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1. Editorial

At the beginning of the year 2015 we had not expected major changes in the composition of the SIAW. However, the institute was lucky to attract two high-profile researchers. In September 2015, we were pleased to welcome Prof. Dr. JOHANNES BINSWANGER (Professor for Business Economics and Public Policy) and Prof. Dr. MICHAEL BECHTEL (SNF-Professor for International Comparative Political Economy).

Prof. BINSWANGER’s teaching engagements will take place primarily in the Executive School (ES) where he will be responsible for, among others, the economics programmes. In this role Prof. BINSWANGER will augment Prof. SIMON EVENETT as another representative of the SIAW at the ES, thereby invigorating ties with Executive Education. We are looking forward to Professor BINSWANGER’s inaugural lecture and to the collaboration with him and his team in the years ahead.

The research expertise of Prof. BECHTEL’s team lies in the field of International Political Economy, which has a long tradition at the SIAW. We are glad that Prof. BECHTEL’s work will sharpen our existing research profile in this field and we are looking forward to working with him and his associates as well.

Rather than joining our ranks, senior research associate Dr. LUKAS SCHMID is ranked first for the position as a tenure-track assistant professor at the University of Luzern. Considering Dr. SCHMID’s outstanding research record and his great success in raising funds from third parties, the result from Luzern came as no surprise. We offer him our sincere congratulations on this success and hope that Dr. SCHMID will remain affiliated with the SIAW for future research cooperation.

On a sad note, our esteemed colleague Prof. Dr. JÜRGEN WOLTERS died on 21. November 2015. JÜRGEN WOLTERS was Professor (emeritus) for Statistics at FU Berlin and was a regular guest at the SIAW. We will all miss his kind, gentle presence and the interesting discussions with him.

While 2015 saw the SIAW place a bigger research emphasis on International Economic Policy, the institute remained active in a broad range of teaching and research areas. On the pages which follow, the individual groups provide detailed reports about the associated projects.

The SIAW Circle, a forum for roundtable discussion, was launched two years ago and has already firmly established itself as a red-letter day. While this roundtable previously served as a way for the SIAW to stay in touch with its institutional sponsors, it increasingly serves as a platform to foster the connection with SIAW alumni. The 2015 conference of our journal Aussenwirtschaft was dedicated to the hot issue of the Swiss Franc as a “Safe Haven.” This year’s conference, which will be held again at the Swiss National Bank (SNB) in Zurich, is dedicated to the topic “Trade relation between Switzerland and EU.” In addition to this conference in the year to come the SIAW will deliver a public lecture series about the strong Swiss Franc and its impact on the economy of eastern Switzerland: It is the SIAW’s strong conviction that academic rigour and policy relevant pragmatism should go hand in hand and that both sides can actually learn a great deal from each other.

The broad commitment of the institute’s members in the realm of research, teaching, executive education, and policy advice is a unique characteristic of the SIAW and demonstrates that we live by the university’s motto “From insight to impact.” The appointment of SIAW members to other universities shows the academic recognition bestowed upon our junior researchers. Moreover, the dissemination of our insights through national and international media, and the global utilization of datasets that were prepared at the SIAW bear witness to the relevance of our work.
In conclusion, 2015 was a very successful year for the SIAW and we would once again like to thank the supporters of our institute. The rising amount of data processing in preparation for a research project is costly and requires support from third-parties. As the authority responsible for higher education, the Canton of St. Gallen allows us the required autonomy to structure our research and consulting activities, even in these financially straitened times.

We would like to thank the members of the Executive Board as well as the members of the institute’s Association of Sponsoring Institutions which give us financial support as well as allowing us to contact them for valuable suggestions and advice. A special thanks goes to the SIAW employees whose ideas and scientific curiosity result in fascinating datasets, studies, and publications. We thank you very much and wish you a successful year.

St. Gallen, 29. February 2015

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2. Staff

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Research Fellows SIAW

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Prof. Dr. CHRISTOPH A. SCHALTEGGER
Prof. Dr. MARK SCHELKER
Prof. Dr. JÜRGEN WOLTERS († 21.11.)

Research Associates SIAW

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Dr. THOMAS A. ZIMMERMANN
3. Research Activities

3.1 Chair Prof. Dr. Simon J. Evenett

Researchers:

Morgan Boëffard
Piotr Lukaszuk
Iva Mihaylova

*from left to right:*

Iva Mihaylova, Professor Dr. Simon Evenett, Gabriela Schmid
The calendar year 2015 saw further development in the portfolio of international trade and economic development-related activities of Prof. Simon J. Evenett’s chair. This in addition to the substantial amount of executive education teaching, stakeholder outreach (journalists, policymakers, and business associations), and contributions to the strategy development process of the School of Economics and Political Science at HSG.

The composition of the team was stable throughout 2015. Dr. Johannes Fritz continued to run on a day-to-day basis the Global Trade Alert team (which is based in St. Gallen and elsewhere) as well as contributing creatively to analyses of the data collected. Iva Mihayolva, Piotr Lukaszuk, and Morgan Boeffard continued to diligently collect and process information on the areas of state intervention that they were responsible for, again as part of the Global Trade Alert initiative.

