

43. Kansantaloustieteen päivät

Finnish Economic Association 43rd Annual Meeting

Espoo

2.-3.2.2023

Programme
Updated: 1 February

Thursday 2.2.2023

9:00-10:30	Registration	(Main lobby, Dipoli, Otakaari 24)
10:00-12:00	Parallel Sessions I 1a: Political Economy 1b: Behavioral Experiments & Register Data 1c: Nowcasting & Time Series Forecasting 1d: Environmental Economics 1 1e: Housing Markets & Policy 1f: Economics of Taxation / Economics of Healthcare	(Lumituuli) (Palaver) (Takka) (Poli) (Y309b / UG Centre) (A2 / UG Centre)
12:00-13:00	Lunch break (registration desk open)	
13:00-14:30	Parallel Sessions II 2a: Labor Economics 2b: Microeconomic Theory 2c: Topics in Quantitative Macroeconomics 2d: Household Finance 2e: Credit Standards & Lending	(Lumituuli) (Palaver) (Takka) (Poli) (Y309b / UG Centre)
14:30-15:00	Coffee break (registration desk open)	
15:00-16:30	Parallel Sessions III 3a: Regulation 3b: Family Economics 1 3c: Inflation 3d: Technology & Platforms 3e: Labor Markets	(Lumituuli) (Palaver) (Takka) (Poli) (Y309b / UG Centre)
16:30 -16:45	Registration desk open	
16:45-18:00	Opening words by Chairperson Matti Sarvimäki and plenary lecture by Professor Johanna Wallenius (Stockholm School of Economics)	(Lumituuli)
18:15-19:15	Tour of Aalto Campus led by Aalto students	
19:15-20:15	Cocktail event at Aalto University School of Business JFEA Prize Ceremony & Presentation	(Ekonominaukio 1)
20:30-	Conference dinner at Täffä	(Otakaari 22)

Friday 3.2.2023

10:00-12:00	Parallel Sessions IV	
	4a: Behavioral Political Economics: Biases and Polarization	(Lumituuli)
	4b: Urban Economics	(Palaver)
	4c: Financial Frictions	(Takka)
	4d: Economics of Education	(A1 / UG Centre)
	4e: Family Economics 2	(Y405 / UG Centre)
	4f: International Shocks	(A2 / UG Centre)
12:00-13:00	Lunch break	
13:00-14:30	Parallel Sessions V	
	5a: Economic Effects of Covid-19	(Lumituuli)
	5b: Economics of Development	(Palaver)
	5c: Monetary Policy & Fiscal Shocks	(Takka)
	5d: Labor Market Frictions	(A1 / UG Centre)
	5e: Labor & Health	(Y405 / UG Centre)
	5f: Environmental Economics 2	(Poli)
15:00-17:00	Parallel Sessions VI	
	6a: Public Procurement	(Lumituuli)
	6b: Economics of Talent	(Palaver)
	6c: Macroeconomics & Labor	(Takka)
	6d: Business & Entrepreneurship	(A1 / UG Centre)
	6e: Mental Health	(Y405 / UG Centre)

Practical information

The conference is held at Aalto University. Rooms Lumituuli, Palaver, Takka, and Poli are located in Dipoli (Otakaari 24, 02160 Espoo) and rooms A1, A2, Y309b, and Y405 are located in Undergraduate Centre (Otakaari 1, Undergraduate Centre). Registration desk is located in Dipoli. The Undergraduate Centre, the cocktail event at the lobby of Aalto University School of Business (Ekonominaukio 1), and the dinner at Täffä (Otakaari 22) are within walking distance from Dipoli.

There are several potential lunch restaurants close to the conference venue. For example, there is a lunch restaurant in Dipoli and in Täffä further down Otakaari. There are also several restaurants around Aalto campus and the A Bloc shopping centre.

Parallel sessions I: Thursday 2.2.2023 10:00-12:00

Session 1a: Political Economy (Lumituuli)

Chair: Janne Tukiainen (University of Turku)

Religious Schools and Voting: Evidence from Political Islam in Turkey

Tolga Benzer (University of Turku)

Discussant: Ilpo Kauppinen (VATT)

Does the Presence of TV Cameras Affect Polarization in Parliamentary Speech?

Jeremias Nieminen (University of Turku), Janne Tukiainen, Salla Simola

Discussant: Kimmo Elo (University of Turku)

Did Industrialization Increase Support for the Radical Left? Evidence from the 1917 Russian Revolution

Andrei Markevich (University of Helsinki), Paul Castañeda Dower

Discussant: Matti Mitrunen (University of Helsinki)

The Effect of Unconditional Cash Transfers on Voting Participation: Evidence from the Finnish Basic Income Experiment

Janne Tukiainen (University of Turku), Salomo Hirvonen, Jerome Schafer

Discussant: Theodora Helimäki (University of Helsinki)

Session 1b: Behavioral Experiments & Register Data (Palaver)

Chair: Topi Miettinen (Hanken)

Behavioral Policy Targeting: Evidence from Payments for Vaccinations

Erik Wengström (Hanken), Pol Campos-Mercade, Armando Meier, Florian Schneider, Stephan Meier and Devin Pope

Mobilizing young voters: Evidence from an SMS RCT in Finland

Salomo Hirvonen (University of Turku), Lauri Sääksvuori and Janne Tukiainen

Rank And Individual Welfare: Experimental Evidence

Xiaogeng Xu (Hanken), Michael Kirchner, Kaisa Kotakorpi, Peter Hans Matthews, Satu Metsälampi, Topi Miettinen

The Acceptability of Climate Policy Induced Fuel Price Increases

Arttu Ahonen (Aalto University)

Session 1c: Nowcasting & Time Series Forecasting (Takka)

Chair: Annika Lindblad (Bank of Finland)

A business cycle heatmap for the EU, the Eurozone and 27 member countries

Matthias Strifler (VTV), Arto Kokkinen

Google trends in nowcasting – Evidence from the OECD countries

Joni Heikkinen (University of Jyväskylä & Statistics Finland), Kari Heimonen

From empirics to theory: economics of precision and recall tradeoff

Hannu Huuki (University of Oulu & SYKE), Maria Kopsakangas-Savolainen

Forecasting unemployment in Finland - a flow-based approach

Annika Lindblad (Bank of Finland), Niklas Gäddnäs

Session 1d: Environmental Economics 1 (Poli)

Chair: Jaana Rahko (University of Vaasa)

Incentivising active transport: evidence from a RCT

Anna Sahari (VATT), Lassi Ahlvik

From exploration to reclamation: Environmental policy for non-renewable resources

Pauli Lappi (University of Helsinki)

Quantifying supply-side climate policies

Lassi Ahlvik (University of Helsinki), Jørgen Juel Andersen, Jonas Hveding Hamang, Torfinn Harding

The effects of environmental investments on the economic performance of industrial plants – Evidence from Finland

Jaana Rahko (University of Vaasa)

Session 1e: Housing Markets & Policy (Y309b / Undergraduate Centre)

Chair: Teemu Lyytikäinen (VATT)

Housing Markets and Capitalization of Information: Case of Land Leases

Oskari Harjunen (Aalto University), Heidi Falkenbach, Erik Mäkelä, Elias Oikarinen

Deregulation of social housing

Cristina Bratu (VATT), Oskari Harjunen, Tuukka Saarimaa

The impact of mortgage regulation on homeownership and household leverage: evidence from Finland's LTV reform

Sander Ramboer (VATT), Teemu Lyytikäinen, Essi Eerola

Quality cycles in the construction sector

Eetu Kauria (University of Turku), Erik Mäkelä, Oskari Vähämaa

Session 1f: Economics of Taxation / Economics of Healthcare (A2 / Undergraduate Centre)

Chair: Visa Pitkänen (Kela)

Transfer pricing of Finnish multinational enterprises

Marika Viertola (Aalto University & VATT)

Multinationals, Tax Havens and Increasing Tax Transparency

Tom-Henrik Sirviö (University of Helsinki)

State Dependence in Healthcare Provider Choice: Evidence from Dental Care

Tuomas Markkula (Aalto University)

Additional public procurements in health care

Visa Pitkänen (Kela), Milla Hägg

Parallel sessions II: Thursday 2.2.2023 13:00-14:30

Session 2a: Labor Economics (Lumituuli)

Chair: Matti Sarvimäki (Aalto University)

Resilience, Resistance to Change and Personality

Jaakko Simonen (University of Oulu), Evangelos Mourelatos, Simo Hosio and Joona Lohtander

The impact of basic income on residential mobility: Evidence from the Finnish Basic Income Experiment

Henri Salokangas (THL & University of Turku), Heikki Hiilamo, Timo Kauppinen, Pasi Moisio, Outi Sirniö

Forced displacement shapes personality traits across generations

Matti Sarvimäki (Aalto University), Dominik Hangartner, Ilona Lahdelma, Maarit Olkkola

Session 2b: Microeconomic Theory (Palaver)

Chair: Hannu Vartiainen (University of Helsinki)

Price competition with advertising

Klaus Kultti (University of Helsinki), Teemu Pekkarinen

Oligopoly, Public Ownership, and Social Justice

Johan Willner (Åbo Akademi), Sonja Grönblom

Preferences for uncertainty and time

Hannu Vartiainen (University of Helsinki)

Session 2c: Topics in Quantitative Macroeconomics (Takka)

Chair: Timm Prein (University of Helsinki)

Uncertainty, Misallocation and the Life-cycle Growth of Firms

Oskari Vähämaa (University of Helsinki)

Endogenous Technology, Scarring and Fiscal Policy

Michaela Elfsbacka Schmöller (Bank of Finland)

Bailouts and the Maturity of Sovereign Debt

Timm Prein (University of Helsinki)

Session 2d: Household Finance (Poli)

Chair: Aino Silvo (Bank of Finland)

Is the Financial Market Driving Income Distribution? – an Analysis of the Linkage between Income and Wealth in Europe

Ilja Kristian Kavonius (University of Helsinki), Veli-Matti Törmälehto

Job loss and the incidence of debt enforcement

Ossi Tahvonen (University of Helsinki), Terhi Maczulskij, Ohto Kanninen, Hannu Karhunen

Household debt, credit constraints and the business cycle dynamics of aggregate consumption

Aino Silvo (Bank of Finland), Samu Kärkkäinen

Session 2e: Credit Standards & Lending (Y309b / Undergraduate Centre)

Chair: Elias Oikarinen (University of Oulu)

Credit Constraints in Finland - Causal Interpretation from a Survey

Jaakko Rahko (Finnvera), Mauri Kotamäki

Varjopankkitoiminta, pankkikriisit ja suhdannevaihtelut

Robin Rönnerberg (University of Jyväskylä), Mika Nieminen ja Kari Heimonen

Loan Market Dynamics and Housing Prices: A SVECM Application

Elias Oikarinen (University of Oulu), Vance L. Martin

Parallel sessions III: Thursday 2.2.2023 15:00-16:30

Session 3a: Regulation (Lumituuli)

Chair: Tuomas Kosonen (VATT)

Taxi Market Deregulation: Effects on Prices, Demand and Tax Evasion

Ida Kankaanranta (Tampere University), Jarkko Harju, Kaisa Kotakorpi

Effects of Taxi Market Deregulation: Evidence from a Natural Experiment in Finland

Anni Väättänen (KKV), Jan Jääskeläinen, Samuli Leppälä

Assessing the impact of alcohol policies on alcohol sales

Tuomas Kosonen (VATT), Sami Jysmä, Lukas Worku

Session 3b: Family Economics 1 (Palaver)

Chair: Krista Riukula (ETLA)

Public Policy and the Child Mortality Transition

Maarit Olkkola (Aalto University)

Long-run consequences of economic recessions on fertility, family formation and education

Cecilia Blomster (Hanken), Stefano Lombardi, Kristiina Huttunen

Parental job loss and child fertility

Krista Riukula (ETLA)

Session 3c: Inflation (Takka)

Chair: Maritta Paloviita (Bank of Finland)

Finland's price level problem

Paavo Peisa (Retired)

Do inflation expectations improve model-based inflation forecasts in Finland?

Harri Pönkä (Bank of Finland)

Responsiveness of consumers' medium-term inflation expectations: evidence from a new euro area survey

Maritta Paloviita (Bank of Finland), Ewa Stanislawska

Session 3d: Technology & Platforms (Poli)

Chair: Hannu Piekkola (University of Vaasa)

Piecework and job search in the platform economy

Michele Cantarella (University of Helsinki), Chiara Strozzi

Coopetition, Standardization and General Purpose Technologies: A Framework and an Application

Jussi Heikkilä (LUT & University of Jyväskylä), Julius Rissanen, Timo Ali-Vehmas

Innovations and intangible-work biased technological change as drivers of productivity

Hannu Piekkola (University of Vaasa)

Session 3e: Labor Markets (Y309b / Undergraduate Centre)

Chair: Otto Kässi (ETLA)

Täystyöllisyyden keinot hidastuvan kasvun oloissa ratkaisuna väestön ikääntymiseen ja julkisen velan hallintaan

Pekka Tiainen (University of Helsinki)

Wage differentials across firm productivity distribution: rent sharing or worker sorting?

Arttu Kahelin (Aalto University)

The Labor-market Effects of Service Offshoring: A Synthetic Control Approach with High-dimensional Microdata

Otto Kässi (ETLA)

Parallel sessions IV: Friday 3.2.2023 10:00-12:00

Session 4a: Behavioral Political Economics: Biases and Polarization (Lumituuli)

Chair: Topi Miettinen (Hanken)

Societal and individual conflict of distributive principles and preferences

Marco Lambrecht (Hanken)

Partisan Political Beliefs and Social Learning

Peter Hans Matthews (Middlebury College & Aalto University), Andrea Robbett, Lily R. Colón

Emotions and Trustworthiness of Information

Marja-Liisa Halko (University of Helsinki), Marita Laukkanen, Henri Nyberg, Mikko Salmela

The Behavioral Foundations of Model Misspecification: A Decomposition

Daniel N. Hauser (Aalto University), Aislinn Bohren

Session 4b: Urban Economics (Palaver)

Chair: Tuukka Saarimaa (Aalto)

Who Benefits from Faster Public Transit?

