

# **Madrid Microeconomics Graduate Workshop**

12 May 2014, Universidad Carlos III de Madrid

Calle Madrid 126, Getafe. Building 15, room 15.1.01

## **10.00-11.30: Session I**

Julio Crego (CEMFI): "Right Time or Right Action: A Theory of Waiting for Information Leakage"

Nikolaos Tsakas (UC3M): "On the Unidimensionality of Opinions"

Jin Huang (CEMFI): "Should Google Charge like A Taxi Driver?"

## **11.30-12.00 Coffee Break**

## **12.00-13.30: Session II**

Federico Masera (UC3M): "The Effects of the Competition Between Religious Organizations and the Welfare State"

Sandra García Uribe (CEMFI): "Choose the lead to be the leader: The front-page decision of editors of top-circulation US newspapers"

Sebastian Panthofer (UC3M): "Risk Selection under Public health insurance with Opt-Out"

13.30: Lunch

## Abstracts

### **Julio Crego (CEMFI): "Right Time or Right Action: A Theory of Waiting for Information Leakage"**

Since Kyle (1985) and Glosten and Milgrom (1985), there has been a lot of research on how informed agents interact with uninformed and the market maker. However, the interaction between informed traders is not fully understood. In this paper, we model informed traders as agents that receive signals about the fundamental value and, can observe the realized trades in the market. Therefore, these agents face a trade-off: On one hand, the sooner they act the higher surplus they get from the market maker; on the other hand, by waiting they receive more signals from other agents' trades about the fundamental. In the end, informed traders that are more certain about the fundamental value will act while the others will wait. This simple trade-off can explain some empirical evidence found in previous literature such that order clustering or the informativeness of the opening price. Specifically, this model predicts serial dependence between trades and prices in the short run, suggesting that waiting for informational leakage can serve as an additional explanation for the Epps effect, especially after a public signal such as earning announcements, dividend announcements and/or the opening price.

### **Nikolaos Tsakas (UC3M): "On the Unidimensionality of Opinions"**

Differences in opinion tend to be along a unidimensional spectrum. This is probably most evident in politics, but market sentiment or attitudes towards technology are other examples. The study of opinion formation focuses on factors that can shift public opinion one way or the other, or affect the degree of polarization of opinions. The dimension along which these shifts take place is typically taken as given. The idea that the way in which members of a population communicate can determine the shape of disagreement gives points to the possibility of a different channel for traditional media and interest groups to affect public opinion. In this paper we use a lab experiment to try to establish whether unidimensional opinions can be explained through the way individuals form their opinions about different issues through communication in a network.

### **Jin Huang (CEMFI): "Should Google Charge like A Taxi Driver?"**

This paper models the interplay among three agents: a news aggregator that chooses the proportion of news to display on its own website, and the amount of advertisements it exposes readers to; a newspaper that chooses the level of effort exerted to produce news; and heterogeneous readers who choose whether to go to the newspaper directly or through the news aggregator or not at all, depending on their own loyalty to the newspaper. It shows that the presence of a news aggregator can moderate the moral hazard problem of the newspaper producing low quality news. However a long snippet on the news aggregator's website discourages the newspaper from exerting efforts. This paper also provides a micro-foundation for the heated policy debate today on news aggregators, and it finds regulators should tax the news aggregator when the price of newspaper is low, and vice versa.

**Federico Masera (UC3M): "The Effects of the Competition Between Religious Organizations and the Welfare State"**

Religious organizations and the welfare state often provide goods and services that answer to similar needs. I study the effects of this competition by developing a model where agents differ in their level of religiosity. I first analyze how the size of the welfare state influences church participation decisions and then how religiosity affects voting preferences on welfare state. The results show a negative effect of the size of the welfare state on participation in church activities, this effect is more pronounced for secular individuals. Additionally, preferences over the welfare state are negatively correlated with individual religiosity. Finally, I introduce a dynamic model where individual religiosity is made endogenous. The model predicts that an increase in the relative efficiency of the welfare state with respect to the church is the main driver of the secularization of a society. I then use international survey data on participation in church activities, religiousness and preferences over the size of the welfare state to validate my model by showing how it can account for many of the observed regularities.

**Sandra García Uribe (CEMFI): "Choose the lead to be the leader: The front-page decision of editors of top-circulation US newspapers"**

The purpose of this project is to apply recently developed methods of estimation to a model of strategic interactions in the media market. Specifically, I will estimate a game of complete information where national general information newspapers simultaneously choose their main front-page stories for the period 2007-2012. Newspapers' editorial boards need to decide everyday what would be the story occupying the main position in their front-page. The newspaper front-page is the cover of their product and would be a relevant variable for the purchasing decision of the potential reader. Front-page stories have an impact in the beliefs of the readers and a social planner that is interested in the correct beliefs of the population would like newspapers to offer the right emphasis on each story.

**Sebastian Panthofer (UC3M): "Risk Selection under Public health insurance with Opt-Out"**

This paper studies risk selection between public and private health insurance under a system which grants some individuals the right to opt out of public insurance, where premia depend on income, and to buy risk-rated private insurance instead. Using a theoretical model, I show that selection against the public plan is adverse when private insurers and their clients are symmetrically informed about health-related risks, and can take any form (advantageous or adverse) when insurance clients are privately informed about their risks. Drawing on data from the German Socio-Economic Panel, I find evidence of adverse selection against the public sector under the German public health insurance with opt-out system. Selection occurs on insuree characteristics which are observed and priced in by private insurers, and on unobserved characteristics. I show that individuals self-select based on risk aversion and self-assessed health, explaining a part of the selection on unobservables.