

Economics Internal PhD Conference 2024

ALB Boardroom

9:00 a.m. – 5:05 p.m.

Friday May 3, 2023

All times are in UK time zone

General Format: All presenters except the keynote have 25 minutes to present (including questions).

9:00 – 9:10 Welcome Address by Nuno Palma

Session I: *Environmental Economics*

9:10 – 9:35 Yue Yu

9:35 – 10:00 Giorgio Maarraoui

10:00 – 10:25 Yue He

10:25 – 10:40 Coffee Break 1

Session II: *Experimental and Applied Economics*

10:40 – 11:05 Jinghan Chen

11:05 – 11:30 Lucía Contreras

11:30 – 11:55 Nicholas Gachet

11:55 – 12:55 Lunch Break

12:55 – 1:55 Keynote Talk: Professor **Ethan Ilzetzi** (London School of Economics)

1:55 – 2:10 Coffee Break 2

Session III: *Macro and Theoretical Economics*

2:10 – 2:35 Pengguang Lu

2:35 – 3:00 Lucas Morissette

3:00 – 3:25 Hao Bai

3:25 – 3:35 Break

3:35 – 5:05 Individual meetings of presenters with Professor **Ethan Ilzetzi** (10 minutes each; same order as in presentations)

Presenter: Yue Yu

Title: Beyond the Temperate: Exploring the Health Impacts of Air Pollution in the Tropics under Climate Change

Abstract: Climate change poses significant health risks. However, most research has predominantly focused on temperate and developed regions. This oversight leaves a critical gap in understanding the impacts on tropical and developing countries, where conditions are uniquely affected by intensifying greenhouse gas emissions, increasing air pollution, and extreme weather conditions (hotter and more humid). This study aims to bridge this gap by examining perceived and clinically measured health outcomes related to air pollution in an equatorial country, Indonesia, characterised by a tropical climate without distinctive seasons. Insights from this research could broaden the understanding of the climate change impacts on health, informing targeted interventions in similar climatic zones worldwide.

Presenter: Giorgio Maarraoui

Title: Heating Up: Climate Change and Farmer-Herder Conflicts in Africa

Abstract: How will climate change exacerbate resource-based conflicts in Sub-Saharan Africa (SSA)? This working paper seeks to answer this question by developing a spatial model to understand the dynamics of farmer-herder conflicts influenced by climatic variability. These conflicts, historically detrimental to agricultural productivity, livelihood security, and regional stability, are posited to increase under future climate scenarios. Whilst previous literature has relied on reduced-form analyses, this paper will calibrate the model in efforts of forecasting the potential rise in conflict occurrences, quantifying the relative importance of different climate-conflict channels, and accordingly assessing the effectiveness of various policy interventions that could mitigate the heightened risk of conflict in the context of global climate change.

Presenter: Yue He

Title: Quantifying the Economic Cost of Pollution: The Impact of Air Pollution on Mental Health in England

Abstract: Air pollution poses significant health risks, with its impact on physical health well documented. However, there is limited evidence on the causal effects of air pollution on mental health, and the associated economic costs are often overlooked in policy decisions. I estimate the mental health costs attributable to air pollution in England, using administrative data on medicine prescriptions and reanalysis data on pollution and meteorological conditions. Using an instrumental variable method, I exploit exogenous variations in air pollution driven by boundary layer height. My findings reveal the causal effects of air pollution on the worsening of mental health conditions, reflected in increased expenditures and quantities of mental health-related prescriptions.

Presenter: Jinghan Chen

Title: Hypothetical Bias, Information Crowding, and the Value of Food Labels: An Experiment on Preference for Environmental and Health Traits

Abstract: Stated Preference (SP) methods dominate in valuation research, particularly in the valuation of products featuring attributes not yet present in the market. A recurring concern within SP methods is the potential Hypothetical Bias (HB). The main aim of this study is to assess the magnitude of HB for private goods (health gains) in comparison to public goods (CO₂ reductions) when labels indicating these traits are presented in isolation as well as simultaneously on food packages. This study employs a split-sample (Hypothetical-Consequential Discrete Choice Experiment, DCE) of three treatments (a single label - either

fat content or carbon footprint, and a dual label - fat content and carbon footprint) to investigate the following questions: (1). The scale of HB and how it differs between private (health gains) and public gains (CO₂ reductions). (2). The effect of information proliferation on (i) WTP for environmental and health gains; and (ii) Hypothetical Bias.

