

# Newsletter



GOVERNANCE AND THE EFFICIENCY  
OF ECONOMIC SYSTEMS

**GESY**

SFB/TR 15

July 2008

No. 07

The following people have been co-opted by the SFB:

**A4 (Rady/Schmidt)**

**Florian Englmaier**

**B3 (Hellwig)**

**Jos Jansen**

**Carsten Burhop**

**C8 (Falk/Heidhues)**

**Johannes Abeler**

We wish all of them a successful time at the SFB and are looking forward to a good collaboration!

## SFB/TR 15 Seminars

### Berlin

7 Alexander Westkamp tba  
(University of Bonn)

### Munich

7 Simon Loretz tba  
(Oxford University)

8 Tom Cosimano Beware of Emigrants Bearing Gifts:  
(University of Notre Dame) Optimal Fiscal and Monetary Policy in  
the Presence of Remittances

14 Carmit Segal tba  
(University Pompeu Fabra)

15 Niko Matouschek tba  
(Northwestern University)

## Visitors

### A7 (Wolfstetter)

**Cuihong Fan**, (Shanghai University of Finance and Economics) is visiting from June to September, partially funded by a DAAD Fellowship

### A4 (Rady/Schmidt)

**Andreas Roider**, University of Heidelberg, is visiting Project A4, June 23-25

**Carmit Segal**, Universitat Pompeu Fabra, is visiting Project A4, July 13-15

**Nico Matouschek**, Northwestern University, is visiting Project A4, July 14-16

### B3 (Hellwig)

**Andrew F. Daughety**, Vanderbilt University (USA), June 9 - July 8, 2008

**Jennifer F. Reinganum**, Vanderbilt University (USA), June 9 - July 8, 2008

## External Research Visits, Lectures and Seminars of SFB/TR 15 Members

### A4 (Rady/Schmidt)

**Ferdinand von Siemens**, University Frankfurt, Applied Microeconomics and Organizations Seminar, Social Preferences, Sorting, and Competition, July 2

**Joachim Winter**, ESRC Research Methods Festival 2008, St. Catherine's College, University of Oxford, Heterogeneity in probabilistic stock market expectations, July 2

**Joachim Winter**, Workshop on Novel measurement methods for understanding economic behaviour, Institute for Fiscal Studies (IFS), London, Subjective probabilities of survival: An international comparison, July 2

### A8 (Heidhues/Rady)

**Sven Rady**, European Summer Symposium in Economic Theory, Gerzensee, Switzerland, "Negatively Correlated Bandits" (with Nicolas Klein), July 8

**Nicolas Klein**, Society for Economic Dynamics Annual Meeting, Cambridge, MA, USA, "Negatively Correlated Bandits" (with Sven Rady), July 10-12

### B5 (Marin/Schnitzer)

**Francesca Fabbri** presented her paper "Intermarriage and Economic Outcomes: Ethnic Minorities in Britain" at the Migration Worksop at the Norwegian Institute for Social Studies, Oslo, May 22-23, at the European Society for Population Economics, London, June 19-21, and at RWI Essen, June 26.

**Christa Hainz** presented her paper: "Integrated with their feet: Cross-Border Lending in Germany" (joint with Jarko Fidrmuc) at the Research Seminar, University of Linz, Austria, May 7

**Christa Hainz** presented her paper: Integrating with Their Feet - Cross-Border Lending at the German-Austrian Border (with Jarko Fidrmuc) at the Economics Research Seminar, University of Leipzig, May 21

**Christa Hainz** presented her paper: "Integrated with their feet: Cross-Border Lending in Germany" at the 6th INFINITY Conference on International Finance, Dublin, Ireland, June 10

**Maria Lehner** presented her paper: "Entry Mode Choices of Multinational Banks" at the 6th INFINITY Conference on International Finance, Dublin, Ireland, June 9

**Dalia Marin** presented her paper „The New Corporation in Europe“ at the NBER International Seminar on Macroeconomics (ISOM) 2008, Ljubljana, June 20-21

## B6 (Maug)

**Ernst Maug** presents the paper "Bankers on Boards of German Firms: What they do, what they are worth, and why they are (still) there" (joint with Ingolf Dittmann and Christoph Schneider) at the workshop on "Understanding Corporate Governance", Madrid, March 28

