2014–15 YEAR IN REVIEW

IGM Initiative on Global Markets

CHICAGO BOOTH

The Initiative
on Global Markets

Our Purpose

The massive global movements of capital, products, and talent in the modern economy have fundamentally changed the nature of business in the 21st century. They have also generated confusion among policymakers and the public.

The University of Chicago Booth School of Business continues its role as a thought leader on how these markets work, their effects, and the way they interact with policies and institutions.

The Initiative on Global Markets organizes these efforts. It supports original research by Chicago Booth faculty, prepares our students to make good decisions in a rapidly changing business environment, and fosters an exchange of ideas with policymakers and leading international companies about the biggest issues facing the global economy.

The Initiative on Global Markets spans three broad areas: (1) international business, (2) financial markets, and (3) the role of policies and institutions.

Thank You

The Initiative on Global Markets is grateful for the generous support provided by Kenneth Griffin, by Anne Dias Griffin, and by Myron Scholes, MBA '64, PhD '70; Eugene Fama, MBA '63, PhD '64; Ramsey Frank, '86; Randy Lampert, '77; John Meriwether, '73; and the Chuck and Monica McQuaid Family Foundation.

Letter from the Director

BRIAN BARRY
EXECUTIVE DIRECTOR, IGM
CLINICAL PROFESSOR OF ECONOMICS

Capital, people, and products move around extensively in the global economy, and the forces that drive these shifts generate debate among policymakers and the public. The Initiative on Global Markets (IGM) provides informed, evidence-based thought leadership on how these markets work, their effects, and the way they interact with policies and institutions. In doing so, it upholds Chicago Booth's finest scholarly traditions by pursuing new discoveries and ideas wherever they lead.

More than 40 members of Chicago Booth's faculty contribute significantly to the IGM, which allows us to devote substantial intellectual energy to its core mission. The IGM pursues this mission in two main ways. It supports original research by Booth faculty who are examining international business, financial markets, and the role of public policies and institutions. And it hosts distinguished visitors and engages with the public to promote informed and constructive discussion of how these markets and institutions work, and their effects on issues at the center of policy debates.

During this past year, for example, we sponsored public talks in the Myron Scholes Global Markets Forum—our distinguished speakers series—on a range of current topics. These included lectures on challenges facing the euro area, China's economic reform efforts, and economic mobility within the United States.

Our US Monetary Policy Forum—which brings together academic researchers, market economists, and policymakers for an annual gathering in New York—featured a special report on the history of the real funds rate and potential lessons for the future equilibrium rate. A panel that included two members of the Federal Open Market Committee discussed the report.

Among other conferences this past year, the IGM also convened a high-level, off-the-record, gathering in London on sovereign debt, as well as a small high-level meeting in Miami in December 2014, in which academics, central bank officials, and senior managers of global financial institutions discussed systemic aspects of financial regulation. These meetings allowed for frank discussions of important topics among leading decision makers. In November 2014, the IGM also hosted a symposium organized by the *Journal of Economic Perspectives*, to discuss research into the 2008–2009 bailouts.

One of the other main ways in which the IGM engages the public is through our Economic Experts Panel, a group of highly respected economists from top universities across the United States. Since 2011, our panelists have voted on more than 100 statements about important public policy issues, expressing the extent to which they agree or disagree. We display their individual views and comments, as well as the distribution of views for the panel as a whole, to the public through the IGM Forum at igmchicago.org.

The IGM Economic Experts Panel has been cited in Congressional testimony and economics textbooks, as well as in articles by top journalists covering important economic debates. Informed economic experts agree broadly on some issues and disagree sharply on others. We think that the IGM panel provides a valuable public service by revealing the degree of consensus on these policy questions.

This report summarizes the activities described above, along with our other efforts during the past year. It includes descriptions of our conferences, Myron Scholes Forum events, visiting scholars, and recent research projects. In addition to the IGM Forum, found at igmchicago.org, we encourage you to visit our home page at ChicagoBooth.edu/igm.

Conferences

Scholes Forum

Visiting Fellows

Research

The Initiative on Global Markets organizes and supports conferences for scholars doing high-quality research in their fields. Some of these gatherings also draw on the insights of leading practitioners. In 2014–15, the IGM sponsored seven conferences.

US MONETARY POLICY FORUM

The IGM held its eighth annual US Monetary Policy Forum (USMPF) in New York in February 2015. The USMPF brings together academic researchers, market economists, and policymakers. A standing group of academic and private sector economists share rotating responsibility for reporting on a critical, medium-term issue confronting the Federal Open Market Committee (FOMC).

The topic of the USMPF's main report this year was "The Equilibrium Real Funds Rate: Past, Present, and Future." The report discusses interactions between monetary policy and financial stability and was written by James Hamilton (University of California, San Diego), Ethan Harris (Bank of America), Jan Hatzius (Goldman Sachs), and Kenneth West (University of Wisconsin). The report was discussed by president William Dudley of the Federal Reserve Bank of New York and president Loretta Mester of the Federal Reserve Bank of Cleveland.

Ben Bernanke from Brookings Institution gave the keynote lunch speech and took questions from the audience.

The conference concluded with a panel discussion on central banking with large balance sheets featuring vice-president Vítor Constâncio of the European Central Bank, vice chairman Stanley Fischer of the Board of Governors of the Federal Reserve System, and deputy governor Hiroshi Nakaso of the Bank of Japan. David Wessel from Bookings Institution moderated the panel.

Copies of the report, the discussants' comments and panelists' remarks, and a list of participants at the conference, are available on the IGM website.

CHINA ECONOMICS SUMMER INSTITUTE

The goal of the China Economics Summer Institute (CESI) is to enhance economic research on China by helping promising young researchers interact with experienced scholars who know the country well, and to gain insights into important institutional characteristics of China's economy. The CESI, which held its seventh annual conference at Tsinghua University in July 2014, has become recognized as a high-quality gathering for researchers studying China.

This year's conference included research presentations on savings patterns, health insurance, trade policy, internal migration, and connections between state-owned enterprises and China's business cycle.

