

4th Madrid Microeconomics Graduate Workshop (MMGw)

Universidad Carlos III de Madrid, 25 November 2015

9:30-11:30 FIRST SESSION (Room 15.1.01)

Each presentation will last for 30min+10min questions

Federico Masera (UC3M)

War Comes Home: The effects of the Militarization of US Police

Abstract: The withdrawal from the Afghan and Iraqi war has caused the arrival of huge quantities of military equipment to police departments in the US. This has been caused by what are called military equipment re-utilization programs that redistribute unused military equipment to police department. In this paper I study the effect of the largest military equipment re-utilization program (program 1033). I do so by taking into account that military equipment are available at various disposition centers around the US and police departments that request military equipment need to pay the transportation costs from these disposition centers. This provides me with a source of cross-sectional variation that I combine with the time variation provided by the withdrawal from the Iraqi and Afghan war. I first show how after this withdrawal police departments hugely increased the military equipment in their possession. Police department close to the disposition centers specially so. I then use this exogenous variation to show that military equipment reduces crime by displacing it to other areas with less military equipment. Taking into account this displacement the overall effect of the militarization of the police is to increase crime. This overspending in the militarization of the police can be rationalized by the decentralized nature of the program 1033 and police departments not taking into account the negative effects they have on their neighbors.

Jin Huang (CEMFI)

Consumer Search and Observational Learning

Abstract: In the search literature, it is commonly modeled that an increase in the search cost reduces price competition. However, if we take observational learning into account, in which consumers can observe predecessors' purchase decisions and extract information from them before making their own choices, then a higher search cost leads to more late consumers rationally "herding"; hence, a firm has an additional incentive to reduce its price, for the purpose of attracting early consumers to form informational cascade towards his product. As a result, with observational learning, an increase in the search cost may intensify price competition. The final effect of an increase in the search cost on price is ambiguous.

Christos Maveridis (co-authored with Nikolas Tsakas) (UC3M)

Social Capital and Communication Channels

Abstract: We study how different communication channels within a society lead to different distributions of multidimensional opinions. In particular, we construct a theoretical model that allows us to compare and contrast the dynamics of societies whose members exchange opinions through bonding associations and societies whose members exchange opinions through bridging associations. We show that both dynamics converge to a steady state, where the population is divided in groups, within which consensus is reached in all issues. The rate of convergence of the bonding case is higher than the rate of the bridging one. Moreover, the bridging case converges to distributions that have on average fewer, but with greater mass, opinion groups compared to the bonding case. Our theoretical results are confirmed by simulations and supported by empirical data.

11:30-12.00 COFFE BREAK (Common room)

12:00-13:30 SECOND SESSION (Room 15.1.01)

Each presentation will last for 20min+10min questions

Andrés Gago (CEMFI)

The virtuous circle of cooperation

Abstract: By means of a controlled lab experiment, I want to study how an environment that fosters cooperation helps individuals to cooperate, achieving an efficient non Nash equilibrium in a Prisoner's Dilemma type of setting.

Sebastian Panthöfer (co-authored with A. Bohne) (UC3M)

Adverse Effects of Competition in General Practice? Antibiotic Prescriptions in England

Abstract: We analyze the impact of competition on the prescribing behavior of physicians using instrumental variables. While increased competition between health care providers is generally viewed favorably, there are also concerns that it encourages unnecessary prescription drug use. We use rich administrative data from the UK National Health Service to shed light on this issue in the context of a highly regulated market, in which the incentives for physicians to compete on non-price dimensions, such as prescriptions, are particularly high. To account for the potential endogeneity of our competition measure that arises when patients choose practices depending on the prescribing behavior of physicians, we exploit plausibly exogenous variation in local physician densities and the variance of practice quality in local markets.

Simas Kucinskas (CEMFI)

Dividends in the Time of Crisis

Abstract: Many banks continued to pay dividends in 2007-8 in the face of mounting losses and write-downs. Such behavior seems puzzling, especially given that many of these dividend-paying banks later went bankrupt or received large government equity injections, and stands in sharp contrast to the behavior of non-financial companies. Simultaneously, however, banks sharply cut down on share buybacks. I hypothesize that banks continued paying dividends in an effort to signal strength to their short-term creditors. Given that banks have a severe maturity mismatch problem and are highly leveraged, this mechanism has the potential to explain both the divergence in dividend policies between banks and non-financials, as well as within-industry variation among banks. Specifically, the mechanism predicts that banks with higher values of (i) insured deposits to total liabilities; (ii) book equity to total liabilities; (iii) liquidity coverage ratio should be more likely to cut dividends. In addition, the model has predictions on the cross-sectional differences along (i)-(iii) in stock price responses to dividend cuts. Finally, the mechanism is consistent with anecdotal evidence from market participants.

13:30-14:30 LUNCH (Common Room)

[We kindly asks participants to contribute to the costs of salads and sandwiches, as will shortly be announced]