**Ongoing Research Projects**

**Crisis-era protectionism and the Least Developed Countries**

One goal of the year was to make greater use of the vast database of government policy actions taken since the onset of the global economic crisis that has been collected as part of the Global Trade Alert (GTA) initiative. This initiative continues to be run from the SIAW and is now in its sixth year of operation. By the end of 2015, the GTA database contained nearly 8,000 entries of government measures, more than twice the size of the comparable dataset at the World Trade Organization.

Towards the end of 2014 the Government of Sweden commissioned a study on the effects of crisis-era protectionism on the exports of the Least Developed Countries (LDCs), where the income per capita is less than $1000 per annum. These very poor nations had seen their exports grow markedly in the years running up the global economic crisis and the question was raised as to whether the integration of these countries into the global trading system was adversely affected by the crisis.

Collaborating with Dr. Johannes Fritz, Simon Evenett estimated the effects of different types of trade distortions on the exports of the LDCs from 2008 to 2013. It was found that foreign trade distortions had held back LDC export growth by 31% or, in absolute terms, by almost a quarter of a trillion dollars since the crisis began. Foreign trade reforms offered little respite and were overwhelmed by the extent of LDC export losses.

In a finding that would recur throughout the year, the principal trade distortion responsible were export incentives, often delivered through national tax systems. Old-fashioned mercantilism rather than import restrictions of the 1930s are where the greatest reforms are needed, at least if the recent crisis is anything to go by. This finding is particularly ironic given that WTO Ministerial Conference in December 2015 decided finally to eliminate agricultural export subsidies—while hidden forms of export incentives for manufactured goods are on the rise.

The Swedish government then took significant steps to publicise the study, which was ultimately published as an electronic book by CEPR Press. Public events were arranged in Ankara, Turkey (recall that country chaired the G20 in 2015), in Brussels (at the Swedish Permanent Representative), Geneva (at the World Trade Organization), London (at the Swedish Ambassador’s Residence), and Paris (at the Organisation for Economic Co-operation and Development.)

**Exports facing contemporary trade distortions**

Central to the identification of the effects of foreign trade distortions on the exports of the LDCs were calculations of the extent to which each LDC’s exports were potentially exposed to those
distortions. Traditionally, international trade research has involved computing coverage ratios on distortions to imports (essentially, computing the percentage of a nation’s imports that face some type of import restriction imposed by that nation.) Here the logic was applied to export flows as well. Moreover, the logic was applied through the year to countries other than the LDCs. During 2015, SIMON EVENETT and JOHANNES FRITZ produced estimates of the percentage of trade potentially facing trade distortions—at home and abroad—for each of the G7 nations, the G20 nations, and the 28 members of the European Union. These statistics were shared in memos or in speeches throughout the year. One particular highlight was a dinner presentation given by SIMON EVENETT to the most senior trade policy officials from the Member States of the European Union in December 2015 in Brussels at the invitation of the Dutch government.

Presentations such as these have helped raise awareness of the findings of the Global Trade Alert initiative and, more importantly, of the growing threats to an open world trading system. From a more academic point of view, the finding that large shares of national exports face subsidised rivals when competing in third markets—as opposed to import restrictions imposed by those third markets—is significant as it implies that the analysis of export subsidisation (a topic not really researched much since the 1980s) may need revisiting. From a systemic policymaking perspective, this finding implies that the World Trade Organization (WTO) has not been able to rein in export promotion policies—a form of mercantilism—and that evaluating the WTO solely in terms of its effects on deterring import restrictions is misplaced.

**Mega-Regional Trade Agreements**

With the breakdown of the Doha Round multilateral trade negotiations—which was finally acknowledged at the WTO Ministerial Conference in December 2015—concerns have arisen that the large trading powers (China, the European Union, the United States and possibly Japan) would seek to sign very large or “mega” free trade agreements outside of the WTO. Last year the United States signed the Trans-Pacific Partnership with 11 other nations, adding to these concerns.

Meanwhile, the United States and European Union have been negotiating a Trans-Atlantic Trade and Investment Partnership (TTIP), the European Union has been negotiating a free trade agreement with Japan, and China has supported negotiations of a Regional Comprehensive Economic Partnership (RCEP) and a Free Trade Area of the Asia-Pacific. Not surprisingly, these developments have resulted in much comment and analysis. Here the SIAW has made two contributions in 2015.

First, with SAIT AKMAN and PATRICK LOW, SIMON EVENETT co-edited a volume on the impact of a possible TTIP on excluded parties. This matter is important because it is said that the strategy of the United States and European Union is to add pressure on third parties to sign TTIP’s rules which, after all, were drafted by Washington and Brussels. Senior analysts from third parties were encouraged to write about the likely reaction of their government to the negotiation of a TTIP. Interestingly, few analysts thought it likely that their countries would seek to join a TTIP. Rather, they thought it more likely that their governments would try to improve the competitiveness of their national economies through unilateral, supply-side reforms.

