



Cambridge-INET Institute

Annual Report 2014-15

Institute for
New Economic Thinking



**UNIVERSITY OF
CAMBRIDGE**

From the Director



I am delighted to present the Annual Report of the Cambridge-INET Institute for the year 2014-2015.

This year is a turning point in the life of the Institute. The generous donation of Bill and Weslie Janeway (below) to the Faculty of Economics and Pembroke College provides our Institute with an endowment that will ensure the future of our activities, and a strong basis for further expansion and developments of our goals. As a member of the Cambridge-INET board, Bill has been an extraordinary presence. In each step in our development we have counted on his energy, wisdom and enthusiasm for the Institute's project. At the same time, the Institute for New Economic Thinking in New York has extended its support through 2020.



Bill and Weslie Janeway

Since its launch in September 2012, the Cambridge-INET Institute has played a fundamental role in consolidating Cambridge as a world leading centre for fundamental and innovative research in economics, pursuing excellence in New Economic Thinking. This report will give you a clear sense of the vitality of cutting-edge research in Cambridge, and the extraordinary growth in the range of activities and the intellectual scope of the Institute.

In this past year, our nine Cambridge-INET Post-docs have injected new energy into the University environment,

promoting a variety of initiatives, interacting with Faculty and students, helping with teaching but especially by conducting research at the frontier of our main research themes. During the course of the year, we have appointed three new Post-doctoral Fellows, bringing the number of Post-docs to 12. We look forward to starting this Academic year with our new colleagues.

The Institute has hosted over 50 internationally leading scholars as visitors and run over 100 meetings, including conferences, workshops, training and public talks. We hosted high-level meetings on current policy issues, and promoted the dissemination of research and economic ideas through our working paper series and public events. To ensure the future of economics as a vital and innovative field of studies, a number of stellar meetings and initiatives are lined up for the coming months, collaborating with other faculties, centres, universities, student societies, and European projects.

This extraordinary development would not have been possible without the support from INET New York, and the matched funding provided by The Keynes Fund for Applied Economics, Dr Mohamed El-Erian, the Cambridge Endowment for Research in Finance, the Isaac Newton Trust and the Faculty of Economics. We are especially grateful to the managers of INET New York for their continuing support and encouragement since Cambridge and INET joined forces to envision and shape our Institute.

The Institute counts on the leadership of world-class researchers as coordinators: Professor Kaivan Munshi and Professor Sanjeev Goyal for the theme "Network, crowds and markets"; Professor Hamish Low and Dr Vasco Carvalho for the theme "Transmission mechanism and economic policy"; Professor Hamid Sabourian and Professor Christopher Harris for the theme "Information, uncertainty and incentives"; and Professor Oliver Linton and Dr Alexei Onatski, for the theme "Empirical Analysis of Financial Markets". Professor Coen Teulings, as co-director, has been sharing with me the task of structuring the Institute in this phase of rapid growth, and inspired many of our new initiatives. The Institute is fortunate to have Marion Reusch as administrator, and Julia Foglia as her assistant. With patience and dedication, Marion and Julia have worked extraordinarily hard to make sure that all activities run smoothly and successfully. To all of them, I would like to say a big thank you!

Giancarlo Corsetti,
Director, Cambridge-INET Institute



The Cambridge-INET Institute

Contents

ACTIVITIES OF THE INSTITUTE

Postdoctoral Research Fellows	2
Student Support Programme	4
Visitors Programme	6
Events	8
Working Papers	17
Seed Funding Initiative	18
Faculty Support	18
Dissemination and Outreach	19
Research Themes	20

Postdoctoral Research Fellows

An introduction to the Institute's Postdoctoral Research Fellows and their Work.



JUAN BLOCK

My research interests lie mainly in microeconomic theory, in particular, repeated games and reputations, learning in games and evolutionary game theory.

Juan joins us from Washington University in St. Louis



CHEN WANG

Research: Random Matrix Theory, Large Dimensional Statistical Inference. *Chen joins us from National University of Singapore*



VESSELA DASKALOVA

My interests are in the areas of microeconomic and game theory. I apply both theoretical and experimental methods in my research. My PhD thesis was motivated by questions related to discrimination. In it I explored the role of social identity for the decisions that people make, as well as the usage of mental categories to make optimal decisions. A recurring theme in my projects has been how the attempt to coordinate with others affects individual behaviour.

