George J. Stigler founded the Center for the Study of the Economy and the State at the University of Chicago in 1977. It has from the beginning been a joint enterprise of economists and legal scholars at the Graduate School of Business, Department of Economics, and the Law School of the University of Chicago. The center was renamed in Stigler’s memory after his death in 1991.

The Stigler Center is dedicated to the study of the effects of political life on economic life and the reciprocal effects of economic life on political life. That is not a very restrictive mandate, since there are few areas of our lives where neither economics nor the state intrudes. To carry out its mission, the Stigler Center supports research of faculty at the University of Chicago and of visitors from other academic institutions. The center publishes a Working Paper series and promotes the dissemination of this research to a wider audience via conferences and lectures.

The Stigler Center contributes importantly to the continuity and growth of “Chicago Economics,” which is known worldwide for two attributes:

- A tough-minded professional style that views economic theory not as an end but as a tool to assist in understanding the real world
- A lively appreciation for the working of private markets

The Stigler Center is extremely grateful for the generous support provided by Raph Appadoo, ’82; the Lynde and Harry Bradley Foundation; Pfizer Inc; and the Sarah Scaife Foundation.
From the Interim Director

The Stigler Center’s mission is to support economic research about the interaction between the private economy and the state. This Annual Report summarizes the work of the center’s research community for the 2006–07 academic year, and the breadth of topics covered is testimony to both the pervasiveness of public policy concerns in our lives and to the ingenuity of Chicago economists in applying economics to them.

The essence of the research conducted at the Stigler Center is the application of Chicago-style economic analysis to issues confronting economic policymakers at all levels of government. This Chicago style of analysis has several hallmarks:

- An interest in applying economic theory to better understand real-world developments
- A deep appreciation of the ability of private markets to allocate scarce resources efficiently
- An understanding of the contractual and regulatory infrastructure necessary to support those markets
- An effort to verify theoretical predictions of behavior through a careful analysis of data and evidence

Recent Developments at the Stigler Center

Research Director Richard Leftwich and I have been leading the center on an interim basis for the past year, since Randall S. Kroszner was appointed a governor of the Federal Reserve Board last October. He is joined in Washington by Dennis Carlton, who was appointed deputy assistant attorney general in the Antitrust Division at the Department of Justice and has recently been nominated by President Bush to be a member of the Council of Economic Advisers.

Highlights of Our Current Research

Stigler Center research on the interaction between the economy and the state most often examines the incentives facing an individual agent and that agent’s resulting behavior—be it CEO characteristics and abilities, the effects of unemployment insurance, the female workforce and selective labor supply, or whistle blowing in cases of corporate fraud. This focus on individual behavior certainly does not limit the range of analysis undertaken at the center. Researchers have examined the contradiction in China’s banking reforms, the causes and consequences of financial regulation, and hospital regulation.

Stigler Center researchers are especially adept at applying the insights of economic analysis to important areas of concern to policy makers in novel ways. Topics that our researchers have investigated this year include affirmative action programs in the context of India’s engineering colleges, malaria’s effect on the economic...
progress of a community, the driving force behind media slant, and the analysis of end-of-life-care spending. The descriptions of our researchers’ activities this year provide an excellent overview of the quality and importance of the center’s work.

Outreach Activities
The Stigler Center also promotes discussion of the issues on our research agenda in both general public forums as well as before academic audiences. The center organized a number of important events during the year, including:

- Cosponsoring keynote speaker Alan S. Hegburg, U.S. deputy assistant secretary of energy for international energy policy, at the Petroleum Prospects and Politics Conference

- A jointly sponsored address to students by Myron Scholes, MBA ’64, PhD ’70, on “omega,” a new finance concept that refers to reducing market resistance through liquidity provision and risk transfer

- A talk on the economy by Edward P. Lazear, chairman of the Council of Economic Advisers, cohosted by the Chicago Council on Global Affairs and the GSB’s Initiative on Global Markets

- The Conference on Institutional Research, which we proudly cosponsored with the Ronald Coase Institute

- Together with the Federal Reserve Bank of Chicago, a panel on the relationship between state and federal bank regulation

Our accomplishments could not have occurred without the generosity of our supporters, including (but not limited to) Mr. Raph Appadoo, ’82; the Lynde and Harry Bradley Foundation; Pfizer Inc; and the Sarah Scaife Foundation.

