing unethical conduct in groups or firms that they lead, there is little direct evidence of such a relationship. This is not surprising, since important challenges make it hard to cleanly identify the influence of leaders in fomenting unethical conduct. For starters, unethical conduct in the field, by its nature, is often hidden from view. We typically fail to observe a large proportion of unethical conduct, either by leaders or by those who follow them, which makes the study of this relationship difficult. Moreover, even if there is a relationship between the actions of leaders and the unethical conduct of followers, causality is often impossible to establish due to non-random selection of leaders in the field: when a corrupt firm has an unethical CEO, is the leader the source of the culture, or is it the culture that led to the appointment of an unethical leader?

Recognizing these identification problems, the researchers employ a novel approach to study the relationship between leadership and unethical conduct. In particular, they conduct a laboratory experiment, which allows them to exploit the high degree of control afforded by the laboratory environment to avoid many of the problems present in more natural settings. Thus, the experimental environment incorporates key features of real-world situations involving a tension between acting ethically or unethically. In their experiment, they study the impact of leadership by exogenously varying who becomes a leader and which abilities the leader has to influence the behavior of members of each laboratory firm. They therefore compare firms with “leaders” endowed with some of the influence channels typical of organizational leaders, such as the ability to make public statements and control over financial incentives, with “control” firms that hold everything constant except for the presence of such channels.

Dishonest leaders yield groups that act more dishonestly.

The results show that leaders who are themselves more dishonest in a first stage of the experiment yield groups that act more dishonestly. This is despite leaders being assigned to groups at random and followers not knowing anything about their leader’s prior behavior.
Faculty Research

The experiments provide clean evidence of the causal effect of unethical leaders on the unethical conduct of followers. Moreover, the data indicate that “what leaders say” is more important than “what they pay.” That is, the ability of leaders to communicate to followers is responsible for the largest increase in cheating – firms in environments with leaders who can make statements tend to increase dishonest behavior significantly more over time than firms where leaders have no such ability.

However, the data also reveal that leaders’ statements and incentives can be used in both directions, to increase or decrease the workers’ misreporting. This opportunity presents potential channels through which leaders can curb unethical conduct in their organization. The key aspect is to find the “right” kind of leaders who act ethically themselves and encourage ethical employee conduct.

Experimental Design
Each experimental session consists of 20 participants interacting through computers. The experiment comprises three stages, with the first two stages constituting the main part. In the first stage, subjects engage in an individual reporting task, in which they can act unethically by inflating their performance and thereby obtain higher individual earnings at the expense of social welfare. More precisely, in the first stage, participants perform the die-roll task once individually, with the possibility to benefit personally from misreporting, which also harms all others in a subjects’ experimental session. The second stage modifies the task into one in which subjects repeatedly compete in “firms,” with varying degrees and forms of leadership, for 10 periods. Following stage 2, the authors elicit subjects’ perceptions of social norms regarding the appropriateness of inflating performance in the first and second stages of the experiment.

Results
Figure 1 shows average reported group performance over time in the condition where the leaders are inactive, and in all conditions with active leaders. In the Inactive Leader condition, average reported performance is fairly stable over time, with only a slight upward trend. In contrast, reported performance is higher and increases more strongly over time in conditions with an active leader. This upward trend in reported performance is stronger for groups with leaders classified as dishonest.

Considering average reported performance across all periods, the authors observe a significant difference between groups led by active leaders classified as dishonest and those led by other active leaders.

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Selected Publications in Economics

Fehr, Ernst & Haushofer, Johannes (2014). “On the psychology of poverty”, *Science*, 344(6186): 862-867. Poverty remains one of the most pressing problems facing the world; the mechanisms through which poverty arises and perpetuates itself, however, are not well understood. Evidence indicates that poverty causes stress and negative affective states which in turn may lead to short-sighted and risk-averse decision-making, possibly by limiting attention and favoring habitual behaviors at the expense of goal-directed ones.

Krajbich, Ian; Oud, Bastiaan & Fehr, Ernst (2014). “Benefits of Neuroeconomic Modeling: New Policy Interventions and Predictors of Preference?”, *American Economic Review*, 104: 501-506. Neuroeconomics strives to use knowledge from neuroscience to improve models of decision-making. Here the authors introduce a biologically plausible, drift-diffusion model that is able to jointly predict choice behavior and response times across different choice environments. The model has both normative and positive implications for economics. The authors demonstrate that one can improve subjects’ welfare using a simple intervention that puts a time limit on their choices. Second, response times can be used to predict indifference points and the strength of preferences.

