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1. Editorial

In our last Annual Report we showed that more than ever our activities focused on the „International Political Economy”. A university institute with a long research horizon should not only comment on daily events. However, due to the unexpected political events in the year 2016, whose consequences for trade are still far from clear, more competences in this area will be required in the future. Given these challenges we are delighted to report that in September 2016 the Board of Governors of our University decided to set up a new “Global Centre” for “International Economic Analysis” at the SIAW-HSG. This center will further strengthen the standing of our institute in the eyes of other academic institutions as well as in the area of economic policy-making. Amongst others, a new chair in international economics will be appointed. Our goal is to attract an internationally established analyst for this position. The recruitment process for this position has just started, and we hope to be able to make significant progress in the coming year.

Notable successes of our young researchers led to the promotion and departure of two of our colleagues. Prof. MICHAEL BECHTEL, SNF Research Professor of Political Science, moved to the Washington University in St. Louis as an Associate Professor. Dr. LUKAS SCHMID, Senior Research Associate at our institute, is now Assistant Professor on the Tenure-Track at the University of Lucerne. Both started their new positions at the beginning of the Fall semester 2016. We would like to congratulate them both. We are particularly pleased that they remain affiliated to the SIAW through research cooperation and as Research Fellows. From the Fall semester 2017, we will welcome Dr. ULRICH MATTER as a new Assistant Professor in Political Economy. We would like to send a warm welcome to him already!

In 2016 the SIAW was present at numerous public events. We started in April 2016 with a public lecture series about “The strong Swiss Franc and the Economy of the Eastern part of Switzerland”. In this context we also organised a panel discussion with entrepreneurs from the region. It is through events like these, together with our regular SIAW-Circles, that we keep in touch with our sponsors, economic policy-makers, and the public.

In May 2016 we had one of our highlights of the year: Prof. DR. JOHANNES BINSWANGER held his inaugural lecture about “Four milestones for the future of economics”. His lecture was held in a festive atmosphere and was followed by a big audience. He combined his inaugural lecture with a panel discussion, organised jointly with the Executive School, about the controversial topic of where economics as a discipline should be heading to and where its insights are needed most. BREXIT one month later and the protectionist agenda of DONALD TRUMP, who was elected new US president in November 2016, show that the analysis of foreign trade relationships are in high demand. The stability of the international trade architecture is very important for a small open economy like Switzerland. Hence, members of the SIAW were offering their opinions in the media as well as in expert committees.

Our scientific journal AUSSENWIRTSCHAFT was relaunched last year. From 2016, each issue will focus on one broad topic around which we will organise a conference with the authors and contributors before the issue is produced. Individual submissions to the journal are still possible, however. To make the journal more accessible and broaden the audience, we also updated the journal’s website. In addition to that, we started a cooperation with the journal “Die Volkswirtschaft”, where short versions of some Aussenwirtschaft-articles can be published. This year’s conference, in July 2016 and immediately after the decision of the BREXIT, was dedicated to the trade relationships between Switzerland and the EU. We again organised this conference, supported by the SNB, in Zurich. For the next conference in July 2017, we will focus on issues about monetary policy.
Our commitment to research, academic teaching, executive education as well as to consulting to practitioners in the economic policy field would not be possible without generous support. First, the Canton of St. Gallen provides us with the necessary leeway for an integrated structuring of research, teaching and, consulting. As special thanks goes to all members of the Steering Committee as well as to the members of the Sponsoring Institutions, who support us financially but also are accessible for guidance. From now on, private persons can also sponsor the SIAW and we are glad that some of our former colleagues joined the institution last year in this way. The decisive factor in the discovery of interesting findings and the preparation of insightful publications are curiosity, ambition, and the dedication of our staff. Let us be reminded of that also in 2017 and many thanks to all of you!

St. Gallen, 28th February, 2017

Prof. Dr. Simon Evenett  Prof. Dr. Reto Föllmi  Prof. Dr. Roland Hodler
2. Staff

**Steering Committee**

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Dr. René P. Buholzer  
Prof. Dr. Bruno Jeitziner  
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Prof. Dr. Simon J. Evenett  
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**Further SIAW Professors**

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Prof. Dr. Christine Benesch  
Prof. Dr. Johannes Binswanger

**Professor Emeriti**

Prof. Dr. Heinz Hauser, Honorary President SIAW  
Prof. Dr. Dr. h.c. Gebhard Kirchgässner

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Gabriela Schmid  
Nicole Stürm (since 01.06.)
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Assistant Chair:
Dr. CAROLIN GÜSSOW (since 01.08.)

