

# SCHOLARSHIPS

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*Senior scholarship holders,  
shaping the future.*



## Shaping the future of economic research

Does bank expansion cripple growth? How does working during pregnancy affect newborn babies? How can we reduce food waste? What are the right work incentives in disability insurance? These are only a few of the questions that our senior scholarship holders address in their research projects.

In our last newsletter, we interviewed our four new PhD students, who are now in the middle of their first two years of the doctoral program. Our more advanced students completed their courses and have been working on their research projects, gathering and analyzing data, writing papers, and submitting them to scientific journals.

Our PhD students usually spend about three years working on several research projects, requiring a lot of hard work, dedication, and resilience. The final project papers will form their doctoral theses,

which a graduate committee will evaluate and discuss at each public thesis defense.

The UBS Center currently supports 13 students at the Zurich Graduate School of Economics with full scholarships. On the following pages, four of our senior scholarship holders share some insights on their research projects. Their work reflects the broad scope of topics covered at the Center, addressing some of today's pressing issues relating to the economy and the financial markets.

## SCHOLARSHIPS

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*Senior scholarship holder*  
*Sebastian Dörr.*

### Does finance cripple growth? Bank expansion, capital allocation, and growth

**Ideally, the financial sector should channel funds towards the most productive firms. By screening and monitoring borrowers, banks are supposed to efficiently allocate capital across firms. In my dissertation, I show that banks are increasingly failing at this task. Instead, they provide more and more credit to unproductive firms and undermine economic growth.**

Following the introduction of new technologies and a wave of financial deregulation, banks expanded across the US on an unprecedented scale operating in only two branches in 1980, but sixteen in 2015. I show that expansion comes at a cost. When entering new markets, banks have no knowledge about the quality of new borrowers – they face asymmetric information. To overcome this friction, banks rely on secured lending: new borrowers must pledge collateral. As bank expansion exacerbates the problem of asymmetric information, it leads to an increase in credit supply for collateral-owning firms.

Unfortunately, borrowers with collateral are often slow-growing firms with low investment rates and productivity. Bank expansion thus improves borrowing conditions for exactly the wrong type of firms. An ever-increasing share of resources is funneled towards inefficient firms, as it is no longer the most dynamic firms that receive credit, but

firms that own collateral. I show that this reallocation of credit towards unproductive firms depresses aggregate productivity growth. Cities with more bank entry and, consequently, a stronger increase in secured lending see a decline in growth rates of productivity and GDP per capita. My work addresses the causes and consequences of secular stagnation and offers an explanation for the slow growth over the last two decades.

#### **What comes next?**

I collected most of the data and have most of my main results, which I am currently reflecting in a first draft. Over the next couple of weeks, I will gather additional evidence on the underlying mechanism and present the project at various conferences.



Sebastian Dörr

*How does the introduction of new technologies and the wave of financial deregulation affect the financial sector?*

## SCHOLARSHIPS

Senior scholarship holder  
Caroline Chuard.

Caroline Chuard



*How does working during pregnancy affect the health of newborns? And how does the length of parental leave affect the health of new mothers?*

## Employment effects on the health of newborns and mothers

**Healthy mothers and babies: definitely a precondition for a good start in life. But does employment during pregnancy and the first year(s) of a baby's life impact this? While pregnancy protection and parental leave policies and laws have been in place for a long time and with large differences between countries, there is little empirical evidence on these effects. Obviously, additional clarity on health outcomes of mother and child are relevant for the optimal design of family policies.**

In my two research projects, I assess the impact of three policy reforms that each changed the length of parental leave in Austria, and how these impact the health of mothers and children. For example, mothers who gave birth in June 1990 had a parental leave of one year; from July 1990 this was extended to two years (and with other reforms in 1996 and 2000 shortened to 1.5 and extended to 2.5 years, respectively). These sharp cutoffs with respect to the birth month – basically, a random allocation – allow us to compare similar mothers on both sides of the threshold.

**Disadvantaged mothers benefit from longer leave**  
Preliminary findings suggest that mothers' health improves when paid parental leave increases from one to two years. However, it also seems that parental leave can last too long, and actually decreases maternal mental health: This is the result

of a comparison of mothers who could stay on parental leave for 2.5 vs 1.5 years. This effect pattern varies for different types of mothers and by characteristics of the child, meaning that mothers with unhealthy children (e.g. preterm births) continue to benefit from longer leave durations.

**Working during pregnancy per se does not affect a newborn's health**

In another project based on the same data, I conclude that employment during pregnancy with the second child does not affect the newborn's health, irrespective of characteristics of the mother, such as her socioeconomic status or the industry in which she works.

Both projects are key for designing family policies with multifold goals such as gender equity, fertility, and child development. The latter is especially interesting because it affects human capital, a key production factor, where identifying the reasons for inequalities in early childhood can help design smarter policies in the future.