Selected Publications in Neuroeconomics

Todd Hare (2014). “Neuroscience. Exploiting and exploring the options”, *Science*, 344(6191): 1446-1447. In an ever-changing world, the brain must continually formulate, monitor, and adapt patterns of behavior to achieve the best outcome. Often, strategies that we have employed in the past to solve a problem or reach a specific result will work again when we are confronted with a similar situation. When this is the case, we can exploit such strategies for maximal gain. However, if important aspects of the environment or context have changed, we need to modify our behavior and explore new action strategies.

Polania, Rafael; Krajbich, Ian; Grueschow, Marcus & Ruff, Christian C. (2014). “Neural oscillations and synchronization differentially support evidence accumulation in perceptual and value-based decision”, *Neuron*, 82(3): 709-720. Organisms make two types of decisions on a regular basis. Perceptual decisions are determined by objective states of the world (e.g., melons are bigger than apples), whereas value-based decisions are determined by subjective preferences (e.g., I prefer apples to melons). Theoretical accounts suggest that both types of choice involve neural computations accumulating evidence for the choice alternatives. EEG recordings were analyzed during a paradigm where perceptual- and value-based choices were based on identical stimuli. For both types of choice, evidence accumulation was evident in parietal gamma-frequency oscillations, whereas a similar frontal signal was unique for value-based decisions.

UBS Center Public Paper Series

Voth, Hans-Joachim (2014). “Fear, Folly, and Financial Crises - Some Policy Lessons from History”, UBS Center Public Paper Series. Since the world financial crisis of 2007/2008, it has become clear that financial crises and the major economic downturns they cause happen neither just in distant countries nor in the distant past. They are part of the economic realities of developed countries in the present. In the second UBS Center Public Paper, the author presents the latest academic insights into the history of financial crises. What can we learn from the past when it comes to defining strategies and policies for dealing with financial crises? Why is the optimal number of financial crises not zero? You will receive the answers to these and related questions in this intriguing publication.
Faculty Research Publications

Further Publications in Economics


Further Publications in Neuroeconomics

Chumbley, Justin; Burke, Christopher; Stephan, Klaas E.; Friston, Karl; Tobler, Philippe & Fehr, Ernst (2014). “Surprise beyond prediction error”, *Human Brain Mapping*, 35(9): 4805-4814.


Cubillo, Ana; Smith, Anna B.; Barrett, Nadia; Giampietro, Vincent; Brammer, Michael J.; Simmons, Andrew & Rubia, Katya (2014). “Shared and drug-specific effects of atomoxetine and methylphenidate on inhibitory brain dysfunction in medication-naive ADHD boys”, *Cerebral Cortex*, 24(1): 174-185.

Cubillo, Ana; Smith, Anna B.; Barrett, Nadia; Giampietro, Vincent; Brammer, Michael J.; Simmons, Andrew & Rubia, Katya (2014). “Drug-specific laterality effects on frontal lobe activation of atomoxetine and methylphenidate in attention deficit hyperactivity disorder boys during working memory”, *Psychological Medicine*, 44(3): 633-646.
Faculty Research

Publications

Dick, Anthony Steven; Mok, Eva H.; Raja Beharelle, Anjali; Goldin-Meadow, Susan; Small, Steven L. (2014). “Frontal and temporal contributions to understanding the iconic co-speech gestures that accompany speech”, Human Brain Mapping, 35(3): 900-917.

Dreyfuss, Michael; Caudle, Kristina; Drysdale, Andrew T.; Johnston, Natalie E.; Cohen, Alexandra O.; Somerville, Leah H.; Galván, Adriana; Tottenham, Nim; Hare, Todd A. & Casey, B.J. (2014). “Teens Impulsively React rather than Retreat from Threat”, Developmental Neuroscience, advance online publication.


Hart, Heledd; Chantiluke, Kaylita; Cubillo, Ana; Smith, Anna B.; Simmons, Andrew; Brammer, Michael J.; Marquand, Andre F. & Rubia, Katya (2014). “Pattern classification of response inhibition in ADHD: toward the development of neurobiological markers for ADHD”, Human Brain Mapping, 35(7): 3083-3094.


Awards and Distinctions

Gregory Crawford appointed Co-director of IO-Program
Gregory Crawford will head the Industrial Organization Programme alongside Andrea Prat from September 1, replacing Marc Ivaldi, who held the post since 2003.

Ernst Fehr was awarded the Gutenberg Research Award
Since 2012, the Gutenberg Research College (GRC) has bestowed the Gutenberg Research Award annually to distinguished academics who have decisively shaped their fields of research and whose studies have influenced neighboring disciplines as well. This year’s awards went to Professor Ernst Fehr and Professor Michèle Lamont, a cultural sociologist at Harvard University.

Matthias Hoffman elected Chairman of Macroeconomics Standing Committee
Mathias Hoffmann has been elected chairman of the standing committee on macroeconomics (Makroökonomischer Ausschuss) of the Verein für Socialpolitik.

