THE PHILLIPE MONASTER CENTER
FOR ECONOMIC RESEARCH

ACTIVITY REPORT

2008/09
TABLE OF CONTENTS

I. MEMBERS OF THE CENTER AND THE STEERING COMMITTEE

II. OPENING REMARKS (presented by Bradley Ruffle, Director)

III. ACTIVITIES IN DETAIL: Guests, Seminars, Research Contracts, Fellowships and Awards, Committees and Cooperation with other Institutions

IV. PARTICIPATION OF MEMBERS IN CONFERENCES

V. PUBLICATIONS OF MEMBERS

VI. WORKING PAPERS: Titles and Recent Abstracts

VII. RESEARCH SUMMARIES
I. MEMBERS OF THE MONASTER CENTER FOR ECONOMIC RESEARCH (some members are affiliated with departments other than the Department of Economics)

Dr. Suleiman Abu-Bader
Dr. Aamer Abu-Qarn
Prof. Arie Arnon
Dr. Ofer Azar, Department of Business Administration
Prof. Ezra Bar-Ziv, Unit of Electro-Optical Engineering
Prof. Gila Benisti
Prof. Uri Benzion
Dr. Benyamin Berdugo
Prof. Daniel Berend, Department of Computer Science
Dr. Tomer Blumkin
Dr. Danny Cohen-Zada
Prof. Leif Danziger
Prof. Ezra Einy
Dr. Naomi Feldman
Dr. Koresh Galil
Dr. Arieh Gavious, Department of Industrial Engineering and Management
Prof. Mark Gradstein
Dr. Ori Haimanko
Mr. Gadi Hazak
Prof. Samuel Hollander
Prof. Moshe Justman, Dean of the Faculty of Humanities and Social Sciences
Dr. Nahum Karlinsky, Department of Jewish History
Prof. Israel Luski
Dr. Yaniv Poria, Department of Hotel and Tourism Management
Dr. Bradley Ruffle, Director of the Monaster Center for Economic Research
Prof. Edna Schechtman, Department of Industrial Engineering and Management
Prof. Aner Sela, Chairman of the Department of Economics
Prof. Haim Shalit
Prof. Zilla Sinuany-Stern, Department of Industrial Engineering and Management
Prof. Avia Spivak
Dr. Karine van der Beek
Prof. Oscar Volij
Prof. Jimmy Weinblatt, Rector of the University
Prof. David Wettstein

STEERING COMMITTEE

Dr. Bradley Ruffle
Prof. Aner Sela
Prof. David Wettstein
II. OPENING REMARKS

The Monaster Center for Economic Research enjoyed another productive year in 2008-2009, despite a shoestring budget to fund its activities. During this period, more than 70 articles were accepted for publication in a diverse range of journals including numerous leading economics journals. Also during the past year, a long battle with the university administration was partially won when the Monaster Center’s ability to reimburse conference fees was reinstated for non-tenured members.

Noteworthy promotions and changes in personnel over the past year include the hiring of Oren Rigbi, a recent graduate from Stanford University’s economics program. Congratulations go to Suleiman Abu Bader for his promotion to senior lecturer and to Karine Van der Beek for her promotion from post-doctoral fellow to lecturer. Monaster Center member Jimmy Weinblatt continues to serve as Rector of the University and Moshe Justman as Dean of the Faculty of Humanities and Social Sciences. And Leif Danziger was recently elected as the new Chair of the Economics Department.

As always, we are indebted to the Center’s secretarial staff, Ms. Ella Ginzburg and Ms. Estelle Schulgasser, for their reliable year-round service and their leadership in putting together this report.

Dr. Bradley Ruffle, Director
Monaster Center for Economic Research
III. ACTIVITIES IN DETAIL

This year marked the first Bi-annual Symposium, Ben-Gurion University, Israel sponsored by the Thomas Guggenheim Program in the History of Economic Thought. This year’s Symposium was entitled “Perspectives on Keynesian Economics” and took place July 14-15, 2009. The illustrious speakers included Samuel Hollander (BGU); Maria Cristina Marcuzzo (Sapienza Universita di Roma); David Laidler (University of Western Ontario); Mauro Boianovsky (University of Brazil); Warren Young (Bar-Ilan University); Amos Witztum (London Metropolitan Business School); Arie Arnon (BGU); Michel De Vroey (Université Catholique de Louvain); Russell Boyer (University of Western Ontario); David Colander (Middlebury College); Robert Dimand (Brock University); and Alex Cukierman (Tel-Aviv University);

1) Guests of the Center and the Department of Economics

This year, owing to the support from the Center, we hosted the following guest lecturers from abroad:

Max Gillman (Cardiff Business School, Cardiff, UK)
David Dillenberger (Princeton University)
Carl-Johan Dalgaard (University of Copenhagen)
Dror Goldberg (Texas A&M University)
Itai Ater (Stanford University)
Robert Serrano (Brown University)
Paul J. Dunne (Bristol Business School, University of West England)
Jordi Brandts (Institut d’Analisi Economica (CSIC), Bellaterra, Spain)
Muhammad Asali (Columbia University)
Dan Sasaki (University of Tokyo)
Eyal Beigman (Northwestern University)
Nadav Levy (SUNY Albany)
Yuan Ju (University of York)
Oded Galor (Brown University)
Daisuke Oyama (Hitotsubashi University)

2) Seminar Lectures Presented by Department Members and Guests from Israel and Abroad

20.11.08 Yossi Spiegel (Tel-Aviv University)
“Partial Cross Ownership and Tacit Collusion under Cost Asymmetries”

27.11.08 Ron Lavi (Technion)
“Truthful Mechanism Design for Multi-dimensional Scheduling via Cycle Monotonicity”

03.12.08 Analia Schlosser (Tel-Aviv University)
“Mechanisms and Impacts of Gender Peer Effects at School”

11.12.08 Haggay Etkes (Stanford University)
“Legalizing Extortion: Protection Payments, Property Rights, Taxation, and Economic Growth in Ottoman Gaza”
15.12.08  Eran Shmaya (Northwestern University)
   “Many Inspections are Manipulable”