Sincerely,

Edward A. Snyder
Interim Director
OUTREACH ACTIVITIES
Stigler Center Outreach Activities

The Stigler Center organizes and helps sponsor a variety of conferences and lectures to reach a wider audience and to foster communication between academic researchers and government policymakers. Over the past several years, our outreach efforts have intensified, thanks to the interest and generosity of our supporters. Highlights from this year’s activities are listed below.

Petroleum Prospects and Politics
May 18, 2007

The Stigler Center cosponsored keynote speaker Alan S. Hegburg, U.S. deputy assistant secretary of energy for international energy policy, at this conference hosted by the Chicago Society student group at the University of Chicago. The internationally recognized conference drew 15 experts from a diverse set of fields together for two days of presentations and debate over the economic, political, and social effects of oil.

As U.S. deputy assistant secretary of energy for international energy policy, Hegburg’s policy and management responsibilities cover international energy issues in the Middle East, Africa, and Russia and the Caspian region as well as functional areas including energy security and global energy markets. Prior to his current appointment, Hegburg spent 17 years in management positions at Phillips Petroleum, Amoco, and British Petroleum. He served in the public sector for an additional 17 years, in the U.S. Navy as well as in management positions in the Departments of Energy and State. Most recently, he was affiliated with the Scowcroft Group and the Center for Strategic and International Studies, where he provided oil and gas consulting services.

Transcripts of the proceedings are available at petroleum.uchicago.edu.

Myron Scholes, MBA ’64, PhD ’70, 1997 Nobel Laureate in Economic Sciences
April 27, 2007

The Stigler Center helped bring Myron S. Scholes to Chicago GSB as part of the school’s Distinguished Speaker Series. The event was cosponsored by the Initiative on Global Markets and the Graduate Business Council.

A former GSB faculty member, Scholes is chairman of Platinum Grove Asset Management, an alternative investment fund that specializes in providing liquidity to global wholesale capital markets. He also is Frank E. Buck Professor of Finance Emeritus at Stanford University Graduate School of Business.

Scholes addressed students about a new finance concept he calls “omega,” which refers to reducing market resistance through liquidity provision and risk transfer. Omega generators include private equity firms, real estate, and hedge funds, he said. What omega does is “move liquidity forward in time,” Scholes said.

Scholes is widely known for his seminal work in options pricing, capital markets, tax policies and the financial services industry. He is co-originator of the Black-Scholes options pricing model, which is the basis of the pricing and risk-management technology that is used to value and to manage the risk of financial instruments around the
Nobel laureate and GSB alumnus Myron Scholes addressed students in the spring.
Edward Lazear, chairman of the Council of Economic Advisers, spoke at an event cosponsored by the Stigler Center.

Young scholars as well as their senior counterparts posed with Nobel laureate Ronald Coase (second row, center) at the Conference on Institutional Research.
Despite high prices for energy and a significant decline in the housing sector, the U.S. economy not only continued to grow last year, it grew “at an impressive rate,” according to Edward Lazear, chairman of the Council of Economic Advisors to president George W. Bush. Lazear spoke at an event cohosted by the Chicago Council on Global Affairs and the Initiative on Global Financial Markets February 1 at the Chicago Club. Lazear was a member of the GSB’s faculty from 1978 to 1992.

According to Lazear, a strong labor market and increased exports are the key trends responsible for the growth in the economy. Not only did the unemployment rate fall, wages grew at a higher rate than in the second half of the 1990s, he said. These factors and an increased demand for exports have “pushed the American economy forward during a period when many were predicting a slowdown,” Lazear said.

