



Fachbereich VWL / Department of Economics

# EconNewsletter

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APRIL 24 – APRIL 28, 2017

NEWSLETTER 2017-8

## SEMINAR CALENDAR

### HCHE Research Seminar

Prof. Dr. Mike Drummond, University of York:

*Where politics and economics collide: the case of orphan drugs*

Monday April 24

16:30-18:00

R. 4011 (Esplanade 36)

### Forschungsseminar “Quantitative Wirtschaftsforschung“

Marcin Kolasa, Bank of Poland & Warsaw School of Economics:

*Exchange Rate Forecasting with DSGE Models*

Tuesday April 25

12:15–13:45

R. 0029 (VMP 5)

### Forschungsseminar “Environmental Economics and Management“

Beat Hintermann, University of Basel:

*Home Bias in International Emissions Trading:*

*Evidence from the EU ETS*

Wednesday April 26

12:15–13:45

R. 0029 (VMP 5)

### Hamburg Lectures on Law & Economics

Prof. Simon Hug, Universität Genf:

*Does Formal or Informal Power Sharing Produce Peace?*

Wednesday April 26

18:15–19:45

R. 1083a (VMP 5)

### PhD Seminar

Christian Hilpert, Universität Hamburg:

*History Matters: Credit Rating under Asymmetric Information*

Thursday April 27

12:15–13:15

R. 0029 (VMP 5)

### Research Seminar “Microeconomics”

- no seminar -

**Research Seminar “Labour Economics”**

- no seminar -

**ABSTRACTS**

**Forschungsseminar “Quantitative Wirtschaftsforschung“**

Marcin Kolasa, Bank of Poland & Warsaw School of Economics:

*Exchange Rate Forecasting with DSGE Models*

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*Abstract:*

We run a real exchange rate forecasting “horse race”, which highlights that two principles hold. First, forecasts should not replicate the high volatility of exchange rates observed in sample. Second, models should exploit the mean reversion of the real exchange rate over long horizons. Abiding by these principles, an open-economy DSGE model performs well in real exchange rate forecasting. However, it fails to forecast nominal exchange rates better than the random walk. We find that the root cause is its inability to predict domestic and foreign inflation. This shortcoming leads us toward simpler ways to outperform the random walk.

**Forschungsseminar “Environmental Economics and Management“**

Beat Hintermann, University of Basel:

*Home Bias in International Emissions Trading: Evidence from the EU ETS*

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*Abstract:*

We examine the pattern of CO<sub>2</sub> allowance trades in the EU ETS using the methodology from the gravity literature in international trade. We use highly disaggregated trading data between individual accounts in the years 2005-2010. Our results reveal a significant and robust home market bias in the sense that accounts trade more allowances within a country than across borders, and we observe the home bias both on the intensive and the extensive margin. Because emission allowances are perfectly homogenous goods transported at no cost, the presence of a home bias suggests the existence of cross-border trade costs in the form of information frictions. We present suggestive evidence that these take the form of sunk foreign market entry costs. Our results are robust to the removal of intra-firm trades, and of trades that are unrelated to emissions compliance.

## **Hamburg Lectures on Law & Economics**

Prof. Simon Hug, Universität Genf:

*Does Formal or Informal Power Sharing Produce Peace?*

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### *Abstract:*

Lack of access to central executive power has been shown to be a robust motivation for civil war. Such access, however, may be the result of formal rules or informal practices. Numerous scholars have criticized formal power-sharing arrangements for hardening ethnic cleavages and preparing the ground for future conflict, while others consider them as only viable options in societies with ethnic tensions. In contrast, informal practices of power-sharing are rarely the targets of such critiques. So far, however, we have little if any knowledge about how formal power-sharing arrangements relate to informal practices. Drawing on two novel data collections, namely the "Ethnic Power Relations" (EPR) dataset (Cederman, Wimmer, and Min 2010) that contains information on informal power-sharing practices, and the "Inclusion, Dispersion, and Constraints (IDC)" dataset by Strøm, Gates, Graham & Strand (2017)) that focuses on formal rules, we empirically assess this relationship on a global scale. Having assessed what formal rules result in what types of informal practices, we study how both formal rules and informal practices interact in influencing the grievances of ethnic groups to engage in conflict against the government. We find that formal power-sharing institutions decrease the likelihood of conflict only through their effects on power-sharing practices.

## **PhD Seminar**

Christian Hilpert, Universität Hamburg:

*History Matters: Credit Rating under Asymmetric Information*

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### *Abstract:*

We analyze how a firm's reputation and track record affect its rating. In a continuous time game the rating agency learns the firm's imperfectly observed cash flow. The rating agency optimally rates the same observed cash flow higher, if the historical minimum is sufficiently low. Thus, the rating is not only driven by the most recent information, but history matters. The rating agency refines its unbiased cash flow estimate by ruling out the most overestimated types, leading to an overestimation at default. In response, the firm delays default and lower asset values are available to creditors upon default.

## ACTIVITIES OF DEPARTMENT MEMBERS

### New Publications

- Belaia, M., Funke, M. and N. Glanemann (2017) “Global Warming and a Potential Tipping Point in the Atlantic Thermohaline Circulation: The Role of Risk Aversion”, *Environmental and Resource Economics* 67, 93-125.
- Chen, Y.-F. and M. Funke (2017) “Greece’s Three-Act Tragedy: A Simple Model of Grexit vs. Staying Afloat inside the Single Currency Area”, *Open Economies Review* 28, 297-318.

*The next EconNewsletter will be published on Tuesday May 2, 2017.*

*Editorial deadline: Friday, May 5, 2017.*

### **EconNewsletter**

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