17.12.08  Guy Mayraz (London School of Economics)
   “Priors and Desires: A Model of Payoff-Dependent Belief”

18.12.08  Oren Rigbi (Stanford University)
   “The Effects of Usury Laws: Evidence from the Online Loan Market”

18.12.08  Anat Bracha (Tel-Aviv University)
   “Doing Good or Doing Well? Image Motivation and Monetary Incentives in
   Behaving Prosocially”

24.12.08  Alan Miller (Caltech)
   “A Model of Community Standards”

30.12.08  Sami Miaari (Hebrew University of Jerusalem)
   “Ethnic Conflict and Job Separations”

01.01.09  Aviad Tur-Sinai (Tel-Aviv University)
   “Overeducation, Job Mobility, and Earnings Mobility among Holders of First
   Degrees in Israel”

05.01.09  Alex Gershkov (University of Bonn)
   “Learning About the Future and Dynamic Efficiency”

06.01.09  Edith Sand (Tel-Aviv University and European University Institute)
   “Immigration and Social Security: The Role of Demography in a Political-
   Economy Equilibrium”

08-01-09  Elchanan Ben-Porath (Hebrew University)
   “Implementation and Partial Provability”

14.01.09  Raphael Godefroy (Stanford University)
   “The Birth of the Congressional Clinic”

15.01.09  Baruch Gliksberg (University of Haifa)
   “Output Targeting, Labor Market Dynamics and Macroeconomic Stability”

15.01.09  Alon Eizenberg (Yale University)
   “Upstream Innovation and Product Variety in the U.S. Home PC Market”

21/01.09  Evgenia Dechter (University of Rochester)
   “After Motherhood: Effects of Maternity Leave and Effort Reallocation on
   Earnings”

22.01.09  Saul Lach (Hebrew University)
   “Asymmetric Price Effects of Competition”
29.01.09 Eugene Kandel (Hebrew University)
“A Theory of Dividend Smoothing”

05.02.09 Ido Erev (Technion)
“Learning and the Economics of Small Decisions”

12.02.09 Tzahit Simon-Tuval (Ben-Gurion University)
“Efficiency Incentives for Improving Compliance with Treatment of Chronic Illnesses”

23.04.09 Avner Offer (Oxford University)
“The Challenge of Affluence”

30.04.09 Aviad Tur-Sinai (Tel-Aviv University)
“Overeducation, Job Mobility, and Earnings Mobility among Holders of First Degrees in Israel”

30.04.09 Konrad Stahl (University of Mannheim)
“Ownership and Control in Differentiated Product Markets”

07.05.09 Galil Koresh (Ben-Gurion University)
“The Conditional Response of CDS Markets to Rating Announcements”

14.05.09 Shlomi Yitzhaki (Hebrew University)
“Inequality Comparisons: The Role of Government and Demographic Structure”

21.05.09 Sarit Markovitch (Arison School of Business, The Interdisciplinary Center)
“The Leader’s Curse in the Airline Industry”

04.06.09 Ariel Levy ((UCLA)
“The CDS Bond Basis Spread in Emerging Markets: Liquidity and Counterparty Risk Effects”

04.06.09 Volker Grossmann (Fribourg University)
“International Mobility of the Highly-Skilled, Endogenous R&D, and Public Infrastructure Investment”

11.06.09 Pierre Pestieau (Liege University)
“Unequal Wages for Equal Utilities”

18.06.09 Cesario Mateus (Greenwich University)
“Trade Credit Linkages along a Supply Chain: Evidence for the Italian Textile Sector”

25.06.09 David Genesove (Hebrew University)
“Search and Matching in the Housing Market”

02.07.09 Ze’ev Shtudiner with Bradley Ruffle (Ben-Gurion University)
“Are Beautiful People More Employable? Evidence from a Field Experiment”
09.07.09 Zvi Hercowitz (Tel-Aviv University)  
“The Financial Labor Supply Accelerator”

16.07.09 Frances Cornaglia (Queen Mary University)  
“Fear of Crime and Mental Well-Being”

3) Research Contracts, Fellowships and Awards

Aamer Abu-Qarn was the recipient of a Robert H. Arnow Center for Bedouin Studies and Development grant in the amount of $4,000.

Suleiman Abu-Bader was the recipient of two grants: one from the BGU-Sapir Fund ($5000) and from the Van-Leer Institute ($3000).

Ofer Azar’s grant from Russell Sage Foundation was extended until 6/2009.

Prof. Ezra Bar-Ziv is the recipient of the following grants:
Ministry of Infrastructure (2007-2010) in the amount of $250,000 for a project on coal gasification.
BSF (2007-2011) in the amount of $180,000 for a project on porosity and reactivity of chars.
Ministry of Infrastructure, American Eco Energy and Eco Capital (2008) in the amount of 250,000 for a project on waste gasification
INNOVA Bio-Bio Chile (2008) in the amount of $60,000 for a project on coal (Chilean) gasification.
A grant from a major international energy company in the amount of $130,000 for a project on the testing of coal pellets (2008).

Uri Benzion was awarded a research grant from the Israel National Institute for Health Policy and Health Services for a project entitled “Factors Affecting the Decision to be Immunized against Influenza: an empirical study” (with S. Shahrabani), in the amount 65,000 NIS for the period 2007-8.

Danny Cohen-Zada received a grant in the amount of $12,500 from the Israel Foundation Trustees for the period 2009-2010. The research project is entitled “Religion Distribution, Religious Pluralism and the Demand for Religious Schooling in the United States.”