Prottoy Aman Akbar (Aalto University)

Discussant: Cristina Bratu (VATT)

Pedestrianization and Business Visits: Evidence from NYC Open Streets

Pablo Warnes (Aalto University), Timur Abbasov, Iain Bamford

Discussant: Tuukka Saarimaa (Aalto)

The Effects of Local Government Grants on Internal Migration

Max Toikka (Aalto University), Teemu Lyytikäinen, Sander Ramboer

Discussant: Pablo Warnes (Aalto)

Neighborhood Level Effects of Municipal Mergers

Tuukka Saarimaa (Aalto University), Oskari Harjunen, Eetu Kauria, Janne Tukiainen

Discussant: Prottoy Akbar (Aalto)

Session 4c: Financial Frictions (Takka)

Chair: Niku Määttänen (University of Helsinki)

Persistent misallocation or a necessary temporary evil? Micro evidence on zombie demographics from 6 European countries

Juuso Vanhala (Bank of Finland), Maurice J.G. Bun, Davide Fantino, Lovorca Grguric, Paloma Lopez-Garcia, Fernando Martins, Josip Raos

Taming the tides of capital - Review of capital controls and macroprudential policy in emerging economies

Anni Norring (Bank of Finland)

Cross-Country Variation in Economic Preferences and the Asset Composition of International Investment Positions

Mika Nieminen (University of Jyväskylä), Kamila Kuziemska-Pawlak

Financial Constraints and Intergenerational Mobility of Income and Education

Niku Määttänen (University of Helsinki), Marko Terviö

Session 4d: Economics of Education (A1 / Undergraduate Centre)

Chair: Hanna Virtanen (ETLA)

General vs. Program-Specific Student Admissions Criteria

Tuomo Virkola (VATT)

Do informational frictions affect enrollment in public-sponsored training? Results from an online experiment

Esther Mbih (University of Turku), Aïcha Ben Dhia

School Tracking and Geographic Mobility: Evidence from Finland

Ilpo Kauppinen (VATT), Panu Poutvaara, Teodora Tsankova

Education, Gender and Family Formation

Hanna Virtanen (ETLA), Kristiina Huttunen, Mikko Silliman ja Tiina Kuuppelomäki

Session 4e: Family Economics 2 (Y405 / Undergraduate Centre)

Chair: Terhi Ravaska (VATT)

Evolution of the Child Penalty

Claudia Troccoli (Aalto University), Kristiina Huttunen

Paternity leave expansions and family structure

Lauro Carnicelli (Labore & University of Helsinki)

Motherhood and career penalty - causal estimates using medically induced ovulation treatments

Tapio Räsänen (Kela)

Effects of paternity leave reforms on the labour market and gender inequality

Terhi Ravaska (VATT), Lauro Carnicelli

Session 4f: International Shocks (A2 / Undergraduate Centre)

Chair: Elina Berghäll (VATT)

Understanding the Gains from Wage Flexibility: The Exchange Rate Connection Revisited

Petteri Juvonen (University of Helsinki)

Cyclicalities of the trade balance and the transmission of international shocks

Maria Eskelinen (University of Oxford)

Gallup Democracy in Exercising the NATO Membership Option: The Cases of Finland and Sweden

Vesa Kanninen (University of Helsinki)

Bad Luck or the Euro?

Elina Berghäll (VATT)

Parallel sessions V: Friday 3.2.2023 13:00-14:30

Session 5a: Economic Effects of Covid-19 (Lumituuli)

Chair: Roope Uusitalo (University of Helsinki)

Macroeconomic Impact of Endemic COVID

Antti Ripatti (University of Helsinki), Michal Andrle, Liisa T. Laine

Discussant: Seppo Honkapohja (Aalto University)

Costs of Job Loss during the COVID-19 Pandemic

Hanna Pesola (VATT), Kristiina Huttunen

Discussant: Marko Terviö (Aalto University)

School closures and student achievement, evidence from a high stakes exam

Roope Uusitalo (University of Helsinki), Marc Riudavets-Barcons

Discussant: Tuomo Virkola (VATT)

Session 5b: Economics of Development (Palaver)

Chair: Amina Ebrahim (UNU-WIDER)

Do risk and time preference explain household's demand for microinsurance? A lab in the field approach

Anustup Kundu (University of Helsinki & UNU-WIDER)

Loan Repayment Flexibility and Firm Profits - Experimental Evidence from Uganda

Miri Stryjan (Aalto University), Selim Gulesci, Francesco Loiacono, Andreas Madestam

Income inequality in South Africa: evidence from individual-level administrative data

Amina Ebrahim (UNU-WIDER), Chandré Jacobs, Murray Leibbrandt, Jukka Pirttilä, Marlies Piek

Session 5c: Monetary Policy & Fiscal Shocks (Takka)

Chair: Sakari Lähdemäki (ETLA)

The effects of (un)anticipated monetary policy: Evidence from a noninvertible SVARMA model

Juho Koistinen (University of Helsinki)

Coherence without Rationality at the Zero Lower Bound

Nigel McClung (Bank of Finland), Guido Ascari, Sophocles Mavroeidis

Identification of fiscal SVAR-IVs in small open economies

Sakari Lähdemäki (ETLA), Henri Keränen

Session 5d: Labor Market Frictions (A1 / Undergraduate Centre)

Chair: Ciprian Domnisoru (Aalto University)

Contracted Labor Mobility and Self-selection on Job Match Quality
Juho Alasalmi (University of Konstanz & Pellervo Economic Research)

The Impacts of Graduating into a Recession on Intergenerational Mobility
Jerry Montonen (Aalto University), Martti Kaila, Emily Nix

Skills, Mismatch, and Labour Market Search
Ciprian Domnisoru (Aalto University), Pengpeng Xiao, Arnaud Maurel, Andrew Shephard

Session 5e: Labor & Health (Y405 / Undergraduate Centre)

Chair: Kaisa Kotakorpi (University of Tampere)

How does the COVID-19 pandemic shape behaviour in crowdsourcing? The role of online labour market training
Evangelos Mourelatos (University of Oulu), Jaakko Simonen, Simo Hosio, Daniil Likhobaba, Dmitry Ustalov

The Effects of COVID-19 Pandemic on (New) Life Insurances
Olli Ropponen (ETLA), Tero Kuusi, Tarmo Valkonen

Health Effects of a Youth Labour Market Activation Policy
Kaisa Kotakorpi (University of Tampere), Caroline Hall, Linus Liljeberg, Jukka Pirttilä

Session 5f: Environmental Economics 2 (Poli)

Chair: Enni Ruokamo (SYKE)

Regional distribution of Finnish oil-boiler subsidies
Jouni Räihä (SYKE), Santtu Karhinen, Sampo Vesanen

Assessing residential property prices and biodiversity trade-offs: The case of onshore wind power in Finland
Liisa-Maria Linnala (University of Helsinki)

Heterogeneous preferences for short-term hydropower regulation regimes and effects
Enni Ruokamo (SYKE), Artti Juutinen

Parallel sessions VI: Friday 3.2.2023 15:00-17:00

Session 6a: Public Procurement (Lumituuli)

Chair: Janne Tukiainen (University of Turku)

Organisational Culture in Public Procurement

Susmita Baulia (University of Turku), Janne Tukiainen, Jan Jääskeläinen

Discussant: Markku Siikanen (VATT)

Understanding lack of competition in public procurement

Mitri Kitti (Aalto University), Ari Hyytinen, Essi Kujansuu, and Janne Tukiainen

Discussant: Topi Miettinen (Hanken)

Trade frictions in European public procurement

Otto Toivanen (Aalto University), Jo van Biesebroeck, Saso Polanec

Discussant: Janne Tukiainen (University of Turku)

Centralized Procurement and Favoritism

Joosua Virtanen (Hanken), Susmita Baulia, Janne Tukiainen

Discussant: Jan Jääskeläinen (KKV)

Session 6b: Economics of Talent (Palaver)

Chair: Kristiina Huttunen (Aalto University)

Job Amenities in the Market for CEOs

Ran Sun Luyng (Tampere University), Arnaud Dupuy, John Kennes

Acquiring talent: Ownership or Employment?

Henna Busk (Pellervo), Satu Nivalainen ja Olli-Pekka Ruuskanen

Violence

Kristiina Huttunen (Aalto University), Abi Adams-Prassl, Emily Nix, Ning Zhang

Session 6c: Macroeconomics & Labor (Takka)

Chair: Juha Tervala (University of Helsinki)

The use of policy tools in EMEs during COVID-19

Antti Raukola (Bank of Finland), Anni Norring

Beveridgean unemployment gap in Finland

Henri Keränen (Talouspolitiikan arviointineuvosto), Niklas Gäddnäs

Building the Education Revolution: The Employment Effects of Fiscal Stimulus in Australia

Juha Tervala (University of Helsinki), Timothy Watson

Session 6d: Business & Entrepreneurship (A1 / Undergraduate Centre)

Chair: ~~Carita Mirjami Eklund (University of Vaasa)~~ Antti Norkio (University of Vaasa & Pellervo Economic Research)

A Survey on Finnish Cooperative: business performance, challenges and sustainable mindset
Yi Zheng (University of Helsinki)

Entrepreneurial Talent and Intangibles Explaining High-Growth Firms
Antti Norkio (University of Vaasa & Pellervo Economic Research), Hannu Piekkola

~~**Women Entrepreneurs – Push and Pull Factors**~~
~~**Carita Mirjami Eklund** (University of Vaasa)~~

Session 6e: Mental Health (Y405 / Undergraduate Centre)

Chair: Jutta Viinikainen (University of Jyväskylä)

Lost Mind, Lost Job? Unequal Effects of Corporate Downsizings on Employees
Edvard Johansson (Åbo Akademi), Petri Böckerman, Mika Haapanen

Age at Parental Death and Mental Health
Mika Haapanen (University of Jyväskylä), Petri Böckerman & Christopher Jepsen

Effect of weight on depression: Comparing genetic instruments
Jutta Viinikainen (University of Jyväskylä), Petri Böckerman, Barton Willge, Marko Elovainio, Jaana T. Kari, Terho Lehtimäki, Jaakko Pehkonen, Niina Pitkänen, Olli Raitakari

Abstracts

Religious Schools and Voting: Evidence from Political Islam in Turkey

Tolga Benzer (University of Turku)

This paper studies the impact of the establishment of state-run Islamic schools during the 1970s on electoral outcomes in Turkey. Exploiting the variation in exposure to Islamic schools across district centers and election years, I find that district centers with an Islamic school voted significantly more for Islamist parties after exposure to Islamic schools. The effect appears after prolonged exposure to Islamic schools, once affected student cohorts came of voting age. The faster increase in Islamist support is more pronounced in district centers with initial lower attachment to secularist parties that were right-wing strongholds. Last, I provide evidence that the differential increase in support for Islamist parties was not driven by Islamic brotherhoods, geographic sorting, or economic liberalization.

Does the Presence of TV Cameras Affect Polarization in Parliamentary Speech?

Jeremias Nieminen (University of Turku), Janne Tukiainen, Salla Simola

We study the causal effect of increasing the transparency of parliamentary speeches on polarization and other speech patterns. Our research design utilizes the 1989 introduction of TV broadcasting to those Finnish government's parliamentary question hours that were held during the first Thursday of every month. In contrast, the question hours held on other Thursdays of the month were not televised until 2008. We calculate our main outcome, yearly polarization, with LASSO-penalized distributed multinomial regression and analyze the effects of TV broadcasting in a difference-in-differences framework. We find no evidence that televising of question hours affects polarization between the left-wing and right-wing parties, within-party group differences, topics discussed, and for the most part, who gets to speak in the Parliament. In addition, we find no evidence that TV cameras would make discussions more heated, measured by the number interruptions MPs make to other MPs. Our results suggest that parties and politicians do not strategically respond to increased visibility in a polarizing way and thus there is no trade-off between increased transparency and polarization in this context.

Did Industrialization Increase Support for the Radical Left? Evidence from the 1917 Russian Revolution

Andrei Markevich (University of Helsinki), Paul Castañeda Dower

We analyze a novel dataset on the 1917 Constituent Assembly election – the only universal election in Russia in the early 20th century – to estimate the effect of industrialization on the radicalization on the left in a late industrializing economy. Our empirical strategy exploits IV estimation based on the presence of Carboniferous strata and other initial conditions of industrialization. We find that a larger share of industrial workers increases voting for the Bolsheviks, and the effect is stronger in places that started to industrialize relatively late. Industrialization also contributed to the popularity of the right, increasing electoral polarization.

The Effect of Unconditional Cash Transfers on Voting Participation: Evidence from the Finnish Basic Income Experiment

Janne Tukiainen (University of Turku), Salomo Hirvonen, Jerome Schafer

In many democracies, unemployed and low-income citizens are less willing to vote. Can unconditional cash transfers weaken the link between income and turnout? We study a unique experiment in Finland, which randomly assigned a sizable group of unemployed to basic income for two years (2017-19). Leveraging individual-level registry and survey data, we show that replacing conditional unemployment benefits with unconditional basic income has large positive effects on actual voter turnout and subjective levels of political efficacy. On average, the intervention increases turnout in municipal elections by about 3 p.p., an effect that is magnified among marginal voters (+ 6-8 p.p.) and persists in national elections after the end of the experiment. Our analysis suggests that the turnout effects are driven by unconditionality increasing social capital – rather than income itself. We discuss implications for theories of voter turnout and policy feedback, and the design of basic income policies.

Session 1b: Behavioral Experiments & Register Data (Palaver)

Behavioral Policy Targeting: Evidence from Payments for Vaccinations

Erik Wengström (Hanken), Pol Campos-Mercade, Armando Meier, Florian Schneider, Stephan Meier and Devin Pope

Numerous interventions have been created to promote healthy behaviours like vaccination uptake. Different interventions target different aspects of motivation. For example, while vaccine lotteries exploit financial motivation and risk affinity, many nudges take leverage of people's prosociality. Since people's preferences, such as prosociality and risk attitudes, vary widely, the treatment effects are probably heterogeneous. In this study, we examine the effects of various financial incentives, including fixed payments, donations to charities, and lottery payments, on vaccination uptake and to what degree the treatment effects are heterogeneous. Using machine learning techniques, we investigate if efficacy can be increased by targeting interventions based on peoples' preferences. Finally, we study if letting people choose their own incentive boosts efficiency. The study, which combines administrative vaccination data and survey data, was conducted in 2022 on a representative sample of 5,349 Swedes.

Mobilizing young voters: Evidence from an SMS RCT in Finland

Salomo Hirvonen (University of Turku), Lauri Sääksvuori and Janne Tukiainen

We conduct a randomized controlled trial in the Finnish 2021 county elections to examine the effectiveness of short text messages (SMS) as a tool to mobilize young voters, and thus, to ameliorate the stubborn gap in political participation between younger and older citizens. We find that receiving an SMS reminder before the elections increases the probability of voting among 18- to 29-year-old voters by 0.9 percentage points (or 3 %). A neutral framing is slightly more effective than the one providing information on policy making or the other appealing to expressive motivations to vote. Moreover, using comprehensive administrative data and data-driven machine learning methods, we investigate the spillover and heterogeneous treatment effects of SMS reminders on turnout. Notably, we find that approximately 100 percent of the direct treatment effect spilled over to non-treated household members. We also document that the SMS mobilization of voters did not exacerbate existing social inequalities in voting within the treatment group, and thus, the experiment overall managed to reduce participation gaps. Our results highlight the importance of spillover effects and treatment effect heterogeneities in the evaluation of get-out-the-vote interventions.

Rank And Individual Welfare: Experimental Evidence

Xiaogeng Xu (Hanken), Michael Kirchler, Kaisa Kotakorpi, Peter Hans Matthews, Satu Metsälampi, Topi Miettinen

There is widespread agreement that income rank matters to individuals. The standard resolution of the Easterlin Paradox, for example, underscores the positive relationship between overall rank and life satisfaction. Causal evidence for such claims is scant, however. Further, the relevant reference group, or for that matter welfare measure, is too often assumed. In a pre-registered experiment with a representative sample of Finns, we use an information provision protocol to investigate how increased awareness of position within different reference groups - education, municipality, occupation, for example - affects life satisfaction, fairness perceptions and other measures of individual welfare. In the process, we also characterize the accuracy of rank beliefs across groups. Our dataset, which integrates experimental and administrative data, confirms the Easterlin correlation, but finds no causal effect of relative income information on life satisfaction. We do find, however, that relative position does matter to individuals: relative income shocks cause variations in fairness perceptions, wage satisfaction and being pleased with income. Because there is substantial variation in the magnitude of these effects across reference groups, our data further underscores that the welfare effects of income differences turn on the question “compared to whom?”