FINANCIAL CRISIS MEETINGS

In December 2014, the IGM organized a small, high-level meeting on the financial crisis. This meeting was part of a series of such gatherings that the IGM began holding in 2009, when it arranged the first such meeting on "Saving the Financial System." Participants included Brian Barry, Anil Kashyap, and Luigi Zingales from Chicago Booth, academics from other schools, central bank officials, and senior managers of global financial institutions.

Topics discussed at this meeting included short-term wholesale funding risks, bond market liquidity, stress tests of European banks, and the social value of finance.

2014 GLOBAL ISSUES IN ACCOUNTING CONFERENCE

Growth in international financial market integration has led to a corresponding increase in the importance of understanding the interactions among disparate political and economic institutions. In 2014, the Initiative on Global Markets, the Accounting Research Center at the University of Chicago Booth School of Business, and the University of North Carolina Kenan-Flagler Business School joined forces to host a yearly conference that brings together top researchers in economics, finance, and accounting to examine these global issues.

The 2014 Global Issues in Accounting Conference brought together a diverse group of speakers and participants to engage in a collaborative discussion of global capital markets research. This year's speakers were Hans Christensen, Edith Leung, Pedro Matos, Jeff Ng, Clare Wang, Michael Weisbach, and Michael Welker.

JOURNAL OF ECONOMIC PERSPECTIVES SYMPOSIUM ON THE 2008–09 BAILOUTS

The *Journal of Economic Perspectives* (JEP) organized a symposium on the bailouts that took place in 2008–2009. This event brought together researchers from diverse backgrounds to present papers, share ideas, and foster more collaborative research regarding the 2008–09 bailouts. The five papers presented at the symposium were on "AIG" (Bob McDonald), the "Bank Recapitalization Program" (Charges Calomiris), "Chrysler and General Motors" (Austan Goolsbee and Alan Krueger), "Fannie Mae and Freddie Mac" (Joe Tracy), and "Institutional Constraints" (Phillip Swagel). There was a vigorous discussion of the papers on the seminal events in 2008 and 2009. The papers were published in the Spring 2015 issue of the journal and can be found at aeaweb.org/articles.php?doi=10.1257/jep.29.2.

POLITICAL ECONOMY IN THE CHICAGO AREA (PECA)

In October 2014, the IGM renewed its sponsorship of the Political Economy in the Chicago Area (PECA) conference for the eighth year. The conference was hosted at Kellogg School of Management and cosponsored by the Ford Motor Company Center for Global Citizenship at the Kellogg School of Management and the University of Chicago Harris School of Public Policy's Center for Policy Entrepreneurship. The conference is an annual event with the goal of encouraging collaboration across political economy research groups.

The one-day conference brought together academic researchers spanning business schools, law schools, policy schools, and political science and economics departments in the Chicago area. The presenters included Professor Richard Van Weelden (University of Chicago Department of Economics), Professor Ethan Bueno de Mesquita (University of Chicago Harris School of Public Policy), and Professor Jörg Spenkuch (Kellogg School of Management).

SOVERIGN DEBT CONFERENCE

Sovereign debt is the money owed by a country's central government and it has become a headline issue since the Global Financial Crisis. Greece is one example of a country that is struggling to repay its sovereign debt and, as a result, has sought to renegotiate the terms of repayments with its creditors.

Olivier Blanchard, chief economist at the IMF and one of the most cited economists in the world, gave the keynote address at the conference, which was jointly organised by the Brevan Howard Centre for Financial Analysis (part of Imperial College Business School), the Initiative on Global Markets at the University of Chicago Booth School of Business, and the International Insolvency Institute.

Delegates heard Blanchard discuss the evolution of the IMF Lending Framework, which required adjustment following the Global Financial Crisis. He explained the issues surrounding debt re-profiling, concessional financing and contagion, and the IMF's current thinking around the issues.

He told the conference: "Countries with debt are not helped by adding more debt to them. The IMF is therefore looking for ways to improve its Lending Framework."

The conference, which took place in London, attracted a wide range of high-profile delegates from organisations including the Bank of England, Federal Reserve, European Central Bank, OECD, Bank for International Settlements, and the Bank of Japan.

Delegates, who also included leading academic economists, legal scholars, and private investors, also listened to panel discussions covering lessons from recent events, collective action clauses as restructuring mechanisms, and proposals for formal restructuring. Some of the presentations, and a list of attendees, can be found at the Initiative on Global Markets website at ChicagoBooth.edu/igm and the Brevan Howard Centre website at imperial.ac.uk/business-school/research/brevan-howard-centre-for-financial-analysis/.

Conferences

Scholes Forum

Visiting Fellows

Research

In the Myron Scholes Global Markets Forum, business leaders, policymakers, and distinguished scholars speak publicly on issues of current interest.

These events take various forms, including discussion panels, political debates, and lectures by individuals. Featured speakers range from members of our faculty to global economic leaders. The talks, usually held in downtown Chicago at Chicago Booth's Gleacher Center, are open to the public. They are generously sponsored by Myron Scholes, MBA '64, PhD '70.

STRENGTHENING THE FINANCIAL SYSTEM: THE MACROPRUDENTIAL TOOLKIT

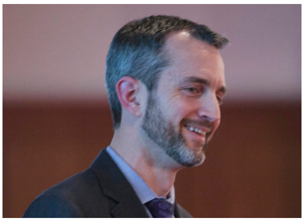
SEPTEMBER 24, 2014

RICHARD BERNER
DIRECTOR, OFFICE OF FINANCIAL RESEARCH, US DEPARTMENT OF THE TREASURY

The 2008 financial crisis "exposed critical gaps in our analysis… and in the data and metrics that we use to measure and monitor financial activities," said Richard Berner. He described how the Office of Financial Research—which was established as part of the 2010 Dodd-Frank Act to support the new Financial Stability Oversight Council—is trying to close those gaps.

Berner emphasized that it is important to look across firms and market segments and examine "basic functions of the financial system, such as credit allocation, maturity transformation, liquidity provision, price discovery, risk transfer, payments clearing and settlement."