Second, with VINOD AGGARWAL, SIMON EVENETT co-organised a conference in Brussels in October 2015 where a number of scholars and analysts from both sides of the Atlantic presented papers on various aspects of TTIP. This extended by another year the cooperation between the SIAW-HSG and the APEC centre of the University of California at Berkeley. These papers are being prepared for publication.
The Contribution of Openness to National Economic Performance

Every year the CEPR holds, in conjunction with the University of Modena, a conference on the determinants of economic growth in industrialised economies. For its 2015 conference the theme of the contribution of openness to economic growth was chosen and SIMON EVENETT was asked to organise this event.

This series of conferences differs somewhat from the traditional academic conference in that presenters are supposed to explain future promising areas of research as well as the latest research findings. Most presenters followed this approach and the discussion was particularly insightful for the doctoral students who were invited to attend this conference as well.

Other contributions

In June 2015 SIMON EVENETT as reappointed to a third four-year term as Programme Director of the CEPR’s International Trade and Regional Economics Programme. This programme includes many of the best trade economists in Western Europe and North America. EVENETT was co-organiser of the annual conference of this group, which took place in Paris, France on 3-5 June 2015. EVENETT arranged for this group of scholars to be addressed by MR. PASCAL LAMY, former Director-General of the World Trade Organization.

SIMON EVENETT continued to serve as Academic Director of the University of St. Gallen’s MBA programme and as Director of the Executive School. The contents and delivery of that programme, the ranking of the programme in the Financial Times, and the financial performance of the MBA programme saw solid improvements during 2015. More reforms are being implemented during the current academic cycle.

Following up on an earlier project, the European Bank for Reconstruction and Development asked SIMON EVENETT and JOHANNES FRITZ to revise the procedures they employ to assess whether potential investment projects that the Bank is considering financing have unduly benefited from protectionism. This project involved bringing together different stakeholders within the Bank and involved considerable tact as well as substantive analysis. The revised guidelines have now been approved by the Bank’s management.

In response to a request from the Rektor, the SEPS was asked to prepare a strategy for the coming years. SIMON EVENETT was involved in the working group, contributing to the development of proposals relating to public policy, globalisation, and the digital economy. This was the first time that the economists and political scientists at HSG have come together to design a strategy for the school and it is implementation is an important priority for 2016.
3.2 Chair Prof. Dr. RETO FÖLLMI

Researchers:

MYRIAM BÄCHLI (since 01st November)
IRENE FENSORE
ADRIAN JÄGGI
STEFAN LEGGE
ISABEL MARTINEZ
DR. LUKAS SCHMID

from left to right, front row:
Stefan Legge, Prof. Dr. Reto Föllmi, Irene Fensore

from left to right, back row:
Timo Dähler, Dr. Lukas Schmid, Myriam Bächli
The Team

Prof. Dr. RETO FÖLLMI, who has been Professor of International Economics at our Institute since February 2011, co-chairs the International Economics Section together with Prof. Dr. SIMON J. EVENETT. From September 2007 to January 2011, he was teaching as Professor of Macroeconomics at the University of Berne. He is member of the PhD in Economics and Finance programme commission at the University of St. Gallen. The core areas of his research are questions of economic growth, foreign trade and distribution.

IRENE FENSORE joined our team in September 2013. During her Bachelor, she studied at Bocconi University in Milan and at Chulalongkorn University in Bangkok, Thailand. After obtaining a Master’s in Quantitative Economics and Finance at the University of St. Gallen, she joined the PhD programme in Economics and Finance (PEF). Her research interests include international economics and trade, as well as income inequality.

ADRIAN JÄGGI has been working at our institute since August 2014. He obtained his Master’s in Quantitative Economics and Finance (MiQE/F) at the University of St. Gallen. Furthermore, he gained experience at universities abroad at the University of Manchester as well as at the Korean Institute of Science and Technology (KAIST) in Seoul. After completing an internship at the Swiss National Bank (SNB), he enrolled in the PhD Programme in Economics and Finance (PEF). He is currently completing the course phase.

STEFAN LEGGE joined our team in September 2011. He studied at the Universities of St. Gallen and Mannheim as well as at the University of California in San Diego. After obtaining a Master’s in economics in 2011, he joined the PhD programme in Economics and Finance (PEF). Currently, he is a visiting scholar at the Princeton University. In his dissertation, he deals with the impact of trade liberalisation in Latin America, the effects of rankings, behavioural biases in tournaments, and the implications of population aging.

ISABEL MARTÍNEZ joined our team in January 2012 as a research assistant. She studied Economics and Political Science at the University of Berne and the Free University Berlin and obtained her Master’s in Economics in the autumn of 2011. Since 2012, she has been enrolled with the Doctoral Programme for International Affairs and Political Economy (DIA). Currently, she is a visiting scholar at the University of California at Berkeley. In her dissertation, she deals with the evolution of the income distribution in Switzerland, and addresses the effects of tax changes on individual behaviour as well as the effectivity of the Swiss health care premium subsidy programmes.