Vessela joins us from Queen Mary, University of London



MAREN FROEMEL

My research interests are macroeconomics, fiscal policy / macro public finance, international finance and economic history, and quantitative macroeconomics.

Maren joins us from European University Institute, Italy



ABHIMANYU KHAN

My research interests are applied evolutionary game theory, networks, industrial organisation.

Abhimanyu joins us from Maastricht University, The Netherlands



ROHIT LAMBA

My research interests are in mechanism design, economic theory, public finance, bubbles and market microstructure, and economic policy.

Rohit joins us from Princeton University



SOHEIL MAHMOODZADEH

Research: Market Microstructure, High Frequency Trading, Financial Economics, Applied Econometrics.

Soheil joins us from Simon Fraser University, Canada



PETER MALEC

My research are high-frequency econometrics, (co-)volatility modeling and forecasting, applied nonparametric methods.

Peter joins us from Humboldt-University, Berlin



CHRISTOPHER RAUH

In my research I study how inequalities emerge and persist. I am currently working on three papers. In the first paper, focusing on the job market, I investigate how the political economy of early and college education can explain cross-country differences in inequality and intergenerational mobility. The second focuses on how discriminatory equilibria can be driven by coordination failures based on beliefs. For the third paper I am working on detecting bilateral movements in UN votes and explaining these through (im)balances of power, conflicts, and economic interests among countries.

Christopher joins us from University Autònoma de Barcelona



MIGUEL MORIN

My research interests are macroeconomics and economic history. I work on the effects of technology adoption on the labor market, for example computers or electricity, both from a theoretical and macroeconomic perspective as well as from an empirical and historical perspective.

Miguel joins us from Columbia University, New York



MIKHAIL SAFRONOV

Research: microeconomic theory.

Mikhail joins us from Northwestern University, US



ANJA PRUMMER

In my research I focus on social networks with potential applications for, labor, and cultural leadership. Social network theory can add to the understanding of economic questions as an individual's decision might be partially influenced by his reference group. Taking this into account may offer new explanations for empirically observed facts and patterns. I build theoretical models that incorporate social network components and have testable empirical implications.

Anja joins us from European University Institute, Italy



SCOTT SWISHER

My primary research interests are macroeconomics, networks, and economic history. My research involves applications of the theory of strategic network formation, specifically to real-world transportation and communication networks. In previous work, I have estimated the macroeconomic effect of transportation networks and financial exchanges using historical data. I have also examined the role of product reviews and information aggregation in the entertainment industry.

Scott joins us from University of Wisconsin–Madison

Student Support Programme

To ensure that it can attract the best candidates, the Institute provides a variety of options for student support.

I. STUDENTSHIPS

In the past the Faculty has had difficulties with the retention of high quality doctoral candidates. The Institute's studentship programme aims to support the Faculty in securing top PhD applicants working in relevant research fields. Whilst the Faculty waits for decisions from both University and external funding bodies, overseas institutions, particularly in the United States, are able to make candidates offers complete with full funding. As a result many high quality candidates take up offers with studentships at other schools. Studentships in 2014-2015 were awarded to Rafe Martyn, David Minarsch and Ekaterina Smetanina.

II. SCHOLARSHIPS

In the interests of supporting current doctoral students at the Faculty of Economics, the Cambridge-INET Institute has committed to providing £15,000 in additional funds to the existing Faculty scholarships scheme. Students will apply as normal to the Faculty scholarships scheme. Decisions regarding the allocation of Institute funds will be made by an Institute representative at the faculty scholarship meeting to be held in June. The allocation of Institute funds will give preference to students whose work falls within its four main research themes. Scholarships in 2014-2015 were awarded to Anil Ari, Teodora Boneva, Frederico Lima, Jasmine Xiao.

III. VISITING STUDENT SUPPORT

The Institute has supported two visiting students this year. Benedikt Fuchs (Medical University of Vienna) in Lent term and Zhen Huo (University of Minnesota) in May. Support included reimbursement of travel costs, accommodation and expenses.

