



Department of Economics Newsletter

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Josef Falkinger, Professor Emeritus

Dear reader,

As every year, the start of the fall term provides a moment of excitement, when students return to campus and the relative quiet of the summer months makes way to bustling activities and scholarly discourse, and when we are anxious to see whether our planning and new ideas for the further development of the department bear fruit. It also is a moment of change, as new members join our department and others have left.

It is therefore with great pleasure that the Department welcomes four new faculty members: Pietro Biroli, Rema Hanna, David Hémous, and Hannes Schwandt. All four are outstanding economists, and I am very much looking forward to their intellectual contribution.

Furthermore, I would like to extend a warm welcome to our new PhD students who have been admitted to the Zurich Graduate School of Economics. In this issue, you will find a short interview with some of our second year students who joined our Department last year. They reflect on what it means to fully commit to being a doctoral student and what personally drives them in the exciting world of economics.

In terms of farewells, several of our PhD students and PostDocs have been successful in the job market, with

placements including the University of Cologne (2), the University of Fribourg and the ECB. Josef Falkinger, Professor of Macroeconomics and Public Finance and former Dean of the Faculty of Business, Economics, and Informatics retired at the end of August. We are sorry that he left, but happy to report that he has agreed to remain affiliated with the Department. A perspective on his contribution and legacy appears later in this newsletter.

In addition, this issue highlights a recently published research paper written by Björn Bartling, Roberto A. Weber, and Lan Yao, entitled *Do Markets Erode Social Responsibility?* The authors provide answers to this question by comparing the results of two studies conducted in Switzerland and China. Their findings show that while subjects in Switzerland and China do not differ in their degree of social concern in nonmarket contexts, low-cost production that creates negative externalities is significantly more prevalent in markets in China.

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

Do Markets Erode Social Responsibility?

In a recently published study, Björn Bartling, Roberto Weber, and Lan Yao give a mixed response to the titular question. On the one hand, they find positive and stable levels of socially responsible behavior in several experimental market studies, conducted in Switzerland and China. On the other hand, their comparison of behavior in market and non-market contexts reveals that market behavior follows weaker prosocial norms than behavior in other contexts.

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Adam Smith’s metaphor of the invisible hand illustrates the idea that decentralized interaction of independent actors, through market exchange, leads to efficient allocation of resources. In fact, there is widespread evidence that markets often fulfill this function. However, unregulated market exchange is also often blamed as a source of social ills, including environmental damage, labor coercion, and animal cruelty, and many scholars question whether the inherent nature of markets erodes people’s motivations to exhibit concern for the social impact of their actions.

A remedy for negative impacts of market activity

The presence of product labels such as “carbon-free,” “fair trade,” and “cruelty-free” in consumer product markets suggests a potential influence of concerns for social impact on market activity. These products are often associated with higher production costs for firms and prices for consumers. Nevertheless, consumers may be willing to pay higher prices for products that mitigate social harm. Several studies document this willingness, although these results are typically from hypothetical choice or willingness-to-pay measures or from comparisons of purchasing behavior over distinct market products that may differ in dimensions beyond social impact, such as actual or perceived quality.

Thus, although the notion of individual and corporate social responsibility—a willingness to sacrifice profits or wealth in pursuit of broader social interest—has recently come into focus as a means to prevent efficiency losses due to external effects, the extent to which this presents an actual remedy for negative impacts of market activity remains to be better understood. But in real product markets, it is difficult to isolate social responsibility from other possible motives underlying production and consumption of such products. To address this is-



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sue, the authors report on two laboratory studies that explore the extent to which socially responsible market behavior can mitigate the problem of negative external effects.

Laboratory product market

Bartling and his colleagues develop a laboratory product market, in which sellers decide on a price and on which type of product they want to offer for sale—either one that produces a negative externality for a third party or one that does not, with the latter involving higher production costs. Consumers choose which offered product to buy or whether to purchase any product at all. The standard equilibrium prediction for these markets is that only the cheaper good, which produces the externality, is traded.

In contrast to this prediction, a baseline condition from a first study—conducted in Switzerland—finds that markets converge rapidly to a stable outcome in which a significant proportion (roughly 45%) of products traded cost more to produce but yield no externality. The prices for such goods are regularly higher than prices for externality-producing products, though to a

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lesser extent than the additional production cost. Thus, sellers and buyers in these markets share, on average, the burden for preventing negative externalities.

Key finding I: Fair or moral behavior can persist in competitive market exchanges.

Comparative study in China

The experimental conditions generally reveal significant and stable levels of socially responsible behavior in markets conducted in Switzerland. However, it is also important to identify the robustness of this behavior in other populations, particularly across societies with varying cultural values, market practices, and historical trajectories in economic development. To this end, the authors report a second study, in which they compare socially responsible market behavior in their subject pool in Switzerland and a comparable subject pool in China.

Bartling and his colleagues find that the market share of the socially responsible product is much lower in China, at 16%. Nevertheless, even though the manifestation of social responsibility is much weaker in the experimental markets in China than in Switzerland, the level of market social responsibility in China is stable and does not further erode with repeated market interaction.