**Ernst Maug** presents the paper "Sticks or Carrots? Optimal CEO Compensation When Managers Are Loss-Averse" (joint with Ingolf Dittmann and Oliver Spalt) at the NBER Behavioral Economics Workshop, Yale University, May 3

**Ernst Maug** presents the paper "The Optimal Design of Executive Stock Options – A Loss-Aversion Approach" (joint with Oliver Spalt) at the IGIER seminar, Università Bocconi, Milan, May 27

**Ernst Maug** presents the paper "Bankers on Boards of German Firms: What they do, what they are worth, and why they are (still) there" (joint with Ingolf Dittmann and Christoph Schneider) at the Faculty Research Seminar, European School of Management and Technology, Berlin, June 9

**Ernst Maug** presents the paper "Bankers on Boards of German Firms: What they do, what they are worth, and why they are (still) there" (joint with Ingolf Dittmann and Christoph Schneider) at the Corporate Governance Best Paper Competition Oxford Conference, University of Oxford, June 10

**Christoph Schneider** presents the paper "Bankers on Boards of German Firms: What they do, what they are worth, and why they are (still) there" (joint with Ingolf Dittmann and Ernst Maug) at the Corporate Governance Workshop, Universitat Autònoma de Barcelona, June 19-20

**Christoph Schneider** presents the paper "Bankers on Boards of German Firms: What they do, what they are worth, and why they are (still) there" (joint with Ingolf Dittmann and Ernst Maug) at the 6th International Conference on Corporate Governance, University of Birmingham, June 30

## C9 (von Thadden)

**Michal Kowalik**, Conference: 'Warsaw International Economists' Meeting, Presentation: "Back to the Origins" (joint with David Martinez-Miera), July 4-6

## Conferences Organized by SFB/TR 15 Members

### 8th Conference of the SFB/TR 15 Munich, October 22-24, 2008 „Corporate Governance“ Invitation and Call for Papers

All members of the SFB/TR 15 are invited to register for participation at the conference. Especially young researchers are invited to submit their research. In case of capacity constraints, applications from project areas A "Strategic Interdependence and the Design of Institutions" and B "Corporate Governance" are favoured if they connect to the main topic of the conference.

#### **Place and Time:**

The conference takes place from October 22 (arrival in the afternoon) to October 24, 2008 (departure in the afternoon). Conference venue is the abbey Frauenwörth on the island Frauenchiemsee. More information on location and travel directions will soon be available at [www.sfbtr15.de](http://www.sfbtr15.de). The conference homepage will also provide more information on the planned bus transfers from Munich main station and the airport Franz-Josef-Strauss. Local organizers are Clemens König and Klaus Schmidt.

#### **Registration:**

Please register for the conference with Clemens König (email: [sfbtr15@lrz.uni-muenchen.de](mailto:sfbtr15@lrz.uni-muenchen.de)) **until July 31, 2008.**

In case you would like to present a paper at the conference, please submit title, abstract, and if possible an electronic version (PDF) of the paper.

#### **Reimbursement:**

Board and lodging at the conference have been arranged. As usual travel costs are reimbursed by the local nodes of the network.

## New Discussion Papers

### A7 (Wolfstetter)/ B4 (Kräkel)

**Thomas Giebe** (A7) and **Oliver Gürtler** (B4), "Optimal Contracts for Lenient Supervisors", SFB/TR15 Discussion Paper No. 237

**Abstract:** We consider a situation where an agent's effort is monitored by a supervisor who cares for the agent's well-being. This is modeled by incorporating the agent's utility into the utility function of the supervisor. The first-best solution can be implemented even if the supervisor's preferences are unknown. The corresponding optimal contract is similar to what we observe in practice: The supervisor's wage is constant and independent of his report. It induces one type of supervisor to report the agent's performance truthfully, while all others report favorably independent of performance. This implies that overstated performance (leniency bias) maybe the outcome of optimal contracts under informational asymmetries.