PhD Students 2014-15



RAFE MARTYN

My research is focused on furthering our theoretical understanding of the macroeconomics of financial crisis. I am interested in developing new insights into how the onset of crisis can be amplified by the financial sector. In the aftermath of a crisis, I am working on understanding why a period of low interest rates ensues and what policies can best exit the economy from this state. I have a background in Physics, so I am also keenly following attempts to import ideas, methods and mathematics from this discipline into economics.



DAVID MINARSCH

My research focuses on investigating traditional microeconomic topics in the context of social and economic networks. My models make the relationship structure between economic agents explicit and analyse its impact on economic outcomes. Currently, I am concentrating on the issues of decentralised trade in networks when agents only hold local information on the network structure.



EKATERINA SMETANINA

My research interests are time series, forecasting and financial econometrics. I am also interested in applying nonparametric methods to different econometric problems.

Student Scholarships 2014-15



ANIL ARI

Research: Sovereign Risk, Macro Finance, Open Economy Macroeconomics



TEODORA BONEVA

Research: Public Economics, Behavioural and Experimental Economics, Applied Microeconomics



FREDERICO LIMA

Research: Macroeconomics and Public Economics



JASMINE XIAO

Research: Macro Finance

Visitors Programme

We have had a lively programme of visitors to the Institute: this includes a mix of world leading senior economists and young researchers working on the frontiers of their fields. Our visitors normally come for a period of one to three weeks, sometimes longer. During their stay they deliver research talks and seminars, and they interact with our faculty and students.

Visitors 2014-15

September 2014	Marcin Dziubinski	University of Warsaw
	Joel Mokyr	Northwestern University
	Charles Engel	University of Wisconsin
	Hyun Song Shin	Bank for International Settlements
	Wouter Den Haan	London School of Economics
	Ali Jadbabaie	University of Pennsylvania
	Pier-Andre Bouchard St-Amant	Institute for New Economic Thinking
	Matthew Elliott	Caltech
	Jianqing Fan	Princeton University
October 2014	Jaume Ventura	Barcelona Graduate School of Economics
	Jonathan Eaton	Brown University
	Hyun Song Shin	Bank for International Settlements
	Jeremy Greenwood	University of Pennsylvania
November 2014	Nick Vriend	Queen Mary University of London
	Ben Golub	Harvard University
	Jeff Campbell	Federal Reserve Bank of Chicago
	Kieran Walsh	Yale University
	Andy Haldane	Bank of England
	Arnold Polanski	University of East Anglia
	Mihaela van der Schaar	University of California, Los Angeles
	Nikolaus Hautsch	University of Vienna
	Antonio Merlo	Rice University
January 2015	David Rahman	University of Minnesota
	Simon Lee	Seoul National
	Yoon-Jae Whang	Seoul National
	Benedikt Fuchs	Medical University of Vienna

February 15	Marcin Dziubinski	University of Warsaw
	Luca Dedola	European Central Bank
	Gernot Mueller	Bonn University
	Akira Okada	Hitotsubashi University
	Aditya Goenka	National University of Singapore
March 2015	Edouard Challe	CNRS, Ecole Polytechnique and CREST-ENSAE
	Mark Cliffe	ING Group
	Arun Chandrasekhar	Stanford University
	Joon Park	Indiana University
	Yoosoon Chang	Indiana University
April 2015	Timothy Guinnane	Yale University
	Omer Tamuz	Caltech, MIT and Microsoft Research
	Dilip Mookherjee	Boston University
May 2015	Wolfgang Haerdle	Humboldt University
	Mirko Draca	University of Warwick
	Roger Myerson	University of Chicago
	Luis Corchon	Charles III University of Madrid
	Bhaskar Dutta	University of Warwick
	Esteban Rossi-Hansberg	Princeton University
	Ramana Nanda	Harvard Business School
	Joel Watson	University of California
	Jesus Fernandez-Villaverde	University of Pennsylvania
June 2015	Sylvain Chassang	Princeton University
	Eric Maskin	Harvard University
	Alexander Wolitzky	Stanford University
	Jay Lu	Princeton University
	Erzo Luttmer	Dartmouth
	Akira Okada	Hitotsubashi University
July 2015	Marcin Dziubinski	University of Warsaw
September 2015	Haim Levy	The Hebrew University of Jerusalem
	Luis Corchón Díaz	University of Carlos III in Madrid
	Jon Wellner	University of Washington
	Jiangning Fan	Princeton University
October 2015	Roger Koenker	University of Illinois
	Gary Chamberlain	Harvard University
	Sander Heinsalu	University of Queensland
	Francis Bloch	Paris School of Economics
	Yves Zenou	Stockholm University
	Jeff Ely	Northwestern University
	Aldo Rustichini	University of Minnesota
	Lillia Cavallari	University of Rome III
	Offer Lieberman	Bar-Ilan