In 2008 Arieh Gavious was awarded a continuation grant for one year from the Social Security Institute, The MANOF Foundation for the project “The Costs of Industrial Accidents for an Organization” in the amount of $50,000.

Mark Gradstein together with Moshe Justman were awarded a grant from the Israeli Science Foundation’s for research in “Compulsory Education,” for the period 2006-2008 in the amount of NIS 165,000. In addition, Prof. Gradstein holds a research fellowship from the Development Research Group, the World Bank.

Ori Haimanko was awarded an Invitation Fellowship from the Japanese Society for the Promotion of Science (JSPS), Hitotsubashi University, Japan, April-September 2009.
Yaniv Poria was the recipient of the Young Researchers for Excellence in Academic Research Award in 2008.

Bradley Ruffle holds a three-year research grant (joint with Richard Sosis) from the Binational Science Foundation ($120,000) for a project entitled, “Trust, Religion and Signaling.”

Aner Sela is the recipient of a two-year grant (2008-9) from The Israel Science Foundation (ISF) entitled “Contests for Status,” in the amount of $20,000. Since 2003 he is a Research Fellow of the CEPR.

Zilla Sinuany-Stern was awarded a grant in 2008 from The Shomron and Jordan Valley Center for R&D for studying the academic achievements and demographic characteristics of Ariel University Center students from Judea and Samaria in comparison to those who come from other regions (with Dr. Nitza Davidovitz).

Avia Spivak is a Senior Fellow at the Van Leer Institute.

Oscar Volij received a grant from the National Science Foundation for the period 09/03–08/06 in the amount of $350,000, entitled “EPNES: Planning Reconfigurable Power System Control for Transmission Enhancement with a Cost-Recovery System,” with J. McCalley and R. Kumar (Co-PI).

Karine van der Beek is the recipient of the Rich Foundation Grant for the Promotion of Women in the Academy, Ben-Gurion University of the Negev and the Arthur H. Cole Grant, The Economic History Association.

David Wettstein holds a two-year grant (2009-2010) from the Israeli Science Foundation to study “Egalitarianism and Egalitarian Equivalence in Environments with Asymmetric Information.”

4) Committees, Appointments and Cooperation with Other Institutions in Israel and Abroad

Many of the members of the Center collaborate on a regular basis with investigators from various research centers and academic institutions in Israel and abroad.

Suleiman Abu-Bader collaborates with Aamer Abu-Qarn at BGU and with Daniel Gottlieb from the National Insurance Institute of Israel.

Aamer Abu-Qarn collaborates with Paul Dunne from the Bristol School, University of West England. Additionally, he is guest editor of a special issue of Defense and Peace Economics on the Israeli-Arab Conflict.

Arie Arnon helped to create the Economics and Society Program at the Van Leer Jerusalem Institute, cooperating with some 25 researchers in economics and other disciplines. He also cooperates with a group of Israeli, Palestinian and international economists on research dedicated to the economic aspects of a permanent agreement between Israel and Palestine for which he is coordinator of the Israeli side and head of the research on the Palestinian refugees. This research is done within the Aix Group
since 2002. In 2010 and 2011 the Group will work on economic elements associated with the Arab Peace Initiative. A grant from the EC will facilitate the research.

Ofer Azar is a member of the Board of the Society for Advance of Behavioral Economics (SABE). He is also the Honorary Secretary of the International Association for Research in Economic Psychology (IAREP) and part of its Executive Committee. He chairs the committee for increased cooperation between IAREP and SABE and in this role led a process by which a Confederation between the two organizations was established. He is an Associate Editor in the Journal of Economic Psychology, an Editorial Board Member of the Journal of Socio-Economics and is an Advisory Board Member of SSRN Journals in Behavioral & Experimental Economics. Dr. Azar recently collaborated with Michael Bar-Eli and David Brock from Ben-Gurion University of the Negev.

Uri Benzion collaborates with the following scientists: University of Haifa: Prof. Moshe Kim, Prof. Yossi Yagil; Bar Ilan University: Prof. Uriel Shpigel, Prof. Gil Epshtein; Golan Research Institute: Dr. Gregory Yom Din; Ben Gurion University: Dr. Koresh Galil, Dr. Aaron Rosenfeld, Dr. Yaron Amzaleg, Dr. Haim Levi, Dr. Rami Yosef; Open University: Dr. Zachary Shefer, Dr. Tal Shavit; Bank of Israel: Dr. Yossi Saadon; Academic College of Emek Yezreel: Dr. Tzachi Tavor, Dr. Shosh Shahrabani; Tel-Aviv University: Dr. Dan Weiss; The College of Judea and Samaria: Prof. Haim Falk; Technion: Prof. Ido Erev; Dr. Tomer Toledo; McMaster University: Prof. Amiram Gafni; Holon Institute of Technology: Dr. Gila Albert; Goethe University of Frankfurt, Germany: Prof. Jan P. Krahnen; and Osaka University, Japan: Prof. Yoshiro Tsutsui.

Benyamin Berdugo works with Prof. Nathan Sussman from Hebrew University (together with his student Jacques Sadik from the Hebrew University).

Tomer Blumkin is a member of the CesIfo Research Institute in Munich and the IZA Institute for labor economics in Bonn. He collaborates with Prof. Volker Grossmann from Fribourg University in Switzerland. Tomer was a visiting professor at the University of San Diego during the summer of 2008, where he taught a public economics elective course focusing on tax policy issues.

Danny Cohen-Zada collaborates with William Sander from DePaul University, Todd Elder from Michigan State University and Yaakov Gilboa from BGU.

Leif Danziger is a research fellow at the Center for Economic Studies (CESifo) in Munich, Germany and at The Institute for the Study of Labor (IZA) in Bonn, Germany. He collaborates with Eyal Baharad from Haifa University and Ruth Ben-Yashar from Bar-Ilan University.