Among the most important threats that the OFR is currently assessing, he said, a crucial one involves persistently low interest rates combined with low market volatility. These, along with compressed risk premiums and ample funding liquidity, have "prompted increased risk taking in many asset classes and many jurisdictions."



MEDIA BIAS, ECHO CHAMBERS, AND THE FUTURE OF DEMOCRACY

DECEMBER 4, 2014

MATTHEW GENTZKOW
RICHARD O. RYAN PROFESSOR OF ECONOMICS, CHICAGO BOOTH

Professor Gentzkow disentangled two trends—involving the economics of the news media and the state of US democracy—that are often considered closely related. He argued that, although efforts to measure ideological polarization among the electorate suggest that it is higher than ever, the data are inconsistent with common assertions about how changes in media markets are causing the ideological ones.

Shifts in news media consumption, for example, are often misunderstood. Migration from traditional to online sources has not been as pronounced as many people believe: the time that Americans spent consuming news in 2013 overwhelmingly involved print media, TV, and radio.

Nor is the evidence consistent, Gentzkow said, with the idea that online news consumption leads to people "self-segregating into ideological echo chambers where they're more likely to just hear their own views reinforced."

He described research showing that liberals and conservatives in the US come across each other more frequently in the virtual space of online news than they do in their jobs and neighborhoods.

MONEY AND NATIONS

APRIL 14, 2015

MERVYN KING
BANK OF ENGLAND, GOVERNOR 2003–2013

When the European Monetary Union was launched in 1999, it was regarded as a unique experiment in monetary history. No monetary union had survived unless it also had developed into a political union. But what is the relationship between currencies and nations?

In this Scholes lecture, a joint event with the Becker Friedman Institute, Mervyn King discussed a number of recent examples of currency arrangements, and examined the challenges facing the euro.

CHINA'S ECONOMIC REFORM: IMPLICATIONS FOR CHINA AND FOR THE WORLD

APRIL 30, 2015

DAVID DOLLAR
SENIOR FELLOW, BROOKINGS INSTITUTION, JOHN L. THORNTON CHINA CENTER

Since the global financial crisis hit, said David Dollar, China's economic growth has relied increasingly on a high investment rate and net exports. It is running into diminishing returns and excess capacity. Dollar evaluated the country's progress on four areas of reform that relate to these imbalances.

One is financial-sector reform: liberalizing interest rates, capital flows, and the functioning of stock and bond markets. Although these efforts are gradual, there have been steps in the right direction, he said. Second, China has been attempting to make local government debt more transparent and more reliant on straightforward bond issuance

The third major area of reform involves changes to the household registration system, which restricts the ability of Chinese families to move freely. Finally, said Dollar, China's policymakers should do more to promote higher consumption of services, since many service sectors are dominated by state enterprises and not exposed to much foreign competition.

IMPROVING OPPORTUNITIES FOR ECONOMIC MOBILITY: NEW EVIDENCE AND POLICY LESSONS

MAY 19, 2015

RAJ CHETTY

PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

To capture the extent to which attainment of the 'American Dream' varies, Raj Chetty offered a simple statistic: the probability that a child born to parents in the bottom fifth of the US income distribution reaches the top fifth. Chetty and his coauthors have calculated this probability for every metro and rural area in the United States. In some areas in the middle of the US, it exceeds 16.8%, higher than for Denmark and Canada; in other areas, such as the southeast, it is less than 4.5%.

Why does income mobility differ so much across areas of the US? "Most of the variation in upward mobility across areas," said Chetty, "is due to the causal effects of childhood environment."

Chetty described his research, which shows that when children move from one area of the US to a better one, they earn higher incomes as adults than children who stayed in the original area. And these gains in adulthood are more pronounced for children who moved earlier in life, with additional gains for each extra year spent in the better area. The same pattern holds for siblings of different ages in families that moved.

These differences in income mobility across the US are correlated with school quality, family structure, social capital, the degree of segregation by race or income, and income inequality overall. Chetty said that two of these seem simpler to address with targeted policies than the others: segregation, through reforms to housing, zoning, and transportation; and schools, through better teaching. He presented research on the effects of high-quality teachers, and suggested that efforts to improve school quality by replacing poor teachers with average ones would be especially cost effective.

Conferences
Scholes Forum
Visiting Fellows
Research

The Initiative on Global Markets sponsors extended visits by prominent faculty from other institutions to contribute to the research environment at Chicago Booth. The IGM hosted 12 visiting fellows in the 2014–15 academic year.

ISAIAH ANDREWS
NOVEMBER 3–14, 2014

FELLOW

HARVARD SOCIETY OF FELLOWS

Isaiah Andrews is an econometrican whose work focuses on questions of identification and reliable inference when the data contains only limited information about the economic relationships of interest. He is a Junior Fellow at the Harvard Society of Fellows, and received his PhD from MIT in 2014.

During his visit, he presented his paper "Conditional Inference with a Functional Nuisance Parameter" at the econometrics and statistics workshop at Booth, and his paper "Conditional Linear Combination Tests for Weakly Identified Models" at the econometrics working group in the Department of Economics, as well as meeting with faculty at both Booth and the Department of Economics.

CHRISTOPHER S. ARMSTRONG
APRIL 6–17, 2015

ASSOCIATE PROFESSOR OF ACCOUNTING

THE WHARTON SCHOOL OF THE UNIVERSITY OF PENNSYLVANIA

Chris Armstrong is an associate professor of accounting at the Wharton School of the University of Pennsylvania. His research focuses primarily on corporate governance, with an emphasis on executive incentive compensation contracts, and on the interface between corporate governance and financial reporting.

During his visit at Booth, Armstrong gave an accounting workshop talk on his latest paper titled "Why Do CEOs Hold So Much Equity." He also attended the finance workshop and accounting brown bags and interacted with the Booth junior and senior accounting faculty and PhD students.

