Universität Bonn, Adenauerallee 24-42, D-53113 Bonn
www.econ.uni-bonn.de
Redaktion / Editor: Regina Haverkamp, Fachbereich Wirtschaftswissenschaften
Phone: +49 (0)228-73 2129; Fax: +49 (0)228-73 992129; email: econnews@uni-bonn.de

UNIVERSITÄT BONN

# BONN ECON NEWS

FACHBEREICH WIRTSCHAFTSWISSENSCHAFTEN
DEPARTMENT OF ECONOMICS

## WORKSHOPS AND SEMINARS APRIL 19 - 23, 2021

### Tuesday, Apr 20, 2021

Finance and Insurance / CRC TR 224 / ECONtribute Seminar
**11:00 CET, via Zoom, details below**

**Tim Eisert,** Erasmus Univ. Rotterdam
"Exorbitant Privilege? The Bond Market Subsidy of Prospective Fallen Angels"

IZA Research Seminar
**14:00 CET, via Zoom, details below**

**Gabriella Conti,** UCL
"Perceived Costs and Benefits of Compliance to the COVID-19 Social Distancing Measures: Evidence from Subjective Expectations"

Applied Micro / CRC TR 224 / Workshop, in Co-operation with briq
**16:00 CET, via Zoom, details below**

**Ernst Fehr,** Univ. of Zurich
"Attentional Foundations of Framing Effects"

ECONtribute Law and Econ Workshop
**18:00 CET, via Zoom, details below**

**Julian Nyarco,** Stanford Law School
"A Statistical Test for Legal Interpretation: Theory and Applications"

### Wednesday, Apr 21, 2021

Micro Workshop BGSE
**12:00 CET, via Zoom, details below**

**Gregorio Curello,** Univ. Bonn
"Screening for Breakthruoghs"

Micro Theory Seminar
**16:30 CET, via Zoom, details below**

**Andrey Malenko,** Univ. of Michigan
"Asymmetric Information and Security Design under Knightian Uncertainty"

### Thursday, Apr 22, 2021

Finance / Bonn MacroHistory Seminar
**16:00 CET, via Zoom, details below**

**Kilian Huber,** Univ. of Chicago
"Tracing the International Transmission of a Crisis Through Multinational Firms"

## Finance and Insurance / CRC TR 224 / ECONtribute Seminar

**Tim Eisert,** Erasmus Univ. Rotterdam

"Exorbitant Privilege? The Bond Market Subsidy of Prospective Fallen Angels"

Abstract

We document that risky firms just above the investment-grade cutoff, which face the prospect of becoming ``fallen angels'' upon a downgrade, enjoy an exorbitant privilege in borrowing costs. In particular, these firms have benefited from investors subsidizing their bond financing costs since the Global Financial Crisis, especially during periods of monetary easing. We document two important consequences of the investor demand for

bonds issued by prospective fallen angels. First, the subsidized firms grow disproportionately large and increase their market share by reducing the markup on their products. Second, the resulting spillover effects force their competitors to reduce employment, investment, markups, and sales growth. The pace of downgrades to fallen angels in the aftermath of the pandemic, rapid even when compared with the Global Financial Crisis, highlighted their vulnerability, as also evidenced in the Federal Reserve extending its backstop to bonds issued by these firms in April 2020.

*Zoom Link will be sent via financegroup@listen.uni-bonn.de before the seminar.*

## IZA Research Seminar

**Gabriella Conti,** UCL

"Perceived Costs and Benefits of Compliance to the COVID-19 Social Distancing Measures: Evidence from Subjective Expectations"

*(with Pamela Giustinelli)*

Abstract

Management of ongoing pandemics and prevention of future ones requires quantifying and understanding the determinants of citizens' decisions to comply, or not, with the public health measures designed to prevent, contain, and contrast the contagion. When deciding on compliance, citizens will trade off the costs and benefits of alternative actions. For instance, if a citizen perceives a measure – say, social distancing – as effective at reducing own infection risk, the expected risk reduction represents a key benefit from complying. Compliance with public health measures, however, may have costs in addition to benefits, both monetary and psychological. Ultimately, whether a person complies–and, if so, systematically or only in certain circumstances–will depend both on the perceived costs and benefits and on how the person trades these off. Different people may have partially different costs and benefits and/or may weigh them differently, possible depending on their characteristics and experiences. Separately quantifying the roles of expectations and preferences in determining compliance decisions is fundamental for policy.

In this paper we study these issues by leveraging recent advances in survey design and econometric analysis of probabilistic expectations. We run two surveys in the United Kingdom and in Italy during the first lockdown regarding the individuals' perceived costs and benefits from complying with the social distancing measures implemented - including subjective probabilities of contracting Coronavirus, being hospitalized or fined, becoming unemployed or socially isolated. We first develop and estimate a model of compliance behavior and unpack the importance of expected costs and benefits, cost-benefit tradeoffs, and their heterogeneity across citizens' backgrounds and experiences. We then quantify the monetary compensation required to be socially isolated-providing key information to policymakers. Last, we

evaluate the impacts of policy measures on citizens' risk perceptions and compliance behaviors through randomized information & sensitization interventions and elicitation of individual responses to policy-relevant scenarios.