Key finding II: Norms of socially responsible market behavior are weaker in China than in Switzerland.

Socially responsible behavior in a No Market condition

Finally, to address the debate whether markets “corrupt” concern for social impact, the authors include conditions in both studies that allow them to directly compare the strength of the social concern exhibited by individual participants in their market environment with social concern expressed in a comparable non-market choice context. The participants’ task in the non-market condition was to allocate given monetary amounts among themselves and other participants.



Björn Bartling

Professor of Personnel and Organizational Economics
E-mail: bjoern.bartling@econ.uzh.ch

Björn Bartling is Assistant Professor at the Department of Economics at the University of Zurich and Adjunct Professor at the Department of Economics at the NHH Norwegian School of Economics in Bergen.

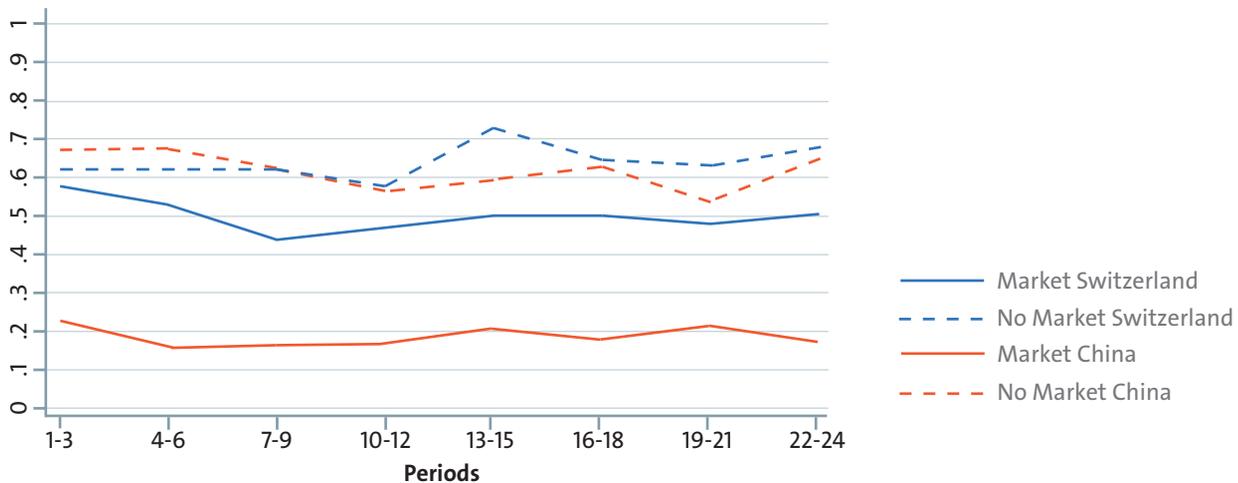
Research interests

Professor Bartling’s research focuses on experimental and behavioral economics. He uses experimental methods to understand the impact of non-selfish motivations and behavioral biases on decision making, governance structures, and allocations in markets and institutions. How do social preferences such as a taste for fairness or reciprocity affect work incentives and optimal contracting in labor environments? Are the delegation of decision rights and willful ignorance strategies used to effectively avoid blame for unpopular outcomes in political and managerial decision making? In addition to yielding efficient allocations, do markets also diffuse responsibility and shape our attitudes toward economic inequality?

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Fig. 1 Fair Product Purchases and Choices in China and Switzerland

Proportion of Fair Product / Choice



The No Market conditions allow the authors to directly compare the degrees of social concern in non-market settings in the two countries. In the non-market context, the authors find very little difference in behavior between Switzerland and China, as shown in Figure 1. Swiss and Chinese participants thus show very similar levels of prosociality – if they do not interact in a market context. When it comes to socially responsible behavior in markets, however, a big behavioral gap emerges between the two countries, which is evident from Figure 1. While participants behave prosocially less often in market contexts than in non-market contexts in both countries, the detrimental effect of the market context on prosocial behavior is much larger in China than in Switzerland.

Key finding III: Behavior in markets follows weaker prosocial norms than behavior in non-market contexts – a difference that is much more pronounced in China than in Switzerland.

Broadly, the results draw attention to the important challenge of better understanding the organizational, technological, and cultural conditions under which markets affect prosocial behavior. To this end, an ap-

pealing feature of the experimental design is that it easily lends itself to further study. After all, the findings of this and future studies could greatly affect the strategy of fair trade organizations and policy makers, who are fighting for social responsibility – be that on a local or global scale.

Reference

Bartling, Björn, Roberto A. Weber, and Lan Yao, “Do Markets Erode Social Responsibility?,” *Quarterly Journal of Economics*, 2015, Vol. 130(1): 219-266.

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Publications

Selected Publications in Economics

 Acemoglu, Daron; Gancia, Gino & Zilibotti, Fabrizio (2015). "Offshoring and Directed Technical Change," *American Economic Journal: Macroeconomics*, published online.

