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EconNewsletter

Editorial Contact: Michael Paetz
tel: +49 40 42838-5561; e-mail: econ.newsletter.Wiso@uni-hamburg.de

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NOVEMBER 27 – DECEMBER 1, 2023 — NEWSLETTER 2023-25

SEMINAR CALENDAR

Quantitative Economics
Matthias Pelster, Universität Duisburg-Essen:
Leverage Constraints and Investors' Choice of Underlyings
Tuesday November 28
12:15–13:30
R. 0079 (VMP 5)

Hamburg Lectures in Law and Economics
Steven Davidoff Solomon, University of California, Berkeley:
The Twitter Deal: A Case Study in Contractual Certainty
Wednesday November 29
18:15–19:45
R. 1083a (VMP 5)

This seminar is held in a hybrid format. To register for **Online participation** via Zoom please send an email to larapazer@gmail.com. You will then receive an Email with the access link prior to the lecture.

PhD Seminar
Emile du Plessis, Hamburg University:
New Methods for an Old Problem: Predicting 147 Years of Systemic Financial Crises
Thursday November 30
12:15–13:00
R. 0079 (VMP 5)

Labour Economics
Frederic Vermeulen, KU Leuven:
Stable marriage, household consumption and unobserved match quality
Thursday November 30
14:30–16:00
Esplanade 36, R. 4011/13

Interdisciplinary Research Seminar
Jan Sauermann, Carl von Ossietzky Universität Oldenburg:
Social Choice and Democracy
Thursday November 30
17:15–18:45
R. 0079 (VMP 5)

ABSTRACTS

Quantitative Economics
Matthias Pelster, Universität Duisburg-Essen
Leverage Constraints and Investors' Choice of Underlyings

Abstract:
This paper investigates the impact of a 2018 intervention by the European Securities and Markets Authority (ESMA) limiting the amount of leverage that investors can take on their trading activities. While it successfully reduced the leverage-usage, investors shifted their trading activities to riskier assets in the process, consistent with the idea that leverage-constraint investors substitute leverage with riskier securities. Thus, the intervention was not as effective as the reduction in leverage suggests. Consistent with the notion that risky investment strategies spread through the population, I find some evidence of a spillover effect to investors who are not affected by the regulatory intervention.

Hamburg Lectures in Law and Economics
Steven Davidoff Solomon, University of California, Berkeley:
The Twitter Deal: A Case Study in Contractual Certainty

Abstract:
I examine the Twitter Deal and the Provisions in the Merger Agreement which defined the parties rights. I find that the current form of merger agreement (as opposed to prior iterations from the 2008 financial crisis) shows how sophisticated parties negotiate for transactional certainty in complex, financed transactions. Ultimately, these contractual rights created tremendous value for Twitter shareholders.

Labour Economics
Frederic Vermeulen, KU Leuven:
Stable marriage, household consumption and unobserved match quality

Abstract:
We present a methodology for the structural empirical analysis of house- hold consumption and time use behaviour under marital stability. Our approach is of the revealed preference type and non-parametric, meaning that it does not require a prior functional specification of individual utilities. Without making use of the transferable utility assumption, but still allowing for monetary transfers, our method can identify individuals' unobserved match qualities and quantify them in money metric terms. We can include both preference factors, affecting individuals' preferences over private and public goods, and match quality factors, driving differences in unobserved match quality. We demonstrate the practical usefulness of our methodology through an application to the Belgian MEqIn data. Our results reveal intuitive patterns of unobserved match quality that allow us to rationalise both the observed matches and the within-household allocations of time and money.

PhD Seminar
Emile du Plessis, Hamburg University:
New Methods for an Old Problem: Predicting 147 Years of Systemic Financial Crises

Abstract:
This paper develops new forecasting methods for an old and ongoing problem by employing 13 machine learning algorithms to study 147 years of systemic financial crises across 17 countries. Findings suggest fixed capital formation is the most important variable. GDP per capita and consumer inflation have increased in prominence whereas debt-to-GDP, stock market and consumption were dominant at the turn of the 20th century. A lag structure and rolling window both improve on optimised contemporaneous and individual country formats. Through a lag structure, banking sector predictors on average describe 28 percent of the variation in crisis prevalence, real sector 64 percent and external sector 8 percent. Nearly half of all algorithms reach peak performance through a lag structure. As measured through AUC, F_1 and Brier scores, top performing machine learning methods consistently produce high accuracy rates, with both random forests and gradient boosting in front with 77 percent correct forecasts, and consistently outperform traditional regression algorithms. Learning from other countries improve predictive strength, and non-linear models generally deliver higher accuracy rates than linear models. Algorithms retaining all variables perform better than those minimising the influence of variables.

Interdisciplinary Research Seminar
Jan Sauermann, Carl von Ossietzky Universität Oldenburg:
Social Choice and Democracy

Abstract:
Participation of all in the decision-making process is an important element of democracy. However, social choice theory demonstrates that aggregating individual preferences into a collective choice often proves to be difficult. In particular, intransitive collective preference orders pose a fundamental problem in democratic theory because they can lead to the occurrence of cyclic majorities where alternative A beats alternative B, while B beats C and C again beats A. In such a situation, a clear collective choice cannot be determined. Moreover, groups with constant individual preferences may arrive at different results, and policy outcomes can vary significantly over time despite unchanged preferences. Determining a clear voting result is then not possible.

In the literature, there are highly diverse positions on the theoretical and empirical significance of intransitive collective preference orders. William Riker in particular argues that cyclic majorities hinder the determination of a clear collective will. Since the direct observation of individual preferences is impossible, there is no certainty in any decision about whether the preferences of the involved actors establish an equilibrium or lead to an intransitive collective preference order. In addition, collective

choices are prone to be manipulated by strategic voting and agenda control. Hence, Riker argues that all democratic decisions are arbitrary and meaningless.

I argue that the pessimistic conclusions of social choice theory with respect to the meaning of democratic decisions can be avoided if we add more structure to individual preferences. If we admit all preferences to collective decisions and thus refrain from making restrictive assumptions about individual motivations in our theoretical models, majority rule might result in arbitrary and meaningless collective decisions. Hence interpretable democratic decisions do not arise from nothing, but presuppose the addition of 'something normative' to the preferences of the individuals. I will present a series of experimental studies that suggests that prosocial motivations can be part of these normative elements. Individuals care about others and take the well-being of other individuals into account. Thus, the viability of democracy rests on the existence of a common social bond between the members of a society.

The next EconNewsletter will be published **on Monday, December 4, 2023.**

Editorial deadline: **Friday, December 1, 2023.**

EconNewsletter
Department of Economics
University of Hamburg
Von-Melle-Park 5, 20146 Hamburg

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