Arttu Ahonen (Aalto University)

Emissions abatement in road transport puts upwards pressure on the prices of gasoline and diesel, be it directly through carbon pricing or indirectly through policies like biofuel mandates. These two fuels account for 97% of the vehicle fleet in Finland, where the government has set an ambitious target of halving CO₂ emissions from road transport by 2030. We conducted telephone interviews of 2000 Finnish drivers, where they were asked whether they'd accept higher fuel prices in order to achieve the emissions target and primed to believe that their answers could affect real-life policies. In addition to randomly varying the presented price increases between respondents, we exploited recent large swings in fuel prices to anchor respondents to different expectations of the default price and policy outcome. To disentangle how much of the acceptability is due to willingness to pay for the policy outcome versus ability to avoid the costs by changing consumption, we also asked if the respondent's answer would change in the presence of fixed transfers. The answers were linked to extensive administrative data on the characteristics of the respondents and their vehicles, allowing us to keep the interviews relatively short, and check whether self-reported values of, e.g., kilometers driven, correspond to what we see in the administrative data.

Session 1c: Nowcasting & Time Series Forecasting (Takka)

A business cycle heatmap for the EU, the Eurozone and 27 member countries

Matthias Striffler (VTV), Arto Kokkinen

Timely and reliable knowledge of the phase of the business cycle is key for successful fiscal policy and the coordination of fiscal and monetary policy. Currently the dominant approach to identify the growth cycle is the output gap. Although the output gap has a sound theoretical footing it comes with major weaknesses of which the most prominent is its tendency to revise substantially in hindsight. This impedes the use of output gap estimates in fiscal policy planning and assessment. This paper presents a business cycle heatmap as complementary measure to the output gap for the EU, the Eurozone and 27 member countries. The heatmap is based on a set of indicators capturing movements in GDP or its components and data is chosen such, that countries are fully comparable. A composite indicator is introduced which can be given a similar interpretation to the output gap. One major advantage of the composite indicator is that it revises to only a very small degree. Comparison of the composite indicator to the European commission's output gap estimates in 2006-2021 show many similarities. However, there seem to be some country and time-specific differences between the estimates of the two methodologies.

Google trends in nowcasting – Evidence from the OECD countries

Joni Heikkinen (University of Jyväskylä & Statistics Finland), Kari Heimonen

This study examines Google Trends data's ability to nowcast GDP among the OECD economies. Google Trends data has the potential to be superior in nowcasting real-time GDP without lags since it offers efficient and up-to-date information about the current economic situation based on households' searches in Google. We solve the problem of the high dimensionality of Google search by employing (PCA, PLS, Ridge, LASSO, Elastic-net, and dynamic factor model (DFM)). The Google searches forecasting ability results were model and country specific. The consumer confidence model was superior in nowcasting the Finnish GDP, "Grants & Financial Assistance" searches nowcasted the Japanese GDP during the Covid-19 pandemic, and the DFM outperformed other models in the US. We also got evidence that nowcasting indicators are connected. Consumer confidence was related to the "Social Services" category searches in the US. In sum, Google searches provide nowcasting information about the future economic outcome; hence, it should be included in the economic forecasters' toolbox.

From empirics to theory: economics of precision and recall tradeoff

Hannu Huuki (University of Oulu & SYKE), Maria Kopsakangas-Savolainen

Different type of classification and segmentation methods can help to target services and technologies for variety of economic and social issues. Recently, machine learning models have increasingly been used to help with classification. However, classification involves potential problem of precision and recall tradeoffs which both includes benefits and costs. Some applications may require high recall, whereas some classification tasks favor high precision. If it is important that every result of the search really belongs to the specific target group (but it is not that important that all results are found), then high precision is favored. On the other hand, if it is important that all relevant results are captured (but it is not that important how many irrelevant results are also captured), then high recall is favored. In this paper we bring the benefits and costs of precision and recall into a common framework. We analytically present how the optimal threshold is set as a function of costs and benefits, net benefit. We show how the threshold changes in relation to the net benefit. We illustrate the theoretical result with the help of a numerical example related to electricity demand response technology.

Forecasting unemployment in Finland - a flow-based approach

Annika Lindblad (Bank of Finland), Niklas Gäddnäs

Utilising the information in the flows in to and out of unemployment can improve the accuracy of unemployment forecasts. This paper applies flow-based methods to forecast unemployment in Finland and considers whether forecast accuracy can be improved by utilising the information in unemployment flows. We compare and contrast different forecasting models and different methodologies for constructing the flows. We also determine the benefits and costs of using flow data for forecasting unemployment in Finland around business cycle turning points and pay special attention to the developments during the COVID-19 pandemic. Our preliminary results indicate that while using a time series model improves forecasts over a simple ARIMA benchmark, we cannot find significant gains from including flow data in a BVAR model for unemployment. However, current results are extremely preliminary.

Session 1d: Environmental Economics 1 (Poli)

Incentivising active transport: evidence from a RCT

Anna Sahari (VATT), Lassi Ahlvik

Increasing the share of active transport (walking and cycling) in daily mobility can reduce negative externalities related to car use and bring benefits in the form of improved health. Better health benefits the individual and can also reduce the amount of public spending on healthcare. In this study, we seek to understand whether individuals are aware of the health benefits of active transport and whether we can increase active transport by providing personalised information on the activity level and resulting health impacts. The analysis relies on daily individual-level data on mobility, created by a mobile application which automatically tracks trips and transport modes. We carry out a randomised information treatment, where the treatment group receives the following types of information: tracking their daily level of walking and cycling, information on the health benefits of their observed activity level, information messages on recommended activity levels, and comparisons to the activity level of all application users. The intervention is carried out during Sep-Nov 2022. We will analyse the results with a special interest in potential treatment heterogeneity: whether the effect varies by initial activity level, access to public transport or sociodemographic characteristics which we observe at the postal code level.

From exploration to reclamation: Environmental policy for non-renewable resources

Pauli Lappi (University of Helsinki)

What kind of properties does an optimal exploration-extraction program have for a given land area that may contain a nonrenewable resource deposit when there is some existing geological knowledge? How should environmental policy be designed when the deposit must first be found and a mine developed? When should exploration be conducted and the mine be developed? A nonrenewable resource extraction operation from exploration to reclamation consists of four stages. First, a mining company must explore the area for possible deposits. Second, if a deposit is found, the mine must be constructed. Third, after the mine is complete, the deposit is extracted for profit. Fourth, when the deposit is depleted, the mine is closed and the area reclaimed (if required by the existing regulation). This study develops a model for nonrenewable resource exploration and extraction containing each of the above stages, and uses the model for two purposes: to analyze optimal exploration, development and extraction decisions of a mining company, and the design of optimal environmental policy. Private solution is characterized including conditions under which exploration and mine development are not performed. Then, the planner's problem and optimal policy are analyzed.

Quantifying supply-side climate policies

Lassi Ahlvik (University of Helsinki), Jørgen Juel Andersen, Jonas Hveding Hamang, Torfinn Harding

What are the effects of supply-side climate policies? We use global company-level data to estimate the impact of 130 oil-tax reforms between 2000 and 2019 on oil production, exploration and discoveries. Higher taxes are found to reduce companies' exploration expenditures and oil discoveries. We quantify the oil market implications and show that the existing production-based taxes, averaging at 21%, reduce the long-term emissions by 1.3-2.7 GtCO₂ annually. Increasing the global tax rate would reduce emissions almost linearly, by 0.16 GtCO₂ per percentage point, while further shifting the distribution of rents from consumers to producers and governments.

The effects of environmental investments on the economic performance of industrial plants – Evidence from Finland

Jaana Rahko (University of Vaasa)

Industrial plants that invest in environmental protection are larger and more productive, but do environmental protection investments also have a causal effect on their economic performance? This paper utilizes propensity score matching and difference-in-differences estimation on matched sample to investigate whether Finnish industrial plants that start investing in environmental protection out- or underperform otherwise similar plants. The empirical results show that plants that invest in environmental protection increase their turnover in comparison to control plants and that their labor productivity also increases. The results also indicate that environmental protection investments and environmental R&D are complementary investments.

Session 1e: Housing Markets & Policy (Y309b / Undergraduate Centre)

Housing Markets and Capitalization of Information: Case of Land Leases

Oskari Harjunen (Aalto University), Heidi Falkenbach, Erik Mäkelä, Elias Oikarinen

We study how lot rent increases capitalize into leasehold apartment prices. We investigate a case, where the City of Helsinki, Finland, introduced over 15-fold rent increases for the expiring ground lease contracts on residential land that induced over 40 percent rise in the operating costs of the analyzed leasehold apartments. Our empirical strategy is based on a difference-in-differences design where we compare transactions prices of the leasehold units with comparable freehold apartments. We utilize the policy change as a quasi-experimental setting, as before the first large scale rent increase episode there were no experiences or official decisions on the policy that City of Helsinki would exercise with the upcoming contract renewals. We find that before the first announcement concerning the future rent increases homebuyers were inattentive to their expected long-run housing expenses, which resulted in significant overpricing of leasehold apartments relative to corresponding freehold units. The results further suggest that housing market participants react on announced contract renewals and appear to learn the importance of the ground ownership feature when they are exposed to more and more information regarding rental contract updates. However, there is no immediate effect on the leasehold prices, as the assumption of full optimization with perfect foresight would suggest, but the leasehold discounts increase sluggishly within a decade. Eventually, at the end of the analyzed period we observe a leasehold discount that suggests perfect capitalization of the lot rent increases.

Deregulation of social housing

Cristina Bratu (VATT), Oskari Harjunen, Tuukka Saarimaa

We study the effects of the deregulation of non-profit buildings in the Helsinki Metropolitan Area on building-level tenant composition and tenant mobility. While under regulation, landlords of non-profit buildings are required to base rents on maintenance and capital costs and to engage in tenant selection based on housing needs and income. These requirements disappear at the end of regulation. We compare outcomes in buildings subject to deregulation to outcomes in similar buildings (in terms of construction year and location) not subject to deregulation using an event-study design. We examine possible channels for the observed changes in outcomes by studying landlord renovation behavior.

The impact of mortgage regulation on homeownership and household leverage: evidence from Finland's LTV reform

Sander Ramboer (VATT), Teemu Lyytikäinen, Essi Eerola

This paper examines the impact of a limit on loan-to-value (LTV) ratios implemented in Finland in 2016. Focusing on households that buy an apartment for the first time, we evaluate how the regulation influenced household leverage and the decision to become a homeowner. Through bunching analysis, the reform is estimated to have reduced transitions into homeownership by 17% among borrowers potentially affected by the reform. This corresponds to an 8% reduction in the total amount of first-time apartment buyers. The reduction in transitions to homeownership is found to be driven by households with below median income, suggesting that the regulation may have important consequences for the distribution of wealth. An additional 8% of potentially affected households reduced their LTV ratios to below the limit. Differences-in-differences analysis, comparing those expected to have LTV ratios above the limit to those below the limit, indicates that the reduction in mortgage debt was accompanied by an increase in other debt.

Quality cycles in the construction sector

Eetu Kauria (University of Turku), Erik Mäkelä, Oskari Vähämaa

We study how the business cycles in the Finnish construction sector impact building quality. Previous empirical studies regarding quality cycles are rare but related works have found two contradicting possible mechanisms: either the lack of quality workers during a boom decreases the building quality, or the construction companies need and are able to sacrifice some of their built-up reputation in a downturn. We utilize a unique data set from Finnish cities containing all the constructed buildings and complement this with micro-level housing transactions data. We examine how the sub-regional level construction sector volume affects the building quality using several specifications. We find that the second story holds water: each one per cent decrease in the construction sector value added increases the maintenance charge (by around 0.12 per cent in our preferred model) and debt (1.8 per cent) of housing company units. Similarly, a decrease in the construction sector value added increases the probability of all renovations and certain important renovations by approximately 0.33 and 0.27 per cent, respectively, in our preferred models.

Transfer pricing of Finnish multinational enterprises

Marika Viertola (Aalto University & VATT)

Using an export-firm level data set of Finnish tangible exports between 2013-2019, I find evidence of tax-motivated transfer pricing done by Finnish multinational enterprises (MNEs). By exploiting variation in corporate income tax differentials as well as variation in the ownership status of affiliates, I am able to apply the triple difference estimation strategy. I find that in response to a 1 percentage point decrease in the tax rate of a low tax country, the multinational decreases its export unit value by 0.8% more compared to a pure exporter with no affiliate in the destination country. Additionally, according to my heterogeneity analyses, firm and product characteristics impact the scale of transfer pricing. My results suggest that among others, larger firms tend to shift more profits through transfer pricing.

Multinationals, Tax Havens and Increasing Tax Transparency

Tom-Henrik Sirviö (University of Helsinki)

European country-by-country reporting legislation requires multinationals to disclose specific financial information on a country-by-country basis. This paper studies the effects of the country-by-country reporting on tax haven activities of the targeted multinationals applying confidential Finnish microdata and difference-in-differences methods. It is argued that country-by-country reporting lowered the presence of multinationals in tax havens measured by the number of affiliates. However, affiliate level data shows that although the number of tax haven affiliates decreased the remaining tax haven affiliates increased their turnover and salaries paid to their employees. In addition, effects on domestic tax variables are surveyed but no effects are found. These results suggest that country-by-country reporting did have behavioral responses but mainly through reorganization of tax haven businesses.

State Dependence in Healthcare Provider Choice: Evidence from Dental Care

Tuomas Markkula (Aalto University)

Many policy reforms aim to improve healthcare system's functioning through competition and consumer choice. If consumers face choice frictions like switching costs, brand loyalty or habit formation, policy reforms' full potential might not be realized. Common choice frictions lead to true state dependence in consumer's choices, a pattern in which the previously visited provider becomes more desirable today precisely because it was visited previously. I test for the existence of the true state dependence in healthcare provider choice in the context of Finnish private dental care. Switching is rare in this market, which can be due to the true state dependence, or because of consumers' persistent preference heterogeneity for providers. I disentangle the two competing explanations by controlling for consumers' unobserved preferences with consumer-provider fixed effect and find evidence of true state dependence with a magnitude similar to a six kilometer reduction in distance to the previously visited provider.

Additional public procurements in health care

Visa Pitkänen (Kela), Milla Hägg

Private providers are often acquired through public procurements to provide publicly financed services. The number of contracted providers and their capacity often turns out to be deficient during the contract period. Typically, the purchasers then organize additional procurements or negotiate directly with available uncontracted providers to acquire more capacity. In this study, I examine an unusual additional public procurement in Finnish physiotherapy markets, in which incumbent providers with an existing contract were also eligible to participate. In practice, these contracted providers did not bear any risk when they submitted their bids in the additional procurement. I compare contracted and uncontracted providers' prices to free market prices using a difference-in-differences approach. The results shows that contracted providers increased their prices on average by 11%, while the originally uncontracted providers decreased their prices by 6% compared to the development of free market prices. Although this inefficient procurement led to a waste of public funds, a simple back-of-the-envelope calculation indicates that additional procurement can still be a more efficient way to increase capacity than directly contracting providers that were not contracted in the initial procurement.

Parallel sessions II: Thursday 2.2.2023 13:00-14:30

Session 2a: Labor Economics (Palaver)

Resilience, Resistance to Change and Personality

Jaakko Simonen (University of Oulu), Evangelos Mourelatos, Simo Hosio and Joona Lohtander
Resilience has attracted growing attention especially during the Covid-19 pandemic. Despite this, knowledge on how individuals' resilience relates to well established concepts from economics such as risk preferences is scarce. While the effects of personality traits to both risk aversion and resilience have been studied, the interaction of risk aversion and resilience has received less attention. The present study investigates the connection between resilience, personality and resistance to change, which correlates strongly with risk aversion. Moreover, we examine the role of entrepreneurship and job loss during Covid-19 in this framework. After clustering respondents' based on their big five personality traits using k-medoids clustering, we find that the relation between resistance to change and resilience depends on personality. The relation is stronger for both entrepreneurs and people who lost their job during Covid-19.