To study the short-run and long-run implications on wage inequality, we introduce directed technical change into a Ricardian model of offshoring. A unique final good is produced by combining a skilled and an unskilled product, each produced from a continuum of intermediates (tasks). Some of these tasks can be transferred from a skill-abundant West to a skill-scarce East. Profit maximization determines both the extent of offshoring and technological progress. Offshoring induces skill-biased technical change because it increases the relative price of skill intensive products and induces technical change favoring unskilled workers because it expands the market size for technologies complementing unskilled labor.

 Autor, David H.; Dorn, David & Hanson, Gordon H. (2015). "Untangling Trade and Technology: Evidence from Local Labor Markets," *The Economic Journal*, 125(584): 621–646.

We juxtapose the effects of trade and technology on employment in U.S. local labor markets between 1990 and 2007. Labor markets whose initial industry composition exposes them to rising Chinese import competition experience significant falls in employment, particularly in manufacturing and among non-college workers. Labor markets susceptible to computerization due to specialization in routine task-intensive activities experience significant occupational polarization within manufacturing and nonmanufacturing but no net employment decline.

 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. The mechanism described here is relevant for theory and may explain self-reinforcing processes that amplify market dynamics.

 Epper, Thomas & Fehr-Duda, Helga (2015). "Balancing on a budget line: Comment on Andreoni and Sprenger's 'Risk preferences are not time preferences,'" *American Economic Review*, forthcoming.

In a recent experimental study of intertemporal risky decision making, Andreoni and Sprenger (2012) find that subjects exhibit a preference for intertemporal diversification, which is inconsistent with discounted expected utility theory. It was claimed that their results are also at odds with models involving probability weighting, such as rank-dependent utility and cumulative prospect theory. Here the authors demonstrate, however, that rank-dependent probability weighting explains intertemporal diversification if decisionmakers care about portfolio risk.

 Gennaioli, Nicola & Voth, Hans-Joachim (2015). "State Capacity and Military Conflict," *Review of Economic Studies*, forthcoming.

Powerful, centralized states controlling a large share of national income only begin to appear in Europe after 1500. We build a model that explains their emergence in response to the increasing importance of money for military success. When fiscal resources are not crucial for winning wars, the threat of external conflict stifles state building. As finance becomes critical, internally cohesive states invest in state capacity while divided states rationally drop out of the competition, causing divergence. We emphasize the role of the "Military Revolution", a sequence of technological innovations that transformed armed conflict.

 Röhrs, Sigrid & Winter, Christoph (2015). "Public versus private provision of liquidity: is there a trade-off?," *Journal of Economic Dynamics and Control*, 53: 314-339.

To what extent is public debt private liquidity? Much

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policy advice given in the aftermath of the financial crisis rests on the assumption that increasing public debt relaxes borrowing constraints of private households. This is the case for ad-hoc debt limits, which are exogenous to public policy. Instead, if debt limits are fully endogenous, as e.g. in the case of the natural borrowing limit, public debt has no impact. We assume that borrowing limits arise because of limited contract enforceability and are therefore determined as equilibrium outcomes.

- 6  Song, Zheng; Storesletten, Kjetil; Wang, Yikai & Zilibotti, Fabrizio (2015). "Sharing high growth across generations: Pensions and demographic transition in China," *American Economic Journal: Macroeconomics*, 7(2): 1-39.

We analyze intergenerational redistribution in emerging economies with the aid of an overlapping generations model with endogenous labor supply where growth is initially high but declines over time. We characterize the optimal allocation, and propose a simple implementation through a pension system. We calibrate a version of the model to China, incorporating detailed population dynamics (fertility transition and internal migration), productivity growth and other structural features of the Chinese economy.

-  Voigtländer, Nico & Voth, Hans-Joachim (2015). "Nazi indoctrination and anti-Semitic beliefs in Germany," *Proceedings of the National Academy of Sciences of the United States of America*, 112(26): 7931–7936.

Attempts at modifying public opinions, attitudes, and beliefs range from advertising and schooling to "brainwashing." Their effectiveness is highly controversial. In this paper, we use survey data on anti-Semitic beliefs and attitudes in a representative sample of Germans surveyed in 1996 and 2006 to show that Nazi indoctrination - with its singular focus on fostering racial hatred - was highly effective. Between 1933 and 1945, young Germans were exposed to anti-Semitic ideology in schools, in the (extracurricular) Hitler Youth, and through radio, print, and film.

Further Publications in Economics

Baetschmann, Gregori; Staub, Kevin E. & Winkelmann, Rainer (2015). "Consistent estimation of the fixed effects ordered logit model," *Journal of the Royal Statistical Society: Series A*, 178(3): 685-703.

Bartling, Björn; Engl, Florian & Weber, Roberto A. (2015). "Game Form Misconceptions are Not Necessary for a Willingness-to-Pay vs. Willingness-to-Accept Gap," *Journal of the Economic Science Association*, 1: 72-85.