In 2009 Ezra Einy continued his final term of his Visiting Professorship at the Graduate School of Economics, Hitotsubashi University, Japan. On a regular basis, he conducts research on continuity of solution concepts of economies with Ori Haimanko (BGU), games with differential information with Prof. B. Shitovitz from the University of Haifa and Diego Moreno from the Universidad Carlos III de Madrid.
Naomi Feldman collaborates with Joel Slemrod (University of Michigan), Bradley Ruffle (BGU), Francesca Cornaglia (Queen Mary University of London), and Peter Katuscak (CERGE-EI, Prague).

Koresh Galil collaborates with Gil Soffer (Kleinwort Corporation), Uri Ben-Zion (BGU), Mosi Rosenbaum (BGU), Hadas Shabtay (Tel-Aviv University) and Cesario Mateus (Greenwich University).

Mark Gradstein is a research fellow at the following institutes: Center for Economic Policy Research (CEPR) (London, UK) since 2001 (Public Policy Program); the Center for Economic Studies (CESifo) (Munich, Germany) since 1999; Institute for the Study of Labor (IZA) (Bonn, Germany) since 2004.

Ori Haimanko does collaborative research on the following projects: Economies with Incomplete Information – joint with Ezra Einy (BGU), Benyamin Shitovitz (University of Haifa), Diego Moreno (Universidad Carlos III de Madrid). Stability of Coalition Structures in Heterogeneous Environments – joint with Shlomo Weber (SMU). Competitive Contracts with Heterogeneous and Other-regarding Agents – joint with John Geanakoplos (Yale) and Pradeep Dubey (SUNY and Yale). Values of Cooperative games – joint with Pradeep Dubey (SUNY and Yale).

Moshe Justman has served on the University’s Finance Committee since 2002 and on its Executive Committee since 2005. He served as Acting Director of the Program on Economy and Society at the Van Leer Jerusalem Institute. He also serves as Chair of the Committee on Education Indicators jointly established by the Israel Academy of Sciences, the Ministry of Education and Yad Hanadiv and does joint research on the economics of education with Mark Gradstein, Yaakov Gilboa and Danny Cohen-Zada. He was elected Dean of the Faculty of Humanities and Social Sciences for 2007-2010.

Bradley Ruffle serves as an Associate Editor at the International Journal of Industrial Organization (since 2006). Also since 2006, he has served on the Advisory Committee of the Binational Science Foundation. He collaborates with Naomi Feldman (BGU), Todd Kaplan (Haifa University), Hans-Theo Normann (Goethe University), Richard Sosis (University of Connecticut) and Avi Weiss (Bar-Ilan University).

Edna Schechtman does joint research with Shlomo Yitzhaki (Central Bureau of Statistics), Mike Sherman (Texas A&M University), David Shinar (BGU) and Yisrael Parmet (BGU). She is currently the president of the Israel Statistical Association.

Aner Sela does joint research with Benny Moldovanu (Bonn University); Heidrun Hoppe (University of Hannover), Xianwen Shi (University of Toronto), and Todd Kaplan (University of Exeter).

Haim Shalit does joint research with Sergio Ortobelli (University of Bergamo, Italy), Svetlozar T. Rachev (University of Karlsruhe), Frank J. Fabozzi (Yale University), Shlomo Yitzhaki (Central Bureau of Statistics), Frank Hespeler (UC San Diego), and Dr Doron Greenberg (Ariel University Center).
Zilla Sinuany Stern serves as Vice President for Academic Affairs at the Ariel University Center of Samaria. She is presently a visiting scholar at the Department of Industrial Engineering at Kansas State University, Manhattan, Kansas.

Avia Spivak collaborates on research with Nathan Sussman (Hebrew University), Rami Yosef (BGU) and Oded Palmon in the US. Since 2007 he is a member of the Shochat sub-committee for tuition in higher education and for the Israel Prize for Economics.

Karine van der Beek organized the visit of Prof. Avner Offer from Oxford University, within the framework of the Faculty's Distinguished Visitors’ Program.

Oscar Volij collaborates with David Frankel (Iowa State University), Ignacio Palacios-Huerta (London School of Economics), and Ana Urrutia and Casilda (Lasso University of the Basque Country). Prof. Volij serves as associate editor for the Journal of Public Economic Theory.

David Wettstein works on the following joint research projects: “Cooperative Games with Asymmetric “Information” with Geoffroy de Clippel (Brown University) and David Perez Castrillo (Universitat Autonoma de Barcelona); “New Solution Concepts for Cooperative Games with Externalities” with Peter Borm (Tilburg University) and Yuan Ju from (York University); and “Dividends and Weighted Values in Games with Externalities” with Ines Macho-Stadler and David Perez-Castrillo (Universitat Autonoma de Barcelona).

IV. PARTICIPATION OF MEMBERS OF THE CENTER IN CONFERENCES AND OTHER EVENTS

Aamer Abu-Qarn

Suleiman Abu-Bader
Arie Arnon

Ofer Azar
“Optimal Strategy of Multi-Product Retailers with Relative Thinking and Reference Prices,” Tel-Aviv University (May 27, 2009).

Binyamin Berdugo
“How do Firing Costs Affect Innovation and Growth when Workers Ability is Unknown? Employment Protection as a Burden on Firms’ Screening Process.”
Paper presentation at the 14th DEGIT Conference, UCLA Los-Angeles, June 2009.
“How does Investors’ Legal Protection Affect Productivity and Growth.”

Tomer Blumkin
“Affirmative Action” presented at the departmental research seminar of the University of Helsinki in Finland, March, 2008.