The impact of basic income on residential mobility: Evidence from the Finnish Basic Income Experiment

Henri Salokangas (THL & University of Turku), Heikki Hiilamo, Timo Kauppinen, Pasi Moisio, Outi Sirniö

Basic income (BI) is expected to bring economic security into people's lives so that they can realize their full potential as individuals. BI may not only affect individual's decisions relating to work but other aspects in life, such as residential mobility. This study contributes to the literature on the impacts of unconditional cash transfers on residential mobility by providing contemporary evidence from the Finnish Basic Income Experiment. The experiment was conducted in 2017-18 and included 2,000 unemployed people aged 25-58 in the treatment group and 170,000 persons of similar age in the control group. We do not find evidence that basic income caused changes in emigration rates or residential mobility between municipalities. However, we find that basic income increased women's residential mobility within municipality, especially among women who lived in urban areas, in rental housing, were born abroad and lived in overcrowded housing.

Forced displacement shapes personality traits across generations

Matti Sarvimäki (Aalto University), Dominik Hangartner, Ilona Lahdelma, Maarit Olkkola

We examine the intergenerational effects of forced migration on personality traits. Our research design builds on the displacement of 11% of Finland's population during and after WWII. Using data from standardized personality tests administered by the Finnish Defence Forces to all men drafted to mandatory military service, we find that sons of displaced fathers scored higher on personality traits associated with higher income than sons of comparable non-displaced fathers. We attribute these effects primarily to improved parental income and education and increased urbanization rates.

Session 2b: Microeconomic Theory (Y309b / Undergraduate Centre)

Price competition with advertising

Klaus Kultti (University of Helsinki), Teemu Pekkarinen

We show that when one firm advertises informatively and another one persuasively the equilibrium pricing may feature prices that are higher than the monopoly price.

Oligopoly, Public Ownership, and Social Justice

Johan Willner (Åbo Akademi), Sonja Grönblom

Market power is usually seen as causing a reduction of the sum of the consumer surplus and the profits (the total surplus). However, we focus on full resource utilisation, in which case the reduction of the consumer surplus would be limited. The presence of profits caused by market power then implies that the total surplus (as traditionally calculated) is even higher than under perfect competition. The main consequence of market power is under such conditions a redistribution of incomes and consumption, as also reflected in the Gini-coefficient. This redistribution means a welfare loss if the payoffs of the stakeholders are aggregated in a way that takes diminishing marginal utility into account. It turns out that the welfare effect of imperfect competition can be surprisingly strong even when there is no deadweight loss in the traditional sense, in particular when there is a substantial variation in marginal costs. This variation also reinforces the impact of a mixed oligopoly on both welfare and distribution.

Preferences for uncertainty and time

Hannu Vartiainen (University of Helsinki)

Uncertainty is fundamentally a subjective phenomenon - as are preferences concerning time. How should one model decision maker when we only have access to her mind through her choices? The model should pin down beliefs of the agent and her preferences at the same time. Savage (1954) provides the standard axiomatization concerning such subjective beliefs. However, his framework is inadequate in characterizing time preferences which is unfortunate since, as pointed out by Dasgupta and Maskin (2005), behavior reflecting time inconsistent behavior can emerge of either time inconsistent preferences or beliefs concerning temporal structure of prizes. We complement the picture by providing characterization of subjective beliefs and time preferences in a framework, which permits testing time consistent preferences even under subjective beliefs.

Uncertainty, Misallocation and the Life-cycle Growth of Firms

Oskari Vähämaa (University of Helsinki)

We develop a measure of static misallocation that separates uncertainty from misallocation generated by tax-like distortions. In the Finnish firm-level data, uncertainty accounts for the majority of ex post misallocation and explains a strong decreasing age-dependent trend in it. To understand these observations, we set up a life-cycle model of firm growth where new firms have to learn their productivity. We match our model with the salient features of the data and show that our model implies idiosyncratic distortions, in line with our accounting approach. According to our quantitative results, uncertainty suppresses output by 38%, while misallocation has a 26% negative effect on output.

Endogenous Technology, Scarring and Fiscal Policy

Michaela Elfsbacka Schmöller (Bank of Finland)

This paper studies fiscal policy in a New Keynesian DSGE model with endogenous technology growth in which scarring can occur endogenously through cycle-trend interaction. Demand- and supply-driven recessions can weaken investment in R&D and technology adoption, thus depressing the long-run trend. Fiscal policy has long-term effects under endogenous growth, where the type of fiscal stimulus is decisive for the sign and magnitude of fiscal multipliers. Expansionary government spending boosts output transitorily but over time crowding out in technology-enhancing investment weakens the long-run trend and intensifies the scars of recessions. I introduce fiscal growth policies in this environment which in the short run raise aggregate demand and boost at the same time growth-enhancing investment and thus the long-run trend, resulting in a positive trend multiplier. Multipliers of fiscal growth policies can be sizeable, above all when targeted to R&D which is subject to a fiscal multiplier greater than unity. The underlying long-run non-neutrality of monetary policy amplifies the importance of monetary-fiscal interaction.

Bailouts and the Maturity of Sovereign Debt

Timm Prein (University of Helsinki)

While the International Monetary Fund provides credits to sovereigns with a pre-determined maturity, the European Stability Mechanism decides on maturity and the number of grace periods on a case-by-case basis. I develop a quantitative sovereign debt model with endogenous maturity choice of external government debt and endogenous bailout participation with long-term official debt to study how maturity and grace periods of official loans affect the effectiveness of bailouts. I find that the availability of bailout credits reduces the maturity of government bonds held by private creditors. In the presence of shorter maturities and grace periods on official debt as well as stricter conditionality, the government uses more long-term privately held debt to insure against future income risk.

Is the Financial Market Driving Income Distribution? – an Analysis of the Linkage between Income and Wealth in Europe

Ilja Kristian Kavonius (University of Helsinki), Veli-Matti Törmälehto

Globalisation has a major impact on the levels and distribution of wealth. The financial markets are highly integrated, and valuations of financial assets follow international patterns, which has contributed to large increases in financial wealth over the past 25 years. Nonetheless, this has not led to an equally large increase in property income because the rates of return have decreased during the same era. Moreover, changes in functional income distribution (capital/labour shares) have not been fully transmitted to the distribution of primary income between households because other institutional sectors – particularly the government sector – hold considerable amounts of financial assets. At least in the short term, the decrease in rates of return seems to contradict claims that, due to an increase in both financial and inherited wealth, we are entering an era of increasing income inequality. In this article, the link between financial wealth and pre-tax household income distribution is scrutinised for three European countries using a conceptually fully consistent macro framework. First, national balance sheets are combined with the related income flows. After this, income flows that are not property income but are considered part of national income (e.g., wages and salaries) are added, the national income flows are broken down by institutional sector and the household sector income flows separated. Finally, distributional household micro data are used to break down the aggregate household sector income flows by income decile. The article utilises this framework to analyse the evolution of rates of return and capital and labour shares as well as how the property income flows created by financial wealth have affected household primary income distribution.

Job loss and the incidence of debt enforcement

Ossi Tahvonen (University of Helsinki), Terhi Maczulskij, Ohto Kanninen, Hannu Karhunen

A large share of individuals who have debt-related problems rate unemployment as the main source of their life difficulties. In Finland, when an individual becomes delinquent on debt, the debts can be subjected to a strict enforcement procedure. Despite a broad welfare state, approximately 450 000 people in Finland had some enforceable debts in 2021, which corresponds to nearly 10 percent of the entire Finnish population. Acquiring a better understanding of the mechanisms behind the main sources of debt problems can offer useful guidance in developing more effective policy interventions. In this paper we examine the effect of involuntary job loss on the incidence of debt enforcement in Finland. We use linked employer-employee data matched with administrative information on debt garnishments for the period 2007-2017.

We find that job loss, as measured by plant closures and mass layoffs, increases the probability of having garnished debts by 10-20 percent annually and the effects are persistent. Our event study results indicate a strong and persistent effect. The results are robust to different specifications. A separate analysis for the type of debt shows that job loss mostly affects debt problems related to private debt, payments related to housing (such as mortgages or rents), and unpaid taxes, but not on social- or healthcare payments or alimony.

Household debt, credit constraints and the business cycle dynamics of aggregate consumption

Aino Silvo (Bank of Finland), Samu Kärkkäinen

We study the aggregate implications of cost-push inflation and rising interest rates on private consumption and debt when part of the household sector is credit constrained. For this purpose, we use the Aino 3.0 model for the Finnish economy (Silvo and Verona, 2020). We find that the presence of credit-constrained households amplifies the responses of aggregate consumption and output to cost-push and interest rate shocks. Falling aggregate demand and rising interest rates deteriorate collateral values and reduce the possibilities of credit-constrained households to smooth consumption (the collateral channel), while increasing prices and debt-servicing costs directly reduce other consumption expenditure of indebted households (the cash-flow channel). The larger the share of credit-constrained agents in the economy, the stronger this amplification becomes. Looking at Finnish aggregate data, however, we find no robust evidence of increased interest rate elasticity of private consumption even as the household sector's debt-to-income ratio has almost doubled in the past 20 years. Estimates based on the household-level Finnish Wealth Survey suggest that the share of liquidity-constrained households has declined over the same time period, which may have contributed towards muting such financial amplification mechanisms even as aggregate debt of the household sector has grown significantly. Our results highlight the key role played by heterogeneity in credit and liquidity constraints in driving aggregate consumption and debt dynamics.

Session 2e: Credit Standards & Lending (Poli)

Credit Constraints in Finland - Causal Interpretation from a Survey

Jaakko Rahko (Finnvera), Mauri Kotamäki

The aim of this paper is to study how credit standards affect firm-level investments using instrumental variable approach on SME firms in Finland between 2015 to 2022. The data comes from the SME barometer survey. Our approach is based on a paper by Gomez (2018), who studied the credit standards in Europe. Our main contribution is to estimate this effect in Finland and to explore the heterogeneous effects with respect to industry and firm-size. We use instrumental variable approach because there is a possible endogeneity problem, firms with poor performance have higher probability of being affected by credit standards. The preliminary results of our IV regressions suggest that increasing credit standards reduce investment probability in all sectors but the effect is heterogeneous. Construction is affected the most, followed by wholesale and retail trade and services. Manufacturing is least affected but the effect is estimated imprecisely.

Loan Market Dynamics and Housing Prices: A SVECM Application

Elias Oikarinen (University of Oulu), Vance L. Martin

A 6-variate structural vector-error correction model is specified to investigate the contributions of loan supply and demand shocks, and housing market shocks, on housing loan expansion and housing prices. Demand and supply shocks in output markets as well as monetary policy shocks are also identified, with identification based on a combination of short-run and long-run restrictions. Using Finnish data from 1985 to 2020, the results show that loan supply and demand shocks can lead to significant housing loan expansion. However, while loan supply shocks play a major role in loan and housing price cycles, loan demand shocks have little effect.

Varjopankkitoiminta, pankkikriisit ja suhdannevaihtelut

Robin Rönneberg (University of Jyväskylä), Mika Nieminen ja Kari Heimonen

Olemassa olevan tutkimustiedon perusteella pankkisektorin luotonannon kasvu ennakoi pankkikriisiä, mutta makrovakauseräpolitiikan avulla luotonannon kasvua on mahdollista hillitä. Pankkeihin kohdistuvan sääntelyn tiukentuessa pankkisektorin ulkopuolisen rahoituksen välityksen eli niin sanotun varjopankkisektorin koko on kasvanut. Tutkimuksemme on mahdollisesti ensimmäinen, jossa tarkastellaan sitä, onko kasvanut varjopankkitoiminta yhteydessä pankkikriisien syntyyn. Havaitsemme kansainvälistä paneeliaineistoa hyödyntäen, että lyhytaikaisesta rahoituksesta riippuvaisten markkinatoimintojen välittäjien, kuten meklareiden ja diilereiden, rahoitusvarallisuuden kasvu lisää tilastollisesti merkitsevästi systeemisen pankkikriisin puhkeamisen todennäköisyyttä. Tämä havaittu yhteys on jopa vahvempi kuin pankkien luotonannolla, joka on yleisesti hyväksytty pankkikriisejä ennakoiva varhaisen varoituksen indikaattori. Yhdysvaltain aikasarja-aineiston perusteella meklareiden ja diilereiden rahoitusvarallisuuden huippu näyttäisi edeltävän pankkikriisin puhkeamista. Aikasarja-analyysin perusteella meklareiden ja diilereiden rahoitusvarallisuuden laskulla on lyhyellä aikavälillä bruttokansantuotetta supistava vaikutus. Tämä tulos antaa tukea tulkinneille, että arvopaperivälittäjien rahoitusvarallisuus ei liity pelkästään pankkikriisin leviämiseen maasta toiseen vaan, että se toimii systeemisiä pankkikriisejä ennakoivana varhaisen varoituksen indikaattorina.

Parallel sessions III: Thursday 2.2.2023 15:00-16:30

Session 3a: Regulation (Lumituuli)

Assessing the impact of alcohol policies on alcohol sales

Tuomas Kosonen (VATT), Sami Jysmä, Lukas Worku

We utilize the reform in alcohol policies taking place in 2018 that allowed to sell 5.5% strong alcohol and mixed drinks for the first time in normal grocery stores in Finland. We have access to rich data that contain product-and-store level information of alcohol and other products. The data originates from a large grocery store chain as well as the government alcohol monopoly, Alko. We find drastic effects from the reform such that the sales of affected products declined in Alko by more than 50% from the level where the sales were before the reform. Sales of some of the affected products increased even more, by several hundred percent, in grocery stores.

Taxi Market Deregulation: Effects on Prices, Demand and Tax Evasion

Ida Kankaanranta (Tampere University), Jarkko Harju, Kaisa Kotakorpi

Taxi markets are characterized by various informational asymmetries, and have traditionally been subject to extensive regulation in many countries. We analyze the effects of taxi market deregulation in Finland, using exceptionally rich administrative data covering information on prices, sales, payroll and other costs, tax payments, and mileage. The reform involved a removal of price controls, combined with various measures to lower barriers to entry. We find that deregulation led to higher prices, while at the same time reported sales declined markedly. However, we also find a negligible effect on operating costs or mileage. This suggests that the decline in sales was not due to a decline in real activity, but rather an indication of increased tax evasion, enabled by less intensive monitoring in the new regulatory regime.

Effects of Taxi Market Deregulation: Evidence from a Natural Experiment in Finland

Anni Väättänen (KKV), Jan Jääskeläinen, Samuli Leppälä

We analyse the effects of deregulation of the Finnish taxi market using a difference-in-difference framework. We estimate the causal impacts of deregulation on consumers, taxi firms, and employees. We find that the offered fares have increased on average by 7% in large municipalities and by 15% in small and medium municipalities, but the variation in the offered fares is significant. We also estimate changes in taxi firms' revenues, employees, profits, and costs as well as employee wages. The number of taxi firms has increased in large municipalities, with more drivers having a foreign background. Firm profits have decreased in all regions, while employee wages have decreased in small and medium regions. The share of part-time drivers has increased in all regions.

Session 3b: Family Economics 1 (Palaver)

Public Policy and the Child Mortality Transition

Maarit Olkkola (Aalto University)

This paper examines the effect of the introduction of universal child health services on the child mortality transition in Finland. In the 1930s, every ninth Finnish child died before reaching age five and Finland was far from the child survival frontier of other European countries. In the 1940s, the Finnish child mortality rate more than halved, and this mortality transition coincided with the expansion of publicly provided child health services to every municipality in Finland.