MARIANO MASSIMILIANO CROCE
MARCH 2–13, 2015

ASSOCIATE PROFESSOR OF FINANCE

UNC KENAN-FLAGLER BUSINESS SCHOOL

Mariano Massimiliano (Max) Croce's research focuses on international asset prices and exchange rates; the interaction between asset prices, investment decisions, wealth, and welfare on a global scale; links between investors' information and asset prices; and growth implications of fiscal policy risks. He is an associate professor with tenure at the Kenan-Flagler Business School at UNC-Chapel Hill, with appointments at the Economics Departments at Duke University and UNC-Chapel Hill.

During his visit, Professor Croce presented his paper, "BKK the EZ Way: International Long-Run Growth News and Capital Flows" at the finance workshop. He also met with many faculty at Booth and in the Economics Department.

EMMANUEL FARHI
NOVEMBER 17–21, 2014 AND MAY 18–22, 2015

PROFESSOR OF ECONOMICS
HARVARD UNIVERSITY

Emmanuel Farhi is a professor of economics at Harvard University. His research focuses on macroeconomics, finance, international economics, and public finance. His papers have been published in leading journals, including the *American Economic Review*, the *Journal of Political Economy*, the *Quarterly Journal of Economics*, *The Review of Economic Studies* and the *Journal of Financial Economics*. He is a member of the French Economic Analysis Council to the French Prime Minister, a research associate at the National Bureau of Economic Research, the Center for Economic Policy Research, the International Growth Centre, as well as a fellow of the Toulouse School of Economics. He is also an associate editor of the *American Economic Review*. In 2010, he received a Sloan Research Fellowship. He was awarded the 2009 Bernácer Prize for the best European economist under the age of 40 by the Observatory of the European Central Bank, the 2011 Mallinvaud Prize by the French Economic Association, the 2013 Best Young Economist award by *Le Monde* and the Cercle des économistes, and the 2013 Banque de France and Toulouse School of Economics Prize in Macroeconomics and Finance. In 2010, he was named a Young Leader of the French-American Foundation.

During his visit, Professor Farhi attended the macro and international workshop at Booth and the money and banking workshop in the Department of Economics. He presented his work "A Theory of Macroprudential Policies in the Presence of Nominal Rigidities" (joint with Ivan Werning) in the macro and international workshop. In addition, he talked to many faculty and students at Booth and in the Department of Economics.

JEREMY GREENWOOD
MAY 4–15, 2015

PROFESSOR OF ECONOMICS

UNIVERSITY OF PENNSYLVANIA

Jeremy Greenwood is a professor of economics at the University of Pennsylvania. His research has made lasting contributions to diverse areas within economics such as investment-specific technological change, the macroeconomics of the family, the allocation of time, and financial development.

While at Booth he attended seminars and met regularly with faculty from the Chicago community. Greenwood presented his latest work "Why Doesn't Technology Flow from Rich to Poor Countries?" at the macro and international workshop.

LUIGI GUISO
OCTOBER 6–17, 2014

AXA PROFESSOR OF HOUSEHOLD FINANCE AND INSURANCE

EINAUDI INSTITUTE FOR ECONOMICS AND FINANCE

Luigi Guiso is the AXA Professor of Household Finance and Insurance at the Einaudi Institute for Economics and Finance (EIEF) and a fellow at the Centre for Economic Policy Research (CEPR). His research examines household financial and savings choices; preference measurement and formation; culture and economics; and macroeconomics and finance.

Economists have been reluctant to rely on culture as a possible determinant of economic phenomena. Yet Professor Guiso is well-regarded for his study of the dimensions of corporate culture and how they are related to a firm's performance and why. He also studies how different governance structures impact the ability to sustain integrity as a corporate value. Professor Guiso was the recipient of the American Finance Association 2009 Smith Breeden Prize for the paper "Trusting the Stock Market," with Paola Sapienza and Luigi Zingales.

During his visit, Guiso attended the finance workshop and also presented his new research on "The Supply Side of Household Finance" on October 15th, 2014. He met with many faculty in the economics and finance groups at Booth as well as faculty from the Department of Economics.

JAMES D. HAMILTON
SEPTEMBER 29–OCTOBER 3 AND OCTOBER 27–31, 2014

PROFESSOR OF ECONOMICS

UNIVERSITY OF CALIFORNIA, SAN DIEGO

James D. Hamilton is an economics professor at the University of California at San Diego. Professor Hamilton has published articles on a wide range of topics including econometrics, business cycles, monetary policy, and energy markets. His graduate textbook on time series analysis has over 15,000 scholarly citations and has been translated into Chinese, Japanese, and Italian, and his work overall has been cited in more than 40,000 other studies. Academic honors include election as a fellow of the Econometric Society and research associate with the National Bureau of Economic Research, the Best Paper award for 2010–2011 from the International Institute of Forecasters, and 2014 award for Outstanding Contributions to the Profession from the International Association for Energy Economics.

During his visit, Professor Hamilton talked to many faculty from different groups at Booth, attended several workshops across fields, and also presented his paper "Sign Restrictions, Structural Vector Autoregressions, and Useful Prior Information" at the econometrics and statistics seminar.

GUIDO MENZIO
MAY 4–15, 2015

ASSOCIATE PROFESSOR, DEPARTMENT OF ECONOMICS

UNIVERSITY OF PENNSYLVANIA

Guido Menzio is a theoretical macroeconomist interested in the behavior of markets characterized by search, matching, and informational frictions. Some of his recent research has been devoted to the analysis of cyclical and secular fluctuations in unemployment, vacancy, and workers' flows. In other work, he studies whether cheap-talk communication can direct the search strategy of workers and firms in the labor market. More recently, his research has been focused on designing the optimal mechanism to redistribute income inequality caused by the presence of search frictions in the labor market.

Menzio received his PhD from Northwestern University in 2005. He has been a faculty member of the Economics Department at the University of Pennsylvania since 2005. He is also a faculty research fellow at the National Bureau of Economic Research, a coeditor of the *International Economic Review* and a co-organizer of the search and matching workshop.

During his visit, Professor Menzio attended the macro and international workshop at Booth and the money and banking workshop at the Department of Economics. He presented his work on "Agency Business Cycle" (joint with Mike Golosov) in the macro and international workshop and was the guest speaker in a PhD class. In addition, he talked to many faculty and students at Booth and the Department of Economics.