Presenter: Lucía Contreras

Title: Tackling distortion under weak enforcement: Firms' responses to an intricate tax reform

Abstract: This project analyses how firms respond to a significant change in a previously highly distortionary corporate tax schedule within an economy characterised by weak enforcement. To achieve this, we examine granular administrative data from Costa Rica and its recent comprehensive corporate tax reform aimed at mitigating strong evasion responses by firms. Specifically, we investigate corporate behavioral responses to assess whether firms are optimising and understanding the new incentives. Our preliminary findings suggest rapid behavioral adjustments following the tax reform coming from weakening in evasion incentives. Moreover, we employ a differences-in-differences event study framework to investigate the effect of the policy on reported profits. Our analysis reveals that firms with a lower marginal tax rate report higher profits compared to the control group, whereas those experiencing an increase report lower profits. Furthermore, firms experiencing changes in their average tax rates, while facing constant marginal rates, exhibit significantly more moderated profit responses. This suggests that corporate taxpayers seem to have understood the changed incentives despite their complex nature. Work in progress involves dissecting the behavioral responses in revenues and costs that underlie the profit responses, analyse extensive margin responses and assess the aggregate welfare effects of the reform.

Presenter: Nicholas Gachet

Title: The pearls of public land privatisation and agrarian reform in Ecuador

Abstract: I study the long-run implications of a policy that affected the quality of property rights in a developing country. In this paper, I rely on a discontinuity created during Ecuador's agrarian reform of the 1960s and 1970s. In my setting, a region was affected by land redistribution, but one side was granted full property rights over crop choice, while the other was restricted to growing rice, following food security concerns and kept traditional latifundia practices. I use the agricultural census of 2000 to study the effects of these property rights regimes on crop productivity, efficient land use, credit markets, and structural transformation. Twenty to thirty years after the reform, I find that areas that received full property rights are more productive in permanent (perennial) crops, and this effect comes from outside traditional crops such as bananas or cocoa, hence pointing towards diversification. Additionally, these zones show more efficient land use, and suggestive evidence finds rapid structural transformation. Areas that faced the crop restriction policy are still devoted to rice production and are not more productive for transitory (annual) crops in general. These zones are more likely to access informal credit markets, which I argue is a novel mechanism that affected farmers' long-run decisions and set them on a path dependence cycle. A counterfactual analysis, employing a region where the agrarian reform did not fully intervene as a comparison group, along with a comprehensive set of controls, supports my conclusions.

Presenter: Pengguang Lu

Title: Herding and Wealth Heterogeneity in Macroeconomy

Abstract: We document new empirical evidence on heterogeneity in herding tendencies across US households using microdata. This is defined as the tendency of households to follow the decisions of others. A higher herding tendency is associated with more optimistic expectations on future aggregate state and lower

wealth levels. To rationalize this, we allow ex-ante heterogeneity in herding tendencies among households in a standard Bewley-Huggett-Aiyagari DSGE model with incomplete markets and aggregate risk. Households with higher herding tendencies have a more optimistic view of future aggregate states and higher expected future wealth. This leads to a higher level of consumption and lower savings. Poor agents are poor because they have a stronger herding tendency, causing deviations from optimal saving decisions. We find that wealth tax can lead to untargeted changes in inequality compared to herding-free world. This suggests that neglecting the herding channel can affect the effectiveness of fiscal policy.

Presenter: Lucas Morissette

Title: Signaling Quality From The Opposition: 'Adroit? Go left! Gauche? Run right!'

Abstract: I study a model of electoral competition in which a majoritarian, 'Mainstream' party of known quality and ideology faces the threat of a 'New' party. New is of either high or low quality, and moderate or radical ideology. Mainstream observes New's type, but the 'Voter' does not. New's objective is to signal that she is of high quality via her purported policy platform. Mainstream responds by choosing whether or not to test her: Mainstream can include New in a coalition government, revealing her quality to Voter. New, when of low quality, may wish to raise the cost of testing her by announcing a radical policy position. When she is high quality, she may moderate to signal that testing her is not costly. Voter observes these actions and infers whether New is sufficiently likely to offer an improvement in quality--in which case she wins the next majority. In exploring the strategic incentive to radicalize and remain untested within the opposition, my aim is to provide novel rationale for recent increases in the supply and electoral successes of far-right parties in Europe.

Presenter: Hao Bai

Title: A Simple Model to Update Choquet Beliefs

Abstract: A simple model to update Choquet beliefs in a uncertain world is developed. This paper provides an axiomatisation of Choquet expected utility and Bayesian updating in a conditional decision problem. The approach taken in this paper suggests a new and natural procedure for updating capacities by the application of Bayes' rule in situations where Choquet expected utility has an equivalent rank-dependent utility representation. The idea is the following. Under certain conditions, a capacity can be expressed as a transformation of an additive probability measure. We can update an additive probability measure by using the Bayes' rule and update the corresponding capacity by setting the capacity of each event equal to the transformation of the updated additive probability of the same event. A formalisation of this idea is provided."