“With consistent and open economic policies, these trends should continue through 2007 and into the next year.”

Lazear said he was grateful for the opportunity to return to his roots at Chicago. “I think of my time on the faculty as a period not so much of teaching, but rather of learning from the great masters who were my senior colleagues.”

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Edward Lazear, chairman of the Council of Economic Advisers
February 1, 2007

Conference on Institutional Research
December 1-3, 2006

Cosponsored by the Ronald Coase Institute in Chevy Chase, Maryland, and held in Chicago, this invitation-only conference highlighted research on property rights, informal institutions, state governance, and emerging markets presented by young scholars from 12 countries, all of whom are alumni of Coase Institute workshops. Also, several senior scholars discussed methodologies and priorities for empirical institutional research.

Speakers included University of Chicago faculty members John List, Professor in the Department of Economics, and Steven Levitt, Alvin H. Baum Professor in the Department of Economics and Director of the Becker Center; John Nye and Sebastian Galiani of Washington University in St. Louis; and workshop alumni from Brazil, Bulgaria, China, Hong Kong, Mexico, Nepal, Philippines, Russia, Slovak Republic, United States, Venezuela, and Vietnam.

Ronald Coase, Clifton R. Musser Professor Emeritus of Economics at the University of Chicago Law School, has been affiliated with the University of Chicago since 1964. He won the Nobel Prize in 1991.

Federal Preemption of State Banking Regulation
May 19, 2006

Together with the Federal Reserve Bank of Chicago, the Stigler Center sponsored a panel on the relationship between state and federal bank regulation. This issue has come to the forefront with the recent disagreement between the Office of the Comptroller of the Currency (OCC) and the New York State Attorney General’s Office on
access to mortgage lending records of nationally chartered banks.

The OCC, supported by the courts, ruled that national banks did not have to grant access to their records. The conference of state bank supervisors argues that the courts’ support of the OCC ruling has encouraged banks to convert to national charters and is posing a threat to the existing dual banking system. The Federal Deposit Insurance Corporation has held hearings on how to put state-chartered banks on equal footing.

To evaluate and better understand the issues involved in the preemption debate, the session assembled a panel of experts that included Phillip Strahan, Associate Professor of Finance at the Carroll School of Management at Boston College; Arthur Murton, Director of the Division of Insurance and Research at the FDIC; and James Roselle, Associate General Counsel of the Northern Trust Corporation. These panelists considered the economic arguments for and against a dual banking system, including the effects of regulatory competition, barriers to entry, and the implications of preemption for the future of the dual banking system and the structure of federal regulation of banks and bank holding companies.

While there was significant debate on the legal issues and extent of the OCC’s preemption power and rights, the economic arguments concerning the social benefits resulting from broader geographic expansion were quite convincing. The session is one example of the Stigler Center’s efforts to open the lines of communication between the research and policy communities.
Introducing Incentives in the Market for Live and Cadaveric Organ Donations

Gary Becker’s projects this year included a study, conducted with Julio Elias, of the consequences of introducing a market for organ transplants. Motivated by the long waiting lists to get a donation of healthy organs for kidney, liver, and other transplants, their research shows that a market for organs would be feasible and would not add a lot to the cost of organ transplants. Most importantly, Becker says, such a market would save lives and greatly increase the quality of lives of persons with defective organs.

Becker also worked with Luis Rayo on using evolutionary analysis to derive preferences that involve habitual behavior and peer comparisons. Their research shows that these evolutionary forces are powerful; they have applied the analysis to understanding peer comparisons in greater detail.

Focusing on an evolving theory of investment in health and its interaction with other forms of human capital, such as education, Becker presented research in the J. R. Hicks Lecture at Oxford University. This research shows that healthier persons tend to avoid bad habits, seek out good ones, increase their education, discount the future less, and generally do better in many other dimensions of life. He links this to analyses of the determinants of inequality in earnings and incomes.