WILLIAM MAYEW
JUNE 1–12, 2015

ASSOCIATE PROFESSOR OF ACCOUNTING

DUKE UNIVERSITY, FUQUA SCHOOL OF BUSINESS

Bill Mayew is an associate professor of accounting at the Fuqua School of Business at Duke University. Professor Mayew's research uses theories from economics and psychology to better understand the determinants and consequences of voluntary and mandatory managerial communication. He received the 2008 Financial Research Association Best Paper award for his work on the information content of managerial vocal cues during earnings conference calls. He also received the 2013 Glen McLaughlin Prize for Research in Accounting and Ethics for his work on measuring CEO integrity from corporate communication in shareholder letters. In 2014, he was named one of the top 40 business school professors in the world under the age of 40 by Poets & Quants.

During his IGM visit, Professor Mayew attended the accounting and finance workshops and brown bags, in addition to meeting with faculty and PhD students in the accounting and finance groups at Booth. He also presented his paper "Auditor Deception Detection from Earnings Conference Calls: The Role of Auditor Experience and Management Cognitive Dissonance," which investigates the ability of audit professionals to detect financial deception from management conference call communication.

RAFAEL REPULLO
OCTOBER 13–24, 2014
PROFESSOR OF ECONOMICS AND DIRECTOR
CENTRE FOR MONETARY AND FINANCIAL STUDIES

Rafael Repullo is a professor of economics and director of the Centre for Monetary and Financial Studies (CEMFI) in Madrid. His research examines banking and corporate finance, with a special emphasis on financial regulation. He is fellow of the Econometric Society and the European Economic Association, research fellow of the Centre for Economic Policy Research (CEPR), and is currently first vice-president of the Spanish Economic Association. He was selected as an Eisenhower Fellow in 1998 and awarded the 2010 Rey Jaime I Prize in Economics, which recognizes outstanding achievement in teaching, research, and advising in the area of economics and finance.

Repullo presented his recent research on "Moral Hazard and Debt Maturity" in the finance workshop. He also attended the finance lunch and met individually with numerous economics and finance faculty at Booth and with various members of the Department of Economics.

PHILIPP SCHNABL
MAY 11–15 AND 25–29, 2015
ASSOCIATE PROFESSOR OF FINANCE
NEW YORK UNIVERSITY, STERN SCHOOL OF BUSINESS

Philip Schnabl's research focuses on corporate finance and financial intermediation. He has published extensively in top economics and finance journals, including the *Quarterly Journal of Economics*, *The Review of Economic Studies*, and the *Journal of Finance*.

Schnabl was visiting Chicago Booth from NYU where he serves as an associate professor of finance. He received his PhD in economics from Harvard University in 2009. During his visit, he presented his recent work titled "The Deposit Channel of Monetary Policy" in the finance workshop. He attended various seminars and workshops, including the macro and international workshop at Booth, he met regularly with junior and senior faculty, as well as several of our PhD students at the Chicago Booth.

HEIDI WILLIAMS
JANUARY 6–20, 2015
ASSISTANT PROFESSOR OF ECONOMICS
MIT

Heidi Williams is the class of 1957 career development assistant professor of economics at MIT Department of Economics. Her research agenda focuses on investigating the causes and consequences of technological change in health care markets. The broad goal of this agenda is to shed light on the economics of innovation in a context—health care—that has important consequences for human health and welfare, and is critical from a fiscal policy perspective. She has pursued two main lines of research so far: investigating both the impact of patent policy on, and the consequences of, technological change in health care markets. She has won numerous awards, including a Sloan Research Fellowship and a National Science Foundation CAREER grant.

During her visit, Professor Williams presented her new research on "How Do Patents Affect Follow-on Innovation? Evidence from the Human Genome" in the microeconomics workshop. In addition, she met with faculty in the microeconomics group at Booth as well as faculty from the Department of Economics.

Conferences
Scholes Forum
Visiting Fellows

Research

Pradeep Chintagunta

JOSEPH T. AND BERNICE S. LEWIS DISTINGUISHED SERVICE PROFESSOR OF MARKETING

PRICE TRANSPARENCY AND RETAIL PRICES

Price transparency initiatives are typically undertaken by third parties to ensure that consumers have access to price information in markets where obtaining such information is costly. Since providing information is not a strategic decision by the firms in the market, what is the effect of such a practice on the pricing behavior of firms?

We (Chintagunta and coauthor Federico Rossi) investigate the effect of mandatory price posting (on large electronic signs) by competing gas stations on their pricing behavior in the Italian motorway. The theoretical ambiguity in how the signs may affect prices, due to the opposing forces of lower search costs and the potential for collusion, motivates our empirical question. When prices are posted, the average price of gasoline decreases by 1 cent per liter, which represents about 20% of stations' margins. About half the price decrease can be attributed to the introduction of a sign posting a station's own price and those of its nearest neighbors, with the other half coming from the introduction of other signs posting other stations' prices; specifically those located after the focal station in the direction of travel. Posting of prices by preceding stations does not affect prices. Despite the documented price changes, however, the introduction of signs seems to have little impact on price dispersion, suggesting that price uncertainty persists even after the policy is implemented. Analysis of customer transaction data confirms this finding, showing that less than 10% of consumers use the posted prices effectively.

Hans B. Christensen

ASSOCIATE PROFESSOR
OF ACCOUNTING

Christian Leuz

JOSEPH SONDHEIMER
PROFESSOR OF
INTERNATIONAL ECONOMICS,
FINANCE, AND ACCOUNTING

THE EFFECT OF REGULATORY HARMONIZATION ON CROSS-BORDER LABOR MIGRATION: EVIDENCE FROM THE ACCOUNTING PROFESSION

The paper examines the effect of international regulatory harmonization on cross-border labor migration. We (Christensen, Leuz, and coauthors Matthew Bloomfield and Ulf Brüggemann) analyze directives in the European Union (EU) that harmonized accounting and auditing standards. This regulatory harmonization should make it less costly for those who work in the accounting profession to move across countries. Our research design compares the cross-border migration of accounting professionals relative to other tightly-matched professionals before and after regulatory harmonization. We find that, on average, labor migration in the accounting profession increases relative to comparable professions by roughly 15% after harmonization. The findings illustrate that diversity in rules constitutes an important economic barrier to cross-border labor mobility and, more specifically, that accounting harmonization can have a meaningful effect on cross-border migration.