SNF funds joint research project of Fabrizio Zilibotti
SNF funds the joint research project (SCOPES) “Democracy and Economic Growth: Distance to Frontier and the Risk of Middle-Income Traps”. Principal Investigator is Fabrizio Zilibotti, who manages the project together with Boris Begovic (University of Belgrad).

SNF funds the new Sinergia Project of Josef Zweimüller
The SNF is funding the project “Inequality and Globalization: Demand versus Supply Forces and Local Outcomes” with a total of CHF 1.49 Mio. Principal Investigator is Josef Zweimüller. Project partners are David Dorn, Reto Foellmi (University of St. Gallen), and Peter Egger (ETHZ).

Anjali Raja Beharelle receives Trainee Abstract Travel Award
The Organization for Human Brain Mapping (OHBM) offers a limited number of travel awards, which provide funds to help reimburse travel expenses for trainees. We congratulate Dr. Anjali Raja Beharelle on the receipt of this travel award.

SNF funds the project of Michael König
SNF funds the project of Dr. Michael König “The Coevolution of Economic Networks and Behavior: Theory, Empirics and Policy Implications” (Ambizione grant).

Marius Moisa receives two research grants
The project “Causal neural networks underlying social norm compliance” of Marius Moisa received two research grants. One from ZUNIV and the other 2014 “Forschungskredit” of the University of Zurich.

ZUNIV funds project of Michelle Rendall
ZUNIV funds the Habilitation project of Dr. Michelle Rendall “Gender Gaps: The Education-Income-Fertility Relationship” (Förderung des akademischen Nachwuchses FAN).

Selected Presentations

Fabrizio Zilibotti invited to deliver the 2014 YAN Fu Memorial lecture
On November 6, 2014, Fabrizio Zilibotti will deliver the 2014 YAN Fu Memorial lecture. Established in 2001 and hosted by the National School of Development at Peking University, the “Yan Fu Memorial Lecture in Economics” is one of the most prestigious academic events in China across all fields. Every year, it invites internationally renowned economic scholars to speak, both to recall the contribution of sages, but also in order to inherit their ancestors continue to promote the development of Chinese modern economic discipline for China’s prosperity.

Previous speakers include Nobel Laureates Robert Mundell, Amartya Sen, Kenneth Arrow, and other renowned economists including Partha Dasgupta, Dani Rodrik, Prasanta Pattanaik, James Robinson, Timothy Besley, Robert Feenstra, and Steven Durlauf.
New at the Department

Interview with New Faculty Member

David Dorn
Professor of Trade and Labor Markets

Professor Dorn, you have done extensive research on the labor market impacts of trade and technology. What are the main new insights from this work?

Dorn: Trade and technology are two of the paramount forces shaping labor markets in developed countries. World trade in manufactured goods has tripled during the last 25 years, and global production has shifted towards emerging economies such as China. At the same time, workplaces in developed countries have been transformed by the introduction of computers and the automation of work tasks that were previously provided by humans. The joint forces of globalization and technology alter the composition of work. Employment is declining in production and clerical jobs that are often found in the middle of the wage distribution, but increasing in highly-paid managerial and professional occupations, and in low-paid service jobs. The labor market therefore increasingly polarizes into a set of “good jobs” and a set of “bad jobs.”

It is challenging for workers to adjust to these changing labor market conditions, particularly for those who face declining opportunities in their current lines of work. Some of my research on US manufacturing shows that low-wage workers are particularly slow to change firms and industries when their employers succumb to Chinese trade competition. Instead, these workers often stay with their firms until large layoffs occur, and they are at an increased risk of ending up unemployed or in the disability insurance system.

After being abroad and working for different universities all around the world, what drew you back to Switzerland?

Dorn: I grew up in the Canton of Zurich and most of my family and relatives live here. The move to Zurich therefore allows me to be closer to family again after having spent many years in Spain and in the United States. Zurich is also one of the most desirable locations for an academic economist in Europe. The Department of Economics of the University of Zurich is widely regarded as one of the best on the continent, and I am very excited to join a distinguished faculty with outstanding researchers. I am sure that the Department will continue to grow and strengthen, and I am looking forward to contributing to its success.

Do you have a personal motto that has guided you in your academic career?

Dorn: The analysis of labor markets is of particular importance since most adults spend an important share of their time at work, and labor provides their main income.

What are you most proud of in your academic career?

Dorn: I enjoy that my research has attracted interest from a broad and varied audience. I regularly get feedback by colleagues who tell me that my research papers, and the data that I make available on my webpage, have helped them in developing their own research. My work has also been discussed in newspapers such as The Eco-
New at the Department

David Dorn
Professor of Trade and Labor Markets

Professor Dorn joined the Department of Economics at the University of Zurich in September 2014. He is presently examining the effects of globalization on the labor market with special attention to trade and technology as well as with patterns of economic geography. With David Dorn, the University of Zurich took advantage of the unique chance to appoint a young Swiss economist with excellent methodological abilities and a strong academic record in the important and current field of international trade.