Child health centers offered regular child health counseling visits mostly with a public health nurse, both at the center and at home. I focus on predominantly rural municipalities that established a child health center between 1945 and 1950, after the parliament had passed a law mandating every municipality to establish a child health center by 1950. I use newly collected individual-level child mortality data in an event study framework to compare municipalities that implement the policy earlier to those municipalities that implement the policy slightly later within this sample.

For the age group most intensively targeted by the policy, I find that access to rural child health centers reduced postneonatal (aged one month to one year) mortality by 8.6 lives per thousand live births (27 percent of baseline postneonatal mortality). This figure corresponds to approximately half of the overall decline in postneonatal mortality in Finland 1945–1950 or to about a fourth of the overall decline in the mortality of children under age five. For children aged one to four, my estimates are also consistent with a similarly large decline in mortality, but they are not statistically significant.

Long-run consequences of economic recessions on fertility, family formation and education

Cecilia Blomster (Hanken), Stefano Lombardi, Kristiina Huttunen

We study how graduating during the early 1990s Finnish deep recession affects the long-run labor market and family outcomes of individuals. By using exogenous variation in the regional unemployment rate upon graduation, we identify the causal effect of poor economic conditions on various outcomes. We find an initial negative effect on earnings, which shifts to positive in the long-run. The probability of being enrolled as a student increases in the short-run, indicating that individuals increase the propensity to educate themselves when unemployment is high. The business cycle effects on family outcomes (cohabitation, marriage, probability of having children and number of children) are found to be heterogeneous across the gender and educational level of individuals.

Parental job loss and child fertility

Krista Riukula (ETLA)

This paper studies how economic shocks in childhood affect fertility outcomes in adulthood. Using plant closures from the years 1990-93 in Finland, I find that maternal job loss increases the offspring's probability of being a parent, or having a child by the age 40, while paternal job loss decreases both the number of children and the probability of being a parent for sons, but not for daughters. Father's job loss results in lower education level, earnings, employment and the probability of having a spouse for sons, but not for daughters and these effects might be driving the effect on sons' fertility outcomes too. 13-year-old sons are most sensitive to both maternal and paternal job loss in terms of fertility outcomes. The asymmetric effects I find for paternal and maternal job loss might be best be interpreted in the light of spousal role theories from the field of sociology. Briefly put, paternal job loss can be more stressful if the father fails to fulfill his role as a breadwinner affecting the offspring. Mothers in turn might more easily adapt to job loss as it is more socially acceptable for them to not to work and as a result, they might shift more energy towards their role as a caregiver.

Session 3c: Inflation (Takka)

Finland's price level problem

Paavo Peisa (Retired)

Relative price and income levels of 107 countries in 1960-2021 are decomposed into common trends multiplied by country- and trend-specific coefficients. A single most powerful trend, or the main trend, explains almost 70 percent and about 92 percent of the total variation of relative price and income levels, respectively. Except for it, other trends having substantial explanatory power are similar to the trends of the random walk, suggesting that even low-frequency deviations from the main trend accumulate nearly randomly. The so-called Penn effect posits a positive relationship between income and price levels. In line with it, the country coefficients of the two main trends correlate positively, especially for the high-income countries. In high-income countries, there is also a positive long-term Penn relation, or the "Penn curve", between changes in price and income levels. In high-income countries, a percentage point increase (or decrease) in the relative income level is associated in the long term on average with a 1,3 percentage point increase (or decrease) in the relative price level. The paper discusses also Finland's price and income level developments during the sample period. Our long-term Penn curve is broadly similar to those of other high-income or euro-area countries, but shorter-term deviations from it have been large.

Do inflation expectations improve model-based inflation forecasts in Finland?

Harri Pönkä (Bank of Finland)

There is mixed evidence in the literature on the question of whether measures of inflation expectations are reliable and accurate forecasts of future inflation. Recent work done in the ECB suggests that expectations of professional forecasters help improve inflation forecasts in the euro area and several individual member states. In this article we study the question on Finnish data. We employ a wide range of time series models that incorporate information on inflation expectations from Consensus Economics and compare findings to their counterparts that do not. Our findings suggest that including inflation expectations improves forecast performance modestly and results vary between models.

Responsiveness of consumers' medium-term inflation expectations: evidence from a new euro area survey

Maritta Paloviita (Bank of Finland), Ewa Stanislawska

Medium-term inflation expectations of the public are a key variable of interest to any modern central bank responsible for price stability. Using the new ECB Consumer Expectations Survey, this paper investigates revisions of medium-term inflation expectations. We provide robust evidence that consumers adjust medium-term inflation views in response to changes in short-term inflation expectations and, to a lesser degree, to changes in inflation perceptions. We find that the strong adverse Covid-19 shock contributed to an increase in consumer inflation expectations. We show that both higher financial literacy and higher trust in the central bank reduce responsiveness of medium-term inflation expectations, which supports their stability. Our results increase understanding of expectations formation, which is essential for medium-term oriented monetary policy.

Session 3d: Technology & Platforms (Poli)

Piecework and job search in the platform economy

Michele Cantarella (University of Helsinki), Chiara Strozzi

Unpaid work in the form of task search is a defining feature of jobs in the platform economy. Workers in these markets spend hours waiting for tasks to become available on the platform. Overwhelming empirical evidence seems to suggest that, once search activity is accounted for, these workers would end up working more than they wish to. Is this puzzling outcome explained by a backward-bending labour supply curve, or is it due to the uncertainty arising from job search? In this paper, we test these hypotheses making use of a new dataset on on-location and online platform workers from the EU, employing a difference-in-differences strategy to estimate a search-adjusted labour supply elasticity. We find that uncertainty in search plays a central role in inflating hours of work, revealing a positive inelastic wage elasticity for all types of platforms. On average, a unitary increase in search leads to a net loss of 13.4% in income. These findings suggest that unpaid work might be an endemic source of demand surplus even within traditionally regulated markets.

Coopetition, Standardization and General Purpose Technologies: A Framework and an Application

Jussi Heikkilä (LUT & University of Jyväskylä), Julius Rissanen, Timo Ali-Vehmas

We argue that coopetition and standardization are important dimensions in the analysis of general-purpose technologies (GPT). We synthesize ideas from GPT, standardization, and coopetition literatures and introduce a framework for empirical analysis of GPTs that are enabled by standards development and related coopetition. We apply this framework and analyze the role of coopetition in standardization of wireless cellular technology, which has been recently discussed as a GPT. We document that coopetition and standardization have been associated with increasing improvement, innovation spawning, and pervasiveness—the characteristics of GPTs—in the context of wireless cellular technology. The perspective of standardization and coopetition could shed further light on the technological progress and evolution related to emerging GPT candidates, such as artificial intelligence and blockchain.

Innovations and intangible-work biased technological change as drivers of productivity

Hannu Piekkola (University of Vaasa)

The paper analyses productivity driven by product-innovation duration, business (organizational and marketing) innovation, and intangible-work biased technological change (IBTC) using a full register-based employer-employee dataset of Finnish firms for the period 2000–2018 linked to Community innovation surveys (CIS). Innovations use as input occupational intangible capital evaluated from research and development (R&D), organizational and marketing capital (OC), and information and communication technology (ICT) labour. The panel approach enables innovations to be valued based on their durability and system analysis account for the endogeneity of productivity and innovation decisions. Also including the quality of intangible workers through IBTC enables the modelling of technological change with the quicker obsolescence of existing product innovations. In system analyses, product-innovation duration, business innovations and “innovation-labour-driven technical change” IBTC are all shown to improve productivity. However, technological change also shortens the duration of product innovation. Business innovation appears to be more continuous and incremental as found in the literature or more prone to ‘innovation theatre’ with marketing the firm as being innovative, whether true or not. Business innovation indeed benefits from the quality of OC labour in all kinds of organizational change or marketing innovations. Innovative management and marketing abilities differ from those needed for R&D. OC-worker biased IBTC is lower in value but has the potential for expanding both the intensive and extensive margin sets of ways to make new business innovations. Still, OC-IBTC has decreased since the financial crisis in Finland, whereas it has been the key to the high marginal factor productivity in many other Nordic countries. In advanced intangibles-intensive economies, policymakers must understand how future growth is achieved by IBTC and supporting intangibles in a broad sense and in growing knowledge intensive services. Overall, we can observe the significant role played by the quality of intangible workers in productivity, even in the period including the slow growth seen since the 2008 financial crisis in Finland. IBTC is an essential part of technological change and provide a new perspective on the widespread “productivity slowdown” following the financial crisis.

Täystyöllisyyden keinot hidastuvan kasvun oloissa ratkaisuna väestön ikääntymiseen ja julkisen velan hallintaan

Pekka Tiainen (University of Helsinki)

Historiallisena taustana William Beveridge näki täystyöllisyyden (enintään 3 prosentin työttömyydeksi) sosiaalisen hyvinvointiohjelman kulmakivenä, jonka hän ilmaisi vuoden 1942 raportissa. Okunin (1962) mukaan Beverdigen käyttämällä vertailulla, että avoimia paikkoja on yhtä paljon kuin työttömiä, ei saada mittaa täystyöllisyyden tasolle. Okunilla "täystyöllisyystavoite on ymmärrettävä pyrkimykseksi tuottaa maksimi ilman inflaatiopainetta." Tavanomainen inflaatiota kiihdyttämättömän työttömyysasteen (NAIRU, Non-Acceleration Inflation Rate of Unemployment) mittari kuvaa tätä inflaatiopainerajaa. Okun kytki tämän talouskasvuun kysyen, "kuinka paljon tuottoa talous voi tuottaa täystyöllisissä olosuhteissa" ja siten inflaation kiihtymättä. Okunilla "sodanjälkeisenä ajanjaksona keskimäärin jokaiseen yli neljän prosentin työttömyysasteen ylimääräiseen prosenttiyksikköön on liittynyt reaalisien BKT:n pieneneminen kolmella prosentilla." Tästä on seurannut pitkään käytetty sovellutus, että kasvun olisi oltava vähintään 3 %, ettei työttömyys kasvaisi vaan alenisi. Okunin laskukaavoja käyttäen raja keskimääräisessä kasvussa on ollut pitkään ja on tulevaisuudessa paljon alempi.

Esityksessä määritellään täystyöllisyys tilanteeksi, jossa inflaatiota kiihdyttämätön työttömyysaste on työttömien työnhakijoiden luvuin enintään 3 % eikä pitkäaikaistyöttömyyttä ei ole ja työllisyysaste on 78-80 %. Osa työllisyysasteen noususta toteutuu siten, että omavalintaisia lyhempiä työaikoja käytetään nykyistä enemmän. Lyhempien työaikojen osuuden vaihtelu yhdessä työvoiman tarjonnan vaihteluiden kanssa tasaavat vaihteluita työn kysynnässä. Esityksessä avataan eri keinoja -Lyhempien työaikojen laajempi käyttö -Työllistymisen subven-toiminen ja suora työllistäminen -Aktiivinen työvoimapolitiikka -Minimipalkkojen nostaminen siten, että työn tarjonta lisääntyy enemmän kuin työn kysyntä vähenee työn hinnan noustessa - Ulosottoloukun rajaaminen työn teon esteenä-Makrotalouspolitiikka -Tuottavuusteemat -Yhteys kestäväan kehitykseen. Analyysiä tuetaan pitkän aikavälin aikasarjatarkasteluilla ulottuen historiasta tulevaisuuteen samalla rakenteellisen muutosten selvittämiseksi.

Wage differentials across firm productivity distribution: rent sharing or worker sorting?

Arttu Kahelin (Aalto University)

I study how between-firms wage dispersion and worker allocation is related to between-firms dispersion in value added per worker. I use a large matched employer-employee data covering the Finnish private sector between 1995-2020 to explore graphical evidence and non-causal regression models. My findings suggest that some wage dispersion exists between more and less productive firms, but this dispersion mostly reflects worker sorting, as wage spillovers for incumbent workers from firm-specific value-added shocks are modest in comparison to between-firms wage differentials. The observed wage differentials between firms largely reflect wage dispersion among new hires rather than divergence of wages of incumbent workers over time. Studying this sorting in more detail, I find that the probabilities of staying in firms and becoming unemployed correlate with levels of value added per worker, but firm-to-firm moves contribute little to aggregate sorting. Finally, combining the wage and employment margins of firm adjustment, I find that adding outcomes for workers leaving their firms to the sample, estimated rent-sharing elasticity remains low as the role of negative outcomes is highlighted. Also, when faced by positive value-added shocks, firms increase their average wages through wages of new hires, whereas adjustment for incumbent workers is more modest and symmetric to the sign of the shock.

The Labor-market Effects of Service Offshoring: A Synthetic Control Approach with High-dimensional Microdata

Otto Kässi (ETLA)

I use novel high-quality survey data on firms' international sourcing activities combined with firm-level financial and linked employer–employee data to study the effect of services offshoring on wages and employment. To overcome the endogeneity related to reverse causality and omitted variables, I use microsynth, a variation of the synthetic control method specially developed for high-dimensional microdata. I find that offshoring firms pay higher wages for both high-skilled and low-skilled workers, and employ fewer FTE workers compared with a synthetic control, but these effects take several years to appear.

Parallel sessions IV: Friday 3.2.2023 10:00-12:00

Session 4a: Behavioral Political Economics: Biases and Polarization (Lumituuli)

Societal and individual conflict of distributive principles and preferences

Marco Lambrecht (Hanken)

Income distributions across countries vary substantially, and within countries, preferences for redistribution vary across the population. Moreover, they are correlated with characteristics such as political views, personal income, and beliefs. Equality is a furiously debated topic in public and in these debates simple justice principles are evoked to motivate and solidify positions. From an academic perspective, the clearest expression of such principles applied to income distributions are so-called social choice axioms. Building on the methodology of Nielsen and Rehbeck (2022), we ask from a positive perspective: What kind of sets of basic distributive social choice axioms people subscribe to? Which principles do their distributive choices respect? And if these are in conflict, how do people resolve such a conflict? Additionally, we correlate the preferred sets of axioms, preferred distributive choices, and the resolutions of conflict with demographics, political orientations, and redistributive policy preferences. We propose a basic typography of disagreement in society and investigate whether societal conflict is more or less pronounced when people have resolved their personal conflicts. We also shed light on differences across demographic groups. Our findings offer insights that may facilitate to better understand the optimal elicitation of redistributive and policy preferences in empirical research.

Partisan Political Beliefs and Social Learning

Peter Hans Matthews (Middlebury College & Aalto University), Andrea Robbett, Lily R. Colón
American politics is currently characterized by polarized beliefs about otherwise verifiable realities, a pathology often ascribed to the influence of “echo chambers” on like-minded partisans. Partisans will seek out the views of like-minded individuals for either instrumental reasons, that is, because co-partisans are presumed to know more, or for expressive reasons, to learn or confirm “partisan congenial” beliefs. We conducted an online experiment to characterize the demand for, and use of, social information about political beliefs. There is mistrust across partisan lines but also a willingness to consult social information in pursuit of “correct beliefs.” The further observation that those who do consult peers are not correct more often underscores the importance of reliable private information as a bulwark against some of the pernicious effects of echo chambers.

