



Upcoming Seminars

Monday, 3.2.2020

Departmental Seminar

13.30-14.30

Céline Poilly, Université Aix-Marseille

AWI 00.010

(invited by Zeno Enders)

"Government spending uncertainty and credit frictions"

Wednesday, 5.2.2020

Internal Seminar

12.15-13.15

Sven Kunze

AWI 00.010

"Disastrous Discretion - The Nonlinear Political Bias in U.S. Hurricane Relief"

Abstracts

Departmental Seminar

Céline Poilly

"Government spending uncertainty and credit frictions"

We investigate the effects of government spending uncertainty shocks in the Euro Area both empirically and theoretically. Empirically, a stochastic volatility model is used to extract a measure of uncertainty in the government spending to GDP ratio. This measure is then introduced in a structural VAR model to show that uncertainty shocks have recessionary, persistent and humped-shaped effects. We develop a dynamic New Keynesian model with financial frictions applying to a portfolio of equity and long-term government bonds where both assets are imperfectly substitutable to account for these effects. Key parameters of the model are then estimated using a mix of Simulated Method of Moments and Minimum Distance Estimation, and the effects of a government spending uncertainty shocks are correctly replicated.

We discuss the various transmission channels and show that financial frictions in general and the portfolio channel -- the fact that both assets are imperfectly substitutable -- in particular, act as critical amplifiers of the usual transmission channels already discussed in the literature. (with Anna Belianska, AMSE, and Aurélien Eyquem, University of Lyon 2)

Internal Seminar

Sven Kunze

"Disastrous Discretion - The Nonlinear Political Bias in U.S. Hurricane Relief"

Albeit fast and objective aid is needed after a natural disaster, relief processes are vulnerable toward political influence at large scale. We discuss and demonstrate that the strength of political influence is very heterogeneous and depends on the particular situations politicians are faced with. Exploiting random within-county variation from hurricane strikes in the United States and using fine-grid wind speed and rainfall data in a 51-year long panel, we find that the probability of receiving a federal disaster declaration is significantly higher when governors and presidents are fellow party members. The existing literature on relief allocation and public expenditure documents many linear relationships, but potential non-linearities for political influence are mostly unexplored. Our flexible polynomial and semiparametric regressions show that political influence varies immensely with respect to storm intensity: the relationship is most pronounced for medium-strength storms, exceeding the average effects more than tenfold. Our findings underline the importance of institutional changes in the relief system, which prevent political actors from acting at their discretion in order to pursue strategic political goals.

Talks and Research Visits

Andreas Lange, Department of Economics, University of Hamburg, invited **Malte Faber** and Marc Frick to present their paper on "Is a social-ecological transformation possible?". The lecture took place within their joint block seminar on MINE (Mapping the Interplay between Nature and Economy), Hamburg, January 16-18.

New Publications

Solda, A., Ke, C., Page, L., & Von Hippel, W. (2019). Strategically delusional. *Experimental Economics*, 1-28.

Jürgen Eichberger & Ani Guerdjikova, "Case-Based Decision Theory: From the Choice of Actions to Reasoning about Theories", *Revue économique* – vol. 71, n° 2, mars 2020, p. 283-306.

Editorial deadline for issue 06/2020 of the newsletter:
Wednesday, **April 15, 2020**, 12 p.m.
newsletter@awi.uni-heidelberg.de