Dr. LUKAS SCHMID has been a member of our team since February 2011. He studied Political Science and Economics at the Universities of Berne and Lausanne, graduating in 2008 with a licentiate. After having participated in the Swiss Programme for Beginning Doctoral Students in Economics at the Gerzensee Study Centre, he completed his PhD at the University of Berne in 2012. He has been a visiting researcher at the Methodology Department at the London School of Economics in 2012/2013. His dissertation dealt with political economics, inequality and education. Since 2013, he works as a Post-doc at our Institute.

Dr. THOMAS A. ZIMMERMANN works as head of the Department “Organisation, Legal Affairs and Accreditation” and Member of the Board at the Swiss State Secretariat for Economic Affairs SECO since spring 2009. At the same time, he teaches as a research associate at SIAW-HSG in education and professional development programmes.
Ongoing research projects

Trade, R&D, and international price differences
Our work on “International arbitrage and the extensive margin of trade between rich and poor countries” was continued because of a further revision work for a major scientific journal. RETO FÖLLMI together with CHRISTIAN HEPENSTRICK (Swiss National Bank, SNB) and JOSEF ZWEIMÜLLER (University of Zurich) introduce consumption indivisibilities into the Krugman model to show that an importer’s per capita income becomes a primary determinant of ‘export zeros’. Households in the rich North (in the poor South) are willing to pay high (low) prices for consumer goods. Hence, unconstrained monopoly pricing generates arbitrage opportunities for internationally traded products. Export zeros arise because some northern firms abstain from exporting to the South so as to avoid international arbitrage. We show that rich countries benefit more from trade liberalisation than poor countries, and that the latter may even lose. These results hold also under more general preferences which feature an intensive and extensive consumption margin. U.S. firm-level data as well as disaggregate trade data show a robust negative association between export zeros and (potential) importers’ per capita income. We extended the initial analysis to account for heterogeneous productivity across firms. This allows us to calibrate a model which estimates price differences and trade costs across countries.

Innovations, inequality and economic growth (continued)
RETO FÖLLMI and JOSEF ZWEIMÜLLER (University of Zurich) finished the work on “Is Inequality Harmful for Innovation and Growth? Price versus Market Size Effects”. We introduce non-homothetic preferences into an R&D based growth model to study how demand forces hape the impact of inequality on innovation and growth. Inequality affects the incentive to innovate via a price effect and a market size effect. When innovators have a large productivity advantage over traditional producers a higher extent of inequality tends to increase innovators’ prices and mark-ups. When this productivity gap is small, however, a redistribution from the rich to the poor increases market sizes and speeds up growth. The results are compared to the evolutionary and Post-Keynesian literature.

We continued the project “A Dynamic North-South Model of Demand-Induced Product Cycles.” RETO FÖLLMI together with ANDREAS KOHLER and SANDRA HANSLIN (University of Zurich) consider the impact of the entry of emerging economies on growth and innovations in the industrialised countries. Innovation takes place in the rich North while firms in the poor South at random imitate products manufactured in the North. The model is able to generate endogenous product cycles as described by Vernon (1966) where the different stages of the product cycle are not only determined by supply side factors but also by the distribution of income between North and South. We further provide suggestive evidence for the product cycle stages. We show that the innovation-imitation process depends crucially on within and across countries income inequality.

The know-how on innovations, investment and growth was used to consult the State Secretariat for Economic Affairs SECO.

Productivity, international trade, and distribution
The project “Trade Liberalization and Credit Constraints: Reallocations at the Firm Level” by RETO FÖLLMI, STEFAN LEGGE, and ALEXA TIEMANN studies how firms respond to trade liberalisations in emerging economies. Following the idea of heterogeneous firms, we examine whether imperfect capital markets can prevent welfare gains from trade liberalisation to materialising. In our theoretical model, entrepreneurs differ in their wealth endowment causing them to rely
differently on external funds. In a setting with an imperfect capital market, we show that poor entrepreneurs running smaller firms are less likely to invest in product change and more likely to exit the market. Decreasing trade costs resulting from tariff reductions exacerbate these characteristics. Using firm-level panel data on seven Latin American countries for 2006 and 2010, we show that the basic theoretical predictions match with observed firm characteristics. In addition, we present novel empirical evidence showing that in the sample of surviving enterprises, financially constrained firms are less likely to change their main product, especially if they rely heavily on external funds. This finding adds another dimension to the literature on how financial constraints distort reallocations within firms and thus can limit gains from trade.

Furthermore, we continued working on “Harmful Pro-Competitive Effects of Trade in Presence of Credit Market Frictions.” RETO FÖLLMI and MANUEL OECHSLIN (University Lucerne) study the impact of international trade on technology choice by firms if capital markets are imperfect. We explore the consequences of international trade in an economy that encompasses technology choice and an endogenous distribution of mark-ups due to credit market frictions. We show that in such an environment a gradual opening of trade may -- but not necessarily must -- have a negative impact on productivity and overall output. The reason is that the pro-competitive effects of trade reduce mark-ups and hence make access to credit more difficult for smaller firms. As a result, smaller firms -- while not driven out of the market -- may be forced to switch to less productive technologies.