Hans B. Christensen

ASSOCIATE PROFESSOR
OF ACCOUNTING

Mark Maffett

ASSISTANT PROFESSOR
OF ACCOUNTING AND
NEUBAUER FAMILY
FACULTY FELLOW

THE EFFECTS OF PRICE TRANSPARENCY REGULATION ON PRICES IN THE HEALTHCARE INDUSTRY

Using micro data on actual health care purchases, we provide evidence on the causal effects of price transparency regulation (PTR). Exploiting both between- and within-state variation to address endogeneity concerns, we (Christensen, Maffett, and coauthor Eric Floyd) find that PTR causes providers to reduce charges by approximately 6%. However, these reductions do not lead to lower actual payments, even for price sensitive patients or in cases where contracts often link payments directly to charges, indicating little (if any) welfare implications. Cross-sectional variation in the estimated treatment effect suggests that the reputational costs of perceived overcharging, rather than increased consumer search, explain the reduction in charges.

Kerem Cosar

ASSISTANT PROFESSOR
OF ECONOMICS

TASTE HETEROGENEITY, TRADE COSTS, AND GLOBAL MARKET OUTCOMES IN THE AUTOMOBILE INDUSTRY

In the automobile industry, as in many tradable goods markets, firms earn their highest market share within their domestic market. This home market advantage persists despite substantial integration of international markets during the past several decades. The goal of this paper is to quantify the supply- and demand-driven sources of the home market advantage and to understand their implications for international trade and investment. Building on the random coefficients demand model developed by Berry, Levinsohn, and Pakes (1995), we (Cosar and coauthors Paul Grieco, Shengyu Li, and Felix Tintelnot) estimate demand and supply in the automobile industry for nine countries in three continents, allowing for unobserved taste and cost variation at the model and market levels. The estimated model helps to examine the contributions of tariffs, trade and FDI costs, home preference, and taste heterogeneity to domestic firms' home market advantage as well as conduct policy analysis.

Jean-Pierre Dubé

SIGMUND E. EDELSTONE
PROFESSOR OF MARKETING

Günter J. Hitsch

PROFESSOR OF MARKETING

INCOME AND WEALTH EFFECTS ON PRIVATE-LABEL DEMAND: EVIDENCE FROM THE GREAT RECESSION

We (Dubé, Hitsch, and coauthor Peter Rossi) measure the causal effects of income and wealth on the demand for private-label products. Prior research suggests that these effects are large and, in particular, that private-label demand rises during recessions. Our empirical analysis is based on a comprehensive household-level transactions database matched with price information from store-level scanner data and wealth data based on local house value indices. The Great Recession provides a key source of the variation in our data, with a large and geographically diverse impact on household incomes over time. We estimate income and wealth effects using "within" variation of income and wealth at the household level. Our estimates can be interpreted as income and wealth effects consistent with a consumer demand model based on utility maximization. We establish a precisely measured negative effect of income on private-label shares. The effect of wealth is negative but not precisely measured. However, the estimated effect sizes are small, in contrast with prior academic work and industry views. An examination of the possible supply-side response to the recession shows only small changes in the relative price of national-brand and private-label products. Our estimates also reveal a large positive trend in private-label shares that predates the Great Recession. We examine some possible factors underlying this trend, but find no evidence that this trend is systematically related to specific private-label quality tiers or to the overall rate of private-label versus national-brand product introductions.

Michael Gibbs

CLINICAL PROFESSOR
OF ECONOMICS;
FACULTY DIRECTOR OF THE
EXECUTIVE MBA PROGRAM

A FIELD EXPERIMENT IN MOTIVATING EMPLOYEE IDEAS

We (Gibbs and coauthors Susanne Neckermann and Christoph Siemroth) study the effects of a field experiment designed to motivate employee ideas at a large technology company. Employees were encouraged to submit ideas on process and product improvements via an online system. In the experiment, the company randomized 19 teams into treatment and control groups. Employees in treatment teams received rewards if their ideas were approved. Nothing changed for employees in control teams. Our main finding is that rewards substantially increased the quality of ideas submitted. Further, rewards increased participation in the suggestion system, but decreased the number of ideas per participating employee, with zero net effect on the total quantity of ideas. The broader participation base persisted even after the reward was discontinued, suggesting habituation. We find no evidence for motivational crowding out. Our findings suggest that rewards can improve innovation and creativity, and that there may be a tradeoff between the quantity and quality of ideas.

Anil K Kashyap

EDWARD EAGLE BROWN PROFESSOR OF ECONOMICS AND FINANCE

WHICH BANKS RECOVER FROM LARGE ADVERSE SHOCKS?

We (Kashyap and coauthor Emilia Bonaccorsi di Patti) analyze the fate of 120 Italian banks that experienced abrupt drops in profitability. About 1/3 see their profits recover. These banks were lending to riskier clients than the average in the overall economy prior to their distress. Whether they recover depends on the size of the initial profit drop and general business climate after the shock. But post-shock adjustments made by the bank, particularly to its loan portfolio, are also important. Recovering banks are significantly more aggressive in managing their riskiest clients, perhaps because well-run banks more prudently manage risk or because seriously impaired banks gamble for reclamation.

Michael Minnis

ASSOCIATE PROFESSOR
OF ACCOUNTING

FINANCIAL STATEMENTS AS MONITORING MECHANISMS: EVIDENCE FROM SMALL COMMERCIAL LOANS

We (Minnis and Andrew Sutherland) examine when banks use financial statements to monitor small commercial firms. Theoretical research offers competing predictions surrounding the use of financial statements as a monitoring device in such settings where reporting between firms and banks is not mandated. Using a proprietary dataset of bank information requests after loan initiation, we examine these predictions and find that financial statements are requested for only half of the loans in the sample. This variation is mediated by borrower credit risk, contracting mechanisms, such as collateral, and alternative information sources, such as tax returns. However, the relations we identify are not straightforward—the relation between borrower risk and financial statement requests is nonlinear and financial statements can be both substitutes and complements to the alternative mechanisms. Collectively, our results provide novel evidence of the fundamental demand for financial reporting in the small commercial loan market and the manner in which banks fulfill their role as delegated monitors.