Emotions and Trustworthiness of Information

Marja-Liisa Halko (University of Helsinki), Marita Laukkanen, Henri Nyberg, Mikko Salmela

In the age of social media and evermore-complex economic and political issues, the polarizing role of information is growing. Misinformation designed to manipulate opinions and voting-decisions on biased or false premises has affected on election results in the US and Europe. With diverse and often conflicting information available, people need to choose which news sources to follow and what information to trust. In our study, we investigate whether the extent to which an individual trusts information is associated to emotions that information evokes, or to the magnitude of that individual's social and economic conservatism and populist attitudes. We hypothesized that there is self-serving bias in trustworthiness ratings and that the emotions experienced at the moment of receiving the information have an effect on that bias. To test our hypothesis, we combined a behavioral experiment with physiological measurement techniques (electrocardiogram, galvanic skin conductance, facial expression) that assessed emotional reactions to short statements presented to participants. We find, first, that true statements are rated more trustworthy than false statements, and second, that valence of a statement is positively associated with its trustworthiness, that is, the more positive the content of the statement is evaluated, the more trustworthy it is considered. In addition, we find self-serving bias in trustworthiness ratings; information that supports one's own political attitudes is considered more trustworthy.

The Behavioral Foundations of Model Misspecification: A Decomposition

Daniel N. Hauser (Aalto University), Aislinn Bohren

A growing literature in economics seeks to model how agents process information and update beliefs. In this paper, we link two common approaches: (i) defining an updating rule that specifies a mapping from prior beliefs and the signal to the agent's subjective posterior, and (ii) modeling an agent as a Bayesian learner with a misspecified model. The updating rule approach has a more transparent conceptual link to the underlying bias being modeled, while the misspecified model approach is 'complete,' in that no further assumptions on belief-updating are necessary to analyze the model, and has well-developed solution concepts and convergence results. We show that any misspecified model can be decomposed into two objects that summarize the biases it introduces: the updating rule captures how the agent interprets realized information, while the forecast captures how the agent anticipates future information. Any misspecified model induces a forecast and updating rule pair. We derive necessary and sufficient conditions for a forecast and updating rule pair to be represented by a misspecified model. This provides conceptual guidance for which model to select to represent a given bias. Finally, we consider two natural ways to select forecasts: introspection-proofness and naive consistency. We demonstrate how introspection-proofness places a natural bound on the magnitude of bias in an application with motivated reasoning, and how naive consistency impacts a firm's ability to screen consumers in a credit market application.

Who Benefits from Faster Public Transit?

Prottoy Aman Akbar (Aalto University)

Lower income commuters are more likely to ride and reside near public transit within cities, but do they also benefit more from faster transit travel? Combining survey data on travel behavior with web-scraped data on counterfactual travel times for millions of trips across 49 large US cities, I estimate a model of travel mode and residential location choice. I characterize the heterogeneity across income groups and cities in commuters' willingness to pay for access to faster transit and the expected increase in transit ridership in response to marginal transit improvements. I find that higher-income transit riders sort more aggressively into the fastest transit routes and are, on average, willing to pay more for faster commutes. Improvements in transit speed are most effective at generating transit ridership and welfare gains where transit is already fast (relative to driving), in cities with a greater share of rail-based transit and where the gains are larger for higher-income commuters. Transit improvements benefit lower-income commuters more where transit is relatively slow, in cities with more bus transit, and where the overall marginal gains are small.

Pedestrianization and Business Visits: Evidence from NYC Open Streets

Pablo Warnes (Aalto University), Timur Abbiasov, Iain Bamford

There are significant debates in urban planning on the use of road space in cities. Should (some) streets be pedestrianized? Critics suggest closing streets to vehicles can harm local businesses by reducing access. The effect of pedestrianization on business visits has been difficult to assess due to the lack of an appropriate experiment and lack of systematic data on foot traffic. We examine a unique recent experiment, New York City's Open Streets program, which closed hundreds of street segments to cars, and utilize new anonymized cellphone geodata to measure visits to businesses. Using a matched difference-in-differences design, we find small effects of the program on visits overall, with sufficient precision to rule out significant negative effects, contradicting critics' predictions. We find significant positive effects on visits for Open Streets further from the Central Business District, especially for restaurants and bars. For such businesses, we find a 14% increase in visits as a result of the program.

The Effects of Local Government Grants on Internal Migration

Max Toikka (Aalto University), Teemu Lyytikäinen, Sander Ramboer

Fiscal transfers to local governments are a widely used tool to level disparities in public services and local tax burdens. The efficiency and distributional effects of fiscal transfers crucially depend on their impact on households' location choices. Credible quasi-experimental evidence on the sensitivity of location choices to fiscal transfers is however missing. In 2015, the municipal grant system in Finland was reformed, changing the amount of grants municipalities received from the government. We use this variation to examine the impact of grants on internal migration decisions. Our event study estimates with municipality level data suggest that changes in grants have little or no effect of migration flows. Using population wide microdata we find that the change in municipality's grant per capita had a practically zero effect on the individual propensity to move out of municipality. The standard errors of the estimates are such small that we can rule out any economically significant effects.

Neighborhood Level Effects of Municipal Mergers

Tuukka Saarimaa (Aalto University), Oskari Harjunen, Eetu Kauria, Janne Tukiainen

We study the impact of municipal mergers on citizens welfare by comparing those Finnish municipalities that participated in a merger in 2009 to similar municipalities that did not merge using nearest-neighbor matching and a difference-in-differences approach. As an indicator for the willingness-to-pay to live in a merging municipality, we utilize micro-level house price data. We examine three factors. First, are mergers beneficial for the participating municipalities? Second, are the effects similar across participating municipalities? And third, do these effects vary between neighborhoods within the municipalities? We find that the welfare effects of the mergers are net negative, that smaller merging municipalities are made worse off by the merger, and that the negative impact is felt especially near the pre-merger centers of the smaller merging municipalities.

Session 4c: Financial Frictions (Takka)

Persistent misallocation or a necessary temporary evil? Micro evidence on zombie demographics from 6 European countries

Juuso Vanhala (Bank of Finland), Maurice J.G. Bun, Davide Fantino, Lovorca Grguric, Paloma Lopez-Garcia, Fernando Martins, Josip Raos

The persistent survival in the market of weakly performing firms, called “zombies” in the literature, may reflect stagnant productivity growth of incumbent firms, misallocation of resources or disrupted entry and exit of firms. In this study we perform an ‘autopsy’ of zombies and show that the fear for zombies may be largely unfounded. Our analysis uses representative firm-level data for six EU countries covering the period 2000- 2019. We study the entry and exit of firms into and out of zombie status, and decompose the zombie exit margin into exits out of the market (firm death) and exits to becoming healthy firms (recovery). We also consider firm growth during zombie spells. A closer look into firm-level data from 6 EU countries reveals a striking finding: one third of these allegedly distressed firms are in fact growing companies and two thirds recover from zombie status to become healthy firms again. Zombie-labelled firms are thus often not truly distressed firms but rather growing companies with temporarily weak performance measures. Congestion effects are found for both shrinking and growing firms conventionally labelled as zombies. This suggests that it may simply be a temporary excess supply of firms that squeezes the profits of all firms in the same sector, rather than misallocated resources. For policy recommendations, the true nature of firms labelled as zombies is important: providing life support (e.g. subsidies or low interest rates) to death-ripe firms is harder to justify than supporting temporarily unprofitable but recovering firms.

Taming the tides of capital - Review of capital controls and macroprudential policy in emerging economies

Anni Norring (Bank of Finland)

This paper gives an overview on the use of macroprudential policy measures (MPMs) and capital flow management measures (CFMs) by emerging economies, and reviews literature on the effectiveness of these measures in containing the effects of large and volatile capital flows. It investigates the determinants of the use of CFMs and MPMs as well as the differences between countries in which specific measures are employed. The main findings of the paper are the following: First, major EMEs tend to use both MPMs and CFMs more than AEs. Second, certain country characteristics appear to drive the use of certain policy measures. Third, the empirical evidence on the effectiveness of CFMs remains mixed. Fourth, there is indicative evidence that MPMs can contain the effects of capital flow volatility. Lastly, there is still little research into the interaction of CFMs and MPMs.

Cross-Country Variation in Economic Preferences and the Asset Composition of International Investment Positions

Mika Nieminen (University of Jyväskylä), Kamila Kuziemska-Pawlak

A stylized fact of international capital markets is that advanced countries tend to be long and developing countries short in risky assets (i.e., portfolio equity and foreign direct investment (FDI)). In other words, residents of advanced countries hold a larger stock of portfolio equity abroad than residents of developing countries, and firms in advanced countries have more foreign subsidiaries than firms in developing countries. This paper is the first to utilize a large-scale international survey on economic preferences to propose a behavioral explanation for the heterogeneity in the asset composition of international investment positions. We provide robust empirical evidence that countries with a high time preference (i.e., patience) or a high risk preference (i.e., risk-taking) tend to have a positive net international investment position and a positive net risky position. In addition, we show that countries with a high degree of negative reciprocity (e.g., willingness to punish for unfair action) tend to have a positive net FDI position. Overall, our findings suggest that preferences are important determinants of cross-country variation in net foreign asset positions.

Financial Constraints and Intergenerational Mobility of Income and Education

Niku Määttänen (University of Helsinki), Marko Terviö

We study the role of financial constraints for intergenerational (IG) mobility of income and education with a dynastic model where cognitive ability is exogenously and imperfectly inheritable and education provides a signal about it. The individual return to education is increasing in ability, but, under a tight borrowing constraint, educational choices are largely determined by inherited wealth. This constraints IG mobility and leads to a situation where many individuals with relatively high ability do not invest in education. We model “the onset of modernity” as a sudden relaxation of the borrowing constraint. It results in better information about who are the higher ability individuals and a tighter relation with underlying ability and education level. However, the resulting increase in IG mobility is mostly temporary. The release of financially constrained dynasties from inefficiently low level of education results in overshooting of IG mobility, which then begins to decrease as the economy reaches a new steady state, where education and income are more tightly determined by heritable ability and less tightly by inherited wealth. Due to the correlation of ability with parental income, the long run change in IG income elasticity is ambiguous.

General vs. Program-Specific Student Admissions Criteria

Tuomo Virkola (VATT)

We study the effects of general vs program-specific admissions criteria on applications, admissions and student outcomes . We leverage variation in selection criteria across programs that resulted from the Finnish student admissions reform.

Do informational frictions affect enrollment in public-sponsored training? Results from an online experiment

Esther Mbih (University of Turku), Aïcha Ben Dhia

Despite massive and increasing public spending in training for the unemployed, little is known about how job seekers decide to enroll in a training program. Decisions related to job training might be undermined by informational gaps, especially about program costs, enrollment procedures, and expectations of reemployment chances. This paper reports the results of a low-cost intervention aimed at testing for the existence of misinformation about training costs and returns, and its impact on enrollment. Partnering with the French Public Employment Services and the largest training provider in France, we sent 50,000 emails advertising training opportunities to job seekers in four regions of France in late summer 2016. We randomly added short messages on training costs, registration procedures, and training returns to the basic email template. We find that receiving an email with a message emphasizing training returns in terms of employment more than doubles the likelihood that job seekers call back the training center. However, callback rates are low in absolute value (less than one percent) and we detect no impact on enrollment one to six months after the intervention. We provide suggestive evidence that the effects on callbacks are driven by increasing salience of basic information about training rather than by belief updating.

School Tracking and Geographic Mobility: Evidence from Finland

Ilpo Kauppinen (VATT), Panu Poutvaara, Teodora Tsankova

There is wide cross-country variation in the relative importance of general versus vocational training at the secondary level of education. Additionally, there has been substantial within-country variation over time in the types of skills taught in schools. De-tracking reforms postpone the split of students into a general and a vocational track. In practice, they harmonize curriculum taught and offer more general training to students who would have otherwise ended up in a vocational track. Such reforms were implemented widely across Europe in the 1970s and have received significant attention in the economics literature. Despite the vast body of research on education and migration, the impact of early versus late tracking on geographic mobility is a question that has not been addressed. We aim to fill this gap in the literature by studying a reform implemented in the 1970s in Finland, which postponed the age of tracking from 10/11 to 15/16. Our empirical strategy exploits its staggered implementation across Finnish regions using administrative data covering the period 1970-2020. Preliminary results will be presented.

Education, Gender and Family Formation

Hanna Virtanen (ETLA), Kristiina Huttunen, Mikko Silliman ja Tiina Kuuppelomäki

A growing body of research explores the causal effects of education choices on family formation and fertility. Still, the majority of these papers focus on assortative mating at the upper-tail of the educational distribution, and there is little evidence on whether these results extend to lower education levels. Furthermore, although having a child is a couple-level decision, research has primarily focused on the effect of female education on fertility and the timing of fertility and research on the effect of male education remains very limited. We contribute to the literature by exploiting three parallel regression discontinuity designs to study the effects of access to secondary education on fertility and family formation for both men and women. More specifically, we use admission cut-offs in over-subscribed programmes and study the effect of gaining access to a) any secondary school vs. no access, b) general vs. vocational school, and c) selective vs. less selective general school. Our results will bring new important evidence on the role of expansions in school access in stimulating demographic transition.

Session 4e: Family Economics 2 (Y405 / Undergraduate Centre)

Evolution of the Child Penalty

Claudia Troccoli (Aalto University), Kristiina Huttunen

Have costs of motherhood changed over time, and how much have changes in family policies contributed to these changes? This paper presents evidence on the evolution of the child penalty in Finland over the last 50 years. During this time, Finland has gone through several family policy reforms that radically improved the conditions of new parents. Mothers went from having no paid maternity leave at the beginning of the 1960s to being granted one of the most generous and longest parental leaves in the world. Exploiting population-wide administrative records from 1970 until today, we illustrate how changes in the child penalty have evolved alongside changes in family policies and changes in selection into motherhood. The child penalty in Finland has decreased by almost 60% since the 1970s, from around 60% to 25%. However, most of the decline happened in the first ten years, during which both the availability of formal subsidized day care and the length of paid parental leave expanded significantly. The child penalty stopped its decline in the second half of the 1980s, at the same time as the introduction of the "child home-care allowance", a subsidy that encourages mothers to stay home with their children until the youngest child's third birthday.

Paternity leave expansions and family structure

Lauro Carnicelli (Labore & University of Helsinki)

Parental and paternity leave policies have been used in developed countries to promote gender equality and curb the child penalty. This article uses Finnish registry and social security data in a regression discontinuity setting to investigate if paternity leave expansion can affect marital stability and future fertility. The Child's due date is used as a running variable, since it is not subject to precise manipulation by parents. The paternity leave reforms from 2001, 2003, and 2010 were analyzed. Preliminary results suggest that these policies had no significant impact on marriage stability. However, the 2010 reform reduced the short run fertility since the distance between siblings increased by around 0.23 years.

Effects of paternity leave reforms on the labour market and gender inequality

Terhi Ravaska (VATT), Lauro Carnicelli

"Using Finnish registry and social security data in a RDD framework we investigate the causal relationship between paternity leave reforms and the labour market outcomes of fathers and mothers. The Child's due date, which is random and out of the control of parents, is used as a running variable to create our control and treatment group.

We study three parental leave reforms, from 2001, 2003, and 2010. The 2001 reform made the timing of paternity leave more flexible. The 2003 reform increased the total leave in 12 days while making the timing of the leave quite rigid. The last reform also increased the fathers' earmarked leave by 12 days but also gave families much more freedom to choose the timing of the paternity leave. The goals of these reforms were to increase fathers' participation on childcare and to reduce gender inequalities since mothers would almost exclusively take childcare responsibilities at the time. We investigate if the policies were successful by computing the short and long run effects of the reform on parents' employment rate, earnings, and how earnings are distributed within the household.

The results suggest that flexibility is an important element to increase the take up of paternity leave. These policies were not effective to reduce gender disparities on the labour market. However, the 2010 reform increased the short-run mothers employment rate by 7%."