Events

The conference programme aims to facilitate the meeting of academics on the frontiers of research under our research themes.

The conferences attract leading figures but also provide the opportunity for new researchers and PhDs to join the conversation.

Conferences, Workshops, Public Talks

SEPTEMBER 2014

Conference

Aggregate Demand, the Labour Market and Macroeconomic Policy

Organisers: Giancarlo Corsetti, Greg Kaplan and Pontus Rendahl

Conference Summary: In the aftermath of the recent financial crisis a number of policy issues have been brought to the center stage of both policy debates and academic research. The conference aimed to bring together frontier research on: The interactions between aggregate demand and the labor market; jobless recoveries; and the macroeconomic implications of long term unemployment; policy answers in times of crisis. This conference was partly funded by the Centre for Macroeconomics.

Speakers: Pontus Rendahl, Edouard Challe, Edouard Schaal, Robert Hall, Andreas Mueller, Iouri Manovski, Gabriel Chodorow-Reich; Victor Rios Rull; Wouter den Haan, Pascal Michaillat, Fabrizio Perri, Atif Mian and Guido Lorenzoni.

Public Talk

Joel Mokyr: A Culture of Growth

Drawing on his latest book, Professor Mokyr analysed the 1500-1700 market for ideas and how it gave rise to the Industrial Revolution and the Modern Economy.

OCTOBER 2014

Public Talk

Hyun-Song Shin: Breaking the Triple Coincidence in International Finance

Recent work by Hyun Song Shin sets ambitious but important goals for frontier research in economics and financing: extending the scope of theoretical and empirical modelling to encompass institutional constraints on decision making, and providing insight on why these institutional constraints affect economic behaviour. The lecture stressed the importance of accounting for the complexity of actors interacting in international markets: local governments, international financial and nonfinancial firms, asset managers, and international institutions.

NOVEMBER 2014

Workshop

Empirical Microstructure Workshop

This workshop confronted recent empirical findings in market microstructure with methodological developments in high-frequency econometrics to shed new light on important aspects of contemporary financial markets.

Speakers:

James Brügler (University of Cambridge)

Carole Comerton-Forde (University of Melbourne)

Nikolaus Hautsch (University of Vienna)

Ryoko Ito (University of Cambridge)

Ian Marsh (City University London)

Roel Oomen (Deutsche Bank, University of Amsterdam)

Jean-Pierre Zigrand (London School of Economics)

Public Talk

Andy Haldane: **Managing Global Finance as a System**

Andy Haldane's lecture provided a novel and compelling reading of the main determinants of the global financial crisis and its lessons for policymaking. Through a rich array of arguments, Haldane articulates a key message: to safeguard against systemic risk, the financial system needs to be managed as a system. The challenge to national and international institutions is to understand the minimum requirement for coordination that can make global markets more stable and resilient to crises, without curbing their allocative efficiency.

DECEMBER 2014

Conference

International Trade, Finance and Macroeconomics

The conference on international trade finance and the macroeconomics has brought together leading world-class academics working at the frontier of different fields in international economics, to rethink research programmes bridging the existing gaps that divide different fields of international economics. Frontier contributions ranged from work on firms dynamics and business cycles, to macroeconomic and financial issues associated with global value chains, and trade finance. The interest of the Bank of England, that co-sponsored the conference with Centre for Macro and Cambridge-INET, show the strong policy relevance of this new promising direction of academic work.