Becker is also working with Kevin Murphy to analyze the connection between education, earnings, and consumption. Using a model of choices both at work and in the household sector, the researchers show why education increases productivity in both sectors, but in very different ways. The rate of return on education is high not only in terms of greater earnings, but also in terms of greater productivity in the household, such as in connection to health and financial investments.
Around the world, affirmative action programs are a common method of redistributing money and resources to traditionally disadvantaged groups. However, little is known regarding whether these programs actually reach the financially disadvantaged, or whether minorities even gain from these programs. Even less is known regarding whether nonminority groups “lose out” due to these programs. Bertrand studies these issues in the context of engineering colleges in India, which have reserved seats for members of the “lower” caste groups. Since admissions are a deterministic function of score and caste group, she uses discontinuity methods to understand the impacts of affirmative action. She finds that minority-based targeting effectively targets the economically disadvantaged: at the margin, minorities who displace nonminorities tend to come from more economically disadvantaged households. Despite lower entrance exam scores, minorities do obtain a return to attending engineering college. While the percentage returns are roughly equal to nonminority groups, the level of returns for minorities is roughly half of that of the nonminority groups.
Malaria in the Americas: A Retrospective Analysis of Childhood Exposure

The disease known as malaria, a scourge of mankind through history, persists in tropical countries up to the present day. These same tropical areas have, generally speaking, a much lower level of economic development than that enjoyed in the temperate climates. These facts lead to a natural question: does malaria hold back economic progress? Bleakley seeks to better understand this question by studying malaria-eradication campaigns in the Southern United States (circa 1920), and in Brazil, Colombia, and Mexico (circa 1955). The specific goal is measuring how much childhood exposure to malaria depresses labor productivity. The campaigns began because of advances in health technology, which mitigates concerns about reverse causality. Malarious areas saw large drops in the disease thereafter. Relative to non-malarious areas, cohorts born after eradication had higher income as adults than the preceding generation. These changes coincided with childhood exposure to the campaigns rather than to pre-existing trends.
Matthew Gentzkow  
*Assistant Professor of Economics*  
Graduate School of Business

**What Drives Media Slant? Evidence from U.S. Newspapers**

Gentzkow, with Assistant Professor of Economics Jesse Shapiro, constructs a new index of media slant that measures whether a news outlet’s language is more similar to that of a congressional Republican or Democrat. Applying the measure to study the market forces that determine political content in the news, the researchers estimate a model of newspaper demand that explicitly incorporates the slant that would be chosen if newspapers independently maximized their own profits. The authors then compare these ideal points with firms’ actual choices. Their analysis confirms an economically significant demand for news slanted toward one’s own political ideology. Firms respond strongly to consumer preferences, which account for roughly 20 percent of the variation in measured slant in their sample. By contrast, the identity of a newspaper’s owner explains far less of the variation in slant. They also present evidence on the role of pressure from incumbent politicians, tastes of reporters, and newspaper competition in determining slant.
Which CEO Characteristics and Abilities Matter?

Using a detailed dataset with assessments of CEO candidates for companies involved in private equity (PE) transactions, including both buyout (LBO) and venture capital (VC) deals, Kaplan, with Mark Klebanov and Morten Sorensen, study how CEOs’ characteristics and abilities relate to hiring decisions, PE investment decisions, and subsequent performance. The candidates are assessed on more than 40 individual characteristics in seven general areas: leadership, personal, intellectual, motivational, interpersonal, technical and specific. In general, all characteristics and abilities are found to be highly correlated. For both LBO and VC firms, outside CEO candidates are more highly rated than incumbents. Both LBO and VC firms are more likely to hire and invest in more highly rated and talented CEOs, and the investors also value “soft” or team-related skills in the hiring decisions. However, these skills are not necessarily associated with greater success. For LBO deals in particular, “hard” abilities and execution skills predict success. Finally, they find that incumbents are no more likely to succeed than outside CEOs, holding observable talent and ability constant.