Danny Cohen-Zada
Leif Danziger
CESifo Conference on Macro, Money and International Finance, Munich, Germany, February 2009.
IZA Conference: The Economics of the Minimum Wage, Berlin, Germany, June 2009.
Departmental seminar at The Norwegian School of Economics and Business Administration, Bergen, Norway, August 2009
Macroeconomics Workshop at Tel-Aviv University, April 2009.
Labor Economics Workshop at Tel-Aviv University, May 2009.

Ezra Einy
The 2009 Far East and South Asia Meeting of the Econometric Society, Tokyo, Japan, 3-5 August 2009.

Naomi Feldman
Behavioral Public Economics Workshop at University of Copenhagen, 2008.

Koresh Galil

Arieh Gavious
University of Toronto, Rotman Business School, Toronto 2008.
GAMES 2008 - Northwestern University, USA.

Mark Gradstein
CESifo workshop in public economics, 2008.

Ori Haimanko
The 2009 Far East and South Asia Meeting of the Econometric Society, Tokyo, Japan, 3-5 August 2009.

Samuel Hollander

Yaniv Poria


Bradley Ruffle

Edna Schechtman

Aner Sela

Haim Shalit

Zilla Sinuany-Stern

Karine van der Beek
Oscar Volij
“An Axiomatic Characterization of the Theil Index of Income Inequality,” presented at the departmental seminar of the Economics Department of Bar-Ilan University, May 2009, and at the Third Meeting of the Society for the Study of Economic Inequality, held in Buenos Aires, July 2009.

David Wettstein

V. PUBLICATIONS 2008-9 (names of Center members appear in capital letters)


**VI. WORKING PAPER SERIES 07/08/09 AND ABSTRACTS OF RECENT WORKING PAPERS (issued from the Monaster Center for Economic Research)**

**Discussion Paper Series 2007**


07-03 D.M. Frankel and O. Volij, “Measuring Segregation.”


07-08 S. Shafran, U. Benzion and T. Shavit, “Investors’ Decision to Trade Stocks – An Experimental Study.”


Discussion Paper Series 2008


08-02 B. Moldovanu, A. Sela and X. Shi, “Carrots and Sticks: Prizes and Punishments in Contests.”

08-03 A. Sela, “Sequential Two-Prize Contests.”

08-04 T.R. Kaplan and A. Sela, “Effective Political Contests.”


08-06 T. Blumkin, Y. Margalioth and E. Sadka, “The Role of Stigma in the Design of Welfare Programs.”

08-07 Blumkin and E. Sadka, “Rising UI Benefits over Time.”

08-08 W. Sander and D. Cohen-Zada, “Religiosity and Parochial School Choice: Cause or Effect?”


08-10 D. Cohen-Zada and Y. Gilboa, “Selecting Candidates for Admission to an Economics Degree Program.”

08-11 Y. Yakhin, “Financial Integration and Cyclicality of Monetary Policy in Small Open Economies.”

08-12 B. Berdugo and S. Hadad, “How do Firing Costs Affect Innovation and Growth when Workers’ Ability is Unknown? – Employment as a Burden on a Firm’s Screening Process.”

08-13 H. Shalit and S. Yitzhaki, "How Does Beta Explain Stochastic Dominance Efficiency."

08-14 D.M. Frankel and O. Volij, "Scale-Invariant Measures of Segregation."

Discussion Paper Series 2009

09-01 A. Sela, “Best-of-Three All-Pay Auctions.”

09-02 U. Ben-Zion, K. Galil, M. Rosenboim, and H. Shabtay, “A Re-examination of Value-Creation through Strategic Alliances.”

09-03 O. Hochman, “Efficient Agglomeration of Spatial Clubs.”
ABSTRACTS OF DISCUSSION PAPERS (issued since the previous report)

BEST-OF-THREE
ALL-PAY AUCTIONS
Aner Sela
Discussion Paper No. 09-01

We study a three-stage all-pay auction with two players in which the first player to win two matches wins the best-of-three all-pay auction. The players have values of winning the contest and may have also values of losing, the latter depending on the stage in which the contest is decided. It is shown that without values of losing, if players are heterogeneous (they have different values) the best-of-three all-pay auction is less competitive (the difference between the players’ probabilities to win is larger) as well as less productive (the players’ total expected effort is smaller) than the one-stage all-pay auction. If players are homogenous, however, the productivity and obviously the competitiveness of the best-of-three all-pay auction and the one-stage all-pay auction are identical. These results hold even if players have values of losing that do not depend on the stage in which the contest is decided. However, the best-of-three all-pay auction with different values of losing over the contest stages may be more productive than the one-stage all-pay auction.
A RE-EXAMINATION OF VALUE CREATION THROUGH STRATEGIC ALLIANCE

Uri Ben-Zion, Koresh Galil,
Mosi Rosenboim and Hadas Shabtay
Discussion Paper No. 09-02

This paper uses a sample of 335 firms participating in strategic alliances in order to re-examine the value creation through strategic alliances. We show that the immediate positive response of stock markets to new strategic alliances is followed by negative abnormal returns. Twenty days after announcements, cumulative positive abnormal return is only evident for the firms with the highest stock market’s response to the announcement. We relate the positive abnormal returns reported in previous research to the presence of short-run over-reaction in stock markets and conclude in the market’s ability to identify the more valuable alliances.