We used the knowledge gained in growth and trade in order to consult the Federal Council in a special committee in the year 2015 as well. Its aim is to analyse whether the bilateral treaties with the European Union could be substituted with an encompassing free-trade agreement.

Political Economy, Distribution and Economics of Education

In her project „Beggar-Thy-Neighbour Tax Cuts: Mobility after a Local Income and Wealth Tax Reform in Switzerland” ISABEL MARTÍNEZ analyzes the introduction of a regressive income tax scheme for the top 1% in the canton of Obwalden in 2006, where the explicit purpose was to attract affluent taxpayers. Using individual tax data from the cantonal tax administration ISABEL can show that in-migration of affluent taxpayers increased remarkably in response to the reform. This effect is confirmed by a second approach, comparing Obwalden to its neighboring cantons Nidwalden and Lucerne. The effect on tax revenue, however, remains ambiguous, especially when comparing tax revenue in Obwalden to that of other cantons in the region of Central Switzerland.

RETO FÖLLMI and ISABEL MARTÍNEZ continued to study the recent evolution of top incomes in Switzerland. The results show that the share of top incomes has risen, the top 0.01% share even doubled in the last 20 years. However, top incomes exhibited large variation in the business cycle. The analysis of social security data suggests that labour incomes have become more important among top income earners. To interpret the results further we looked at individual tax data and a stock market capitalization.

RETO FÖLLMI, STEFAN LEGGE, and LUKAS SCHMID explore whether limited attention affects the risk behavior of professionals using data on alpine skiing. The findings suggest that professional skiers misinterpret actual differences in race times by focusing on the leftmost digit, while neglecting the rightmost digit. This so called «left-digit-bias» leads to higher risk-taking behavior by athletes with a relatively low left-digit (e.g., 19 hundredths of a second) compared with arguably similar athletes with a high left-digit (e.g., 20 hundredths of a second).
Led by RETO FÖLLMI and LUKAS SCHMID and joined by DOMINIK HANGARTNER (London School of Economics) and STEFAN BOES (University of Lucerne), we examine the impact of education on a person’s educational outcomes, success in the labour market, and risk and timing preferences by using cantonal entry exams to track pupils before entering secondary school. These exams are designed to assign each student to the secondary level which suits his or her academic performance. Our project uses the critical threshold value as a natural experiment to investigate how students slightly below and above this threshold differ with regard to the outcomes of interest. The analysis sheds light on the causal effects of education. We find that educational tracking has persistent effects on educational outcomes in the so-called non-permeable system where it is very difficult for students to change the initial track assignment. Students who barely passed the entry exam are about 17 percentage points more likely to achieve a university degree, which translates into one additional year of schooling. In contrast, we find only short-term but no long-term educational effects in the permeable system in which changing the initial track assignment is not costly. The persistent effect of tracking in the non-permeable system is most pronounced for female students.
3.3 Chair Prof. Dr. ROLAND HODLER

Researchers:

ANNA BRUEDERLE
FRIEDHELM HENTSCHEL
PHILINE WIDMER (since 01st July)
NOÉMI ZURLINDEN (since 03rd August)

from left to right, front row:
Michèle Klarer, Noémie Zurlinden, Philine Widmer

from left to right, back row:
Friedhelm Hentschel, Prof. Dr. Roland Hodler
In 2015 the team of Prof. Dr Roland Hodler included the research and teaching assistants Anna Brüderle and Friedhelm Hentschel, and from summer onwards also Noémie Zurlinden and Philine Widmer. The research interests at the chair are in development economics and political economics, as well as conflict theory and public finance. Current research projects are supported by the Australian Research Council and the Basic Research Fund of the University of St. Gallen. Roland Hodler and his team members presented their research at various academic conferences and research seminars. Prof. Roland Hodler was further invited as speaker to a conference on policy evaluation in development cooperation, organized by ministries from Belgium, Germany, and the Netherlands. This year, he published two articles in international peer-reviewed journals, including one in the American Economic Journal: Economic Policy. Roland Hodler was appointed as Malmsten Visiting Professor at the University of Gothenburg for the academic year 2015/2016; and Friedhelm Hentschel was invited as visiting researcher to the Max Planck Institute for Tax Law and Public Finance in Munich.

The Team

Prof. Dr. Roland Hodler has been Professor of Public Economics and Director of SIAW at the University of St. Gallen since 2014. He is also External Research Associate at the Oxford Centre for Analysis of Resource Rich Economies, and CESifo Research Network Fellow. After receiving his PhD from the University of Bern in 2004, he was first a post-doctoral research fellow at Harvard University, then Lecturer and Senior Lecturer at the University of Melbourne, and later Professor at the University of Lucerne. Currently, he is also Malmsten Visiting Professor at the University of Gothenburg. His research interests are in development economics and political economics. A detailed CV can be found on his webpage: www.rhodler.net

Anna Brüderle joined the SIAW as research and teaching assistant at the chair of Roland Hodler in 2014. Before, she was working as assistant in his team at the University of Lucerne. She is enrolled in the PhD Program in Economics and Finance (PEF) and has taken courses under the Swiss Program for Beginning Doctoral Students in Economics at the Study Center Gerzensee. Her Diploma in Economics was attained from the University of Cologne in 2008. After graduation, Anna was working at the OECD Development Cooperation Directorate in Paris, and subsequently in various development cooperation projects at the field level in India and Africa. Her research interests are in development economics, notably social and economic development in rural contexts, development effects of access to energy, and natural resources.