*Join Zoom Meeting: https://us02web.zoom.us/j/87487213161*
*Meeting ID: 874 8721 3161*

## Applied Micro / CRC TR 224 Workshop, in Co-operation with briq

**Ernst Fehr,** Univ. of Zurich
"Attentional Foundations of Framing Effects"
*(with Todd Hare, Gaia Lombardi)*

Abstract
Framing effects in individual decision-making have puzzled economists for decades because they are hard, if at all, to explain with rational choice theories. Why should mere changes in the description of a choice problem affect decision-making? Here, we examine the hypothesis that changes in framing cause changes in the allocation of attention to the different options – measured via eye-tracking – and give rise to changes in decision-making. We document that the framing of the sure alternative as a gain – as opposed to a loss – in a risk-taking task increases the attentional advantage of the sure option and induces a higher choice frequency of that option – a finding that is predicted by the attentional drift-diffusion model (aDDM). The model also correctly predicts other key findings such as that the increased attentional advantage of the sure option in the gain frame should also lead quicker decisions in this frame. In addition, the data reveal that increasing risk aversion at higher stake sizes may also be driven by attentional processes because the sure option receives significantly more attention – regardless of frame – at higher stakes. We also corroborate the causal impact of framing-induced changes of attention on choice with an additional experiment that manipulates attention exogenously.

Finally, to study the precise mechanisms underlying the framing effect we structurally estimate an aDDM that allows for frame and option-dependent parameters. The estimation results indicate that – in addition to the direct effects of framing-induced changes in attention on choice – the gain frame also causes (i) an increase in the attentional discount of the gamble and (ii) an increased concavity of utility. Our findings suggest that the traditional explanation of framing effects in risky choice in terms of a more concave value function in the gain domain is seriously incomplete and that attentional mechanisms as hypothesized in the aDDM play a key role.

*Zoom URL TBA via mailing list*

## ECONtribute Law and Econ Workshop

**Julian Nyarco,** Stanford Law School
"A Statistical Test for Legal Interpretation: Theory and Applications"
*(with Sarath Sanga)*

Abstract
Many questions of legal interpretation hinge on whether two groups of people assign different meanings to the same word. For example: Do 18th- and 21st-century English speakers assign the same meaning to commerce? Do judges and laypersons agree on what makes conduct reasonable? We propose a new statistical test to answer such questions. In three applications, we use our test to (1) quantify differences

in the meanings of specialized words from civil procedure, (2) identify statistically significant differences between judges and laypersons' understandings of reasonable and consent, and (3) assess differences across various effort standards in commercial contracts (phrases like best effort and good faith effort). Our approach may be readily applied outside the law to quantify semantic disagreements between or within groups.

*To participate, please register here:* https://www.jura.uni-bonn.de/castle/econtribute-law-and-econ-workshop/

## Micro Workshop BGSE

**Gregorio Curello,** Univ. Bonn
"Screening for Breakthruoghs"


Abstract

We identify a new and pervasive dynamic agency problem: that of incentivising the prompt disclosure of productive information. To study it, we introduce a model in which a technological breakthrough occurs at an uncertain time and is privately observed by an agent, and a principal must incentivise disclosure via her control of the agent's utility. We uncover a striking deadline structure of optimal mechanisms: they have a simple deadline form in an important special case, and a graduated deadline structure in general. We apply our results to the design of unemployment insurance schemes.


*Zoom link: https://zoom.us/j/96045476214*

## Micro Theory Seminar

**Andrey Malenko,** Univ. of Michigan
"Asymmetric Information and Security Design under Knightian Uncertainty"


Abstract

An issuer, privately informed about the distribution of the project's cash flows, raises financing from an uninformed investor through a security sale. The investor faces Knightian uncertainty about the distribution of cash flows and evaluates each security by the worst-case distribution at which she could justify it being offered by the issuer. We characterize the generically unique equilibrium of this non-Bayesian signaling game. Both standard outside equity and risky debt are issued by different issuer types in equilibrium, providing a common foundation for two most widespread financial contracts. The equilibrium security depends on the degree of uncertainty and the nature of private information. If private information concerns a new project and uncertainty is sufficiently high, outside equity prevails in equilibrium. When uncertainty is sufficiently small, the equilibrium typically features risky debt and never outside equity. If private information concerns assets in place, equity is never issued, irrespective of the level of uncertainty, and the equilibrium security is (usually) risky debt.


*Zoom link: https://zoom.us/j/96045476214*

## Finance / Bonn MacroHistory Seminar

**Kilian Huber,** Univ. of Chicago
"Tracing the International Transmission of a Crisis Through Multinational Firms"


Abstract

This paper shows that idiosyncratic shocks to individual firms can affect growth all over the world, even if shocked firms have no direct foreign connections and no operations abroad. We identify an idiosyncratic shock to a German bank, which caused the bank to cut lending to German borrowers. Multinational parent firms located in Germany became financially constrained. In response, international affiliates of affected parents supported their parents by lending through internal capital markets and became constrained themselves. The real growth of affiliates fell sharply and took three years to fully recover. Though the initial shock only hit the domestic activities of a firm in Germany, the impact in other countries was sizable (for instance, around 0.4 percent of aggregate sales in Austria and the Czech Republic). The findings reveal that idiosyncratic shocks to individual firms influence economic outcomes far beyond firms' direct scope of operation.


*Zoom: https://uni-bonn.zoom.us/j/5234384763?pwd=YnpiYnBaWERyR1BFNHBpUUQ1c0dQdz09*
*Meeting ID: 523 438 4763*
*Passcode: 968132*

**Redaktionsschluss / Deadline**
**BONN ECON NEWS April 26 - 30, 2021**
**Wednesday, April 21, 2021**
**12:00**
BONN ECON NEWS by email (pdf):
To subscribe or unsubscribe send E-Mail to
sympa@listen.uni-bonn.de
Write in subject line "subscribe/unsubscribe econ-news Name LastName"
and no text in body.