**What comes next?**

I will present the results of these studies at conferences and PhD workshops. I will also go on a short research visit for two months to LSE, where I hope to exchange ideas and get some more input.



## SCHOLARSHIPS

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*Senior scholarship holder  
Fanny Brun.*

### Food waste and immoral labor markets

**Being a nature lover, the core theme of my research is around sustainability. In one project, I address environmental aspects linked to food waste and investigate the psychological mechanism behind it. Another project combines economic and social aspects of sustainability, as we look into immoral labor markets.**

#### **Psychological depreciation and food waste**

Approximately one-third of the food produced worldwide is lost or wasted every year. Food waste is harmful to the environment and costly from the households' perspective (e.g. the estimated average annual loss for a typical American four-person household is approximately \$1,600). While there are many causes of food waste, research shows that explicit freshness information – such as date labels – plays an important role. We run a lab-in-the-field experiment on the campus of the University of Zurich where we vary whether participants receive a seven-day-old or a one-day-old sandwich, and whether they are informed about its production date. First, we find that individuals do not experience an objective taste difference between the old and the fresh sandwich. In addition, we test if disclosing the production date affects people's experienced utility of consumption via the direct effect this information has on expectations. Surprisingly, even when knowing when the sandwich was produced, participants neither expect nor experience a different utility of consumption. It seems therefore that the disclosure of long storage dura-

tion does not induce any psychological depreciation of consumption utility.

#### **Immoral labor markets**

This research project covers a delicate topic – so let me start with a definition: Immorality is the violation of moral laws, norms, or standards. Corporate scandals regularly bring immoral work practices to light – manipulations of LIBOR rates and car emissions, misinformation by the tobacco and pharma industries, etc. Yet, there is also a labor market in these areas – but who is attracted to these jobs, and at what wage? We explore these questions with a combination of laboratory experiments, surveys, and the analysis of Swiss labor-market data. Amongst others, this allows us to determine the individuals' aversion to acting immorally – respectively, the individuals who are more inclined to violate moral norms. In our experiment, these individuals are more likely to be hired and obtain higher wages when a job consists of an immoral task, while there is no difference when the labor market is neutral. In addition, we find that participants who behave immorally in the laboratory are more willing to work in industries that are perceived to be immoral. Finally, labor-market data further indicates that industries perceived as immoral offer higher wages.

#### **What comes next?**

I plan to finish writing my doctoral thesis this summer.



Fanny Brun

*How does the production date of food affect the utility of consumption and food waste? Who is attracted to immoral labor markets, and at what wage?*

## SCHOLARSHIPS

Senior scholarship holder  
Giacomin Favre.

### Giacomin Favre

*What did social mobility look like in 19th century Zurich and what changed after the second industrial revolution? What are the right work incentives in disability insurance?*



## Social mobility and disability insurance

### The history of economic inequality

Economic inequality is on the rise, reaching levels similar to those at the end of the 19th century. The lack of intergenerational mobility is a very important aspect of inequality. Hence, decomposing mobility into its components is central to understanding inequality.

In a joint project with Joël Floris and Ulrich Woitek, we analyze social mobility of decennial citizenry cohorts of Zurich born between 1780 and 1870. We constructed a detailed microlevel data set on Zurich's citizenry between 1794 and 1929 originating from the *citizen's directories* and *tax registers*. This data set is unique for the period of the 19th century and allows us to answer a broad set of demographic questions.

We find that social mobility exhibited an inverted u-shape featuring a decline in the second half of the century. The decline coincides with the second industrial revolution and a shift of the occupational distribution towards upper middle class jobs. Moreover, Zurich emigrants tended to be both geographically and socially more mobile than nonmigrants. However, emigrants tended to exhibit downward mobility, which potentially points towards difficulties gaining a foothold in the country of destination.

### Project on disability insurance systems

In another project, Andreas Haller and I compare two disability insurance systems. Disability insurance programs are growing considerably in many countries. On average, OECD countries spend almost three times more on disability insurance than on unemployment insurance. Policy makers therefore seek ways to reduce disability insurance expenditures. Providing incentives for recipients of disability insurance to return to work can reduce costs without reducing the insurance value itself.

Currently, disability insurance systems feature strong work disincentives: recipients lose most of their benefits if they earn above a certain ceiling (*cash cliff*). We analyze the effects of replacing this *cash cliff* with a *benefit offset*, which reduces benefits more gradually with higher income. A benefit offset might increase the labor supply of disability insurance recipients and thus reduce payments. However, disability insurance becomes more attractive, which induces entry. We show that the welfare effect crucially depends on two *sufficient statistics*: the earnings and the benefit take-up elasticity.

### What comes next?

We are currently working on the disability insurance project, estimating the sufficient statistics for the U.S.