Motherhood and career penalty - causal estimates using medically induced ovulation treatments

Tapio Räsänen (Kela)

This paper uses medically induced ovulation treatments to identify the causal effect on labour earnings of giving birth to the first child. Results show that fertility greatly reduces employment in the short run and stagnates wage growth for one to four years when compared to childless women. Fewer wage supplements and an increase in part-time work explain some of the career penalty measured in the earnings register. For mothers, cumulative earnings and hours worked decrease when a child is born, but catch up to childless women 10 to 15 years after childbirth.

Session 4f: International Shocks (A2 / Undergraduate Centre)

Understanding the Gains from Wage Flexibility: The Exchange Rate Connection Revisited

Petteri Juvonen (University of Helsinki)

Using a New Keynesian open economy model, Gali and Monacelli (2016) show that the effectiveness of labor cost reductions as a means to stimulate employment is much smaller in a fixed exchange rate economy than in a flexible exchange rate economy, and an increase in wage flexibility often reduces welfare, more likely so in an fixed exchange rate economy. Their findings call into question the common view that wage flexibility is particularly desirable in a fixed exchange rate economy. However, I obtain opposite results using the same model but with empirically plausible changes to monetary policy, to the parametrisation, to the source of nominal rigidity and displaying the welfare losses in levels instead of relative to those under the baseline parametrisation. My results suggest that the common view on the importance of wage flexibility in a fixed exchange rate economy holds.

Cyclicalities of the trade balance and the transmission of international shocks

Maria Eskelinen (University of Oxford)

This paper studies the effect of heterogeneity in countries' exports on their business cycle behavior. Earlier literature has established that generally, there is a negative correlation between a country's GDP and its trade balance. However, I show that after the 1980s and 1990s, the correlation becomes positive for many countries. The countries that experience this behavior tend to concentrate on exporting investment goods. The larger cyclicalities of investment goods compared to consumption goods can explain this behavior when countries reach a high level of production specialization. For a small open economy that exports a large share of its GDP, this can also lead to a more volatile GDP. I outline a model which can account for this behavior, leading to a different direction of the correlation between trade balance and GDP depending on the content of exports.

Gallup Democracy in Exercising the NATO Membership Option: The Cases of Finland and Sweden

Vesa Kanninen (University of Helsinki)

The article asks whether the exercising of the NATO membership option is justified for Finland and Sweden in the light of their geopolitical state after Russia's attack on Ukraine. It was the Gallup democracy, which launched the political moves toward the membership. In both countries, the majority of people turned to favor the membership within 2–3 months. Finland activated first. Sweden was fast in catching up with the Finnish process. The theory of option pricing is employed to analyze the optimal timing of exercising the option when the uncertainty regarding the value of the membership is rapidly diluting. The Turkish intervention in the membership process after the membership applications of Finland and Sweden were delivered suggests a bargaining phase once the application is delivered. Finally, the effects of the Gallup surveys on the political equilibrium are analyzed in a voter–politician model.

Bad Luck or the Euro?

Elina Berghäll (VATT)

Economic growth in Finland has fallen behind its Nordic neighbors and several competitors after the global financial crisis. A key factor behind the fall has been a decline in productivity growth. While various explanations have been put forward, little has been said on the role of the exchange rate regime in the fall. By applying the synthetic control method, this paper aims to fill that gap.

Session 5a: Economic Effects of Covid-19 (Lumituuli)

Macroeconomic Impact of Endemic COVID

Antti Ripatti (University of Helsinki), Michal Andrle, Liisa T. Laine

Repeated COVID infections reduce the amount of working hours substantially. In addition, long COVID causes persistent damage to work-ability and reduce labor supply. We use a suite of (global) macroeconomic models for policy analysis to quantify the general equilibrium impact of aggregate variables. We look forward by constructing scenarios for endemic COVID and for the frequent arrival of new variants that escape immunity. Reduction in the labor supply results a rise in real wages and a substantial and persistent decline in consumption, investment and output. Many mitigating measures such as repeated vaccination and masks generate substantial economic benefits. Our results are highly sensitive to the persistence of the long COVID. Therefore, finding an effective cure would be highly cost-effective since macroeconomic benefits are very high.

Costs of Job Loss during the COVID-19 Pandemic

Hanna Pesola (VATT), Kristiina Huttunen

This paper presents evidence on the costs of being furloughed during the COVID-19 pandemic using Finnish administrative data from 2019-2022. We document substantial earnings losses for workers who were furloughed during the pandemic. Earnings of furloughed workers dropped by 40% initially and remain 6% lower than non-furloughed workers' earnings 18 months later. Furloughed workers are over 10% less likely to remain with the same employer than non-furloughed workers, and furloughed service sector workers are 10% less likely than non-furloughed workers to stay in services. Gender and family status do not appear to be related to the earnings losses of furloughed workers. Compared to short-term earnings losses in the job displacement literature, the earnings losses of workers furloughed during the pandemic remain modest.

School closures and student achievement, evidence from a high stakes exam

Roope Uusitalo (University of Helsinki), Marc Riudavets-Barcons

We examine the effect of school closings during Covid-19 pandemic on student outcomes in the Finnish Matriculation exam. We exploit variation in the length of school closure periods across schools during the fall term of 2020 and use simple differences-in-differences approach to estimate the effects of school closures before exams on the exam results in math and Finnish. According to our estimates, school closures had little or no effect on the exam results.

Do risk and time preference explain household's demand for microinsurance? A lab in the field approach

Anustup Kundu (University of Helsinki & UNU-WIDER)

Microinsurance is one of the key instruments in addressing the risk and vulnerability of economic shocks for the low-income households in the global south. However, microinsurance take-up globally is puzzlingly low. The question is why? Using a primary panel data with incentivized lab-in-the-field experiments conducted in five rural villages in India, the paper first examines the nature of risk and time preference of the individuals and then examines the effect of risk and time preference, and the effect of prior shocks on microinsurance take-up. The findings highlight a few key insights. First, I find that majority of the individuals are not only risk averse, but they are loss averse and overweight small probability events but underweight large probability events. Second, I find that majority of the subjects are present biased. Third, I find that impatient individuals are less likely to buy any insurance while risk seeking individuals and individuals who experienced a prior shock such as death in the family are more likely to buy any insurance. Finally, I find that individuals who are loss averse and underweight large probability incidents are less likely to take up any microinsurance.

Loan Repayment Flexibility and Firm Profits - Experimental Evidence from Uganda

Miri Stryjan (Aalto University), Selim Gulesci, Francesco Loiacono, Andreas Madestam

We study the effect of increased loan repayment flexibility on firm profits in a sample of 1,600 borrowing SMEs in a low-income country. Growing a business is associated with risk taking and learning, and can also entail indivisible start-up costs. Standard debt contracts available to many poor micro-entrepreneurs stipulate a constant repayment stream and caps on the initial loan size. Offering more flexible loan contracts may better stimulate profitable investment and business growth by relaxing credit and insurance constraints. Saving constraints are also likely to mediate the effects of specific types of flexibility. We designed an RCT where randomly chosen Ugandan firm owners, accepted for a loan, were offered amended contracts designed to alleviate credit or insurance constraints by introducing different kinds of flexibility in the repayment schedule, or a bigger initial loan amount. Treated firms, as well as a control group, were followed over a period of 5 years. Initial results suggest that increased flexibility in loan repayment schedules leads to higher profits after 5 years, and that the optimal type of flexibility differs between male and female entrepreneurs. We do not find support for binding credit constraints. Increasing repayment flexibility did not affect loan default.

Income inequality in South Africa: evidence from individual-level administrative data

Amina Ebrahim (UNU-WIDER), Chandré Jacobs, Murray Leibbrandt, Jukka Pirttilä, Marlies Piek

We use individual-level tax administrative data to estimate income inequality for formal sector income earners in South Africa. The tax data offers better coverage of the top end of the distribution, allowing us to track changes in the income shares and sources of income for top income groups over time. We exploit the longitudinal nature of the tax administrative data to examine income mobility across the distribution and, in particular, the top income groups. Our results indicate that income inequality for formal sector earners in South Africa remained stable over the 2011 – 2018 period. We also find that mobility for formal sector earners is low, particularly at the top end.

The effects of (un)anticipated monetary policy: Evidence from a noninvertible SVARMA model

Juho Koistinen (University of Helsinki)

A novel method for the joint estimation and identification of conventional and anticipated monetary policy shocks is introduced. The presence of an anticipated shock, such as forward guidance, renders the model dynamics noninvertible and may invalidate the traditional SVAR based methods. To address this issue, invertibility-robust identification methods have gained popularity recently. Contrary to the current standard practice, we highlight that the proposed identification strategy based on noninvertible structural VARMA models does not require external information, such as instruments for the monetary policy shock. Instead, non-Gaussianity of the error process is necessary to distinguish between invertible and noninvertible models, with this assumption solving also the standard structural identification problem. The main findings are: First, when purged from the anticipation component, the effects of a conventional monetary policy shock are less pronounced. Second, the anticipated monetary policy shock is shown to have large effects on the real activity in line with the current literature. These results lend support to the conclusion that the unconventional monetary policies are effective in stimulating the economy. Robustness to alternative empirical specifications and sample spans is checked with the main conclusions remaining unchanged.

Coherence without Rationality at the Zero Lower Bound

Nigel McClung (Bank of Finland), Guido Ascari, Sophocles Mavroeidis

Standard rational expectations (RE) models with an occasionally binding zero lower bound (ZLB) constraint either admit no solutions (incoherence) or multiple solutions (incompleteness). This paper shows that deviations from full-information RE mitigate concerns about incoherence and incompleteness. Models with no REE admit self-confirming equilibria involving the use of simple mis-specified forecasting models. Completeness and coherence is restored if expectations are adaptive or if agents are less forward-looking due to some information or behavioral friction. In the case of incompleteness, the E-stability criterion selects an equilibrium.

Identification of fiscal SVAR-IVs in small open economies

Sakari Lähdemäki (ETLA), Henri Keränen

We propose a novel instrumental variable strategy to identify fiscal shocks in small open economies. Under the assumptions that unexpected changes in trading partners correlate with output of an open economy (relevance) and unexpected fiscal shocks of a small economy are unrelated to its trading partners' forecast errors (exogeneity), we use forecast errors of trading partner economies to proxy unexpected shocks in domestic output. We show that this instrument is relevant and find suggestive evidence that it fulfills the exogeneity assumption better than instruments currently applied in literature. Using this IV strategy, we study the effects of fiscal policy in Canada and euro area small open economies.

Contracted Labor Mobility and Self-selection on Job Match Quality

Juho Alasalmi (University of Konstanz and Pellervo Economic Research)

Migrants often observe their wages in the source and destination locations before their migration choice. The literature on migrant selection has overlooked this possibility of only migrating after successful job search. With wage dispersion, migration choices are then not based on source and destination location wage distributions but on specific realizations from these distributions. Theoretically, I extend the Roy-Borjas migrant selection model by wage dispersion in source and destination locations and observability of source and destination wage realizations prior to migration choice. This model of selection of contracted migrants predicts negative selection on source and positive selection on destination job match quality. Empirically, using Finnish administrative data, I compare contracted migrants to workers who similarly contract a job outside their location of residence but choose to commute. Residuals from wage regressions are interpreted as a measure of job match quality, albeit confounded by unobservable skills and the main challenge is to distinguish selection on job match quality from selection on unobservable skills. Mobility costs amplify selection and comparing contracted migrants and commuters, two arguably comparable groups facing different costs of mobility, identifies selection on job match quality as predicted by the theory.

The Impacts of Graduating into a Recession on Intergenerational Mobility

Jerry Montonen (Aalto University), Martti Kaila, Emily Nix

How do macroeconomic conditions at the start of one's career affect intergenerational mobility? We find that amongst university graduates having wealthier parents mitigates the large and persistent negative effects of graduating into a recession, leading to greater persistence in the correlation between parental and child ranks within this group. However, we find that secondary and advanced vocational school graduates, where many more children of lower-income parents attend and graduate, do not experience the same persistently negative impacts of graduating into a recession. Moreover, these groups also receive less of a boost from having wealthier parents during bad times. As a result, we show that the impact of bad macro-economic conditions at the start of the career on intergenerational mobility is negligible once we account for all three major education categories. We propose differential human capital accumulation on the job as a possible explanation for these results. We find that university graduates experience much steeper earnings profiles in the first five years on the job compared with secondary and advanced vocational school graduates. We write a simple model of human capital accumulation on the job with macro-economic shocks and parental investments and show through a simulation using our parameter estimates that this model can explain our main findings.

Ciprian Domnisoru (Aalto University), Pengpeng Xiao, Arnaud Maurel , Andrew Shephard

A substantial share of the workforce is employed in an occupation that doesn't match their schooling attainment and/or field of study. A large body of evidence points to negative effects of vertical (overeducation) mismatch on worker earnings, but less is known about the consequences of horizontal (field of study) mismatch for workers and firms, and in general about the interplay between field of study and occupational choices. In this paper, we develop an empirical framework to analyze the determinants and labor market consequences of education-occupation mismatch. We build up a dynamic model of schooling and labor market transitions that incorporates search frictions, preferences, and sorting on major/occupation-specific ability. In estimation, we make use of rich Finnish employer-employee registers, which contain detailed field of study and occupation data. This allows us to advance understanding of the determinants and consequences of horizontal (field of study) mismatch for individuals and firms, and conduct counterfactual analyses of the labor market effects of policies aiming to increase the number of students in specific fields of study.

Session 5e: Labor & Health (Y309b / Undergraduate Centre)

How does the COVID-19 pandemic shape behaviour in crowdsourcing? The role of online labour market training

Evangelos Mourelatos (University of Oulu), Jaakko Simonen, Simo Hosio, Daniil Likhobaba, Dmitry Ustalov

The outbreak of the COVID-19 pandemic and the associated lockdown measures have been a shock to market systems worldwide, affecting both on supply and demand of labour. Intensified by this pandemic-driven recession, online labour markets are in many ways at the core of the economic and policy debates about their technological innovation, which could be used as a way of economic reform and recovery. In this work we focus on crowdsourcing which is a specific type of online labour. We apply a unique dataset of labour data to investigate the effects of online training, a policy that was provided to the requesters by the platform during the Covid-19 period. Our findings suggest that workers indirect finance on-the-job online training by accepting lower wages during the pandemic. By utilising a difference in difference research design, we provide also causal evidence that online training results in lower jobs' completion time and probability to be discontinued. Our findings show that both employers and employees in our online labour context reacted to the pandemic by participating in online labour procedures with different risk strategies and labour approaches. We contribute to a better understanding of how alternative labour markets react to external shocks.

The Effects of COVID-19 Pandemic on (New) Life Insurances

Olli Ropponen (ETLA), Tero Kuusi, Tarmo Valkonen

COVID-19 pandemic has increased the mortality risk especially among older individuals. This has caused many individuals to consider the adequacy of their protection against the monetary losses following from a death. While the social security system in each country automatically provides only partial shelter against the monetary loss associated with premature death of the breadwinner, there remains a demand for the voluntary life insurances, and it is likely to increase as a response for an increased death risk. This paper studies empirically how the life insurance behavior changed as a response to COVID-19 pandemic in Finland.

We focus on the new life insurances and employ the high-quality data including information on existing life insurances, new life insurances by date, the background characteristics of a person and his/her household, the number of covid-19 infections, the number of deaths and the number of Google searches on covid-pandemic, deaths and life insurances. In addition to the timely variation, we also have information about the geographical variation on the severity of the pandemic.

