भारतीय प्रबंध संस्थान बेंगलूर
INDIAN INSTITUTE OF MANAGEMENT
BANGALORE

Worksop in Economic Research (WiER), 2016

Venue: N 001

December 26, 2016

09: 00 – 09: 15	**C O F F E E**
09: 15 – 09: 30	Inauguration
09: 30 – 10: 30	Macroeconomics
Alok Johri McMaster University, Canada	**Title:** The Rise and Fall of q: A Tale of India's Relative Price of Investment as told by Quantitative Theory
10: 30 – 11: 00	**B R E A K**
11:00 – 12: 30	Experimental/Behavioral Economics
Surajeet Chakravarty University of Exeter, UK	**Title:** Religious fragmentation, social identity and other-regarding preferences: Evidence from an artefactual field experiment in India
Parimal Kanti Bag NUS, Singapore	**Title:** Secret Sequential Advice
12:30 – 02: 00	**L U N C H @ MDC, IIM Bangalore**
02:00 – 03: 30	Micro Theory
Sourav Bhattacharya Royal Holloway College, University of London, UK	**Title**: Strategic communication and group formation
Kaustav Das University of Exeter, UK	**Title:** Strategic Experimentation with Competition and Private Arrival of Information
03: 30 – 04: 00	**B R E A K**
04: 00 – 05: 30	Development Economics
Sam Asher World Bank, Washington DC	**Title**: Dirty Politics: Mining Booms and Politician Behavior in India
Mehtabul Azam Oklahoma State University	**Title**: Does social insurance reduce financial burden? Panel Data Evidence from India
6:30-9:00	**D I N N E R**

ABSTRACTS

Alok Johri
McMaster University, Canada

Title: The Rise and Fall of q: A Tale of India's Relative Price of Investment as told by Quantitative Theory

Abstract: The behaviour of q, the relative price of investment (RPI) in India stands in fascinating contrast to its steady fall in the US. In India, the RPI rose about 50 percent in the decade leading up to 1991 and fell much faster than in the US in the following years from 1.6 to 1.2. This period saw rapid economic reform and a coincident rise in the growth rate of India's GDP. While there is a large body of empirical work that attempts to correlate the growth rate of GDP (especially of TFP in manufacturing) with various reform measures, there is little to no work that uses a dynamic general equilibrium model suitably calibrated to the Indian data to tease out the quantitative predictions of these reforms for key macroeconomic variables. In this paper, we focus on one specific reform that may have influenced the RPI and use a theoretical model to generate quantitative predictions regarding the joint dynamics of RPI, aggregate investment and GDP. The reform is the reduction in import duties on capital goods which fell from about 73% in 1990 to 4.5% by 2010, leading in turn to a significant reduction in the costs of importing intermediate goods and capital goods into India.

We build a small open economy with a financial sector that imposes bankruptcy related costs on the conversion of domestic savings into investment goods. In addition, capital producers face large tariffs on imports of foreign investment goods which are combined with domestic goods to create new capital goods. Before reforms, the relative price of investment in the economy is rising due the combined effects of financial frictions and import quotas which limit the availability of foreign machines. As the economy grows due to population growth and productivity increases, it demands more capital which in turn drives up RPI due to the presence of the above mentioned frictions in the pre-reform period. Post reform, using data on implied tariff rates, we study the impact of the fall in tariff rates on the relative price of investment, on overall capital accumulation, and output growth.

Surajeet Chakravarty
University of Exeter, UK

Title: Religious fragmentation, social identity and other-regarding preferences: Evidence from an artefactual field experiment in India

Abstract: We examine the impact of religious identity and village-level religious fragmentation on other-regarding preferences. We report on a series of two-player binary Dictator experiments conducted on a sample of 516 Hindu and Muslim participants in rural West Bengal, India. Our treatments are the identity of the two players and the degree of religious fragmentation in the village where subjects reside. We find, for both Hindus and Muslims, aversion to advantageous inequality declines as the probability of facing an out-group member increases. We find no evidence of aversion to disadvantageous inequality on either religious sample. We also find both Muslim and Hindu participants display aversion to advantageous inequality in both fragmented villages and homogeneous villages. The effect of village fragmentation on aversion to disadvantageous inequality differs across religious groups. We also present results on gender and education and how they affect self and other regarding preferences.