Bartling, Björn; Fischbacher, Urs & Schudy, Simeon (2015). "Pivotality and Responsibility Attribution in Sequential Voting," *Journal of Public Economics*, 128: 133-139.

Chen, Heng; Luo, Yulei & Pei, Guangyu (2015). "Attention Misallocation, Social Welfare and Policy Implications," *Journal of Economic Dynamics and Control*, forthcoming.

Chen, Yan; Fehr, Ernst; Fischbacher, Urs & Morgan, Peter (2015). "Decentralized matching and social segregation," *Games and Economic Behavior*, 90(C): 17-43.

Crawford, Gregory (2015). "The Economics of Television and Online Video Markets," *Handbook of Media Economics*, forthcoming.

Vogt, Sonja; Efferson, Charles; Berger, Joël & Fehr, Ernst (2015). "Eye spots do not increase altruism in children," *Evolution and Human Behavior*, 36(3).

Winter, Christoph (2014). "Accounting for the Changing Role of Family Income in Determining College Entry," *The Scandinavian Journal of Economics*, 116(4): 909-963.

Wolf, Michael & Wunderli, Dan (2015). "Bootstrap joint prediction regions," *Journal of Time Series Analysis, Special Issue*.

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Selected Publications in Neuroeconomics

 Engemann, Jan B.; Meyer, Friederike; Fehr, Ernst & Ruff, Christian C. (2015). "Anticipatory Anxiety Disrupts Neural Valuation during Risky Choice," *The Journal of Neuroscience*, 35(7): 3085-3099.

Incidental negative emotions unrelated to the current task, such as background anxiety, can strongly influence decisions. This is most evident in psychiatric disorders associated with generalized emotional disturbances. However, the neural mechanisms by which incidental emotions may affect choices remain poorly understood. Here we study the effects of incidental anxiety on human risky decision making, focusing on both behavioral preferences and their underlying neural processes.

 Grueschow, Marcus; Polania, Rafael; Hare, Todd A. & Ruff, Christian C. (2015). "Automatic versus Choice-Dependent Value Representations in the Human Brain," *Neuron*, 85(4): 874-885.

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.

 Kahnt, Thorsten; Weber, Susanna C.; Haker, Helene; Robbins, Trevor W. & Tobler, Philippe N. (2015). "Dopamine D2-receptor blockade enhances decoding of prefrontal signals in humans," *The Journal of Neuroscience*, 35(9): 4104-4111.

The prefrontal cortex houses representations critical for ongoing and future behavior expressed in the form of patterns of neural activity. Dopamine has long been suggested to play a key role in the integrity of such representations, with D2-receptor activation rendering them flexible but weak. However, it is currently unknown whether and how D2-receptor activation affects prefrontal representations in humans. In the current study, we use do

pamine receptor-specific pharmacology and multivoxel pattern-based functional magnetic resonance imaging to test the hypothesis that blocking D2-receptor activation enhances prefrontal representations. Human subjects performed a simple reward prediction task after double-blind and placebo controlled administration of the D2-receptor antagonist amisulpride. Using a whole-brain searchlight decoding approach we show that D2-receptor blockade enhances decoding of reward signals in the medial orbitofrontal cortex.

 Krajbich, Ian; Bartling, Björn; Hare, Todd & Fehr, Ernst (2015). "Rethinking fast and slow based on a critique of reaction-time reverse inference," *Nature Communications*, 6: article number 7455.

Do people intuitively favour certain actions over others? In some dual-process research, reaction-time (RT) data have been used to infer that certain choices are intuitive. However, the use of behavioural or biological measures to infer mental function, popularly known as "reverse inference", is problematic because it does not take into account other sources of variability in the data, such as discriminability of the choice options. Here we use two example data sets obtained from value-based choice experiments to demonstrate that, after controlling for discriminability (that is, strength-of-preference), there is no evidence that one type of choice is systematically faster than the other.

 Maier, Silvia & Hare, Todd (2015). "Acute stress impairs self-control in goal-directed choice by altering multiple functional connections within the brain's decision circuits," *Neuron*, 87(3): 621-631.

Stressful events occur frequently in daily life and can affect the way we make routine decisions. For example, what we decide to have for lunch may be impacted by a challenging morning meeting or an interaction with an upset client at work. The scientists found that when individuals chose between different food options after having experienced the stressful ice bath treatment, they overweighed food taste attributes and were more likely to choose an unhealthy food compared with people who were not stressed. The effects of stress were also visible in the brain. Stressed participants' brains exhibited altered

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patterns of connectivity between regions including the amygdala, striatum, and the dorsolateral and ventromedial prefrontal cortex, essentially reducing individuals' ability to exercise self-control over food choices. Only some of these changes were associated with cortisol, a hormone commonly linked to stress.

Sul, Sunhae; Tobler, Philippe N.; Hein, Grit; Leiberg, Susanne; Jung, Daehyun; Fehr, Ernst & Kim, Hackjin (2015). "Spatial gradient in value representation along the medial prefrontal cortex reflects individual differences in prosociality," *Proceedings of the National Academy of Sciences of the USA*, 112(25): 7851-7856.