Friedhelm Hentschel joined the SIAW as research and teaching assistant at the chair of Roland Hodler in 2014. Before, he was working as assistant in his team at the University of Lucerne. He studied at the Karlstad University in Sweden and the Albert-Ludwigs-University Freiburg i.Br. where he received a Master’s degree in economics. He is enrolled in the PhD program in International Affairs and Political Economy (DIA) and has taken a course under the Swiss Program for Beginning Doctoral Students in Economics at the Study Center Gerzensee. His research interests include political economics and conflict theory.

Philine Widmer has been working as research assistant at the chair of Roland Hodler since July 2015. She is enrolled in the Master in Quantitative Economics and Finance at the University of St. Gallen. She holds a Bachelor in Economics from the University of St. Gallen and a Bachelor of Medicine from the University of Basel. During her undergraduate studies, she was involved in a range of projects related to international politics, for instance acting as a Youth Delegate to
the United Nations. Her research interests include political economics and development economics.

Noémie Zurlinden has been working as research and teaching assistant at the chair of Roland Hodler since August 2015. Previously, she studied at the University of Bern, where she received a Master’s degree in Economics. She is enrolled in the PhD Program in Economics and Finance (PEF) at the University of St. Gallen and attends the Swiss Program for Beginning Doctoral Students in Economics at the Study Center Gerzensee. Her research interests lie in the field of development economics.

Ongoing Research Projects

Nighttime Light Intensity as a Proxy for Economic and Social Development at the Local Level

Anna Brüderle and Roland Hodler are working on a project which explores the relationship between nighttime light intensity and economic and social development at the local level in Africa. Nighttime light intensity, recorded by weather satellites, has recently been proposed as a good proxy for economic activity. Given that data on nighttime light intensity are available in uniform quality and high resolution for all inhabited areas of the world, they allow empirical studies on many questions concerned with subnational geographical units, such as provinces, districts, municipalities or ethnographic regions. Nighttime light intensity has already been employed in a number of recent articles published in top economics journals, and will likely be used by many more researchers in the future. However, our understanding of what exactly nighttime light intensity can capture is quite limited to date. First, there is no evidence on whether nighttime light intensity is an accurate proxy for economic activity and economic development for small geographical units such as municipalities. Second, we do not know whether it serves as a good proxy for social development in a broader sense. This study aims to fill these gaps. It combines data on nighttime light intensity with geo-referenced data from the Demographic and Health Surveys (DHS), which are large periodic household surveys on topics related to health, fertility, nutrition, education and household wealth. From DHS of several African countries, indicators are constructed that capture various aspects of education, health, infrastructure and wealth at the local level. These indicators are then used to study the association between local nighttime light intensity and development in terms of health, education, wealth and infrastructure across localities and over time. First results show a reasonably strong correlation between nighttime light intensity and these indicators.

Foreign aid and its misuse by political leaders

Philine Widmer is studying the effects of foreign aid on regional favoritism in a project with Roland Hodler and Paul Raschky (Monash University/Australia). In an already published article, Roland Hodler and Paul Raschky present evidence that political leaders favor their birth region. The aim of the current project is to understand whether shocks to the government budget in the form of higher or lower aid inflows affect this regional favoritism. To this end, the World Bank’s income threshold that defines eligibility for grants and concessionary loans from the International Development Association (IDA) is exploited as an instrumental variable: it is determined exogenously, and the literature documents a sizeable decrease in foreign aid after the income of a country has passed this threshold. We use panel data for countries which crossed the threshold between 1987 and 2010. We measure regional favoritism using nighttime lights, serving as a proxy for economic activity to capture distributive effects of various policies. Preliminary results point to lower levels of favoritism towards the leader’s birth region once a country has crossed the IDA income threshold.
Chinese Aid in Africa
ROLAND HODLER has continued his study with AXEL DREHER, ANDREAS FUCHS (both University of Heidelberg), BRADLEY PARKS, MICHAEL TIERNEY (both College of William and Mary, Williamsburg/USA), and PAUL RASCHKY (Monash University/Australia) on the subnational allocation of Chinese development finance projects in Africa. In particular, they now consider the subnational allocation of development projects by the World Bank as well. The comparison reveals that the political leaders’ birth regions get far more Chinese aid, but not more World Bank aid. A current version of this study has been published as CEPR working paper and is available on ROLAND HODLER’s webpage: www.rhodler.net

Ethnic favoritism around the globe
ROLAND HODLER has continued his study with GIACOMO DE LUCA (University of York/Great Britain), PAUL RASCHKY (Monash University/Australia), and MICHELE VALSECCHI (University of Gothenburg/Sweden) on ethnic favoritism. Empirical results suggest that the political leaders across the globe favour the regions where their co-ethnics live. A current version of this study has been published as CESifo working paper and is available on ROLAND HODLER’s webpage: www.rhodler.net