EFFICIENT AGGLOMERATION OF SPATIAL CLUBS

Oded Hochman
Discussion Paper No. 09-03

The literature on agglomeration has focused largely on primary agglomeration caused by direct attraction effects. Here we focus on secondary and tertiary agglomerations caused by a primary agglomeration. Initially, scale economies in the provision of club goods (CGs) lead each CG to agglomerate in facilities of a club. This primary agglomeration causes a secondary concentration of population around these facilities, which in turn brings about a tertiary agglomeration of facilities of different clubs into centers. The agglomeration of facilities occurs only if a secondary concentration of population takes place. We analyze in detail two specific patterns of agglomeration. One is the central location pattern in which the facilities of all clubs agglomerate perfectly in the middle of their joint market area. The second is a triple-centered complex in which the center in the middle of the complex consists of perfectly agglomerated facilities of different clubs, each with a single facility per complex. The other two sub-centers consist of facilities of different clubs, each with two facilities per complex. These sub-centers are closer to the middle of the complex than to the boundaries and their facilities form condensed clusters of facilities that may contain residential land in between the facilities.

ADVERTISING VERSUS SALES IN DEMAND CREATION

G. Hochman, O. Hochman, E. Hochman, A. Heiman and P.-S. Leung
Discussion Paper No. 09-04

Using an analytical model, we investigate the dynamics of a firm with market power whose advertisements and sales contribute to its customers’ stock of goodwill. An advertising campaign precedes the firm’s sales when customers are not familiar with its product, (e.g., movies), whereas sales of a new brand of a familiar product may start without advertising (e.g. Crocs shoes). For constant demand elasticity, both advertising and sales take place from the start. Two different types of solutions then emerge: one for low demand elasticity and one for high demand elasticity. These solutions are analyzed by phase diagrams. We also perform a numerical sensitivity analysis.
CONTINUITY OF THE VALUE AND OPTIMAL STRATEGIES WHEN COMMON PRIORS CHANGE
Ezra Einy, Ori Haimanko and Biligbaatar Tumendemberel
Discussion Paper No. 09-05

We show that the value of a zero-sum Bayesian game is a Lipschitz continuous function of the players’ common prior belief, with respect to the total variation metric (that induces the topology of setwise convergence on beliefs). This is unlike the case of general Bayesian games, where lower semi-continuity of Bayesian equilibrium payoffs rests on the convergence of conditional beliefs (Engl (1995), Kajii and Morris (1998)). We also show upper, and approximate lower, semi-continuity of the optimal strategy correspondence with respect to the total variation norm, and discuss approximate lower semi-continuity of the Bayesian equilibrium correspondence in the context of zero-sum games.

DIVIDENDS AND WEIGHTED VALUES IN GAMES WITH EXTERNALITIES
Ines Macho-Stadler, David Perez-Castrillo and David Wettstein
Discussion Paper No. 09-06

We consider cooperative environments with externalities (games in partition function form) and provide a recursive definition of dividends for each coalition and any partition of the players it belongs to. We show that with this definition and equal sharing of these dividends the averaged sum of dividends for each player, over all the coalitions that contain the player, coincides with the corresponding average value of the player. We then construct weighted Shapley values by departing from equal division of dividends and finally, for each such value, provide a bidding mechanism implementing it.

DOES RELATIVE THINKING EXIST IN REAL-WORLD SITUATIONS? A FIELD EXPERIMENT WITH BAGELS AND CREAM CHEESE
Ofer Azar
Discussion Paper No. 09-07

Many experiments show that consumers consider relative price differences even when only absolute price differences are relevant from an economic perspective, a phenomenon that was denoted "relative thinking." These experiments, however, were conducted using hypothetical questions. To test whether the relative thinking bias also exists in real-world situations, a field experiment where subjects could purchase either a bagel or a bagel with cream cheese was conducted. The monetary addition for the cream cheese was kept constant ($0.20) in both treatments, but the bagel's price varied ($0.05 in one treatment and $0.30 in the other). Relative thinking then implies that more people should add the cream cheese when the bagel's price is higher, because the relative price increase for the cream cheese is then smaller. However, the results did not document any relative thinking – more people (in percentage of those who purchase) added the cream cheese when the bagel's price was lower (the difference between the treatments, however, was not statistically significant). A replication of the experiment as a hypothetical-scenario experiment did document relative thinking, suggesting that introduction of financial incentives might alleviate relative thinking.
HOW DOES INVESTORS’ LEGAL PROTECTION AFFECT PRODUCTIVITY AND GROWTH
Binyamin Berdugo and Sharon Hadad
Discussion Paper No. 09-08

This paper analyzes the implications of investors’ legal protection on aggregate productivity and growth. We have two main results. First, that better investors’ legal protection can mitigate agency problems between investors and innovators and therefore expand the range of high-tech projects that can be financed by non-bank investors. Second, investors’ legal protection shifts investment resources from less productive (medium-tech) to highly productive (high-tech) projects and therefore enhances economic growth. These results stem from two forces. On one hand, private investors’ moral hazard problems (in which entrepreneurs shift investors’ resources to their own benefit), and on the other hand innovators’ risk of project termination by banks due to wrong signals about projects’ probability of success. Our results are consistent with recent empirical studies that show a high correlation between legal investors’ protection and the structure of the financial system as well as the economic performance at industry and macroeconomic levels.

RECALLED EMOTIONS AND RISK JUDGMENTS: FIELD STUDY OF THE 2006 ISRAEL-LEBANON WAR
Shosh Shahrabani, Uri Benzion and Tal Shavit
Discussion Paper No. 09-09

The current study is based on a field study of the 2006 Israel-Lebanon war that was conducted in two waves, the first two weeks after the end of the war, and the second 18 months later (2008). The purpose of the study was to examine recalled emotions and perceived risks induced by manipulation using a short videoclip that recalled the sounds of the alarms and the sights of the missile attacks during the war. Before filling in the study questionnaire in 2008, the experimental group watched a short videoclip recalling the events of the war. The control group did not watch the video before filling in the questionnaire. Using the data provided by questionnaires, we analyzed the effect of recalled emotions on perceived risks in two different regions in Israel: the northern region, which was under missile attack daily during the war, and the central region, which was not under missile attacks. In general, our results suggest that the videoclip had a strong effect on the level of recalled emotions in both regions, while it did not have any impact on individuals’ risk judgments. The results of the analytical framework in the northern region support both the valence approach (Johnson & Tversky, 1983) and the modified appraisal tendency theory (Lerner & Keltner, 2000). The current study emphasizes the effects of recalled emotion in the context of the 2006 Israel-Lebanon war on perceived risks among those in the northern region who were under direct attack compared to those who were not directly exposed to the war. Understanding people’s responses to stressful events is crucial, not only when these events take place but also over time, since previous studies have suggested that media-induced emotions can influence appraisals and decisions regarding public policies.