Other Projects in 2006–07

“How has CEO Turnover Changed? Increasingly Performance Sensitive Boards and Increasingly Uneasy CEOs,” with Bernadette A. Minton, under review at the Journal of Finance

“Should You Bet on the Jockey or the Horse? Firm Evolution from Early Business Plans to Public Companies,” with Berk Sensoy and Per Stromberg, under review at the Journal of Finance


“Wall Street and Main Street: What Contributes to Increasing Income Inequality?” with Josh Rauh, under review at the Review of Financial Studies
The Contradiction in China’s Gradualist Banking Reforms

China’s state-owned banks historically have funded money-losing enterprises to maintain employment and social stability. Working with Wendy Dobson for the Brookings Papers on Economic Activity, Kashyap surveyed the banking industry in China, focusing on the largest banks that are being reformed to increase their competitiveness following China’s 2001 WTO commitment to open the domestic banking market by 2007. They assemble macroeconomic, microeconomic, and anecdotal evidence suggesting that government influence, while less explicit than in the past, is continuing despite the reforms. Indeed, the reforms thus far do not resolve the tensions between government influence and the obligation of widely held commercial banks to make credit decisions based on objective appraisal of borrowers’ ability to repay. The researchers conclude that when growth slows, the contradiction will become fully apparent and the government will resolve it by again bailing out the banks. They describe a pair of alternative bank reform proposals that would help to reconcile the government’s conflicting objectives.

Other Projects in 2006–07

“Financial Integration in Europe,” with Reint Gropp

“Zombie Lending and Depressed Restructuring in Japan,” with Ricardo J. Caballero and Takeo Hoshi

The Effects of Unemployment Insurance

Differences across countries and over time in unemployment have often been attributed to unemployment insurance programs. The effects of unemployment insurance on unemployment are examined in research by Meyer, in collaboration with Wallace K. C. Mok. They examine unemployment duration and the incidence of claims following a 36 percent increase in the maximum weekly benefit in New York state. This benefit increase sharply increased benefits for a large group of claimants, while leaving them unchanged for a large share of claimants who provide a natural comparison group. The New York benefit increase has the special features that it was unexpected and applied to in-progress spells. These features allow the effects on duration to be convincingly separated from effects on incidence. The results show a sharp fall in the hazard of leaving unemployment insurance that coincides with the increase in benefits. The evidence also is consistent with a substantial effect of the benefit level on the incidence of claims and with this change in incidence biasing duration estimates. The evidence further suggests that, at least in this case, standard methods that identify duration effects through nonlinearities in the benefit schedule are not badly biased.


Other Projects in 2006–07


The Political Economy of Financial Regulation: Evidence from U.S. State Usury Laws in the 19th Century

Moskowitz, with Efraim Benmelech of Harvard University, investigates the causes and consequences of financial regulation by studying the political economy of U.S. state usury laws in the 19th century. The researchers find evidence that usury laws were binding and enforced and that lending activity was affected by rate ceilings. Exploiting the heterogeneity across states and time in regulation, enforcement, and market conditions, they find that regulation tightens when it is less costly and when it coexists with other economic and political restrictions that exclude certain groups. Furthermore, the same determinants of financial regulation that favor one group (and restrict others) are associated with higher (lower) future economic growth rates. The evidence suggests regulation is the outcome of private interests using the coercive power of the state to extract rents from other groups, highlighting the endogeneity of financial development and growth.