Professor Dorn has already published several papers in the American Economic Review, probably the most renowned trade journal in economics.

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Andrei Levchenko
Guest Professor

Andrei Levchenko just started his visiting professorship at the University of Zurich at the beginning of September and will be conducting research during one year at the Department of Economics. Levchenko is an internationally recognized economist and belongs to the leading experts in the areas of globalization, economic development, and macroeconomics. He is an associate professor at the University of Michigan, where he lives with his wife and children.

Globalization and Economic Development

Levchenko states that the benefits and costs of increased trade and financial integration in the world today continue to be hotly debated. His work to date therefore examines the relationships that are important for understanding the full impact of economic globalization around the world:

i) the interplay between international trade and economic institutions;
ii) the impact of trade on macroeconomic fluctuations; and
iii) the consequences of financial integration for growth, volatility, and risk-sharing.

His current research focuses on quantitative welfare assessments of the various aspects of globalization: how can trade costs be reduced, what are the long-run changes in comparative advantages, and the effects of migration of labor.
Zurich Workshop on Economics 2014
September 1 - 3, 2014, Solothurn, Switzerland

The fourth Zurich Workshop on Economics took place at the Ramada Hotel in Solothurn. Organized by ECON PhD students at the University of Zurich, the workshop aims at stimulating the discussion between local PhD students and international researchers from different areas of economics.

Several PhD students presented their research projects in seven different sessions. They were given the possibility to discuss their current research work with each other, with members of our department, and with external scholars. Several renowned researchers followed the invitation from the ZWE organization committee. The committee was able to attract Jérôme Adda (EUI Florence), Francis Bloch (Paris School of Economics), Rachel Griffith (University of Manchester), John Hassler (IIES Stockholm), and Georg Weizsäcker (Humboldt University Berlin) as keynote speakers.

ZurichGSE News

ZurichGSE to Welcome New Class!

The Zurich Graduate School of Economics admitted 13 of the 400 students who applied for the 2014-15 academic year, with the school’s international reputation attracting students from around the world.

Three students were awarded three full scholarships, sponsored by the UBS International Center of Economics in Society. Another full scholarship was awarded by the Excellence Foundation Zurich.

“We are pleased with the strong applicant pool, and with the fact that the Zurich Graduate School of Economics continues to attract outstanding students,” said Josef Zweimüller, director of the graduate school.

Congratulations and welcome from the faculty, staff and students of the Department of Economics. We are delighted that you will be joining us as a doctoral student.

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“Efficiency, Morality, and Freedom” Robert H. Frank

October 30, 2014, 6:15 p.m. at the main auditorium of the University of Zurich

Efficiency and Morality – Either or?! Or must moral actions always be efficient? Imagine you arrive at the airport and discover that your flight has been overbooked. Who should keep their seats? Should society use the “first-come, first-served” principle, letting passengers who arrived at the gate first keep their seats? Or should the seats go to those willing to pay the most for them?

Robert H. Frank will employ a series of similar everyday examples to explore the relationship between efficiency and morality. So what does freedom have to do with this? You will receive the answer to this and related questions at the event “Efficiency, Morality, and Freedom.”

To register, please use the following link:
www.econ.uzh.ch/robertfrank

UBS Center - Forum for Economic Dialogue
“Sound Economic and Institutional Foundations for Europe”

November 17, 2014 at the Kaufleuten Zurich

While some of the most immediate economic strains seem to be receding, many commentators would agree that more fundamental economic and political measures are needed to ensure the stability of the European Union and its economies in the medium and long term. This year’s Forum brings together leading specialists from academia, current and former politicians, and business leaders to discuss how new economic and institutional foundations would have to be designed in order to put the continent back on a more stable footing.

The program consists of three main sessions
Session 1:   Towards a stable financial pact
Session 2:   Political union amidst cultural diversity
Discussion:  To keep or not keep the Euro

The event will start with an opening lecture by Lord Adair Turner (UK House of Lords and member of the Group of Thirty) and will conclude with the Zurich Lecture in Economics in Society entitled “Can fiscal federalism cure Europe?” delivered by Alberto Alesina (Harvard University). Other speakers in this day-long conference include Hans-Werner Sinn (Ifo Institute), George Alogoskoufis (Athens University and former Greek finance minister), Guy Verhofstadt (Member of the European Parliament and former Prime Minister of Belgium), Axel Weber (UBS), Guido Tabellini (Bocconi University), Richard Portes (London Business School, EUI, and CEPR), and many more.