WHEN DO LARGE BUYERS PAY LESS? EXPERIMENTAL EVIDENCE
Bradley Ruffle
Discussion Paper No. 09-10

The rise in mega-retailers has contributed to a growing literature on buyer power and large-buyer discounts. According to Rotemberg and Saloner (1986) and Snyder
large buyers’ ability to obtain price discounts depends on their relative (rather than absolute) size and the degree of competition between suppliers. I test experimentally comparative statics implications of this theory concerning the number of sellers and the sizes of the buyers in the market. The results track the comparative statics predictions to a surprising extent. Subtle changes in the distribution of buyer sizes or the number of suppliers can create or negative large-buyer discounts. The results highlight the previously unexplored role of the demand structure in determining buyer-size discounts. Furthermore, the experiments establish the presence of small-buyer premia, not anticipated by the theory.

HEDGING WITH STOCK INDEX OPTIONS:
A MEAN-EXTENDED GINI APPROACH
Doron Greenberg and Haim Shalit
Discussion Paper No. 09-11

One of the more efficient methods to hedge portfolios of securities whose put options are not traded is to use stock index options. We use the mean-extended Gini (MEG) model to derive the optimal hedge ratios for stock index options. We calculate the minimum-variance hedge ratios and compare them to the mean-extended Gini ratios for some main stocks traded on the Tel Aviv Stock Exchange. For each value of risk aversion, MEG hedge ratios combine systematic risk with basis risk. Our results show that increasing risk aversion reduces the size of the hedge ratio, implying that less put options are needed to hedge each and every security.

USING OLS TO TEST FOR NORMALITY
Haim Shalit
Discussion Paper No. 09-12

Yitzhaki (1996) showed that the OLS estimator of the slope coefficient in a simple regression is a weighted average of the slopes delineated by adjacent observations. The weights depend only on the distribution of the independent variable. In this paper I demonstrate that equal weights can only be obtained if and only if the independent variable is normally distributed. This characteristic is used to develop a new test for normality which is distribution free and not sensitive to outliers. The test is compared with standard normality tests, in particular, the popular Jarque-Bera test. It is shown that the new test is a better power for testing normality against all classes of alternative distributions. Finally, the test is applied to check normality in time series data from major international financial markets.

EDUCATION, RENT SEEKING AND GROWTH
Binyamin Berdugo and Uri Meir
Discussion Paper No. 09-13

This paper studies the role of education as a way of reducing private rent seeking activities and increasing output. In many underdeveloped economies, for most individuals, there is no private return to education. Nonetheless, according to this paper, governments are better off by investing in public education. We view education as a means to build personal character, thereby affecting macroeconomic long run equilibrium by reducing the number of individuals who are engaged in private rent seeking activities. We show that education is more efficient than ordinary law enforcement because it has a long-run effect. The policy implication of this result is that even when education does not increase human capital, compulsory schooling will be beneficial in pulling underdeveloped economies out of poverty.
VII. RESEARCH SUMMARIES OF CENTER MEMBERS

Suleiman Abu-Bader
Dr. Abu-Bader’s research interests deal with the application of econometric techniques to study macroeconomic relations. He investigates growth-related issues in the Middle East as well as the relationship between economic growth, globalization, income inequality, and poverty in developing countries. His current research is focused on studying the dynamics of world income distribution.

Aamer Abu-Qarn
Dr. Abu-Qarn focuses his research on the determinants of economic growth in general and in the MENA region in particular. To accomplish this, he applies both time series techniques as well as panel data methods. He also examines various aspects of the Israeli-Arab conflict, including testing for structural breaks in military expenditures, the existence of the arms race, and the relationship between defense and economic growth.

Arie Arnon
Arie Arnon’s research interests primarily deal with macroeconomics, monetary theory and banking, the Israeli economy and in particular the labor market and the history of economic thought. He is currently working on a monograph “Money, Banking and the Economy: Monetary Theory from Hume and Smith to Wicksell.” Prof. Arnon also continues to be actively involved in regional economics and research on economic policies in the Middle East, particularly on the Israeli–Palestinian relations. Since 2002 he has been the Israeli Coordinator of “The Aix Group” – a Working Research Group on the Economic Dimensions of the Israeli Palestinian conflict. In 2005 he initiated the "Program on Economics and Society" at the Van Leer Jerusalem Institute.

Ofer Azar
Ofer Azar's main research areas are industrial organization, strategy, behavioral economics, and experimental economics. Recently, his research focused on several other topics. One was to examine how people make decisions between differentiated products. Another was to analyze how firm strategy should respond to the consumer bias of “relative thinking.” In another recent research, Dr. Azar explored the impact of economics research on management and business administration journals, and how workers respond to incentives.

Binyamin Berdugo
Dr. Berdugo’s main fields of interest are macroeconomics, household economics and economic growth. Recently, he has also become interested in the field of political economy.

