



**University of
Zurich** ^{UZH}

Department of Economics

Newsletter 45

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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

date	schedule	title	venue
Tue, Jan 18	12.00-14.00	Prof. Urs Birchler , Institut für schweiz. Bankwesen «Eine Bilanz der „too big to fall“-Diskussion» OEC ALUMNI UZH-Lunch	Beef-Club Mövenpick

3 Publications

3.1 In Economics

Boes, Stefan; Staub, Kevin & Winkelmann, Rainer (2010). «Relative status and satisfaction», *Economics Letters*, 109(3), 168-170.

<http://dx.doi.org/10.1016/j.econlet.2010.08.027>

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.

Deacon, Robert T. & Schläpfer, Felix (2010). «The Spatial Range of Public Goods Revealed Through Referendum Voting», *Environmental and Resource Economics*, 47(3), 305-328.

<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.

Frey, Bruno S. & Stutzer, Alois (2010). «Happiness and public choice», *Public Choice*, 144(3-4), 557-573.

<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.

Mierendorff, Konrad (2011). «Asymmetric reduced form Auctions», *Economics Letters*, 110, 41-44.

<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.

Schläpfer, Felix & Schneider, Friedrich (2010). «Messung der akademischen Forschungsleistung in den Wirtschaftswissenschaften: Reputation vs. Zitierhäufigkeiten», *Perspektiven der Wirtschaftspolitik*, 11(4), 325-439.

<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.

Schoder, Johannes; Sennhauser, Michèle & Zweifel, Peter (2010). «Fine-Tuning of Health Insurance Regulation: Unhealthy Consequences for an Individual Insurer», *International Journal of the Economics of Business*, 17(3), 313-327.

<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.

Steiner, Lasse; Leinert, Lisa & Frey, Bruno S. (2010). «Economics, Religion and Happiness», *Zeitschrift für Wirtschafts- und Unternehmensethik*, Heft 1/2010, 9-24.
http://www.wiso-net.de/genios1.pdf?START=0A1&ANR=1527013&DBN=ZECO&ZNR=1&ZHW=-4&WID=09622-6460700-63328_2

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.

Waltert, Fabian. & Schläpfer, Felix (2010). «Landscape amenities and local development: A review of migration, regional economic and hedonic pricing studies», *Ecological Economics*, 70(2), 141-152.
<http://dx.doi.org/10.1016/j.ecolecon.2010.09.031>

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

Brodersen, Kay H; Ong, Cheng Soon; Stephan, Klaas Enno & Buhmann, Joachim M. (2010). «The Balanced Accuracy and Its Posterior Distribution», *20th International Conference on Pattern Recognition (ICPR), 2010*, 3121-3124.
<http://dx.doi.org/10.1109/ICPR.2010.764>

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.

Brodersen, Kay H.; Ong, Cheng Soon; Stephan, Klaas Enno & Buhmann, Joachim M. (2010). «The Binormal Assumption on Precision-Recall Curves», *20th International Conference on Pattern Recognition (ICPR), 2010*, 4263-4266.
<http://dx.doi.org/10.1109/ICPR.2010.1036>

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.

Brodersen, Kay H.; Haiss, Florent; Ong, Cheng Soon; Jung, Fabienne; Tittgemeyer, Marc; Buhmann, Joachim M.; Weber, Bruno & Stephan, Klaas Enno (2010). «Model-based feature construction for multivariate decoding», *NeuroImage*. [2010 Apr 18, Epub ahead of print]
<http://dx.doi.org/10.1016/j.neuroimage.2010.04.036>

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.

Daunizeau, Jean; David, Olivier & Stephan, Klaas Enno (2010). «Dynamic causal modelling: A critical review of the biophysical and statistical foundations», *NeuroImage*. [2009 Dec 1, Epub ahead of print]
<http://dx.doi.org/10.1016/j.neuroimage.2009.11.062>

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.