Further Publications in Neuroeconomics

- 8 Cueva, Carlos; Roberts, R. Edward; Spencer, Tom; Rani, Nisha; Tempest, Michelle; Tobler, Philippe N.; Herbert, Joe & Rustichini, Aldo (2015). "Cortisol and testosterone increase financial risk taking and may destabilize markets," *Scientific Reports*, 5: 11206.

Grabner, Roland H.; Rüttsche, Bruno; Ruff, Christian C. & Hauser, Tobias U. (2015). "Transcranial direct current stimulation of the posterior parietal cortex modulates arithmetic learning," *European Journal of Neuroscience*, 42(1): 1667-1674.

Hartmann, Matthias N.; Kluge, Agne; Kalis, Annemarie; Mojzisch, Andreas; Tobler, Philippe N. & Kaiser, Stefan (2015). "Apathy in schizophrenia as a deficit in the generation of options for action," *Journal of Abnormal Psychology*, 124(2): 309-318.

Howard, James D.; Gottfried, Jay A.; Tobler, Philippe N. & Kahnt, Thorsten (2015). "Identity-specific coding of future rewards in the human orbitofrontal cortex," *Proceedings of the National Academy of Sciences of the USA*, 112(16): 5195-5200.

Ishii, Hironori; Ohara, Shinya; Tobler, Philippe N.; Tsutsui, Ken-Ichiro & Iijima, Toshio (2015). "Dopaminergic and serotonergic modulation of anterior insular and orbitofrontal cortex function in risky decision making," *Neuroscience Research*, 92: 53-61.

Strombach, Tina; Weber, Bernd; Hangebrauk, Zsofia; Kenning, Peter; Karipidis, Iliana I.; Tobler, Philippe N. & Kalenscher, Tobias (2015). "Social discounting involves modulation of neural value signals by temporoparietal junction," *Proceedings of the National Academy of Sciences of the USA*, 112(5).

New Faculty Members



Pietro Biroli

Pietro Biroli has been appointed Assistant Professor at the Department of Economics. He will be affiliated with the UBS Center. Before he joined the University of Zurich, he was a PhD student at the University of Chicago. Biroli is an empirical microeconomist, interested in the early origins and the life cycle evolution of health and human capital. His research aims to understand the mechanisms through which effective interventions and optimal choices of investment can help promote human development.

Three questions for Pietro Biroli

What kind of research do you do?

Biroli: In my job market paper, I integrate recent insights from human genetics into an economic model of investment in health, in order to explain the evolution of body mass and obesity over an individual's life. In other papers, I investigate the importance of high quality early childhood education programs and family investments within a framework that gives equal importance to health, cognitive abilities, and socio-emotional skills.

Who inspires you?

Biroli: Nobody is perfect, but some people embody traits that inspire me: the intellectual rigor and curiosity of James Heckman, the sharp economic insights on everyday life of Gary Becker, the work ethic and integrity of my dad, the passion and courage of my mom.

What do you like about Switzerland and the department?

Biroli: The first-rate economic department at UZH is the best place to carry on my interdisciplinary work, because of the many serious researchers it has attracted from around the world. Add a crown of mountains and Alpine lakes, and I couldn't be any happier!



Rema Hanna

Professor Rema Hanna joins the department as Professor of Child Well-Being and Development. She is an Associate Professor of Public Policy at the Harvard Kennedy School and a member of the Evidence for Policy Design (EPoD) research program at the Center for International Development, Harvard University. In addition, Professor Hanna is a Research Associate with the National Bureau of Economic Research (NBER), an affiliate of the Bureau for Research and Economic Analysis of Development (BREAD), and the Scientific Director for South East Asia at the Abdul Latif Jameel Poverty Action Lab (J-PAL). Her research focuses on understanding how to improve the provision of public services in developing countries, particularly for the very poor. She aims to understand the implications of environmental policy on poor households in developing countries.

Three questions for Rema Hanna

Why did you choose to pursue a career in economics?

Hanna: I was always interested in policy, and how to improve the lives of the poor. In college, I took economics classes that I thought were very interesting, and also had great professors who encouraged me to try for my PhD.

What are you currently working on, and what are the main insights of this work?

Hanna: I am working on a series of projects trying to understand how to improve the efficacy of social protection programs. You can empower citizens with information and tools to improve their access to social services.

What drew you to Switzerland and the University of Zurich?

Hanna: It is a great university and a great place to live. And, all of the good chocolate...

New Faculty Members



David Hémous

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Professor David Hémous formerly worked as an Assistant Professor of Economics at INSEAD. He has been appointed Assistant Professor of Economics of Innovation and Entrepreneurship, endowed by the UBS Center. His work is centered around Economic Growth, International Trade, and Environmental Economics. In particular, he has worked on the role of innovation for climate change policies, the long-term growth impact of countercyclical fiscal policy, the labor adjustments to international trade, and the impact of relational contracts on innovation.