Conflict Theory
FRIEDHELM HENTSCHEL, ROLAND HODLER and HADI YEKTAS (Antalya International University/-Turkey) have finished their game-theoretic analysis of asymmetric conflicts. A link to their working paper can be found on ROLAND HODLER’s webpage: www.rhodler.net

FRIEDHELM HENTSCHEL studies theoretical models of distributional conflicts between countries, regions and different ethnic groups also in the other parts of his dissertation. In a project with ROLAND HODLER he studies the impact of secessions in ethnically fractionalized countries on subsequent secessions. Ethnic minorities may be discriminated against in the provision of public goods. A secession can be desirable if this discrimination is sufficiently severe. A secession however leads to a smaller tax base and lower levels of public good provision, which increases the likelihood that further ethnic minorities will secede as well.

In another project, FRIEDHELM HENTSCHEL analyzes third country interventions in secessions and annexations. It can be shown that a third country only intervenes in the conflict if the seceding region has a low military technology compared to the home country. In a further research project, he studies of military support in proxy contests.
3.4 Assistance Professor Dr. MICHAEL M. BECHTEL

Ongoing Research Projects
How can societies address global economic and environmental challenges, such as financial crises, climate change, or natural disasters? Our research aims to provide knowledge that societies can use to design political solutions to these problems. To this end, we study the interplay between individual policy preferences in the area of economic and environmental policymaking and the design of policies meant to foster cooperation between states. Specifically, our work attempts to improve our knowledge about whether and how democracy facilitates or complicates solving global cooperation problems that require redistributive policy choices.

Environmental Politics
Addressing environmental problems, such as climate change or marine pollution, requires international cooperation. MICHAEL BECHTEL and JOHANNES URPELAINE (2015) argue that climate negotiations involve many countries that have a federal political system in which subnational governments can set their own policies in various climate-policy relevant areas. Examples include public transport policies (for example, the share of electric buses used for public transport or regulations on the number of cars allowed to enter specific areas), public employment (for example, subsidies for employees using public transport to commute to work instead of their own car), or regional building codes (for example, requiring new buildings to meet specific energy efficiency standards). We analyze a game-theoretic model and find that policy balancing is one of the key mechanisms that may explain subnational policy choices: Policymakers strategically set policies too high or too low because of the presence of international climate negotiations and the existence of other subnational governments. Previous research has not yet identified these types of strategic policy balancing.

Climate negotiations are not only constrained by the policies of subnational governments, but also by the level of public support for progressive climate policy choices. MICHAEL BECHTEL et al (2015b) argue that asymmetries in industry-specific costs of emission abatement and internalized social norms help explain support for climate policy. To test our predictions we develop novel measures of individuals’ sector-dependent costs of climate change mitigation using objective industry-level pollution data and employ quasi-behavioral measures of social norms in representative samples (MICHAEL BECHTEL and KENNETH SCHEVE 2015) of the adult populations in France, Germany, the United Kingdom, and the United States. Our results suggest that the expected industry-specific costs of climate regulation as well as norms such as reciprocity and altruism help explain why some individuals support climate policy while others do not. Moreover, we show that these effects of sector-based interests and social norms are of roughly similar magnitudes.

Building on MICHAEL BECHTEL and KENNETH SCHEVE (2013 PNAS), we have submitted a successful grant proposal (CHF 210,000) to the Swiss Network for International Studies. In this project we will explore the role of fairness norms for preferences over the temporal distribution of costs. We are currently developing the theory and are planning to start the fieldwork in early 2016.

Climate change is associated with an increase in the frequency and intensity of extreme weather events. Previous work on the politics of natural disasters suggests that the allocation of disaster relief does only imperfectly reflect the distribution of damage. Instead, governments’ allocation choices are also driven by re-election motives. So far, however, we do not know which types of electoral motivations guide these allocation decisions. MASSIMO MANNINO (2015) develops three different arguments that may explain the distribution of relief aid. He distinguishes between the core voter model (governments favor their own voter base when distributing disaster relief), the
swing voter argument (governments target districts in which the electoral race is close), and the opposition argument (governments use disaster relief to persuade citizens that would vote for opposition parties). Using newly collected data on natural disasters, federal disaster relief aid, and presidential election results for the United States at the county-level, he puts these arguments to an empirical test. The results suggest that the allocation of disaster relief follows the core voter model. Thus, districts in which the incumbent has received many votes in the previous election receive significantly more disaster relief. This finding not only improves our knowledge about the electoral sources of government redistribution, but also informs the public debate about the optimal design of institutions responsible to manage responses to natural disasters.

**International Redistribution**

Are policy responses that require international redistribution politically feasible and under what conditions? MICHAEL BECHTEL et al. (2015a) address these questions by exploring mass support for policy responses to economic shocks in Europe, where countries such as Greece, Portugal, Ireland, Spain and Italy have faced or are still facing possible sovereign defaults. Specifically, we are interested in whether and to what extent preferences for financial bailouts depend on the specific features of the bailout packages: Could a bailout proposal that a majority of voters opposes garner majority support by changing specific features such as the burden-sharing provisions of the bailout or the austerity conditions imposed on the receiving country? We employ an experimental conjoint analysis to explore the multidimensionality of support for international financial rescues. We find that voter preferences are quite sensitive to specific features of the bailout package. The results suggest that even policies that are unpopular may receive majority support if policymakers choose the right combination of design features.

