Dear reader,

As you read these lines, some of the most important events in our Department’s annual calendar have already taken place. We started the year in early January by participating in the junior hiring market at the ASSA meetings in Boston. Eleven candidates for Assistant Professorships visited us in Zurich during January and February for interviews and job talks and impressed us with their high level of scholarship and their innovative ideas.

Equally decisive for the further thriving of the department, we have selected and made offers to a new cohort of PhD students, who will start their studies in the fall of this year. We plan to welcome the largest cohort in our history. I thank all of my colleagues for their sacrifice of time and their participation and effort without which these processes could not have been brought to a successful completion.

In this newsletter, you will find information on the diverse research activities and other recent events of our department. We are pleased to show you the many accomplishments and distinctions the members of our department have achieved since the last issue of our newsletter.

In addition, this issue highlights a recent research paper by Fabrizio Zilibotti and Matthias Doepke on the choice of parenting style. Parents have always struggled with the question of how to best raise their children. Their paper demonstrates how economic incentives, and economic inequality and changing returns to independence of children in particular, can affect that choice.

We thank you for your interest in our department and wish you much enjoyment while reading this newsletter.

Rainer Winkelmann
Chairman of the Department of Economics
Faculty Research

The Economics of Parenting Style

Since time immemorial, parents have struggled with the question of how best to raise their children. Fabrizio Zilibotti and Matthias Doepke argue that the choice of parenting style is driven by incentives.

What is the best way to raise children? For most of history, the experts of the day strongly advised a firm hand. It was only in the 20th century that the views of education reformers, such as Maria Montessori, gained wide acceptance, culminating in the popularity of anti-authoritarian education in the 1960s and 1970s. However, recently the tide has been turning again.

Much of the popular literature on parenting is based on the premise that parents do not know how best to raise their children, and that they need to be educated to adopt the best methods. From this perspective, when parents adopt the “wrong” parenting style, they make a mistake due to a lack of information.

In their own research on parenting styles, Doepke and Zilibotti take a different track that is based on the economic approach to human behaviour. They argue that parents, by and large, know about the pros and cons of different parenting strategies, and that choice of parenting style is driven by incentives. With this approach, the research task is not to tell parents what they should do, but to understand the economic incentives that drive what parents actually do.

Highly educated parents spend considerably more time on parenting than a generation ago, and the term helicopter parenting has gained wide currency.

Doepke and Zilibotti believe that parents have both altruistic and paternalistic feelings towards their children. While parents generally care about their children’s well-being (altruism), they may also disagree with some of the choices that their children make (paternalism). For example, parents and children often have different views regarding the optimal level of risk taking (say, in motor traffic or in experimenting with recreational drugs). As a result, parents have an incentive to attempt to influence their children’s choices in life.

The costs and benefits of alternative parenting styles

From the perspective of the parents, engaging in one of the intensive parenting styles that aim to control the children’s behaviour (authoritarian and authoritative) comes with costs. Some of these costs are direct (the time and effort spent on controlling the children or on instilling the appropriate values in them), and others are indirect (parents care about their children, and take into account the suffering that aggressive parenting imposes on the kids). A first prediction of the economic theory of parenting style is, therefore, that parents will be willing to bear the costs of intensive parenting only if the return is sufficiently high. So what is the return to intensive parenting?

The benefit of intensive parenting (authoritarian or authoritative) is that the children are more likely to engage in the choices that the parents consider appropriate. The return, therefore, depends on the stakes, i.e., the extent to which it matters whether the children make the “right” or “wrong” choices from the parents’ perspective.

The role of the return to education and inequality

While many parents worry about juvenile risks, we believe that the returns to effort in education and work during adolescence are even more important. A seemingly universal area of disagreement between parents and children is the trade-off between working hard for school and for one’s career versus having fun with friends and other im-
mediate enjoyments. Few parents want their kids to blow off homework more often in exchange for some instant pleasure. This conflict can be interpreted as a difference in time preference – parents worry more about the long-term consequences of children’s behaviour (such as studying for school) than do the kids themselves. Hence, many parents push their children towards harder work, either through coercion (such as “grounding” children, i.e., not allowing them to spend time with friends) or through sustained indoctrination with a strong work ethic and a striving for success.