Three questions for David Hémous

What motivates you to do economic research?

Hémous: First, curiosity. Economics is a great tool to understand a little bit better the world around us, research allows me to do that and then to share this understanding with others. But, in addition, a better understanding of the world can (sometimes) lead to better policies.

What is the primary focus of your current work?

Hémous: The main focus of my current work is on growth and inequalities. I am exploring the links between innovation and the rise of top income inequality, and I am also studying the causes and consequences of the automation of production processes.

How does the Department of Economics compare to other universities?

Hémous: The Department of Economics is one of the best European places and it has been growing quickly over the last few years. I believe that it is now comparable to a leading US institution. In addition, it has a strong commitment to public outreach, which I believe is a critical part of economics research.



Hannes Schwandt

Hannes Schwandt joins the Department of Economics as an Assistant Professor. He is also affiliated with the Jacobs Center for Productive Youth Development at the University of Zurich. Previously, he worked as a Postdoctoral Research Associate at the Center for Health and Wellbeing at Princeton University. His main research fields are Health Economics and Child Development. In addition, his research extends to Labor Economics, Demography, and Subjective Well-Being.

Three questions for Hannes Schwandt

What are you currently working on?

Schwandt: Currently I investigate the evolution of inequality at birth and death, and how influenza infections during pregnancy impact the long-term development of the newborn.

What inspires you to conduct research in economics?

Schwandt: I have always been fascinated by the causes and consequences of economic inequality. I believe that markets are inherently good as they allow people to exchange favors and improve each others lives. Those who cannot fully contribute to and benefit from these “exchanges of favors” suffer worse physical and mental health. To the surprise of many, it is largely unclear how public policy can improve the lives of the disadvantaged and what causes the strong association of poverty with health and wellbeing in the first place.

What drew you to the Department of Economics of the University of Zurich?

Schwandt: Zurich is already one of the leading Economics Departments in Europe and is undergoing further exciting developments. I am particularly thrilled about the push in the fields of Health Economics and Child Development, in collaboration with the Jacobs Foundation.



From top left to bottom right:
Andreas Haller, Wischiro Keo, Florian
Schneider, Aleksei Smirnov, Juliette
Thibaud, Christian Zünd.

Every fall, a fresh crop of PhD students arrives at the Department of Economics. A couple of our second year students answered some questions regarding their studies while reflecting on what it means to fully commit to being a doctoral student and what their personal driving factors are in the exciting world of economics.

What are the difficulties / obstacles of being a PhD student?

Juliette: The first year can be a bit discouraging as you often have to spend time on things which are not directly related to your interests, but keep in mind that soon you will be able to focus on your own research, keep on reading and speaking with others about what drives you.

Christian: Justifying your existence (to friends, relatives, potential mates): it is not always easy to explain why you spend another four years to obtain a degree when you are actually quite employable already. It helps a lot if you are good at communicating your research in a simple and captive way, so on the bright side, it helps you to sharpen your communication skills.

Wischiro: I heard from many advanced students that the transition from doing courses to doing research is the most difficult part. For the first year courses though, one has to have the stamina to study course material and writing exams on it again.

Have you already chosen a specialty you would like to pursue in the future?

Aleksei: Yes, and quiet long ago, but I cannot concisely specify it. The best I can characterize it is “not too theoretical theory”. I definitely work in theory, however, I never do pure theory like “sufficient conditions for the existence of Nash equilibrium” or “choice under uncertainty axiomatization”, but rather apply modeling to some specific phenomena I personally find interesting. The phenomenon itself can be quite in any field from traditional to micro-theorists IO and Auction Theory to exotic branches like Labor Economics.

Florian: I am still widely interested in different topics, but I definitively prefer Micro. At the moment I am most fascinated by human decision making, so behavioral economics, decision theory and game theory.

What interests you most about economics?

Andreas: We live in a complicated and possibly even complex world. Trying to understand relevant aspects of this world is exciting and (at least from my viewpoint) the aim of economics. I can therefore get excited about many aspects of economics. I am most interested in labor economics because there are interesting questions, good data to answer them and the topic’s policy relevance.

Christian: I like the ability of economics to function as a toolbox for social sciences and its ability to find the surprising answers to interesting questions that are not usually thought of as economic. One of my recent highlights was reading that parents of only girls were more likely to

divorce not because they had girls, but because they were more likely to get girls. The explanation offered was strikingly simple and the empirical work meticulous, so I just knew that there must have been an economist at work. And sure enough one of the authors turned out to be an economist.

12 **Aleksei:** The process of research itself: going step-by-step from initial idea, its discussions and basic model to eventual results. Even if you can sometimes suspect what results the model you do generates, you never know it for sure and gradually going through a thorny path and finally obtaining the answer brings exceptional joy.



Second year doctoral students Fanny Brun and Juliette Thibaud

What tips could you give other PhD students?