Chair Professor Dr. SIMON J. EVENETT
Assistant Chair:
PIOTR LUKASZUK
IVA MIHAYLOVA

Assistants GTA-Project
JOHANNES FRITZ, PhD (Project-Leader)
AJSUN ALY
CHINTAN JADWANI
JOSSE JAKOBSEN
ADELINA SELMI
ANA ELENA SANCHO
TOMAS DUTRA SCHMIDT

Assistants Project Firefly
DANIEL GARRATY, Co-Founder
DANAGUL ADILBAYEVA
MARTIN FRICK (until 22.02.)
CLEMENS HOLZER (until 31.07.)
HILARY MWAMBA
ANDREA STEINER
LIN WEI

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Assistant Chair:
MYRIAM BÄCHLI
IRENE FENSORE
ADRIAN JÄGGI
STEFFAN LEGGE
ISABEL MARTÍNEZ (until 31.08.)
Dr. ULRICH SCHETTER (since 01.09.)
Dr. LUKAS SCHMID (until 31.08.)

Project Research Assistants
NILS KAI BÜRKEN
RINO HEIM
ROCARDO LEGENA

Chair Prof. Dr. ROLAND HODLER
Assistant Chair:
ANNA BRUEDERLE
FRIEDHELM HENTSCHEL (until 30.09.)
PHILINE WIDMER
NOÉMIE ZURLINDEN
PhD Assistants Prof. Dr. Michael Bechtel
Roman Liesch
Massimo Mannino (until 30.09.)

Research Fellows SIAW
Prof. Dr. Michael Bechtel
Prof. Dr. Lars P. Feld
Prof. Dr. Christoph A. Schaltegger
Prof. Dr. Mark Schelker
Prof. Dr. Lukas Schmid

Research Associates SIAW
Raphael Auer, PhD
Johannes Fritz, PhD
Berit C. Gerritzen, PhD
Florian Habermacher, PhD
Isabel Martinez, PhD
Fabian Schnell, PhD
Dr. Mathieu Trépanier
Martin Wermelinger, PhD
Dr. Sacha Wunsch-Vincent
Dr. Thomas A. Zimmermann
3. Research Activities

3.1 Chair Prof. Dr. SIMON J. EVENETT

Researchers:

PIOTR LUKASZUK
IVA MIHAYLOVA

The year 2016 saw Professor SIMON J. EVENETT and his team actively involved in a number of research, outreach, and internal strategic matters. Each major project is described in turn.

Monitoring protectionism and analysis of global commerce
The Global Trade Alert (GTA) initiative, which is coordinated by Professor SIMON J. EVENETT and managed on a day-to-day basis by Dr. JOHANNES FRITZ, completed another year of monitoring of government policy choice.

Two important milestones were reached by the GTA during 2016. By the end of the year, the GTA published its 10,000th entry on government policy choice. This means that the GTA contains two-and-a-half times more information on government acts towards foreign commercial interests than the trade monitoring database of the World Trade Organization (WTO). During the past three years the GTA team has published approximately 2,000 measures per year, having a substantial impact on the cumulative size of the database. In its last World Economic Outlook, the International Monetary Fund noted the GTA “has the most comprehensive coverage of all types of trade-discriminatory and trade-liberalizing measures.”

One goal of the GTA is to provide high quality data for analysts and scholars. The second milestone reached in 2016 was that, by the end of the year, a total of 1,070 entries in Google Scholar made reference to the GTA and its data. Consequently, the GTA initiative is beginning to influence medium and longer-term analysis of government commercial policy choice as well as being made use of in the short-term by journalists, government officials, and industry groups and analysts.

The GTA published two reports during 2016 on different aspects of languishing global commerce. The mid-year report put the plateau in world trade volumes under the spotlight. That report contested claims that global trade is slowing down. Rather, global trade came to a stop in January 2015 and was flat for much of the next 24 months.