The return to pushing children hard consists of the increased likelihood that they will do well later in life. How important this is to parents depends crucially on the degree of economic inequality, and in particular on the return to education. In an economy where education and effort are highly rewarded and where people with little education struggle, parents will be highly motivated to push their children hard. Thus, we expect economic inequality to be associated with intensive (authoritarian and authoritative) parenting styles.

In contrast, in an economy where there is little inequality and artists and school dropouts earn only slightly less than doctors and engineers, parents can afford a more relaxed attitude, and permissive parenting should be more prevalent.

The rise of authoritative parenting
Regarding the recent rise of more intensive parenting in Western countries (“Tiger Mom”, “helicopter parents”, etc.), our theory offers a straightforward explanation. In the 1960s and 1970s, when anti-authoritative, laissez-faire parenting reached the peak of its popularity, economic inequality was also at an all-time low. Given low returns to education, there was little reason for parents to exert major efforts to push their children. The last 30 years, in contrast, have seen ever-rising inequality combined with increasing returns to education. Children who fail to complete their education can no longer look forward to a secure, middle-class life, and consequently parents have redoubled their efforts to ensure their children’s success.

A final question is why among the intensive parenting strategies, modern parents increasingly rely on the subtle indoctrination methods of the authoritative style, rather than the command-and-control approach of an authori-

Cross-country evidence
Doepke and Zilibotti show that cross-country data on parenting styles are consistent with the prediction of a link between parenting and income inequality. Parenting style can be measured using the World Value Survey, where people are asked which attitudes or values they find most important in child rearing. Here, emphasising the values of “imagination” and “independence” in rearing children would correspond to a more permissive parenting style, whereas authoritarian and authoritative parents would be more likely to insist on the importance of “working hard”.

Figure 1 shows the association of these values (i.e., the fraction of parents in a given country who consider the value important) with a measure of income inequality, namely the Gini index (higher values correspond to more inequality). As the theory predicts, across OECD economies parents in more unequal countries place more emphasis on hard work, and consider imagination and independence to be less important. Conversely, Scandinavian parents emphasise the value of imagination and independence, consistent with the casual observation that children in these countries enjoy more leeway than their peers in Southern Europe and the US. The pattern also holds up for developing countries.

The results for China – a country with pronounced economic inequality – are striking. As predicted by the theory, emphasising the importance of hard work is almost universal among parents in China.
tarian parent. The methods of the “Tiger Mom” notwithstanding (which have both authoritarian and authoritative elements), traditional authoritarian parenting with its ample use of corporal punishment is becoming less common in many countries. From the economic perspective, the advantage of the authoritative approach is that the children, once successfully indoctrinated, no longer need to be monitored to do the right thing – they will implement the parents’ preferred choices on their own accord. Hence, authoritative parenting is more attractive than the authoritarian style when monitoring is difficult or impossible. We believe that the authoritarian style is declining because the economic returns to the independence of children have risen. The crucial phase of education is now often the college or post-graduate level rather than elementary or secondary school. Once off to university, children are no longer under the direct control of their parents, and they will succeed only if the appropriate values (such as valuing hard work and academic success) have already been instilled in them.

The future of parenting
Given that the spread of higher education is unlikely to reverse, our theory predicts that authoritarian parenting will continue its current decline; a return to the tough methods advocated by the Bible is unlikely. Regarding permissive versus authoritative parenting, the evolution of the return to education is what matters. If the march towards higher inequality continues, the current era will mark the beginning of a sustained trend towards ever pushier parenting. If, on the other hand, today’s inequality trends prove to be an aberration and we return to the less unequal times of the 1970s, future children (and their parents) will be able to enjoy a relaxed childhood once again.

Reference
Facility Research Publications

Selected Publications in Economics

Autor, David H.; Dorn, David; Hanson, Gordon H. & Song, Jae (2014). “Trade Adjustment: Worker Level Evidence”, Quarterly Journal of Economics, 19226: 61. In the past two decades, China’s manufacturing exports have grown spectacularly, U.S. imports from China have surged, but U.S. exports to China have increased only modestly. Using representative, longitudinal data on individual earnings by employer, we analyze the effect of exposure to import competition on earnings and employment of U.S. workers over 1992 through 2007. Individuals who in 1991 worked in manufacturing industries that experienced high subsequent import growth garner lower cumulative earnings and are at elevated risk of exiting the labor force and obtaining public disability benefits.