Other Projects in 2006–07


“Long-Run Stockholder Consumption Risk and Asset Returns,” with Christopher Malloy and Annette Vissing-Jorgensen, working paper, updated December 2006

Casey Mulligan
Professor
Department of Economics
and the College

Selective Labor Supply and Women’s Occupational Gains

The changing time allocation of women has been one of the most dramatic economic and social transformations of the past 30 years. Women work more in the marketplace and less at home than they once did (Aguirar and Hurst, 2007). Their time in the marketplace has also been transformed, with growing fractions of women working in once primarily male occupations. Women’s professional achievements and pay have grown substantially, although not (yet) fully catching up with men’s. At the same time, within-gender wage inequality has increased. Is it possible that inequality within gender, women’s professional achievements, and women’s time allocation have a unified economic explanation?

In research with Yona Rubinstein of Brown University, Mulligan suggests that women’s occupations are more like those of men in recent years because the composition of the women’s workforce has changed. Among other things, the composition change was caused by growing wage inequality. In particular, the researchers suppose that growing wage inequality within gender is an indicator of a shift in the demand for human capital in favor of those with relatively large amounts of it. In response, women with less human capital may drop out of the workforce, and those with more human capital may enter. Women—especially the more able ones—may also increase their human capital investment. These responses would be observed as an increase in various skill proxies (such as schooling, IQ, etc.) of the female workforce relative to the female population as a whole, because it becomes more expensive (in terms of opportunity cost) for highly skilled women to remain out of the workforce. To the extent that human capital influences the occupations chosen by working women, this response would also be observed as an increase in women’s share of higher paid occupations.

In summary, wage inequality affects the composition of the female workforce. Working women’s occupational shifts reflect a changing composition of the female workforce.

Other Projects in 2006–07
“Political Competitiveness,” with Kevin Tsui, NBER working paper #12653, October 2006

Spending on End-of-Life Medical Care

Working with Gary Becker and Kevin Murphy, Philipson researched the high degree of spending on medical care at end of life in developed countries, particularly the United States. Medical care at the end of life often encounters skepticism from payers and policymakers who question its high cost. Indeed, many studies have found that a large share of overall lifetime spending on medical care, about a quarter, occurs at an individual’s last year of life, regardless of whether that care is privately or publicly financed. The assertion is often made that medical resources are being wasted on excessive care at the end of life. From an economic standpoint, it seems obvious that much end-of-life spending is irrational in the sense that the value of a life year is often estimated to be in the range of $100,000, but spending on technologies extending life a few months is often in the millions. This has often been interpreted as a vast misallocation of resources induced by excessive end-of-life health care spending and has been argued to have enormous consequences for the overall economy, as such spending makes up a substantial share of the 16 percent or so of the economy spent on healthcare. It also has important implications for public programs, such as Medicare in the United States, that pay for much of this excessive end-of-life care.

However, though many observers have claimed that such spending is often futile, irrational, and wasteful, little explicit and systematic analysis exists on the rational forces that determines end-of-life health care spending. More importantly, there exists no positive theory that attempts to explain the high degree of spending and why differences across individuals or time occur in the degree of end-of-life care.

This research, scheduled to appear as an NBER working paper in summer 2007, attempts to provide the first systematic economic analysis of end of life health care spending. The researchers argue that such a positive analysis is the prerequisite before any normative claims of wasteful spending can be made. They argue that there are several reasons why valuation of life at near death as present under terminal care often is larger than the valuation of life from existing estimates in labor market, product market, or regulatory studies.
Hospital Regulation Under Imperfect Competition

In 1997, the Balanced Budget Act mandated widespread cuts to Medicare and Medicaid, the governmental programs for elderly and poor Americans, respectively. These cuts have forced Medicare and Medicaid payments to remain flat while medical costs have risen over the last decade. Working with Luis Rayo, Ray models the effects of these cuts by building a theoretical microeconomic model of a hospital that competes for both publicly insured and privately insured patients. The researchers find the existence of cross-subsidization between public and private patients. Specifically, a nonprofit hospital loses profit on public patients but earns profit on private patients. As the government reduces reimbursement levels, the hospital sets higher prices for its private patients to cover the losses on the public side. Even though higher prices drive away some private patients, the hospital earns enough from the remaining private patients to remain solvent. This “cost-shifting” phenomenon takes place only in nonprofit hospitals that maximize consumer surplus, not in for-profit hospitals that maximize only profit. This explains the puzzle of why cost-shifting has received mixed empirical support in the U.S. economy: an increasing fraction of U.S. hospitals are for-profit, suggesting that cost-shifting is on the decline.

