



Fachbereich VWL / Department of Economics

EconNewsletter

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DECEMBER 4 – DECEMBER 8, 2023

NEWSLETTER 2023-26

SEMINAR CALENDAR

HCHE Research Seminar

[Ariel Dora Stern, Harvard Business School \(Cambridge\):](#)

*Regulatory Incentives for Innovation: The FDA's Breakthrough
Therapy Designation*

Monday December 4
16:30-17:45
Esplanade 36, R. 4011/13

Quantitative Economics

[Xavier Ragot, Science Po:](#)

*Redistribution and the Wage-Price Dynamics: Optimal Fiscal and
Monetary Policy*

Tuesday December 5
12:15–13:30
R. 0079 (VMP 5)

Microeconomics Seminar

[Anja Schöttner, HU Berlin:](#)

Performance pay, internal control, and corporate misconduct

Thursday December 7
17:00–18:30
R. 0079 (VMP 5)

ABSTRACTS

HCHE Research Seminar

Ariel Dora Stern, Harvard Business School (Cambridge)

Regulatory Incentives for Innovation: The FDA's Breakthrough Therapy Designation

Abstract:

Regulators of new products confront a tradeoff between speeding a new product to market and collecting additional product quality information. The FDA's Breakthrough Therapy Designation (BTD) provides an opportunity to understand if a regulator can use new policy to innovate around this tradeoff—i.e., whether it improved regulator productivity by allowing products to come to market more quickly without compromising quality. We find that the BTD program shortened clinical development times by 23 percent and did not impact the ex post safety profile of drugs with the designation. In exploring mechanisms, we find that the BTD program had the greatest impact on less experienced firms and was associated with reduced BTD clinical trial design complexity. The results suggest that targeted regulatory innovation can shorten R&D periods without compromising the quality of new products.

Quantitative Economics

Xavier Ragot, Science Po

Redistribution and the Wage-Price Dynamics: Optimal Fiscal and Monetary Policy

Abstract:

When both prices and wages are subject to nominal frictions, an increase in input prices such as energy can initiate a wage-price dynamics, as both nominal wages and prices adjust slowly. High inflation in prices and wages reduces welfare as it generates distributional effects and affects aggregate demand. To analyze optimal policy in this environment, we consider a heterogeneous-agent model, with both wage and price stickiness. We derive joint optimal fiscal-monetary policy, using a rich set of fiscal tools. We first identify the set of fiscal tools, which implements nominal price and wage stability as an optimal outcome. Starting from this equivalence result, we identify the key instrument for implementing price and wage stability, which appears to be a time-varying wage subsidy. We call this policy a non-Keynesian stabilization policy, as it does not directly channel through aggregate demand. We finally compare our results to those obtained in a representative-agent environment.

Microeconomics Seminar

Anja Schöttner, HU Berlin:

Performance pay, internal control, and corporate misconduct

Abstract:

We study a situation where an employee chooses productive effort to achieve a target but can also manipulate a performance measure to pretend target achievement and earn an undeserved bonus. Whereas the firm may benefit from undetected manipulation, both the employee and the firm realize a loss in case of detected manipulation. We analyze how performance pay, internal control, and external control (e.g., by a public authority) interact to prevent or promote manipulation. We show that the firm can use internal control to enhance effort but also to induce manipulation more often or at lower costs. Under certain circumstances, both internal and external control can reduce the ex ante probability of manipulation by inducing higher effort, which yields a lower failure probability and, thus, a lower probability that manipulation occurs. From a regulatory perspective, a combination of contract regulation, mandatory internal control systems, and high external control is most effective to prevent manipulation.

The next EconNewsletter will be published on Monday, December 11, 2023.

*Editorial deadline: **Friday, December 8, 2023.***

EconNewsletter

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