Tobias J. Moskowitz

FAMA FAMILY PROFESSOR OF FINANCE

Kelly Shue

ASSOCIATE PROFESSOR OF FINANCE

DECISION-MAKING UNDER THE GAMBLER'S FALLACY: EVIDENCE FROM ASYLUM JUDGES, LOAN OFFICERS, AND BASEBALL UMPIRES

We (Moskowitz, Shue, and coauthor Daniel Chen) find consistent evidence of negative autocorrelation in decision-making that is unrelated to the merits of the cases considered in three separate high-stakes settings: refugee asylum court decisions, loan application reviews, and baseball umpire calls. The evidence is most consistent with the law of small numbers and the gambler's fallacy—that people underestimate the likelihood of sequential streaks occurring by chance—leading to negatively autocorrelated decisions that result in errors. The negative autocorrelation is stronger among more moderate and less experienced decision-makers, following longer streaks of decisions in one direction, when the current and previous cases share similar characteristics or occur close in time, and when decision-makers face weaker incentives for accuracy. Alternative explanations for the negative autocorrelation such as sequential contrast effects, quotas, learning, or preferences to treat all parties fairly, are less consistent with the evidence.

Tobias J. Moskowitz

FAMA FAMILY PROFESSOR OF FINANCE

ASSET PRICING AND SPORTS BETTING

I use sports betting markets as a laboratory to test behavioral theories of cross-sectional asset pricing anomalies. Two unique features of these markets provide a distinguishing test of behavioral theories: 1) the bets are completely idiosyncratic and therefore not confounded by rational theories; 2) the contracts have a known and short termination date where uncertainty is resolved that allows any mispricing to be detected. Analyzing more than a hundred thousand contracts spanning two decades across four major professional sports (NBA, NFL, MLB, and NHL), I find momentum and value effects that move betting prices from the open to the close of betting, that are then completely reversed by the game outcome. These findings are consistent with delayed overreaction theories of asset pricing. In addition, a novel implication of overreaction uncovered in sports betting markets is shown to also predict momentum and value returns in financial markets. Finally, momentum and value effects in betting markets appear smaller than in financial markets and are not large enough to overcome trading costs, limiting the ability to arbitrage them away.

Tobias J. Moskowitz

FAMA FAMILY PROFESSOR OF FINANCE

SIZE MATTERS, IF YOU CONTROL YOUR JUNK

The size premium has been challenged along many fronts: it has a weak historical record, varies significantly over time, in particular weakening after its discovery in the early 1980s, is concentrated among microcap stocks, predominantly resides in January, is not present for measures of size that do not rely on market prices, is weak internationally, and is subsumed by proxies for illiquidity. We (Moskowitz and coauthors Clifford Asness, Andrea Frazzini, Ronen Israel, and Lasse Pedersen) find, however, that these challenges are dismantled when controlling for the quality, or the inverse "junk," of a firm. A significant size premium emerges, which is stable through time, robust to the specification, more consistent across seasons and markets, not concentrated in microcaps, robust to non-price-based measures of size, and not captured by an illiquidity premium. Controlling for quality/junk also explains interactions between size and other return characteristics such as value and momentum.

CARRY

Any security's expected return can be decomposed into its "carry" and its expected price appreciation, where carry is a model-free characteristic that can be observed in advance. While carry has been studied almost exclusively for currencies, we (Moskowitz and coauthors Ralph Koijen, Lasse Pedersen, and Evert Vrugt) find that carry predicts returns both in the cross section and time series for a variety of different asset classes including global equities, global bonds, commodities, US Treasuries, credit, and options. This predictability rejects a generalized version of the uncovered interest rate parity and expectations hypothesis in favor of models with varying risk premia. Our global carry factor across markets delivers strong average returns and, while it is exposed to recession, liquidity, and volatility risks, its performance presents a challenge to asset pricing models.

MOMENTUM CRASHES

Despite their strong positive average returns across numerous asset classes, momentum strategies can experience infrequent and persistent strings of negative returns. These momentum crashes are partly forecastable. They occur in “panic” states—following market declines and when market volatility is high—and are contemporaneous with market rebounds. We (Moskowitz and coauthor Kent Daniel) show that the low ex-ante expected returns in panic states are consistent with a conditionally high premium attached to the option-like payoffs of past losers. An implementable dynamic momentum strategy based on forecasts of momentum’s mean and variance approximately doubles the alpha and Sharpe ratio of a static momentum strategy, and is not explained by other factors. These results are robust across multiple time periods, international equity markets, and other asset classes.

Amanda Sharkey

ASSISTANT PROFESSOR
OF ORGANIZATIONS
AND STRATEGY

CAN RATINGS HAVE INDIRECT EFFECTS?: EVIDENCE FROM THE ORGANIZATIONAL RESPONSE TO PEERS' ENVIRONMENTAL RATINGS

Organizations are increasingly subject to rating and ranking by third-party evaluators. Research in this area tends to emphasize the direct effects of ratings systems that occur when ratings give key audiences, such as consumers or investors, more information about a rated firm. Yet, ratings systems may also indirectly influence organizations when the collective presence of more rated peers alters the broader institutional and competitive milieu. Rated firms may be more responsive to ratings systems when surrounded by more rated peers, and ratings may generate diffuse or spillover effects even among firms that are unrated. We (Sharkey and coauthor Patricia Bromley) test these arguments by analyzing how rated and unrated firms change their pollution behavior when more firms in their peer group are rated on environmental performance. Results indicate that the presence of more rated peers was often associated with emissions reductions. However, this relationship varies by whether a firm was rated, whether the rating was positive or negative (if rated), and, often, features of the competitive and regulatory environment.