The second GTA report, published in advance of the G20 Leader’s summit in China, focused on foreign direct investment. The Chinese presidency of the G20 had shifted the trade policy agenda towards the linkages between trade and investment and the second GTA report of 2016 reflected that shift. The latter included an overview of the slump in crisis-era foreign direct investment as well as a critical evaluation of the G20’s guidelines on investment policy. The role of economic policy uncertainty as a drag on domestic and well as foreign investment flows was emphasised.
During 2016, with support of the GTA team, Professor Simon J Evenett and Dr. Johannes Fritz produced two additional reports. The first concerned the impact of the industrial policy of Kazakhstan, whose government has devoted lots of financial resources to diversifying the oil-dominated economy of that country. Econometric analysis revealed that, indeed, “money talks” but there is no guarantee that the associated funds were used wisely or as effectively as possible.

A second report was prepared for the Government of Sweden on the impact of foreign protectionism during the crisis era on the exports of the members of the European Union. In this project a new approach to capture the effects of policy intervention by third party governments was proposed and implemented empirically. The results demonstrated how much EU exports have been held back by the export incentives of non-EU nations.

Mega-regional trade talks
With Professor Vinod Aggarwal (UC Berkeley), Professor Simon J. Evenett continued analysing the two major ongoing mega-regional trade talks, namely, the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP).

With respect to the former, Professor Evenett wrote and then published an analysis challenging the view that the successful implementation of the TPP would fatally undermine the WTO. After all, the WTO and its predecessor have successfully accommodated one very large trade agreement before, namely, the European Union.

With respect to the latter, Professors Aggarwal and Evenett oversaw a large project where several authors evaluated different aspects of the TTIP negotiations. These analyses revealed the wider range of actors opposed to these trade talks, including importantly networks of domestic regulators, who felt their mandates were threatened by these negotiations.

Contribution to ongoing strategic discussions and other activities
During 2016 Prof. Evenett was involved in discussions about the implementation of the strategy of the School of Economics and Political Science, in particular, the element referring to the digital society. To that end, he contributed a number of papers and notes that colleagues discussed.

Prof. Evenett continued in his role as Academic Director of the University of St. Gallen’s MBA programme and Director of the Executive School. The former responsibility absorbs a considerable amount of his energies.

After nine years Prof. Evenett stepped down from his role as co-director of Europe’s most established group of international trade researchers, organised by the Centre for Economic Policy Research.

In other team news, Dr. Johannes Fritz has begun a two-year post-doctoral stint at UC Berkeley, where he is learning how to apply big data techniques to the benefit of the GTA initiative. Piotr Lukaszuk successfully completed his Masters degree in economics and has started doctoral studies. Iva Mihaylova continued monitoring developments in the Russian-speaking world for the GTA and offering occasional support for Professor Evenett’s HSG teaching activities.
3.2 Chair Prof. Dr. RETO FÖLLMI

Researchers:

MYRIAM BÄCHLI
TIMO DÄHLER (from 01st January to 31st July)
IRENE FENSORE
ADRIAN JÄGGI
STEFAN LEGGE
ISABEL MARTÍNEZ (until 31st August)
Dr. ULRICH SCHETTER (since 01st September)
Dr. LUKAS SCHMID (until 31st August)

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.

MIRJAM BÄCHLI has been working as research assistant at the chair of RETO FÖLLMI since November 2015. She finished her Master’s in Economics (MEd) at the University of St. Gallen. Previously, she studied at the University of St. Gallen and at the Graduate School of Management in St. Petersburg, Russia. She is enrolled in the PhD Program in Economics and Finance (PEF) and she currently attends the Swiss Program for Beginning Doctoral Students at the Study Center Gerzensee.

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). After completing his course phase in the beginning of the year, he now started working on his research projects.

Dr. STEFAN LEGGE joined our team in September 2011 after obtaining a Master’s degree in economics. He studied at the Universities of St. Gallen and Mannheim as well as at the University of California in San Diego. In 2016, he successfully completed the PhD programme in Economics and Finance (PEF) at the University of St. Gallen. Having been a visiting scholar at Princeton University and UC Berkeley, he is now a Postdoctoral Researcher at the SIAW Institute. In his research, he deals with the impact of trade liberalisation in Latin America, barriers to international trade, and the implications of population aging.