Bartling, Björn; Fehr, Ernst & Herz, Holger (2014). “The Intrinsic Value of Decision Rights”, Econometrica, 82(6): 2005-2039. Philosophers, psychologists, and economists have long argued that certain decision rights carry not only instrumental value but may also be valuable for their own sake. The ideas of autonomy, freedom, and liberty derive their intuitive appeal—at least partly—from an assumed positive intrinsic value of decision rights. Providing clean evidence for the existence of this intrinsic value and measuring its size, however, is intricate. Here, we develop a method capable of achieving these goals. The data reveal that the large majority of our subjects intrinsically value decision rights beyond their instrumental benefit.

Bartling, Björn; Weber, Roberto & Yao, Lan (2015). “Do Markets Erode Social Responsibility?”, Quarterly Journal of Economics, 130(1). This paper studies socially responsible behavior in markets. We develop a laboratory product market in which low-cost production creates a negative externality for third parties, but where alternative production with higher costs mitigates the externality. Our first study, conducted in Switzerland, reveals a persistent preference among many consumers and firms for avoiding negative social impact in the market, reflected both in the composition of product types and in a price premium for socially responsible products.

Cohn, Alain; Engelmann, Jan; Fehr, Ernst & Maréchal, Michel (2015). “Evidence for Countercyclical Risk Aversion: An Experiment with Financial Professionals”, American Economic Review, 105(2): 860-885. Countercyclical risk aversion can explain major puzzles such as the high volatility of asset prices. Evidence for its existence is, however, scarce because of the host of factors that simultaneously change during financial cycles. We circumvent these problems by priming financial professionals with either a boom or a bust scenario. Subjects primed with a financial bust were substantially more fearful and risk averse than those primed with a boom, suggesting that fear may play an important role in countercyclical risk aversion.

Cohn, Alain; Fehr, Ernst & Maréchal, Michel (2014). “Business Culture and Dishonesty in the Banking Industry”, Nature, 516: 86-89. Trust in others’ honesty is a key component of the long-term performance of firms, industries, and even whole countries. However, in recent years, numerous scandals involving fraud have undermined confidence in the financial industry. Contemporary commentators have attributed these scandals to the financial sector’s business culture, but no scientific evidence supports this claim. Here we show that employees of a large, international bank behave, on average, honestly in a control condition. However, when their professional identity as bank employees is rendered salient, a significant proportion of them become dishonest.

Romano, Joseph P.; Shaikh, Azeem M. & Wolf, Michael (2014). “A practical two-step method for testing moment inequalities”, Econometrica, 82: 1979-2002. This paper considers the problem of testing a finite number of moment inequalities. We propose a two-step approach. In the first step, a confidence region for the moments is constructed. In the second step, this set is used to provide information about which moments are “negative.” A Bonferroni-type correction is used to account for the fact that, with some probability, the moments may not lie in the confidence region.
Selected Publications in Neuroeconomics


The subjective values of choice options can impact on behavior in two fundamentally different types of situations: first, when people explicitly base their actions on such values, and second, when values attract attention despite being irrelevant for current behavior. Here we show with functional magnetic resonance imaging (fMRI) that these two behavioral functions of values are encoded in distinct regions of the human brain. In the medial prefrontal cortex, value-related activity is enhanced when subjective value becomes choice-relevant, and the magnitude of this increase relates directly to the outcome and reliability of the value-based choice.


External circumstances and internal bodily states often change and require organisms to flexibly adapt valuation processes to select the optimal action in a given context. Here, we investigate the neurobiology of context-dependent valuation in 22 human subjects using functional magnetic resonance imaging. Subjects made binary choices between visual stimuli with three attributes (shape, color, and pattern) that were associated with monetary values. Context changes required subjects to deviate from the default shape valuation and to integrate a second attribute to comply with the goal to maximize rewards. Critically, this binary choice task did not involve any conflict between opposing monetary, temporal, or social preferences.