Andreas: I can only repeat the good advice I got from faculty members: Invest in methods. The methods you learn during your PhD lays the foundations for the rest of your career as an economist (and it will not get easier to learn new things when you get older). Figure out what you're really interested in and take your PhD as a chance to work on stuff you like. Talk to as many people as possible about your research (even more so if your research is still at a very early stage). This forces you to be able to present the relevance of your research in a few sentences and provides valuable feedback and new perspectives on your research.

Florian: My tip for the coursework is to work together with your colleagues. We solved and discussed most of the problem sets together in office. This was a big advan-

tage as we had very different backgrounds, some were good in macro and others knew more about metrics and programming.

Wischiro: It might sound obvious, but you should do the problem sets and be abreast with all the lecture material. The pace of the courses is higher than one first might have the impression, but material accumulates quickly. Additionally, try to attend seminars you are interested in, even though it is not compulsory in the first year. It will give you insights on academic research in general.

What economic trends do you find fascinating?

Andreas: It is more of a general trend that fascinates me: the increasing availability of data and computational power. This offers exciting new opportunities to learn how the economy works based on empirical evidence.

Aleksei: Economics of today is like an old diamond mine. All big diamonds were extracted long ago in the 80s and 90s and nowadays economists are compelled to collect remnants. Yes, from time to time big diamonds are still extracted, but it happens very rarely. In such a scarce-for-topics environment it has become quite a successful practice to merge existing subfields together or adding dynamics to classical models. I cannot guarantee that choosing two arbitrary subfields (or one + dynamics) will give you a sure top-5 (or even at least meaningful) contribution, but as a first step I would suggest you to try it. The method is quite easy and chances for success are comparatively high.

Wischiro: Although discussions about it has cooled down a bit, I still find globalization and the accompanying financial integration quite a fascinating trend, especially if one takes into account the recent great financial crisis. What started as a US sub-prime crisis has turned into one of the most severe recessions in history, where the global interconnectedness surely played a significant role. I also think that this ongoing global economic integration is important if one considers the trend of increased inequality; inequality can have destabilizing effects on an economy and it is important for policy makers to study its causes.

Farewell Emeritus Professor Dr. Josef Falkinger

Juliette: I was initially trained as a political scientist and I therefore generally like that economists are interested in an increasingly large set of issues and methodologies, notably from other social sciences.

Christian: The increasing combination of empirical and experimental methods to understand both the macro-level effects of an event and the decision mechanisms that led to it. Econometricians have developed amazing technics to identify the former and experimental economists have refined the tools to study the later.



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The Department of Economics bids farewell to Josef Falkinger, Professor Emeritus at the University of Zurich. We thank him for 15 years of dedicated work and for his valuable contribution to the department.

Josef Falkinger joined the University of Zurich as Professor for Public Finance and Macroeconomics in 2000. From 2008–2012, Josef Falkinger served as Dean of the Faculty of Business, Economics, and Informatics at the University of Zurich. During his term of office, he contributed significantly to the faculty by redefining international standards as well as strengthening the awareness of the faculty. Among his many accomplishments, his crucial role in merging the former eight institutes into the current four (Department of Economics, Department of Business Administration, Department of Banking and Finance, Department of Informatics) has enhanced the faculty's position amongst the best in Europe.

The Austrian native can look back on many achievements during his academic career. Josef obtained his doctorate in Technical Mathematics from the University of Linz in 1979 and his doctorate in Economics in 1982 (also University of Linz). He was an economist at the Austrian Chamber of Commerce, 1979–1982, and worked as an Assistant Professor and Lecturer at the University of Linz from 1982–1990. He has worked and taught at the University of Graz, as Professor of Public Economics from 1991–1994, and at the University of Regensburg, as Professor of Industrial Economics and Foreign Trade Theory, 1990 and 1995–2000. In 2010 he was appointed Chairman of the Scientific Advisory Board of The Kiel

Contact

Zurich Graduate School of Economics
University of Zurich
Department of Economics
Schönberggasse 1
CH-8001 Zurich
dpe@econ.uzh.ch
www.econ.uzh.ch/dpe



Workshop in Honor of Josef Falkinger

Institute for the World Economy at the University of Kiel and in 2013 he became a Member of University Council of the Johannes Kepler University Linz.

Josef Falkinger's research interests include Macroeconomics – in particular Employment, Distribution, and Growth – and Public Goods. His work has been published in the *American Economic Review*, *Journal of Public Economics*, *European Economic Review*, *Journal of the Japanese and International Economies*, *Research in Labor Economics*, among other journals. His book on “A Theory of Employment in Firms. Macroeconomic Equilibrium and Internal Organization of Work” appeared in 2002.