Dr. ISABEL MARTÍNEZ took on the role as a research assistant in our team from January 2012 until August 2016. She completed her Master in Economics and Political Science at the University of Berne and the
Free University Berlin and successfully defended her thesis in the Doctoral Programme for International Affairs and Political Economy (DIA) in April 2016. Since September 2016 she has been a Post-Doctoral Researcher at the Luxembourg Institute of Socio-Economic Research (LISeR) in Luxembourg. She remains part of our group as a Research Associate. Her research focuses on income and wealth inequality, with a special focus on top incomes, and on behavioral responses to taxation.

Dr. Ulrich Schetter joined our team as a Postdoctoral Researcher in September 2016. As part of his research, he examines the role of quality differentiation in international trade, the bearings of inequality on a country’s growth prospects, and how public investment in scientific research contributes to a country’s prosperity in a globalized world. Ulrich holds a Dr. Sc. degree from ETH Zurich. Prior to joining the SIAW, he was a Postdoctoral Fellow at Yale University and worked in the private sector for RA Economic Consulting.

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 successfully finished and accepted at the *Review of Economic Studies* in January 2017. 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.

As a new project, Reto Föllmi, Stefan Legge, Lukas Schmid, and Josef Zweimüller (University of Zurich) want to study the size of trade costs. This long-standing question is still a black box in the quantitative literature.


**Innovations, inequality and economic growth (continued)**

Undergoing a revision for a journal 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.

**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 (EBRD London) 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.

**On quality differentiation in international trade**

In this project, ULRICH SCHETTER analyses the role of quality differentiation in international trade. Our guiding rationale is that quality differentiation allows firms to tailor their products to the skill level of their workforce. By producing high quality, industrialized high-income countries can thus successfully compete in comparatively simple industries. As an example, while you can buy a watch for about a dollar on the internet, Swiss watchmakers typically specialize in high-quality watches that they can sell at a price of several thousand US dollars. Quality differentiation is, however, subject to functional minimum requirements that products always need to satisfy. A watch, for example, no matter how cheap it is, always needs to measure time with sufficient precision for it to serve its intended purpose.
These requirements hinder developing countries from being competitive in complex industries – certain high-tech machines are just too difficult to produce even in their functional minimum versions. Our work thus reveals how quality differentiation contributes to a triangular pattern of international specialization where industrialized countries are active across the full board of products, the complex ones but also many of the simpler ones, while developing countries systematically specialize in the simpler products. We show that these predictions are consistent with trade patterns in the data, and argue that the underlying mechanisms mostly benefit developing countries. Our theoretical work lends itself to a novel approach to empirically assess the prevalence of quality differentiation in international trade. Following this approach, we can show that the specialization of countries within products on quality may be more pronounced than previously thought.

**Inequality, demand for quality, and growth through creative destruction**

Together with MAIK T. SCHNEIDER (University of Bath), ULRICH SCHETTER studies how inequality within and across countries interact in shaping growth prospects of countries. Motivated by empirical evidence, we assume that richer households demand higher quality, and consider the case of growth through quality upgrade by incumbent firms. Quality upgrade allows these firms to better serve the rich. The gains from innovation therefore depend on the prevalence of rich households, i.e. on the income distribution. In serving the rich firms compete, however, with foreign high-quality providers. The extent to which this will detriment local incentives to invest in innovation depends on the country’s openness to international trade and its distance from the world technological frontier. These mechanisms may therefore explain why the growth effects of inequality are different for developing and for industrialized countries. We study these mechanisms in detail and derive policy implications for promoting growth in developing countries.

**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 concluded the study on 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 at stock market capitalization.

As a new project, we have started to look into the determinants of wealth inequality at the cantonal level within Switzerland in the long run. We are particularly interested in the role of different tax policies for the concentration of wealth among the top 1%. We have stared with the collection of historical data going back into the 1920s.
3.3 Chair Prof. Dr. ROLAND HODLER

Researchers:

ANNA BRÜDERLE
FRIEDHELM HENTSCHEL (until 30th September)
PHILINE WIDMER
NOÉMI ZURLINDEN

The chair of Prof. Dr ROLAND HODLER included in 2016 the research and teaching assistants ANNA BRÜDERLE, NOÉMI ZURLINDEN, PHILINE WIDMER, and until the end of September FRIEDHELM HENTSCHEL. The research interests at the chair are in development economics, political economics, and public finance. Various research projects have been supported by the Australian Research Council and the Basic Research Fund of the University of St. Gallen. ROLAND HODLER was Malmsten Visiting Professor at the University of Gothenburg in the academic year 2015/2016. In 2016 ROLAND HODLER was invited to become a Research Fellow of the Centre for Economic Policy Research (CEPR) in London and the Centre for Development Economics and Sustainability at Monash University. ROLAND HODLER presented his research at various academic conferences and research seminars, and was keynote speaker at the CESifo Workshop in Political Economy in Dresden.