Further Publications in Economics


Awards and Distinctions

Further Publications in Neuroeconomics


Fabrizio Zilibotti designated co-editor of Econometrica

Fabrizio Zilibotti has accepted the offer to become co-editor of Econometrica, one of the top-5 economics journals. It is important for the European science community to be represented in the journal’s editorial board since most editors of the top journals are based in the United States. Zilibotti will be in office as of July 2015.

Armin Schmutzler designated co-editor of International Journal of Industrial Organisation

Since the beginning of 2015 Armin Schmutzler has taken on the position as co-editor of the International Journal of Industrial Organisation. The IJIO is an international venture that aims at full coverage of theoretical and empirical questions in industrial organization.

SNF awarded 500,000 CHF for research project of Joachim Voth

The Swiss National Science Foundation (SNF) awarded 500,000 CHF to Joachim Voth’s research project “Debt into Growth: How the Country that Borrowed the Most Industrialized First”.

SNSF Starting Grant for David Dorn

David Dorn has been awarded a SNSF Starting Grant (ERC Temporary Backup Scheme) amounting to 1.7 m CHF for his project on “Trade, Innovation and Labor Markets”.

SNF funds project of Frédéric Schneider and Andreas Hefti

The Swiss National Science Foundation (SNF) awarded 49,400 CHF to Frédéric Schneider and Andreas Hefti for their project “Mental Capabilities, Trading Behavior, and Asset Bubbles”.

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New Chairman of the Department of Economics

Rainer Winkelmann

Interview with the new Chairman, Rainer Winkelmann, Professor of Statistics and Empirical Economic Research.

Prof. Winkelmann, how did it feel to be nominated as new director?

Winkelmann: First and foremost, it came as a great surprise. It simply never occurred to me that there would be such a possibility. Second, in the broader context of my tenure here in Zurich, I feel very honored and happy about it. I came to Zurich in 2001 and have enjoyed every moment since. I always felt a deep gratitude towards the University, the Department of Economics (and its precursors) and my colleagues for treating me well and for providing such a stimulating academic environment. For me personally, the University of Zurich is the greatest place on earth to work at. Thus I am excited that I will have the chance to give back some of the credit I received over the years, and contribute my share to the continued flourishing of the department.

In what direction would you like to move the department as new director?

Winkelmann: The overall direction is determined by our excellence strategy that seeks to consolidate our position as one of the leading economics departments in Europe, and establish ourselves as a globally recognized center for research and teaching of economics. There is a very strong consensus in the department regarding the general strategy as well as its implementation. The key issues will be, first, the successful recruitment and integration of outstanding researchers, both junior and senior, and second, a concerted investment into an excellent, internationally competitive PhD program. In my opinion, we will only succeed in achieving these goals if we share responsibilities broadly and take key decisions collectively.

What challenges will you have to face as Chairman of the Department of Economics?

Winkelmann: The department grew enormously under the leadership of Ernst Fehr, and this growth will continue over the next years. At the same time, the department’s nature and self-concept have been transformed from that of a traditional and very decentralized Swiss or German-style chair-based system to that of an Anglo-Saxon-type departmental system. Both the growth and the move away from the chair system pose various challenges to the internal decision processes and administrative support structures. Some of these challenges have already been addressed while others still wait for a solution. To give you an example, a professor would decide more or less autonomously on his or her teaching offerings within the field of the chair in “the old days”. Nowadays, much more coordination is required in this area.

What is the main focus of your current work?

Winkelmann: I continue to work on a mix of methodological and applied projects. This includes panel data models for discrete dependent variables, a project on non-linear pricing, and treatment effects models when the duration of treatment is unknown. On the applied side, I am working on issues in empirical welfare analysis,
New Vice Chairman of the Department of Economics

Ernst Fehr

Change of leadership at the Department of Economics

The University of Zurich appointed Rainer Winkelmann as new Chairman of the Department as of February 2015. With his valuable input and support, the department can maintain its international excellence as well as sustain its reputation as a leading European research center.

Ernst Fehr accepted the position as Vice Chairman of the Department and will continue to support the department. After 16 exciting, challenging and very eventful years as Chairman, he will now be able to dedicate his time and energy to science and his family.

for example the interaction between different income elasticities for market goods and social goods and the effect of increased income inequality on aggregate welfare.

How do you achieve an optimal work-life-balance?