Hare, Todd A.; Camerer, Colin F.; Knoepfle, Daniel T. & Rangel, Antonio (2010). «Value computations in ventral medial prefrontal cortex during charitable decision making incorporate input from regions involved in social cognition», *Journal of Neuroscience*, 30, 583-590.

<http://dx.doi.org/10.1523/JNEUROSCI.4089-09.2010>

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.

Inauen, Emil & Frey, Bruno S. (2010). «Benediktinerabteien aus ökonomischer Sicht», *Erbe und Auftrag. Benediktinische Zeitschrift - Monastische Welt*, Nr. 3/2010, 267-307.

http://www.erbe-und-auftrag.org/archiv/heftarchiv/heft.3_10/heft.3_10.4/index.html

Die Benediktinerklöster weisen im Vergleich zu anderen Institutionen eine ungewöhnlich lange Lebensdauer auf. Unsere empirische Untersuchung aller je existierenden Benediktinerabteien in Bayern, Baden-Württemberg und der Deutschschweiz zeigt, dass ein durchschnittliches Kloster fast 500 Jahre alt wird. Kombiniert mit dem Befund, dass nur rund ein Viertel der Klosterschliessungen auf Führungsversagen zurückzuführen ist, darf auf eine Organisationsform mit ausserordentlicher Langlebigkeit und Stabilität geschlossen werden. Dies ist nicht nur religiösen und kirchlichen Ursachen zuzuschreiben. Die Entwicklung einer ganz eigen geprägten Führungsstruktur, oder Governance, trägt wesentlich zur Erfolgsgeschichte dieser Institutionen bei. Ein ausgefeiltes System von internen und externen Kontrollmechanismen verhindert Missbrauch und Fehlverhalten von Äbten und Mönchen und fördert damit die Überlebensfähigkeit der Abteien. In diesem Beitrag folgt der empirischen Analyse eine detaillierte Betrachtung der benediktinischen Governance und deren Erfolgsfaktoren. Im Schlussabschnitt wird dargelegt, warum monastische Führungsprinzipien auch über das Klosterwesen hinaus Relevanz besitzen. Der Aufsatz wurde aus einer psychologisch ökonomischen Perspektive heraus verfasst: der erste Autor ist Betriebswirtschafter, der zweite Volkswirtschafter. Diese Herangehensweise, welche die in der Corporate Governance herausgebildeten Begrifflichkeiten aufnimmt, bedeutet in keiner Weise, dass Abteien auf rein wirtschaftliche Institutionen reduziert werden sollen.

Rangel, Antonio & Hare, Todd A. (2010). «Neural computations associated with goal-directed choice», *Current Opinion in Neurobiology*, 20, 262-270.

<http://dx.doi.org/10.1016/j.conb.2010.03.001>

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

Frey, Bruno S. & Feld, Lars (2010). «Tax Evasion and the Psychological Tax Contract» In: Alm, James; Martinez-Vazquez, Jorge & Torgler, Benno (eds.), «Developing Alternative Frameworks Explaining Tax Compliance», Routledge, UK, 74-94.

Frey, Bruno S. & Meier, Stephan (2011). «Chapter 24. Cultural Economics» In: Macdonald, Sharon (ed.), «A Companion to Museum Studies», Malden, MA, USA, Blackwell Publishing Ltd., 398-414. <http://dx.doi.org/10.1002/9780470996836.ch24>

3.4 Working Papers

Berentsen, Aleksander; Marchesiani, Alessandro & Waller, Christopher J. (November 2010). «Channel Systems: Why is there a Positive Spread?», <http://www.iew.uzh.ch/wp/iewwp517.pdf>.

Brunner, Beatrice & Kuhn, Andreas (December 2010). «The Impact of Labor Market Entry Conditions on Initial Job Assignment, Human Capital Accumulation, and Wages», <http://www.iew.uzh.ch/wp/iewwp520.pdf>.

Egger, Peter; Larch, Mario; Staub, Kevin & Winkelmann, Rainer (November 2010). «The Trade Effects of Endogenous Preferential Trade Agreements», <http://www soi.uzh.ch/research/wp/2010/wp1013.pdf>.