Team

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 a Research Fellow at the Centre for Economic Policy Research (CEPR), the CESifo Research Network, and the Centre for Development Economics and Sustainability at Monash University. 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. He was Malmsten Visiting Professor at the University of Gothenburg from 2015-2016. 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 holds a Master’s degree from the Albert-Ludwigs-University Freiburg i.Br. He submitted his dissertation entitled “Essays in Conflict Economics” in 2016.
PHILINE WIDMER has been working as a research assistant at the Chair of ROLAND HODLER since July 2015. She absolves the Integrated Master and Ph.D. program in Economics and Finance. She holds a Bachelor of Arts in Economics from the University of St. Gallen and a Bachelor of Medicine from the University of Basel. She is involved in a range of projects related to international politics. For instance, she acted as a Youth Delegate to the United Nations. Her research interests include political economics and development economics.

NOÉMIE ZUR Linden joined the SIAW as a research and teaching assistant at the chair of ROLAND HODLER in 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 attended the Swiss Program for Beginning Doctoral Students in Economics at the Study Center Gerzensee in 2016. Her research interests lie in the field of development economics.

Projects

Ethnic Geography: Measurement and Evidence
There is a vast literature studying the effects of a country’s ethnic diversity on its economic and institutional performance. Thereby ethnic diversity is typically quantified by indices that are based on the different ethnic groups’ country-wide population shares. By definition, these indices ignore ethnic geography, i.e., they do not make use of any information about the distribution of individuals from different ethnic groups across space. Intuitively, however, ethnic geography may well play an important role. On the one hand, social cleavages may be larger and a broad sense of community harder to achieve if ethnically diverse individuals live apart from each other. On the other hand, the spatial proximity of ethnically diverse individuals could be a cause of frictions. In joint work with MICHELE VALSECCHI (University of Gothenburg, Sweden) and ALBERTO VESPERONI (University of Klagenfurt, Austria), ROLAND HODLER makes a first step in taking ethnic geography into account. They propose a new segregation index, which is based on spatial distances as well as ethnic distances between pairs of individuals and can be decomposed into meaningful components. They then compute the index of ethnic segregation and its components for around 150 countries from all over the world and show how these indices relate to economic and institutional performance. Preliminary evidence suggests that ethnic segregations has negative effects on economic and institutional performance.

The Effect of Onshore Oil Spills on Infant Mortality in Nigeria
ANNABRÜDERLE and ROLAND HODLER are studying the effects of onshore oil spills on infant mortality in Nigeria. Nigeria, which is Africa’s most populous country and its largest oil producer, is a prime example of a country in which onshore oil operations have damaged local soil and water resources and threatened public health in adjacent communities. An important source of pollution are oil spills resulting from pipeline vandalism, theft, and lack of maintenance. So far, the causal effects of oil spills on child health have not been analyzed in any quantitative study using robust methodology. The authors use geocoded data from the Nigerian Oil Spill Monitor, and combine them with data from the Demographic and Health Surveys (DHS). The DHS provides information on mothers’ full birth histories and survival of their children, which allows comparing survival probabilities of siblings born before and after oil spills in close proximity. Preliminary results show that oil spills which occurred at a distance of less than 10 km before conception result in a large and significant increase in neonatal mortality.