Winkelmann: As professors, we are in a very privileged position, where work is life and life is work. As an empirically minded applied econometrician, interested in questions of human behavior and social policy, I find plenty of inspiration for new research questions in the mere experiences of daily life. Thus, the question of work-life-balance does not really arise. If I feel tired of an administrative task, I may turn to reading an interesting paper related to a research project I am working on. Solutions to a problem I have been mulling over for a while can suddenly pop up while spending time in the mountains, or in a cinema while watching a movie with my wife.

What are you most looking forward to in this new position?

Winkelmann: The Department of Economics is on such an exciting, dynamic trajectory that participating in its further development, and contributing to it in a central role, will be a great experience. Also, when Lord Layard last year was invited by the Excellence Foundation Zurich to give a public lecture on “What makes people happy/unhappy”, one advice he gave was that “you’ve got to stretch a little”. I very much believe in this advice, that challenging oneself by setting new goals, leaving one’s “comfort zone” from time to time, taking up an adventure, brings a big reward in itself. I am sure that the chairman-ship offers plenty of all of this, and that’s also why I am very much looking forward to the next years.

Interview with the former Chairman and new Vice Chairman, Ernst Fehr, Professor of Microeconomics and Experimental Economic Research.

Prof. Fehr, what are you most proud of in your 16 years as Director of the Department of Economics?

Fehr: The most important achievement is that I could implement - with the help of several colleagues - the “excellence strategy”, i.e., the goal to move towards international excellence in research and teaching. This strategy required a fundamental modernization of the department that was not always easy to achieve in view of financial constraints, bureaucratic obstacles, and the existence of status quo bias and skepticism. This strategy is associated with the establishment of important principles and has several requirements.

First, new professors are only hired if they already achieved a high international reputation for their research or if there is the credible expectation that they will maintain or achieve it in the near future.

Second, the establishment of the Zurich Graduate School of Economics (ZurichGSE) that is associated with a strong collective responsibility of the department with the graduate program, a centralized competitive admission process and the right of the PhD students to freely choose their advisers. In essence, this means a large step towards abolishing the German-type chair system in our department. The ZurichGSE constitutes great progress - substantively and in terms of international reputation.

Third, the alleviation of financial constraints through the establishment of the Excellence Foundation which is a powerful vehicle for attracting international talent at all levels - professors, assistant professors, postdocs, and students.

Fourth, the significant increase in the number of professorships and doctoral student positions, which allows the department to grow and to acquire top researchers and top students. In this context, the agreement between the UZH and UBS, and the associated establishment of the UBS Foundation of Economics in Society, played a pivotal role. With the help of the generous donation from UBS, we have the chance to play in a different international
Zurich Workshop on Economics 2015
September 2-4, 2015, Lucerne, Switzerland

Every year, a group of PhD students gets together to organize the Zurich Workshop on Economics. Last year the event took place in beautiful Solothurn. This year’s organizing committee answered some questions on planning such an important event.

How many PhD students are currently involved with planning the Zurich Workshop on Economics 2015?

The organization committee for the Zurich Workshop on Economics currently includes nine second-year PhD students: Stefan Bruder, Lachlan Deer, Sebastian Dörr, Julian Langer, Yi-Shan Lee, Shuo Liu, Harald Mayr, Janina Nemitz, and Christian Oertel.

When did you begin planning? How often does the organizing committee meet?

We set up the committee in October 2014, meeting every one or two weeks. The early starting date was needed to secure funding and make sure that locations and speakers will still be available.

What challenges have you faced during preparation for such an event?

The biggest challenge for any such event is the financing and budgeting. It required some work to secure the needed financial resources. Finding an appropriate and affordable location is also difficult; this really needs to be planned well in advance of the actual workshop.

And what are you happy to leave behind?

Fehr: The implementation of the excellence strategy during the last eight years was very taxing in terms of time and energy which must have had a negative impact on my scientific productivity. In my heart, I am a scientist who loves to discover and produce new insights. I love to solve hard and important scientific problems. I hope that I now have more time for science and for my family.

What are you currently working on?

Fehr: I have a long list of ongoing projects so that it is better if I only tell you the two big areas of research that interest me most. First, building a formal, empirically substantiated bridge between the neural circuits, the psychological processes, and individual behavior in the domain of social and economic decision-making. In other words, the microfoundation of individual decision making, and the formal models of individual decision-making, in terms of neural and psychological processes.