The massive economic downturns in Europe have fueled concerns that they erode trust in political institutions, which may threaten the stability of democracies. ROMAN LIESCH (2015) argues that citizens have a basic level of political sophistication that enables them to differentiate between representational institutions, which are supposed to provide prosperity through policymaking, and implementational institutions, whose task is to enforce the law. Consequently, negative economic outcomes will only affect trust in the former but not the latter. He evaluates this argument by studying the Spanish economic crisis using the synthetic control method and finds that the economic downturn reduced trust in the government by more than 30 percentage points and this effect spilled over to other representational institutions. However, the crisis left trust in implementational institutions unaffected. Additional analyses suggest that these findings generalize to other countries. These results improve our knowledge about citizens’ blame attribution behavior and help to gauge the political costs of an unprecedented recession.
3.5 Assistance Professor Dr. CHRISTINE BENESCH

CHRISTINE BENESCH has been an assistant professor at the SIAW since 2011. Previously, she did her PhD at the University of Zurich and spent a year as a visiting research fellow at the Harvard Kennedy School. Her research interests are in the political economy of information and media. She analyses empirically how media coverage and changes in access to information fueled by technological changes affect the behavior of voters and politicians.

Ongoing research projects

Transparency in Parliament

CHRISTINE BENESCH works together with MONIKA BÜTLER and KATHARINA HOFER (both from the University of St. Gallen) on a project about transparency in parliamentary voting. Until 2013, the lower chamber of the Swiss parliament, the council of States, voted almost exclusively by a show of hands. Legislators’ decisions could only be verified through time-consuming screening of online videos of the parliamentary debates. In spring 2014, the lower chamber started to vote electronically and to publish online name lists of individual voting behavior. The goal of the project is to understand how this increase in transparency affects the behavior of legislators. We analyze all final passage votes during the legislative period 2011-2015. Final passage votes are identical in both chambers of parliament and happen mostly on the same day. Therefore, the upper chamber of parliament, the National Council, serves as control group. The National Council has voted electronically for several years and published online all individual voting decisions since 2007. In comparison with the National Council, the members of the Council of States are significantly less likely to deviate from their party line after the transparency reform. Our results reflect that mostly parties profit from the increase transparency and are able to enforce more discipline among their members.

Online Information and Voting

Together with MARK SCHELKER (University of Fribourg) and LUKAS SCHMID (University of St. Gallen), CHRISTINE BENESCH worked on a project about the introduction of the online voting advice application Smartvote. The advancement of the internet and online information has not only changed the amount of and access to information but also the structure of information available to voters. The goal of the project is to understand how these changes in the information structure affect the behavior of voters and election outcomes. In order to analyze the causal effects of Smartvote, we use data on the availability of Smartvote in cantonal elections and compare cantons with and without Smartvote before and after its introduction in a difference-in-difference framework. For that purpose, we have to collect detailed data on cantonal elections from various sources. First results show that the introduction of Smartvote is not associated with higher turnout but with higher vote shares of the smaller parties. Further analysis will shed more light on the exact mechanisms behind this result by analyzing more detailed voting statistics at the local level.

The Effects of Media Spillovers on Political Attitudes

The most recent project of CHRISTINE BENESCH (together with Simon LORETZ from the IHS Vienna, DAVID STADELMANN from the University of Bayreuth and TOBIAS THOMAS from Media Tenor Vienna) addresses the question to what extent media coverage affects political attitudes. Because media content and political attitudes can be correlated for many reasons we analyze the effect of media spillovers on referendum decision in a small country (Switzerland) on political attitudes in a large country (Germany). The dates of Swiss referenda are exogenous from the point of view of German media and create unexpected news on the topics of the referenda in Germany that are not caused by changes in issue salience. We hence use the availability of
newsworthy material from Swiss referenda as an instrument for the coverage of these topics in German media. Our further research will show to what extent the effects of media coverage on political attitudes only last in the short-run or also persist in the long-run.
3.6 **Professor Dr. JOHANNES BINSWANGER**

Prof. JOHANNES BINSWANGER has been appointed to the new chair for “Business Economics and Public Policy” since September 2015. This chair has been financially supported by Dr. JOSEF ACKERMANN. In 2016, JOHANNES BINSWANGER will teach a course on “Economics for Managers” in the Executive MBA program of the University of St. Gallen. Thereafter, he will teach a new course on “Data-Based Decision Making and Big Data Analysis”. Both courses will be developed completely from scratch. They will be supported by digital learning tools and web apps that have been developed specifically for these courses. JOHANNES BINSWANGER’S research activities are currently aimed at the development of these courses and tools. Beyond this, he is also responsible for strategic innovation in IT projects, including digital learning platforms, at the Executive School of Management, Technology and Law.