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## AWI This Week

**Monday, 28.1.13****Departmental Seminar I**

17.15-18.45  
AWI 00.010

Volker Britz, ETHZ  
"A bargaining theory of the firm"

**Tuesday, 29.1.13****Economics & Politics Seminar**

14.15-15.15  
AWI 02.036

Puriya Abbassi, Deutsche Bundesbank  
"Liquidity of Financial Markets and the Demand for Reserves"

**Wednesday, 30.1.13****Departmental Workshop**

17.15-18.45  
AWI 00.010

Joerg Oechssler, University of Heidelberg  
"When is tit-for-tat unbeatable?"

## Jour Fix

The AWI JOUR FIXE takes place at the Lounge on a weekly basis on Mondays from 16:30 till 17:15 (i.e., just before the departmental seminar). There you will have the opportunity to meet the speaker, enjoy a coffee, and exchange news and discuss research with other members of the AWI.

## Abstracts

### **Departmental Seminar**

Volker Britz

"A bargaining theory of the firm"\*

Suppose that a firm has several owners and that the future is uncertain in the sense that one out of many different states of nature will realize tomorrow. An owner's time preference and risk attitude will determine the importance he places on the payoffs in the different states. It is a well-known problem in the literature that under incomplete asset markets a conflict of interest regarding the objective function of the firm arises among the owners. In this paper, we take a new approach to this problem which is based on strategic bargaining. The owners of the firm play a non-cooperative bargaining game in order to choose the firm's production plan and a scheme of side payments payable before the uncertainty about the future state of nature is resolved. Analyzing the limit of stationary subgame perfect equilibria of the bargaining game, we obtain a unique prediction for the production plan and the side-payments.

\*with P.J.J. Herings and A. Predtetchinski

### **Economics & Politics Seminar**

Puriya Abbassi

"Liquidity of Financial Markets and the Demand for Reserves"\*

In this paper we analyze how the liquidity of different financial markets affects banks' demand for reserves in the primary money market, i.e. in the main refinancing operations (MROs) of the European Central Bank (ECB). We estimate an aggregate demand for reserves of the German banking sector and assess how the dry-up of market liquidity in various financial markets relates to the level and slope of this aggregate reserve demand. Generally we find some evidence that more illiquid financial markets increases banks' willingness to pay for reserves in the primary money market. However, during the crisis period this interrelationship was far more pronounced: the average willingness to pay for reserves increased and the price elasticity of the reserve demand decreased as the liquidity in the money market, the stock market and the bond market declined. These findings reveal that there were significant feedback effects from financial market liquidity to the demand for liquidity contributing to potentially self-enforcing liquidity spirals.

\*with Falko Fecht

### **Departmental Workshop**

Joerg Oechssler

"When is tit-for-tat unbeatable?"

We characterize the class of symmetric two-player games in which tit-for-tat cannot be beaten even by very sophisticated opponents in a repeated game. It turns out to be the class of exact potential games. More generally, there is a class of simple imitation rules that includes tit-for-tat but also imitate-the-best and imitate-if-better. Every decision rule in this class is essentially unbeatable in exact potential games. Our

results apply to many interesting games including all symmetric 2x2 games, and standard examples of Cournot duopoly, price competition, public goods games, common pool resource games, and minimum effort coordination games.

## Talks and Research Visits

**Christian Conrad** presented the paper "Anticipating Long-Term Stock Market Volatility" (joint with Karin Loch) in the Finance Colloquium, University of Hannover, January 16.

## New Publications

Christine Binzel and Dietmar Fehr: "Social Distance and Trust: Experimental Evidence from a Slum in Cairo," *Journal of Development Economics*, forthcoming.

**Editorial deadline for issue 5/2013 of the newsletter:**  
**Wednesday, January 30, 2013, 12 o'clock**  
**[newsletter@awi.uni-heidelberg.de](mailto:newsletter@awi.uni-heidelberg.de)**

If you would like to receive the newsletter by email,  
please contact the address above.