Health Effects of a Youth Labour Market Activation Policy

Kaisa Kotakorpi (University of Tampere), Caroline Hall, Linus Liljeberg, Jukka Pirttilä

We examine the health effects of a labor market activation policy, the Youth Job Guarantee, implemented in Sweden in 2008. To estimate the causal effects of this policy on health, we implement an RD-design using the age-eligibility threshold of the policy, together with detailed administrative data on health outcomes including measures for mental health. Our preliminary results indicate very small positive effects on health one year after the start of the unemployment spell.

Session 5f: Environmental Economics 2 (Poli)

Regional distribution of Finnish oil-boiler subsidies

Jouni Räihä (SYKE), Santtu Karhinen, Sampo Vesanen

We examine the distribution of Finnish oil-boiler replacement subsidies based on a dataset of 16997 observations from Finland's Centre for Economic Development, Transport and the Environment. The examination considers issues beyond climate impacts, analyzing whether the use of the instrument exacerbates or alleviates regional development differences. The detached-house-only support scheme is a streamlined lump-sum grant paid after a change to an environmentally friendly heating system, which could alleviate equity impacts. We examine the realized distribution based on the geographical spread of the subsidy applications. The study employs a regression analysis, where the relative distribution of applications per amount of oil boilers in the area is explained by regional income, employment, education level, attitude proxies and the other grant admissions in the vicinity. We contribute to the existing literature with a considerably finer granularity of the distribution, with examination done from the municipalities all the way down to the grid-database level

Assessing residential property prices and biodiversity trade-offs: The case of onshore wind power in Finland

Liisa-Maria Linnala (University of Helsinki)

The construction of wind power has accelerated strongly in Finland over the past few years, and the share of wind power in electricity production is expected to continue to increase due to both EU-wide and national climate targets. Construction of wind power plants has its benefits, but can also result in habitat loss and fragmentation. This study considers the optimal placement of wind power plants. First, we use real estate transactions from Finland between 1990-2020 and estimate a difference-in-differences (DID) model to study the effect of wind power on residential property prices. Second, we use spatial land cover data to study the effect of wind power construction on habitat loss. According to our preliminary results, we find no clear evidence that wind power construction is associated with residential property prices.

Heterogeneous preferences for short-term hydropower regulation regimes and effects

Enni Ruokamo (SYKE), Artti Juutinen

Hydropower is a low emission and flexible electricity generation form that is also linked with various negative externalities. This study explores public preferences for policies aiming to reduce short-term regulations of hydropower in the Kemijoki River. To study this, we utilize data from a discrete choice experiment conducted in 2021. The results show that while people, on average, value improvements in recreational use, fish stock and ecological state, they dislike potential increases in CO2 emissions. At the same time, we observe clear taste variation, and the latent class analysis reveals four groups with differing preferences. The first group (28%) includes individuals who prefer current regulation regime. Individuals in this group are likely to be older and not interested in fishing. The second group (22%) values higher restrictions on short-term regulation and improvements in recreational possibilities. Individuals living in the Kemijoki watershed area and those who boat are more likely in this group. The third group (17%) prefers very severe restrictions on short-term regulation, values improvements in the local attributes (i.e., recreational use, fish stock and ecological state) and dislikes any increases in emissions. This group consists of individuals who are less likely to fish or do silviculture. The reference group (33%) prefers particularly improvements in the local attributes but are not sensitive for increases in emissions or electricity bill.

Parallel sessions VI: Friday 3.2.2023 15:00-17:00

Session 6a: Public Procurement (Lumituuli)

Trade frictions in European public procurement

Otto Toivanen (Aalto University), Jo van Biesebroeck, Saso Polanec

30 years after the establishment of the European Economic Area, cross-border trade in public procurement is still only a small fraction of all public procurement. We estimate structural gravity equations for regular trade and public procurement trade separately for goods and services distinguishing between border and distance effects. We perform counterfactuals based on the Eaton-Kortum (2002) model investigating the importance of geography-related and communications-related trade costs. According to our preliminary results, public procurement imports would increase by 35% if geographic trade costs in public procurement were similar to those in regular trade. Using English language procurement documents in all Member States would increase imports by 33%.

Understanding lack of competition in public procurement

Mitri Kitti (Aalto University), Ari Hyytinen, Essi Kujansuu, and Janne Tukiainen

We study theoretically and experimentally the role of entry costs and the number of potential bidders in determining the key public procurement outcomes: the number of actual bidders, bids, efficiency and welfare. We analyze how the effects depend on the extent of bidders' rationality. With k-level thinkers, the policy maker should focus more on increasing the number of potential bidders, whereas with rational bidders decreasing the entry costs is relatively more important. Bidder behavior in the laboratory is somewhat more in line with k-level thinking.

Organisational Culture in Public Procurement

Susmita Baulia (University of Turku), Janne Tukiainen, Jan Jääskeläinen

We study the extent of organisational culture in public procurement by using comprehensive and rich data from Finland and Sweden. We show that key procurement design features, such as using scoring as an allocation rule, accepting multiple bids, announcing engineer estimate of contract, and allowing multiple purchasing options in tenders, tend to have a significant lack of variation across different tenders for different industries within a procuring authority. This argues for the presence of strong organisational culture within the public procurement offices in their practices of designing tenders and awarding contracts suggesting one channel of inefficiency in optimal contract design. We find suggestive evidence of this culture being stronger in the case of smaller procuring offices, further suggesting that administrative burden can lead culture to become more rigid and possibly have adverse effects on procurement outcomes.

Centralized Procurement and Favoritism

Joosua Virtanen (Hanken), Susmita Baulia, Janne Tukiainen

Organizing public procurement (PP) as efficiently as possible is in the primary interest of the public economy. In this paper we focus on one particular procurement implementation, centralized public procurement, which is argued to be a tool to increase efficiency in PP. We provide evidence on how centralization works in particular industries in Finland and investigate whether it can be used to mitigate harmful distortions in competition like favoritism. In particular, we employ a RDD covariate balance test to detect for collusion or favoritism in PP.

Session 6b: Economics of Talent (Palaver)

Job Amenities in the Market for CEOs

Ran Sun Lyng (Tampere University), Arnaud Dupuy, John Kennes

We derive structural estimates of the value of job amenities in the market for CEOs using a two-sided multidimensional matching model. Using matched CEO-firm data from Denmark, we estimate the model using maximum likelihood, accounting for CEO and firm fixed effects. We find that CEOs have preferences for two important amenities. The "legacy" amenity explains why there is low mobility in the CEO market and why outsider CEOs earn a wage premium over insider CEOs. The "empowerment" amenity explains why CEOs are willing to sacrifice significant pecuniary income to manage high equity firms. Counterfactuals illustrate how job amenities affect CEO assignment and compensation.

Acquiring talent: Ownership or Employment?

Henna Busk (Pellervo), Satu Nivalainen ja Olli-Pekka Ruuskanen

This study provides new evidence on employee ownership offers. We use unique linked owner-employer-employee data from Finland over the years 2007-2018 and examine what individual- and firm-level factors influence the probability of receiving ownership-share already during recruiting. The results suggest that ownership is used to attract and retain skilled workforce. Employee ownership is offered to a limited group of individuals who are typically highly educated men working in small and young firms at the service sector. These individuals have previously worked in high-productive firms, thus enabling inter-firm knowledge-transfer, and they seem to be more risk tolerant than employees in general.

Violence

Kristiina Huttunen (Aalto University), Abi Adams-Prassl, Emily Nix, Ning Zhang

The #MeToo movement has demonstrated that assaults between colleagues are an internationally relevant phenomenon. In this paper, we link every police report in Finland to administrative data to identify assaults between colleagues, and the economic consequences for victims, perpetrators, and firms. This new approach to observe when one colleague attacks another overcomes previous data constraints limiting evidence on this phenomenon to self-reported surveys that do not identify perpetrators. We document large, persistent labor market impacts of between-colleague violence on victims and perpetrators. Male perpetrators experience substantially weaker consequences after attacking female colleagues. Perpetrators' relative economic power in male-female violence partly explains this asymmetry. Turning to broader implications for firm recruitment and retention, we find that male-female violence causes a decline in the proportion of women at the firm, both because fewer new women are hired and current female employees leave. There is no change in hiring from within existing employees' networks, ruling out supply-side explanations for the reduction in new female hires via "whisper networks". Management practices play a key role in mediating the impacts on the wider workforce. Only male-managed firms lose women. Female managers do one important thing differently: fire perpetrators.

Session 6c: Macro & Labor (Takka)

The use of policy tools in EMEs during COVID-19

Antti Raukola (Bank of Finland), Anni Norring

Emerging economies have been very active in developing and implementing their policy frameworks for macroeconomic policy tools that can be used to stabilize the economy in case of adverse shocks. These tools include especially macroprudential measures, which are particularly actively used by EMEs. This maturing of macropolicy frameworks has given the policy makers in EMEs more tools in the macro stabilization toolbox. This paper investigates the use of macropolicy tools in EMEs during, the COVID-19 pandemic, an adverse exogenous shock of extreme proportions. It finds that EMEs indeed were active in adjusting their macroeconomic policies in response to the rapid deterioration in the macroeconomic and financial environment. Some of the measures have been rolled back, but the differences in the policy stance compared to pre-pandemic remain.

Beveridgean unemployment gap in Finland

Henri Keränen (Talouspolitiikan arviointineuvosto), Niklas Gäddnäs

Following a recently proposed sufficient statistics approach that builds on the socially optimal trade-off between vacancies and unemployment along the empirical Beveridge curve, we study the efficient rate of unemployment in Finland and a number of other European countries. The resulting Beveridgean unemployment gap indicates that the Finnish labor market is consistently too slack with large inefficiencies during economic downturns.

Building the Education Revolution: The Employment Effects of Fiscal Stimulus in Australia

Juha Tervala (University of Helsinki), Timothy Watson

This paper estimates the causal impact of the Great Recession-era Building the Education Revolution (BER) school infrastructure stimulus program on labour market outcomes in Australia. The evidence suggests that the program provided value for money, with costs per job-year saved most likely below 8,500(US 8,000) on average between 2009 and 2012. In 2009, the main year of program impact, roughly one third of employment benefits related to lowering unemployment, and two-thirds reduced labour force exit. Unemployment reductions were concentrated amongst men, while program effects on employment appear more equally distributed by gender than would be anticipated based on the gender composition of the construction industry. Employment benefits were highly concentrated amongst 25 to 34 year olds, were not greater in regions experiencing higher unemployment at the outset of the program.

Session 6d: Business & Entrepreneurship (A2 / Undergraduate Centre)

A Survey on Finnish Cooperative: business performance, challenges and sustainable mindset

Yi Zheng (University of Helsinki)

In this article, We present an interdisciplinary study on Finnish cooperatives: evidence from 131 cooperatives of different sizes and in different industries. With the help of a survey, we report the past and current state of Finnish cooperatives extensively including business development, governance and management, sustainable investment, financing methods and utilization of information technology. We also address the challenges the cooperatives faced under the global competitiveness, the implementation of sustainability and corporate social responsibility guidelines, and the Cooperative Act reform in 2013. We report how the cooperatives have utilised the new rules of the Cooperative Act of 2013. Finally, We find out what factors the cooperative management takes into account in business decision making. We study whether and to what extent sustainability-oriented mindset affects cooperatives' business operation and development.

Entrepreneurial Talent and Intangibles Explaining High-Growth Firms

Antti Norkio (University of Vaasa & Pellervo Economic Research), Hannu Piekkola

The paper examines how entrepreneurial talent and intangible capital (IC) impact high growth. IC is separated to entrepreneurial and labor-based R&D, organizational capital (OC), and information and communication technology (ICT). Intangibles are derived from intangible-related entrepreneurial income and labor costs in a full, register-based unbalanced panel dataset for Finnish firms. The results show that knowledge-intensive high-growth firms need entrepreneurial talent, which is driven by entrepreneurial intangibles and experience for skilled and unskilled entrepreneurs. Sectoral analysis confirms that the results also apply when a larger set of top high-growth firms is considered. Labor-based intangible capital is another important factor for high growth. High-growth knowledge-intensive firms thus depend heavily on innovative workers and entrepreneurs. Intangible capital and knowledge are especially important for high-tech manufacturing and knowledge-intensive services. High growth persists over the longer run, especially in knowledge-intensive services.

Women Entrepreneurs - Push and Pull Factors

Carita Mirjami Eklund (University of Vaasa)

Entrepreneurs channel technological innovations, drive economic growth, and even shape society. Therefore, we should not only understand who becomes an entrepreneur but also why and how policymakers could support the process of becoming an entrepreneur. The share of women of total entrepreneurs is increasing and is currently approximately 39% both in the U.S. and Finland. Female entrepreneurs differ from their male counterparts in various ways: they represent a wider range of backgrounds, work in industries with little male representation, and find that entrepreneurship is a source of happiness in their lives. Women also encounter different challenges than men do when establishing their own business, including difficulty in accessing mentorship and networks and cultural bias in self-assessment. With in-depth interviews of women entrepreneurs in town in the US, I look at how social and human capital help women in establishing a business and in business survival over the covid crises. According to the preliminary results, creativity and social capital are some of the important factors.

Lost Mind, Lost Job? Unequal Effects of Corporate Downsizings on Employees

Edvard Johansson (Åbo Akademi), Petri Böckerman, Mika Haapanen

We analyze whether employees with diagnosed mental health disorders have a higher probability of being laid off during corporate downsizing. Our analysis is based on nationwide administrative data on all private sector firms and their employees in Finland over the period 2005–2017. We focus on firms with at least 20 employees that lay off at least 20% of their total workforce between two consecutive years. We estimate whether those who have been laid off have more diagnosed mental health disorders before downsizing happens than those who have not been laid off. In our baseline specification, controlling for a rich set of employee characteristics, we find that having had any mental health disorder diagnosis in the three years that preceded the downsizing increases the probability that an employee is laid off by 6 percentage points. The results highlight that those with underlying mental health disorders are more vulnerable to losing their jobs, even in the event of a mass layoff.

Age at Parental Death and Mental Health

Mika Haapanen (University of Jyväskylä), Petri Böckerman & Christopher Jepsen

This paper studies the importance of the age at parental death on children's mental health at adulthood. We use nationwide register-based data for Finnish citizens born between 1971 and 1986. Our model compares mental health outcomes at ages 26–30 between individuals who experience parental death at different ages, while controlling for an extensive set of demographic and parental characteristics. Our results show increased hospitalization rates due to mental health disorders, use of mental health-related medications and sickness absence for the children who experienced parental death at childhood. The results are quite similar across the gender of the child or the parent. We also document substantial reductions in years of schooling, employment, and earnings in adulthood.

Effect of weight on depression: Comparing genetic instruments

Jutta Viinikainen (University of Jyväskylä), Petri Böckerman, Barton Willge, Marko Elovainio, Jaana T. Kari, Terho Lehtimäki, Jaakko Pehkonen, Niina Pitkänen, Olli Raitakari

In recent times, the average body mass index (BMI) has continued to increase, and at the same time, depression has become increasingly common over the past few decades in almost all developed countries. To investigate whether these simultaneous trends are partly driven by a causal relationship, we examined the effect of BMI on depression symptoms, measured by Beck's Depression Inventory (BDI-II), using genetic markers as instruments for BMI. We found that BMI was linked to a higher prevalence of depressive symptoms among females but not among males. We also found that poor instrument strength may explain why many previous studies that used genetic instruments have been unable to identify a significant link between BMI and depression-related traits. Although the number of genetic markers in the instrument had only a minor effect on the point estimates, the standard errors were much smaller when more powerful instruments were employed. Our results suggest that the conventional rule of thumb suggesting that the first-stage F-statistics should exceed the value of 10 may be too lenient in this setting.