Hepenstrick, Christian (November 2010). «Per-Capita Incomes and the Extensive Margin of Bilateral Trade», <http://www.iew.uzh.ch/wp/iewwp519.pdf>.

Kuhn, Andreas (November 2010). «The Public Perception and Normative Valuation of Executive Compensation: An International Comparison», <http://www.iew.uzh.ch/wp/iewwp518.pdf>.

Sennhauser, Michèle (November 2010). «Why the Linear Utility Function is a Risky Choice in Discrete-Choice Experiments», <http://www soi.uzh.ch/research/wp/2010/wp1014.pdf>.

Staub, Kevin (November 2010). «A Causal Interpretation of Extensive and Intensive Margin Effects in Generalized Tobit Models», <http://www soi.uzh.ch/research/wp/2010/wp1012.pdf>.

3.5 Mainstream Publications & Appearances

Frey, Bruno S. (October 2010). «Für eine Schweizer EU», *Weltwoche*, October 21, 2010, p 44/45.

Frey, Bruno S. (October 2010). «Glückliche Leute leben länger», *Basler Zeitung*, October 25, 2010, p 16.

Frey, Bruno S. (December 2010). «Ein Buch fürs Leben. Alexandre Dumas «Drei Musketiere»», *Tages-Anzeiger Magazin*, December 4, 2010, p 42.

Hotz-Hart, Beat; Schellenbauer, Patrik; Walser, Rudolf; Lepori, Daniela & Gonon, Philipp (November 2010). «Die Zukunft der Lehre: Die Berufsbildung in einer neuen Wirklichkeit», *Avenir Suisse*, Zurich, http://www.avenir-suisse.ch/de/viewPublication/content/themen/wachstum/duale_bildung.html

4 People

4.1 Visiting Guests & Research Stays

PROF. FEHR

Oct 4, 2010 - Sep 30, 2011 **Sunhae Sul**, Seoul National University, South Korea
Nov 22 - Dec 31 **Ozan Aksoy**, Dept. of Sociology-ICS, Utrecht University
Oct 1, 2010 - Mar 31, 2011 **Saskia Klein**, Ilmenau Technical University

PROF. RUFF

Nov 24 - Dec 1 **Alessio Fracasso**, Università di Trento, Italy

PROF. TOBLER

Dec 1, 2010 - Mar 31, 2011 **Jolien ten Velden**, University of Amsterdam

PROF. WOITEK

Nov 3 - 13 **James Malley**, University of Glasgow
Dec 8 - 10 **Bernd Süßmuth**, University of Leipzig

4.2 Degrees

DOCTORAL THESES

Victoria Galsband (Prof. Hoffmann). November 2010. Subject: «Economic Fundamentals and Cross Sectional Asset Pricing in Global Financial Markets»

BACHELOR THESES

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

Tiziano Chieffo (Prof. Hotz-Hart). Juli 2010. Subject: «Anwendungsorientierte Forschung und Entwicklung an den Fachhochschulen: Überprüfung und Würdigung»

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

Invited Plenary Talk of **Christian Ewerhart** on «Repo Markets, Counterparty Risk, and the 2007/2008 Liquidity Crisis» at the Annual Meeting of Swiss Finance Institute with the topic Liquidity and Liquidity Risk Management, Zurich, November 3, 2010.

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.

Keynote Lecture of **Bruno S. Frey** on «Motivation im Sport und in der Wissenschaft. Überlegungen eines Ökonomen» at the 7. Deutscher Sportökonomiekongress 2010, Cologne, November 18, 2010.

Invited Plenary Talk of **Bruno S. Frey** on «Glück – die Sicht der Ökonomie» at the Zunftbott, Zurich, November 29, 2010.

Keynote Lecture of **Bruno S. Frey** on «Impact Assessment on Social Investment» at the 2010 CSI MLS Symposium, Heidelberg, December 8, 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

PUBLISHING INFORMATION

Editor	Department of Economics
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Download	http://www.econ.uzh.ch/agenda/newsletter.html