Other Projects in 2006-07

“Optimal Team Size and Monitoring in Organizations,” with Madhav Rajan and Pierre Liang, working paper

“Efficient Cost Allocation,” working paper

“Staged Financing: An Efficiency Perspective,” working paper
Recovery and Reform in the Swedish Welfare State

With Richard Freeman of Harvard and Birgitta Swedenborg of SNS, Stockholm, Topel organized a major research project on the performance of the Swedish welfare state during and after the economic crisis of the early 1990s. The project included 10 research papers, each on a separate aspect of Swedish economic policy and performance, and each coauthored by a Swedish and American economist.

An overarching theme of the project was the policy tradeoff between productivity growth and efforts to compress the Swedish income distribution. Swedish institutions and policies have resulted in a level of income inequality that is lower than for any country in the developed world, but the costs are high. By the early 1990s Sweden had a bloated public sector—there had been no private employment growth since the early 1970s, and government spending accounted for about 70 percent of GDP. Taxes were high, and the returns to acquiring productive skills, such as education and training, were quite small. The crisis of the early 1990s forced reforms, which led to lower taxes, rising rewards to skill (inequality) and a sharp contraction of public spending and employment. Economic performance improved, so that Swedish economic growth became comparable to other OECD countries.

The conference papers were presented at an academic gathering and at a more public conference for the Swedish business community and government officials. The proceedings will appear in an NBER conference volume, to be published by the University of Chicago Press in 2007.
Who Blows the Whistle on Corporate Fraud?

Pursuing his long-term interest in corporate governance, Zingales’s recent research on this topic focuses on a very important and delicate aspect: corporate fraud. In the first of two papers, Zingales and coauthors Alexander Dyck and Adair Morse study all reported cases of corporate fraud between 1996 and 2004 in companies with more than $750 million in assets to determine what external control mechanisms are most effective in detecting corporate fraud. They find that no specific actor dominates the scene; fraud is detected by a web of sometimes unlikely monitors: auditors (14 percent), analysts (15 percent), the SEC (6 percent), industry regulators (15 percent), employees (19 percent), and the media (15 percent). They also find that the frequency of employee whistle-blowers increases when monetary rewards are present (like in the case of fraud against the government). This suggests a new mechanism to improve the discovery of fraud. In a second paper, “How Pervasive is Corporate Fraud?”, Zingales and his coauthors try to infer the pervasiveness of corporate fraud by comparing the frequency of detection when the incentives for fraud detection are high and low. They estimate that 7 percent of firms commit fraud every year. They arrive at a very similar figure when they look at the increased probability of a fraud being revealed following the forced turnover of external auditors after the demise of Arthur Andersen.

Other Projects in 2006–07

"Is the U.S. Capital Market Losing Its Competitive Edge?" working paper

VISITING SCHOLARS
Eduardo Araral
March 2007

Araral’s thematic research interest focuses on the causes and consequences of institutions and institutional change in developing countries, particularly as they relate to property rights, collective action, decentralization, social capital, public bureaucracies, foreign aid, and common pool resources. He is currently examining alternative ways to reconstruct property rights when formal institutions are weak or nonexistent. The focus of this project is in Aceh, Indonesia, a place that was wracked by a 30-year rebellion and was the epicenter of one of the worst natural disasters in history (the 9.3 tectonic quake and tsunami in 2004 which killed 160,000 people and destroyed formal property institutions).