Amir Sufi

CHICAGO BOARD OF TRADE
PROFESSOR OF FINANCE

HOUSEHOLD DEBT AND DEFAULTS FROM 2000 TO 2010: FACTS FROM CREDIT BUREAU DATA

We (Sufi and coauthor Atif Mian) use individual-level credit bureau data to document which individuals saw the biggest rise in household debt from 2000 to 2007 and the biggest rise in defaults from 2007 to 2010. Growth in household debt from 2000 to 2007 was substantially larger for individuals with the lowest initial credit scores. However, initial debt levels were lower for individuals in the lowest 20% of the initial credit score distribution. As a result, the contribution to the total dollar rise in household debt was strongest among individuals in the 20th to 60th percentile of the initial credit score distribution. Consistent with the importance of home equity-based borrowing, the increase in debt is especially large among individuals in the lowest 60% of the credit score distribution living in high house-price-growth zip codes. In contrast, the borrowing of individuals in the top 20% of the credit score distribution is completely unresponsive to higher house-price-growth. In terms of defaults, the evidence is unambiguous: both default rates and the share of total delinquent debt is largest among individuals with low initial credit scores. The bottom 40% of the credit score distribution is responsible for 73% of the total amount of delinquent debt in 2007, and 68% of the total in 2008. Individuals in the top 40% of the initial credit score distribution never make up more than 15% of total delinquencies, even in 2009 at the height of the default crisis.

Amir Sufi

CHICAGO BOARD OF TRADE
PROFESSOR OF FINANCE

FRAUDULENT INCOME OVERSTATEMENT ON MORTGAGE APPLICATIONS DURING THE CREDIT EXPANSION OF 2002 TO 2005

Academic research, government inquiries, and press accounts show extensive mortgage fraud during the housing boom of the mid-2000s. We (Sufi and coauthor Atif Mian) explore a particular type of mortgage fraud: the overstatement of income on mortgage applications. We define "income overstatement" in a zip code as the growth in income reported on home-purchase mortgage applications minus the average IRS-reported income growth from 2002 to 2005. Income overstatement is highest in low credit score, low-income zip codes that Mian and Sufi (2009) show experience the strongest mortgage credit growth from 2002 to 2005. These same zip codes with high-income overstatement are plagued with mortgage fraud according to independent measures. Income overstatement in a zip code is associated with poor performance during the mortgage credit boom, and terrible economic and financial economic outcomes after the boom including high default rates, negative income growth, and increased poverty and unemployment. From 1991 to 2007, the zip code-level correlation between IRS-reported income growth and growth in income reported on mortgage applications is always positive with one exception: the correlation goes to zero in the non-GSE market during the 2002 to 2005 period. Income reported on mortgage applications should not be used as true income in low credit score zip codes from 2002 to 2005.

Oleg Urminsky

ASSOCIATE PROFESSOR
OF MARKETING

THE MERE-REMINDER EFFECT OF SALIENT CALORIE LABELING

Researchers have found mixed effects of calorie labeling, an increasingly common policy intervention, on consumer food choices. We (Urminsky and coauthor Indranil Goswami) show that sufficiently visually salient calorie labels are more effective in reducing calorie choices than standard industry disclosures. However, our findings indicate that effective labeling works primarily as a reminder, prompting people to consider nutrition, rather than by providing new information. Both visually salient information and non-informative mere reminders to consider calories can shift choices, even without materially changing people's knowledge, by making people more likely to incorporate their beliefs about nutrition into their decision, and often reducing calories. However, when consumer beliefs about health and nutrition are inconsistent with calorie content, both calorie labeling and mere reminders can backfire, leading to more choices of healthy-seeming, high-calorie food options. The findings point to the need for experimentally testing the psychological consequences of even ostensibly informational interventions.

Luigi Zingales

ROBERT C. McCORMACK DISTINGUISHED SERVICE PROFESSOR OF ENTREPRENEURSHIP AND FINANCE

CORPORATE CULTURE, SOCIETAL CULTURE, AND INSTITUTIONS

While both cultural and legal norms (institutions) help foster cooperation, culture is the more primitive of the two and it sustains formal institutions. Cultural changes are rarer and slower than changes in legal institutions, which makes it difficult to identify the role played by culture. Cultural changes and their effects are easier to identify in simpler, more controlled, environments, such as corporations. Corporate culture, thus, is not only interesting per se, but also useful as a laboratory to study the role of societal culture and the way it can be changed.

DOES FINANCE BENEFIT SOCIETY?

Academics' view of the benefits of finance vastly exceeds societal perception. This dissonance is at least partly explained by academia's under-appreciation of how, without proper rules, finance can easily degenerate into a rent-seeking activity. I outline what finance academics can do, from a research point of view and from an educational point of view, to promote good finance and minimize the bad.

MONNET'S ERROR?

Entering a currency union without any political union means European countries have taken a gamble: will the needs of the currency union force a political integration (as anticipated by Monnet) or will the tensions create a backlash, as suggested by Kaldor, Friedman and many others? We (Zingales and coauthors Luigi Guiso and Paola Sapienza) try to answer this question by analyzing the cross-sectional and time-series variation in pro-European sentiments in the EU's 15 countries. The 1992 Maastricht Treaty seems to have reduced the pro-Europe sentiment as does the 2010 Eurozone crisis. Yet, in spite of the worst recession in recent history, the Europeans still support the common currency. Europe seems trapped: there is no desire to go backward, no interest in going forward, but it is economically unsustainable to stay still.

Our Patrons

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Kenneth Griffin

Kenneth Griffin is an active supporter of causes that drive community improvement. He serves as vice chairman of the Chicago Public Education Fund, and is a member of the board of trustees for both the Art Institute of Chicago and the Museum of Contemporary Art. Griffin is a member of numerous organizations including the World Economic Forum, G100, and the Economic Club of Chicago.

Anne Dias Griffin

Anne Dias Griffin is a graduate of Harvard Business School and the Georgetown University School of Foreign Service. She serves as a trustee of the Whitney Museum of American Art, the Chicago Symphony Orchestra, the Chicago Children's Memorial Hospital, and the Museum of Modern Art.