## B5 (Marin/Schnitzer)

**Maria Lehner** und **Monika Schnitzer**: "Entry of Foreign Banks and their Impact on Host Countries", forthcoming in Journal of Comparative Economics, 2008

**Christian Mugele** und **Monika Schnitzer**: "Organization of Multinational Activities and Ownership Structure", forthcoming in International Journal of Industrial Organization, 2008.

## A5 (Schweizer/von Hagen)

**Alexander Stremitzer**, Plaintiffs exploiting Plaintiffs, mimeo, University of Bonn,  
*Abstract*: We consider a model of a single defendant and N plaintiffs where the total cost of litigation is fixed on the part of the plaintiffs and shared among the members of a suing coalition. By settling and dropping out of the coalition, a plaintiff therefore creates a negative externality on the other plaintiffs. It was shown in Che and Spier (2007) that failure to internalize this externality can often be exploited by the defendant. However, if plaintiffs make sequential take-it-or-leave-it settlement offers, we can show that they will actually be exploited by one of their fellow plaintiffs rather than by the defendant. Moreover, if litigation is a public good as is the case in shareholder derivative suits, parties may fail to reach a settlement even having complete information. This may explain why we observe derivative suits in the US but not in Europe.

*JEL classification*: K41, C7, H4

**Alexander Stremitzer**, Opportunistic Termination, Available at SSRN:

<http://ssrn.com/abstract=989557> ,

*Abstract*: If a seller delivers a good non-conforming to the contract, Article 2 of the UCC as well as European warranty law allows consumers to choose between some money transfer and termination. Termination rights are, however, widely criticized, mainly for fear that the buyer resorts to opportunistic termination, i.e. takes non-conformity as a pretext to get rid of a contract he no longer wants. We show that the possibility of opportunistic termination might actually have positive effects. Under some circumstances, it will lead to redistribution in favour of the buyer without any loss of efficiency. Moreover, by curbing the monopoly power of the seller, a regime involving termination increases welfare by enabling a more efficient output level in a setting with multiple buyers.

*JEL classification*: K12, C7, L40, D30

**Alexander Stremitzer**, Standard Breach Remedies, Quality Thresholds and Cooperative Investments, mimeo, University of Bonn,

*Abstract*: When investments are non-verifiable, inducing cooperative investments with simple contracts may not be as difficult as previously thought. Indeed, modeling "expectation damages" close to legal practice, we show that the default remedy of contract law induces the first best. Hence, there is no need for privately stipulated remedies. Yet, in order to lower informational requirements of courts, parties may opt for a "specific performance" regime which grants the breached-against buyer an option to choose "restitution" if the tender's value falls below some (arbitrarily chosen) quality threshold. In order to implement this regime, no more information needs to be verifiable than is implicitly assumed in Hart and Moore (1988).

*JEL classification*: K12, C70

## Publications

## B4 (Kräkel)

**Jörg Budde** (2003): "Information in tournaments under limited liability", Journal of Mathematical Economics, forthcoming

## New/Leaving Staff

### C8 (Falk/Heidhues)

**Felix Marklein** has left project C8 to join the Federal Ministry of Finance (ökonomische Grundsatzabteilung)

## Miscellaneous

### C6 (Peitz/Stahl)

The business magazines "Handelsblatt" and "The Economist" as well as the "Daily Telegraph" published articles about the research findings of a recent paper by Ernst Maug and Christoph Schneider "Bankers on Boards of German Firms: What they do, what they are worth, and why they are (still) there" (joint with Ingolf Dittmann), April 14, May 1 and June 5

### A7 (Wolfstetter)

#### **FYI - announcement by Elmar Wolfstetter**

Sehr geehrte Damen und Herren,

ich möchte Sie auf die Stellenausschreibung für zwei wiss. Mitarbeiterin/wiss. Mitarbeiter im Rahmen des Teilprojekts A7 des SFB/TR15 "Governance und die Effizienz ökonomischer Systeme" (<http://www.sfbtr15.de/>) hinweisen. Bitte weisen Sie auch potenzielle Interessenten auf diese Ausschreibung hin.

For an english version please have a look at the following two links:

<http://www.inomics.com/cgi/job?action=detail&nr=7078>

<http://www.inomics.com/cgi/job?action=detail&nr=7077>

Best regards,

Prof. Dr. Elmar Wolfstetter