Second, getting a grip on how society and biology “produce” people’s deep personalities and preferences. The time is ripe for solving this problem. Among other things, it involves research in the economics, psychology, and biology of child and youth development and a much better understanding of the fundamental drivers of social norms, i.e., how they emerge and change, and how they are internalized.

How do you personally achieve an optimal work-life balance?

Fehr: Honestly, I think I have been not very good in achieving a work-life balance. I am permanently torn between various obligations and, due to my entrepreneurial nature, I have the feeling that my day should last 48 instead of 24 hours to solve all the tasks that I see on the horizon. Perhaps, giving up the director position in the department will help me to achieve a better work-life balance.
How do you select your keynote speakers? What criteria must they fulfil?

We designated five slots for speakers from five distinct fields. Each committee member initially nominated researchers whose work they find interesting. We had some link to most of the proposed names, from having worked with them, seen them in class, or via recommendations from colleagues. In the end, the committee voted field-by-field whom to invite.

What activities have proven to be most effective in past workshops?

The workshop usually strikes a good balance between academic talks and discussions, and a leisure program for socializing. The opportunities for informal discussion and networking during the breaks and short excursions are an important component of the workshop and have proved to be as valuable as the feedback received during the research presentations.

Which research projects will be presented during the workshop and how do you select the chosen projects?

The ZWE’s main purpose is for PhD students to present work in progress and new ideas. The students will have the opportunity to put their ideas up for discussion and get feedback at an early stage, both of which are essential ingredients for the successful development of a research idea. We thus invite everyone to present their ongoing projects; the focus is not on polished papers. And we aim at giving as many students as possible the opportunity to present their work.

What is the main benefit of such a workshop?

The workshop gives students the opportunity to present and discuss their ongoing work and ideas with fellow graduate students, faculty, and renowned international researchers. It thus supports the research of the junior department members, fosters communication and cooperation within the department, and promotes the graduate school’s research activities to an international group of active researchers.

What is the location for such an event and why did you choose Lucerne for this year’s event?

The location needs to be able to accommodate our rather large group of participants and provide good conference facilities. Of course, it should also be easy to reach, all the while staying within our budget constraints. Hosting the workshop outside of Zurich creates a focused atmosphere since the participants from within the department are not distracted by their day-to-day lives in Zurich.

What advice would you like to give next year’s organizing committee?

Start as early as possible to secure financing, a suitable location, and high-profile speakers. As the funding for future installments is uncertain, dealing with this early on is important. We believe it is tremendously important to keep this tradition to promote the research of our PhD community. Students interested in organizing next year’s meeting are encouraged to approach us anytime for advice.

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**Department Events 2015**

**UBS Center Public Event**
**Prof. Kenneth Rogoff (Harvard University) “Dealing with Debt”**

*June 23, 2015, 6:30 p.m. at the main auditorium of the University of Zurich*

Kenneth Rogoff is Thomas D. Cabot Professor of Public Policy and Professor of Economics at Harvard University. From 2001-2003, Rogoff served as Chief Economist and Director of Research at the International Monetary Fund. Rogoff’s treatise Foundations of International Macroeconomics (joint with Maurice Obstfeld) is the standard graduate text in the field worldwide, and his monthly syndicated column on global economic issues is published regularly in over 50 countries.

Rogoff is an elected member of the National Academy of Sciences and the American Academy of Arts and Sciences, as well as the Council on Foreign Relations and the Group of Thirty. He is the 2011 winner of the biennial Deutsche Bank Prize awarded by the Center for Financial Economics.


*September 17, 2015, 6:30 p.m. at the main auditorium of the University of Zurich*

Richard H. Thaler has spent his career studying the radical notion that the central agents in the economy are humans—predictable, error-prone individuals. “Misbehaving” is his arresting, frequently hilarious account of the struggle to bring an academic discipline back down to earth - and change the way we think about economics, ourselves, and our world.

Thaler is going on a worldwide tour to present his new book “Misbehaving: The Making of Behavioral Economics” and will stop by at the University of Zurich to explain why we all succumb to biases and make decisions that deviate from the standards of rationality assumed by economists. In other words, if we misbehave - there could be serious consequences.