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Appraisals

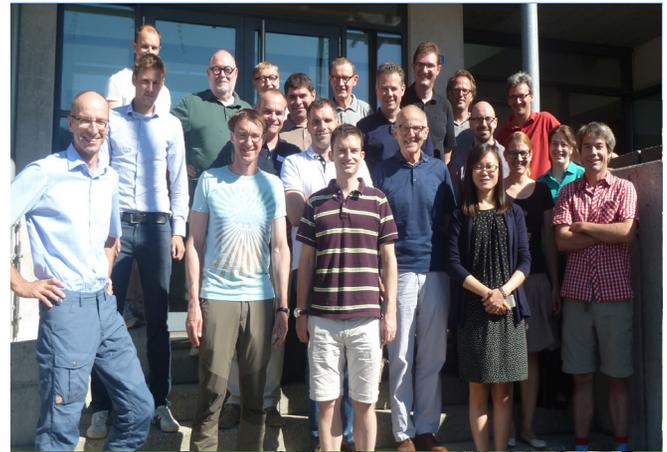
“Josef Falkinger is a passionate economist and a great scholar with deep insights into our discipline. His scientific ability, his dedication to a rigorous and structured way of argumentation as well as his experienced guidance are benefiting my PhD thesis immensely. Beyond being a supportive supervisor, he is a cherished colleague who has inspired illuminating thoughts and discussions. I thank you, Josef Falkinger, for your dedicated mentoring and all the support.”

Sabrina Studer, PhD Student at ZurichGSE

“In a dynamic literature with many idiosyncrasies, his own research is guided by rigorous theoretical thinking. I benefited enormously from Josef Falkinger's long-term experience combined with scientific curiosity as well as his exemplary emphasis on theoretically robust and empirically relevant phenomena.”

Timo Boppart, Assistant Professor at Stockholm University

Current and former colleagues, students, and friends of Josef Falkinger gathered on August 28–29, 2015, in order to discuss their latest research findings and to honor Professor Falkinger's contribution to the scientific community.



The Workshop took place in the Hotel Hirschen in Wildhaus, which lies in the Toggenburg, a region high in the valley between Säntis and the Churfirsten mountain range of Switzerland. Reto Foellmi (University of St. Gallen), Volker Grossmann (University of Fribourg), Rainer Winkelmann (University of Zurich) and Josef Zweimüller (University of Zurich) organized the two-day workshop, which included several presentations by former students and colleagues of Josef Falkinger, such as Timo Boppart (Stockholm University), Michael Kosfeld (University of Frankfurt), and Jean-Charles Rochet (University of Zurich). A stimulating discussion on “Innovation in Economics,” moderated by Johannes Binswanger (Tilburg University), formed the highlight of the workshop.

In the afternoon of the second day, there was plenty of time for everyone to enjoy the beautiful site and to go hiking in the surrounding mountains.

Department Events 2015

“You think you’re clever?” – Get ready to change the way you think about economics

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



Richard H. Thaler

Have you ever spoiled your dinner by eating too many appetizers? Or did you ever buy ski tickets in ten-packs, because it seemed like a good deal? Would you be willing to wait three years for seats at the Wimbledon final game, rather than get tickets to this year’s first round? Richard H. Thaler, the Ralph and Dorothy Keller Distinguished Service Professor of Behavioral Science and Economics at the University of Chicago Booth School of Business, states that if people make bad decisions, then it is at least in principle conceivable that someone can help you make better decisions.

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In collaboration with the Müller-Möhl Foundation, the Department of Economics invites you to the presentation of his new book “Misbehaving – The Making of Behavioral Economics”, which is Thaler’s arresting, frequently hilarious account of the struggle to bring an academic discipline back down to earth – and changes the way we think.

www.econ.uzh.ch

UBS Center Forum 2015: The Economics of War and Peace

November 16, 2015, 6:30 p.m. at the Kaufleuten Zurich



Mohamed ElBaradei

The world is facing a resurgence of violent conflicts – from civil wars in Africa and the Middle East, to global terrorism, to an East-West conflict in the Ukraine many believed had vanished with the end of the Cold War. While casualties and politics dominate the media coverage and public debate, important economic forces are at play below the surface of many of these conflicts. Furthermore, the presence (or absence) of these conflicts not only shapes prosperity and economic policies of the countries directly involved, but also increasingly does so in European and other western nations.



Didier Burkhalter

The Forum will feature keynote speeches by Mohamed ElBaradei (Nobel Peace Prize Winner), Didier Burkhalter (Head of the Federal Department of Foreign Affairs, Switzerland), and Steven Pinker (Professor at Harvard University and best-selling author).

Panel speakers include Ethan Bueno de Mesquita (University of Chicago), Tim Harford (Financial Times), François Heisbourg (Chairman of the International Institute for Strategic Studies), Ambassador Wolfgang Ischinger (Chairman Munich Security Conference), Sergey Karaganov (Honorary Chairman of the Council for Foreign and Defense Policy, Moscow), Ambassador Livia Leu (SECO), Edward Miguel (Berkeley University of California), and Vaira Vike-Freiberga (European Council on Foreign Relations).



Steven Pinker

The detailed program together with further information on the speakers and on how to register will be available on the UBS Center Website in due course.

www.ubscenter.uzh.ch

Publisher

University of Zurich
Department of Economics
Schönberggasse 1
CH-8001 Zurich
www.econ.uzh.ch

Editorial Board

Maura Wyler-Zerboni, Department of Economics, UZH
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