Weather and Crime in South Africa
ANNABRÜDERLE, JÖRG PETERS (RWI Leibniz Institute for Economic Research, Germany) and GARETH ROBERTS (University of the Witwatersrand, South Africa) study the effects of weather on crime in South Africa. They combine detailed crime statistics for South African police wards with gridded temperature, rainfall and drought data to analyze the effects of weather on different types of contact and property crime. Preliminary findings show that crime in South Africa is highly responsive to variation in

Projects

Ethnic Geography: Measurement and Evidence
There is a vast literature studying the effects of a country’s ethnic diversity on its economic and institutional performance. Thereby ethnic diversity is typically quantified by indices that are based on the different ethnic groups’ country-wide population shares. By definition, these indices ignore ethnic geography, i.e., they do not make use of any information about the distribution of individuals from different ethnic groups across space. Intuitively, however, ethnic geography may well play an important role. On the one hand, social cleavages may be larger and a broad sense of community harder to achieve if ethnically diverse individuals live apart from each other. On the other hand, the spatial proximity of ethnically diverse individuals could be a cause of frictions. In joint work with MICHELE VALSECCHI (University of Gothenburg, Sweden) and ALBERTO VESPERONI (University of Klagenfurt, Austria), ROLAND HODLER makes a first step in taking ethnic geography into account. They propose a new segregation index, which is based on spatial distances as well as ethnic distances between pairs of individuals and can be decomposed into meaningful components. They then compute the index of ethnic segregation and its components for around 150 countries from all over the world and show how these indices relate to economic and institutional performance. Preliminary evidence suggests that ethnic segregations has negative effects on economic and institutional performance.

The Effect of Onshore Oil Spills on Infant Mortality in Nigeria
ANNABRÜDERLE and ROLAND HODLER are studying the effects of onshore oil spills on infant mortality in Nigeria. Nigeria, which is Africa’s most populous country and its largest oil producer, is a prime example of a country in which onshore oil operations have damaged local soil and water resources and threatened public health in adjacent communities. An important source of pollution are oil spills resulting from pipeline vandalism, theft, and lack of maintenance. So far, the causal effects of oil spills on child health have not been analyzed in any quantitative study using robust methodology. The authors use geocoded data from the Nigerian Oil Spill Monitor, and combine them with data from the Demographic and Health Surveys (DHS). The DHS provides information on mothers’ full birth histories and survival of their children, which allows comparing survival probabilities of siblings born before and after oil spills in close proximity. Preliminary results show that oil spills which occurred at a distance of less than 10 km before conception result in a large and significant increase in neonatal mortality.

Weather and Crime in South Africa
ANNABRÜDERLE, JÖRG PETERS (RWI Leibniz Institute for Economic Research, Germany) and GARETH ROBERTS (University of the Witwatersrand, South Africa) study the effects of weather on crime in South Africa. They combine detailed crime statistics for South African police wards with gridded temperature, rainfall and drought data to analyze the effects of weather on different types of contact and property crime. Preliminary findings show that crime in South Africa is highly responsive to variation in
temperature, and less so to variation in rainfall. Higher temperatures tend to increase crime, and this effect is stronger on contact crimes than on property crimes. These findings are consistent with the hypothesis that high temperatures can provoke aggression in humans, which then triggers criminal behavior. Further, results show that drought during the growing season increases property crime in the months following the growing season. This suggests that unfavorable weather conditions can drive people into crime to compensate losses in income.

**Chinese Aid in Africa**

ROLAND HODLER has continued his study with AXEL DREHER, ANDREAS FUCHS (both University of Heidelberg, Germany), BRADLEY PARKS, MICHAEL TIERNEY (both College of William and Mary, USA), and PAUL RASCHKY (Monash University, Australia) on the subnational allocation of Chinese development finance projects in Africa. In earlier years, they have produced a large geo-referenced dataset on these development projects and studied the subnational allocation of these development projects. In 2016, they have studied the impact of these Chinese development projects on economic development at the province level. A current working paper version of this study 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, UK), 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 favor the regions where their co-ethnics live. A revised version of the manuscript was published as CEPR working paper in 2016 and is available on ROLAND HODLER’s webpage: www.rhodler.net
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.

Climate Cooperation and Natural Disasters

Addressing environmental problems, such as climate change or marine pollution, requires international cooperation. These cooperative efforts are constrained by the level of public support for progressive climate policy choices. M. BECHTEL et al (2016a) explore whether 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 (M. BECHTEL and K. SCHEVE 2016) 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.

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. M. MANNINO (2016) 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 for managing responses to natural disasters.