Uri Benzion
Prof. Benzion’s current research projects deal with evaluation of mutual funds; interrelationships between international markets and country funds; marketing policy by use of cent-off-coupons; and the use of activity-based costing in medical decision-making.
Tomer Blumkin
Dr. Blumkin’s main focus has continued to be public policy issues, including: unemployment insurance, anti-discrimination and affirmative action policy in the context of the general welfare (tax and transfer) system. He has also been working on political economy issues, focusing on the role of ideological polarization and manipulative power of parties to affect ‘irrational’ voters. In his new work, Dr. Blumkin has examined the role of social stigma on the optimal design of welfare systems, focusing on the difference between universal and selective transfer systems and their implications on social welfare. Joint with Dr. Bradley Ruffle, Dr. Blumkin continued his experimental work on the equivalence between consumption and income taxes focusing on money-illusion explanations for observed individuals’ misperception and establishing a novel case for shifting the tax system to a consumption tax base.

Danny Cohen-Zada
Dr. Cohen-Zada’s research deals with the economics of education and the economics of religion. Currently, he is studying how religious pluralism affects the demand for religious schooling. In addition, he is working on identifying a valid instrument for estimating the effect of Catholic school attendance on student outcomes. His most recent research project deals with estimating the treatment effect of religious schooling in Israel.

Leif Danziger
Prof. Danziger’s research branches into two directions. The first focuses on understanding the output and welfare effects of the minimum wage rate. The second deals with the effects of adjustment costs and inventories on the inflation-output trade-off.

Ezra Einy
Prof. Einy's research concentrates on values of games, large games, voting games, utility theory, inequality measures, and refinement of correlated equilibria. His present focus is on solution concepts of economies with differential information.

Dr. Feldman's research interests include behavioral public finance and taxation. She is particularly interested in the complexity of the U.S. income tax code, tax compliance, avoidance and evasion and violations of the life-cycle hypothesis. Past research topics have also included charitable giving and volunteering.

Koresh Galil
Dr. Galil's research interests focuses on empirical finance and credit risk. His current projects include a re-examination of value creation through strategic alliances, information content of credit ratings, rating shopping, properties of credit spreads and anomalies in credit derivatives markets.

Mark Gradstein
Prof. Gradstein's research interests are concerned with private versus public provision of public goods and public growth promoting policies. His current project (jointly with M. Justman) focuses on growth promoting policies as implied by actual political mechanisms.

Ori Haimanko
Dr. Haimanko’s currently studies optimal labor contracts in multi-agent settings with pride and envy among agents, potential games, and equilibrium correspondences in games with incomplete information.
Samuel Hollander
Prof. Hollander is completing Friedrich Engels and Marxian Political Economy for Cambridge University Press. It is a companion to the Economics of Karl Marx.

Moshe Justman
Prof. Justman's activities focus on the political economy of education. He also does work on technology policy and on regional development.

Israel Luski
Prof. Luski's research interests deal with the following areas of industrial organization: R&D and patent policy – optimal strategies for R&D investment; the economics of multinational corporations – the economic impact of multinational corporations on the host country; optimal incentives policy; nonprofit organizations – economic efficiency of nonprofit organizations, and government policy toward nonprofit organizations.

Yaniv Poria
Dr. Poria’s research interests include the management of heritage and unique segments of the service experience.

Bradley Ruffle
Dr. Ruffle is primarily an experimental economist. He uses experimental methods in the laboratory and in the field to test theories and examine phenomena in product and labor markets, industrial organization, negotiations, and the role of cooperation, trust, signaling, emotions, and cognitive biases in interactive and individual decision making. He also uses rational choice theories to understand religiosity and religious institutions.

Edna Schechtman
Prof. Schechtman's research is directed towards the use of Gini in various areas of statistics, starting with the Gini correlation, moving to Gini’s simple and multiple regressions and finally analysis of Gini (ANOGI).

Aner Sela
Prof. Sela's research concerns optimal designs of contests and auctions.

Haim Shalit
Prof. Shalit's research is directed toward the use of the mean-Gini model and Conditional Stochastic Dominance in financial markets. His research with Prof. Shlomo Yitzhak of the Central Bureau of Statistics on the mean-Gini model has shown how risk aversion affects the essence of capital markets equilibrium. Prof. Shalit’s research also focuses on extended Gini measures to construct optimal portfolios. In this endeavor, he works with Dr. Frank Hespeler using Mathematica to choose optimal portfolios for higher risk aversion investors. He also works with Prof. Sergio Ortobelli (University of Bergamo University), Prof. Svetlozar T. Rachev (University of Karlsruhe and University of California Santa Barbara) and Prof. Frank J. Fabozzi (Yale University) on orderings and risk probability functionals applied to optimal portfolios. Furthermore, Prof. Shalit is developing a new test for normality based on regression weights.
Zilla Sinuany-Stern
Prof. Sinuany-Stern’s focuses on the following areas: industrial engineering, management science, operations research, data envelopment analysis (DEA), decision analysis, forecasting, operations management, production planning and control, models in academic planning, reliability and maintenance in production control.

Avia Spivak
Prof. Spivak continues his research activities in two main fields of interest: the macro economics of Israel and the economics of pensions and social insurance.

Karine van der Beek
Dr. van der Beek's research interests include economic history, growth and institutions. She mainly focuses on industrialization, technological change and the evolution of human capital in pre-modern Europe. Her current research project explores the skilled labor sector in England during the Industrial Revolution.

Oscar Volij
Prof. Volij does research in economic theory and game theory. His current projects involve the measurement of segregation and income inequality.

Jimmy Weinblatt
Prof. Weinblatt's research efforts are devoted to pursuing various issues within the large scale project on the Economic Aspects of Peace in the Middle East: macroeconomic modeling, Israeli-Jordanian-Palestinian trade and the development of special industrial zones. His time continues to be absorbed by his responsibilities as Rector of the University.

David Wettstein
Prof. Wettstein focuses on the introduction of new solution concepts for cooperative environments with externalities and asymmetric information, as well as on the non-cooperative foundations for old and new cooperative solution concepts and optimal auction design.