Araral currently teaches Public Management and Leadership, and Institutional Analysis and Design at the Lee Kuan Yew School of Public Policy in Singapore. Prior to this, he has lectured at the University of the Philippines and Indiana University, where he obtained his PhD in public policy in 2006. He has published in Policy Sciences, the Journal of Economic Policy Reform and the World Bank’s working papers series. Since 2002, he has been a staff consultant at the World Bank. From 1990 to 1997 he worked in field operations as a staff/manager for a poverty alleviation and rural development project in the Philippines.

Araral is a recipient of a Fulbright PhD Award, Ronald Coase Institute Fellowship, International Water Management Institute Dissertation Grant, Temasek Scholarship, and a scholarship from the Workshop in Political Theory and Policy Analysis–Indiana University. His dissertation on the theory of collective action was a finalist in the Best Dissertation Award given by the International Society for New Institutional Economics.
Maroš Servátka
April 2007

Servátka is a Lecturer (Assistant Professor) of Economics at the University of Canterbury in New Zealand. He joined the university in 2007. He previously held a postdoc position at the Sonder Forschungs Bereich 504 at the University of Mannheim.

A native of Slovakia, Servátka received his MA in quantitative methods from the Warsaw School of Economics in 2000 and his PhD in economics from the University of Arizona in 2006. In his dissertation he experimentally examined reputation effects in fairness games and in labor markets.

Servátka specializes in experimental and behavioral economics and is interested in how social norms and fairness considerations govern decisions of economic agents. Currently, he is working on a paper examining whether informal agreements, such as handshakes, foster trust and cooperation in the absence of written contracts. His other projects include a study on whether agents can achieve more efficient outcomes through trust signaling and experiments on imperfect monitoring and small prizes in team production.

Lennon Choy
May 2007

Lennon Choy is Assistant Professor in the Department of Building and Real Estate at the Hong Kong Polytechnic University. He is finishing a PhD in real estate economics and finance at the University of Hong Kong.

Lennon has published widely in the field of urban economics, including two papers analyzing office market development in Hong Kong and mainland China. Currently, he is analyzing the functioning of land and housing markets in Hong Kong, Shenzhen, and other cities in China.

Lennon gained his interest in studying contractual arrangements after he cofounded a spin-off company specializing in IT applications under the Hong Kong Polytechnic University. He has been a consultant to many international and local organizations, including the HKSAR Government, banks, charity trusts, publishers, and property developers. In 2003, Lennon was commended for helping the education sector combat the outbreak of SARS. He was awarded with a Silver and a Gold Medal from the International Exhibition of Inventions of Geneva in 2004 and 2005, respectively.
2006–07 Visiting Scholar

Nathaniel A. Gregory

Gregory has a BA from the University of North Carolina and an MA from Georgetown University, as well as a master’s degree and PhD in economics from the University of Chicago. His research interests include corporate finance, governance, and control; and energy economics and policy. His background ranges from serving as a foreign affairs analyst for Congressional Research Service to being a director of Mrs. Fields Cookies; from being a member of Capricorn Holdings to director of Marine Drilling Corporation.

While at the GSB as a visiting scholar, Gregory is Adjunct Professor of Finance.
George J. Stigler joined the faculty of the Graduate School of Business and the Department of Economics at the University of Chicago in 1958. This event, together with the arrival of Merton Miller in 1960, is widely recognized as establishing the University of Chicago Graduate School of Business as a world leader in academic research and making it a full partner in an extraordinarily fruitful cooperative research enterprise with the University’s Department of Economics and Law School.

Stigler was one of the great economists of the 20th century. He made seminal contributions to the economic theory of information and oligopoly and to the economic analysis of government regulation and the public sector. Stigler received the profession’s highest honors, including the presidency of the American Economic Association and the Nobel Memorial Prize in Economic Sciences. His 1982 Nobel Prize was the first awarded to an economist whose primary appointment was in a business school.