M. MANNINO and M. BECHTEL (2016) extend previous work by exploring which fairness principles explain how citizens would like policy benefits to be distributed among individuals experiencing existential threats. The authors develop three theoretical arguments related to affectedness, need, and electoral ties and devise a survey experiment to explore their ability to explain individual preferences over the allocation of disaster relief. The results suggest that citizens prefer relief allocations that mostly mirror affectedness and need. The study offers a direct comparison of these patterns with observed federal relief aid distributions in the aftermath of natural disasters in the United States (1993-2008) and finds a surprisingly strong correspondence between preferred and observed relief allocation choices. These results add to our knowledge about which fairness norms guide citizens’ preferences over public spending and the extent to which public allocation decisions mirror those preferences in democracies.
The Politics of Redistribution and Economic Crises

Are policy responses that require international redistribution politically feasible and under what conditions? M. BECHTEL et al. (2016) 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 feasibility of redistribution generally depends on the extent to which individuals care about personal economic gains and their pro-social concerns. R LIESCH and M. BECHTEL (2016) engage with this ongoing debate about whether citizens form policy preferences primarily based on the impact of policies on their personal wealth or whether they also consider the impact on other social groups. Using a conjoint experiment to explicitly specify the effects of policy reforms on one’s personal income, on the national average, as well as on individuals belonging to different income brackets we explore the causal effect of income effects on support for policy. We find that both, personal as well as national-level income effects have a significant impact on mass support for redistribution. However, our results show that voters are about twice as sensitive to personal income changes than to average income effects. Additional results suggest that this latter type of sociotropic preferences reflects concerns about the wellbeing of the poorest members of society.

These results inform research on how the massive economic downturns in Europe may have eroded trust in political institutions, which may threaten the stability of entire democracies. R. LIESCH (2016) argues citizens withdraw trust from institutions involved in the policymaking process in response to disappointing economic performance. He evaluates this argument by studying the Spanish economic crisis using the synthetic control method and finds that the economic downturn nearly halved the share of individuals trusting the government, parliament, and the political parties. This effect seems to mainly be driven by unemployment concerns and not by inflation aversion or fears of corruption. The study also finds that trust in institutions that do not participate in the policymaking process remained unaffected and that the findings generalize to other countries. These results improve our knowledge about the political costs of a massive economic downturn.
3.5 Assistant Professor Prof. 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

Online Information and Voting
Together with Mark Schelker (University of Fribourg) and Lukas Schmid (University of Lucerne), 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 hand-collected 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 Dice Düsseldorf) 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 referendums are exogenous from the point of view of German media and create unexpected news on the topics of the referendum in Germany that are not caused by changes in issue salience. We hence use the availability of newsworthy material from Swiss referendums as an instrument for the coverage of these topics in German media. First results indicate that referendums on immigration topics and the media coverage of these referendums are associated with stronger worries about immigration in Germany.
3.6 Professor Dr. JOHANNES BINSWANGER

Prof. Dr. JOHANNES BINSWANGER has hold the new Chair for “Business Economics and Public Policy” since September 2015. The creation of this chair was made possible thanks to generous financial support from Dr. JOSEF ACKERMANN which we gratefully acknowledge. The most important mission of the Chair is to promote a deep understanding of economic and, in particular, macroeconomic phenomena in executive education. Both the benefactor and the University of St. Gallen are deeply convinced that this helps participants of our executive programs to see economic phenomena and their own managerial activities within a bigger picture. We believe that, ultimately, this helps them to make better decisions in practice. During its first 16 months, the Chair heavily invested in the development of new teaching material that allows our executive students to deeply understand the basic mechanisms of economic phenomena and their underlying institutional setup. The Chair took over responsibility for the course Ökonomie für Manager in the German executive MBA program. Besides teaching in executive education, the Chair was involved in teaching at the undergraduate level, and it has also been engaged in fundamental research. More information on these activities is provided below.

Innovations in executive education

The most important activities of the new Chair were concerned with the development of new teaching material for executive education in Economics. Sadly, Economics is often perceived as “dry”, “abstract”, or even “dismal”. Presumably, to some degree this impression has its origin in the way Economics is normally taught at high schools and at the undergraduate level at universities. At our Chair, we have adopted the view that complex issues are best explained by means of specific stories. Stories are better suited to illustrate the complex subtleties associated with many economic concepts, compared to abstract formulas or diagrams, at least for an audience with no previous background in Economics. Furthermore, stories bring abstract concepts to life and are much easier to memorize than the abstract concepts on their own.