Dr. Parimal Kanti Bag

National University of Singapore

Title: On Peer Effects and Diversity

Abstract: Two experts with career concerns sequentially recommend an action to a decision maker, with the second expert observing the first expert's recommendation. Should the Decision Maker (D) disclose who recommended what and when? We find that secrecy (weakly) dominates transparency in terms of better decisions. In particular: (i) only secrecy enables the second expert to, at times, partially communicate her information and its high precision level to D and swing the decision away from the first expert's recommendation; (ii) if the experts on average have high precision, then the second expert is effective only under secrecy.

We also show that the superiority of secrecy is further enhanced if either (1) the experts are allowed to revise their advice following each other's initial recommendation in a total of four stages (i.e., deliberate), or (2) the experts are allowed to make detailed recommendations (i.e., give advice and also report its quality) in a two-stage sequential game. Expanding the message space through gradualism under deliberation and under detailed recommendation, both generate the possibility of fully revealing equilibria, leading to informationally efficient choice by D. Moreover, full revelation equilibrium set is the same under either format.

Sourav Bhattacharya

Royal Holloway College, University of London, UK

Title: Strategic communication and group formation

Abstract: We present an informational theory of group formation. A set of individuals with heterogeneous, state-dependent preferences decide to allocate themselves into groups. Members of each group commit to taking a common action and may choose to share private information which becomes available only after the decision to join a group is made.

Therefore, by joining a group, one gives up the freedom of deciding her own action in return of a possible informational benefit. In equilibrium, each group is composed blocks of individuals with preferences close to each other. The extent of diversity within each group is determined by the following trade-off: additional individuals bring in more information, but too much diversity leads to incentive problems in disclosure. The size of each group in equilibrium is decreasing in the initial diversity of preferences in the population, and non-monotonic in the ex-ante probability of any individual being informed. An increase in the ex-ante probability of an individual being informed may lead to the society being fragmented in smaller groups, thereby lowering the overall probability of a random individual being informed in equilibrium.

Kaustav Das

University of Exeter, UK

Title:	Strategic Experimentation with Competition and Private Arrival of Information
Abstract:	This paper considers a two-armed bandit problem with one safe arm and one risky arm. The risky arm if good, can potentially experience two kinds of arrivals. One is publicly observable and the other is private to the agent who experiences it. The safe arm experiences publicly observable arrivals according to a given intensity. Private arrivals yield no payoff. Only the first publicly observed arrival (in any of the arms) yields a payoff of 1 unit. Players start with a common prior about the quality of the risky arm. It has been shown that in a particular kind symmetric equilibrium, conditional on no arrival players tend to experiment too much along the risky arm if they start with too high a prior and experiment too less if they start with a low prior

Sam Asher

World Bank, Washington DC

Title:	Dirty Politics: Mining Booms and Politician Behavior in India
Abstract:	We study how natural resource wealth affects the selection and behavior of holders of public office. Using global price shocks to thirty-one different minerals, and nationwide geological and political data from India, we show that local mineral wealth shocks cause the election of criminal politicians. We also find a moral hazard effect: politicians commit more crimes and accumulate greater wealth when mineral prices rise during their term in office. There are no local fiscal revenue effects in this context; we thus isolate the direct impacts of mining sector operations on politics.

Mehtabul Azam

Oklahoma State University & IZA

Title:	Does social insurance reduce financial burden? Panel Data Evidence from India
Abstract:	Indian government launched a National Health Insurance Scheme, Rashtriya Swasthya Bima Yojana (RSBY), in 2008 that provides cashless health services to poor households. We evaluate the impact of RSBY on beneficiary households' (Average Treatment Impact on the Treated) utilization of health services, per capita out-of-pocket (OOP) expenditure, and per patient OOP expenditures. We use a large nationally representative longitudinal household survey to implement difference-in-differences (DID) with matching. We find some evidence of positive impact of RSBY on utilization of health services for beneficiary households in rural India but not in urban India. However, there is no evidence that the RSBY reduced per person OOP expenditure for RSBY households in both rural and urban areas. Conditional on having received medical treatment for major morbidity, we find lower expenditure

on medicine for a RSBY patient in rural areas. We also conduct a placebo experiment to support the parallel trend assumption of DID.