To this end, we created the prototypical economy of “Econville”. There, we explain how simple agrarian economies have evolved to the modern economies that we see today. The stories are supplemented by drawings created by a professional illustrator. The drawings are crucial for the success of this approach. The new material has already been used in the first run of the course Ökonomie für Manager and the feedback during the course was very positive. We frequently heard participants making statements like: “with these pictures, we’ll never forget how this works”. Thanks to the illustrated story approach, we were able to quickly dive into depth. The reason that this works well is that the stories provide anchor points from which participants can easily “spin” their own stories which, in turn, leads them to new and deep questions. This is exactly what happened during the course. At the end of only the first day with an audience without any previous background in economics we had a 90 (!) minutes discussion of whether interbank markets should be (even) more strongly supervised by the respective central banks. A further important concern is to provide executive students with a good idea of the magnitude of the relationships between economic variables. For instance, how strongly do revenues in certain industries react to changes in exchange rates? Is the reaction immediate, or does it manifest itself with a time lag? For this, we have developed a web application with the support of a professional programmer. The app is based on JavaScript and its D3 library. In this app, participants can explore the relationship between economic variables interactively, even without any background in statistics. We used a prototype of this app for the course Ökonomie für Manager. The reactions were very positive. However, participants’ feedback also gave us important hints for further developments. In particular, we originally did our best to keep the app very simple by not providing too much functionality. It turned out that our executive students, even though they may have no background in statistics, almost unanimously desired

\footnote{A prototype is available under \url{http://jbhsg.azurewebsites.net/default.html}.}
more functionality and thus also more complexity. We are currently working on a number of important extensions.

**Teaching activities**
In 2016, the Chair was responsible for the following courses:

- **Ökonomie für Manager** for the German Executive MBA program;
- **Programmieren für Praxisorientierte Datenanalysen** for the Bachelor Economics.

The course **Ökonomie für Manager** was attended by about 50 executive students. The course was very well evaluated. Eighty percent evaluated the statement “the topic fits my interests” with the maximum score. The competence of the lecturer JOHANNES. BINSWANGER was evaluated with the maximum score by 85 percent of participants. There were some criticisms with respect to the discussed topics. Our aim was to give macroeconomic and microeconomic topics about equal weight. In particular, we expected that executive students would ultimately be more interested in microeconomic topics such as how (not) to provide incentives in organizations or game theory since these topics are closely linked to participants’ actual work. However, it turned out that macroeconomic topics triggered far greater interest. Many participants saw microeconomics as too much about “business”, on which they take a lot of other courses. We are happy to accommodate this feedback. In the next run of the course in Fall 2017 we will put more focus on macroeconomic questions. This fits very well with our ultimate goal of encouraging our executive students to see things in terms of the bigger picture.

Due to high demand from students, the second course **Programmieren für praxisorientierte Datenanalysen** was taught two times in both the Spring and Fall semester. Both times the course was fully booked very early on. The maximum number of students was set at 40. The reason for this limit was the students work on their own devices (on Mac or Windows systems). This sometimes leads to a substantial request for troubleshooting. With more than 40 students, this would not be feasible any more without too much of a sacrifice in terms of content.

The aim of the course has been to increase HSG’s course offers in an area that has been underdeveloped but the significance of which is deemed extremely high by both students and their future employers. The course was evaluated very positively. The average score for the question “how do you judge the lecturer’s effort and enthusiasm?” was 1.1 on a scale from 1 (best) to 5 (worst). The average score on the question “how satisfied are you in total with this course?” was 1.3.²

**Fundamental research**
The research performance of the Chair was ranked fourth within the School of Economics and Political Science (SEPS). For this, the Chair has earned a reduction in teaching duties in 2017.

On the basis of an earlier article on Disagreement and Learning about Reforms (together with Prof. MANUEL OECHSLIN at the University of Lucerne), published in the Economic Journal in 2015, we started a new project on Smaller Measurement Errors, Better Economic Policies? In this project, we address the question whether better opportunities to measure the success of economic policy reforms due to “big data” may, paradoxically, induce politicians to stick more to status quo policies and implement less reforms.

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² A special website has been created for this course that is available on [https://binswanger.github.io/practicaldata_hs16/](https://binswanger.github.io/practicaldata_hs16/).