Talks

David Rahman: **Repeated Games and Mechanism Design**

In this talk, David Rahman discussed how institutions, such as trade associations and information management institutions, can facilitate mutual cooperation in today's complex societies. He identified two canonical channels: people are able to secretly monitor each other, hence only occasionally, which can yield substantial reductions in monitoring costs; and when incentives require agents to receive a reduction in their benefits beyond the cost of monitoring itself, they can aggregate information better by coordinating infrequently. He illustrated this point by showing ample empirical evidence for these channels and analysed numerous applications of his theoretical results.

The second talk of David Rahman is based on the important policy issue of long term interactions between economic agents with institutions that act as mediators. In essence a mediator makes confidential behavioural recommendations to members of the society and they find it beneficial to follow such recommendations. He studied a fundamental aspect of modern markets, namely, economic agents make decisions very frequently using an enormous amount of detailed information. In addition, he explained the range of situations that are expected to be observed in the long run when there is the possibility of designing institutions that change over time. Moreover, he emphasized the role of public and private information thereby identifying the pros and cons of each source of information for agents.

MARCH 2015

Workshop

Microstructure Theory and Application

The workshop on market microstructure theory and application was held on March 12-14 at Trinity College. This event brought together cutting edge theoretical and empirical research in market microstructure to address issues of contemporary importance. The list of invited speakers was: Yacine Ait-Sahalia, Robert Almgren, James Angel, Bruno Biais, Thierry Foucault, Douglas Gale, Joel Hasbrouck, Terry Hendershott, Andrei Kirilenko, Albert S. Kyle, Albert J. Menkveld, Marco Pagano, Andreas Park, Gideon Saar, Dimitri Vayanos and Xavier Vives. For example, Andreas Park from the University of Toronto spoke about the regulation of dark trading with a particular focus on order flow segmentation and market quality, finding that the impact of regulation of dark trading depends crucially on the nature of liquidity provision in the venues affected.

APRIL 2015

Workshop

Developments in Time Series

The workshop on developments in time series analysis took place on April 2 at Trinity College and allowed researchers to present their latest theoretical and empirical results to a broader audience. The invited speakers were Yoosoon Chang, Liudas Giraitis, Andrew Harvey, Javier Hidalgo, Joon Park, Peter Robinson and Pentti Saikkonen. Among others, Joon Park from Indiana University discussed regressions with observations collected at small time intervals over long periods of time, showing that the Wald statistic becomes spurious in this setting.

Conference

Economics and Policy in a Historical Mirror: The 'Thirties and the Noughties'

This symposium addressed the question: what lesson can be learned from the Great Depression of the thirties of last century for the Great Recession of 2009 and beyond. Just prior to this Barry Eichengreen had published his book *The Hall of Mirrors*, exactly on this topic. He pointed out the large similarities between both episodes. He also showed that part of the lessons learned in the thirties were applied during the Great Recession, probably avoiding the worst. However, he also showed that another part of the lessons were erased from policy makers' memory, leading to too much liberalisation of the financial sector and a premature return to 'normal' policies before 'normal' conditions had returned. Solomou Solomos analysed the effect of financial crisis on gross domestic product. Some researchers had suggested that a financial crisis would lead to a permanent set back in GDP. Using long term data from the crisis in the thirties, Solomou showed that there will be mean reversion of GDP in the long run and the effect of crises will disappear. Speakers: (Giancarlo Corsetti (Cambridge), Barry Eichengreen (Berkeley), Bill Janeway (Cambridge), Coen Teulings (Cambridge))

Symposium

Contagion

Conference Organizer: Flavio Toxvaerd (Cambridge)

An interdisciplinary symposium bringing together researchers working on different aspects of contagion from different perspectives, in order to explore common features and foster cross-pollination across economics and finance, biology, computer science, network science and public health. This conference was co-funded by the Cambridge INET's "Networks Crowds and Markets" and "Information, Uncertainty and Incentives" Research Groups and Cambridge Endowment for Research in Finance.

Speakers: Vasco Carvalho, Frederick Chen, Gabrielle Demange, Eli Fenichel, Sanjeev Goyal, Tibor Heumann, Anup Malani, Gustavo Manzo, Bryony Reich, Omer Tamuz, Flavio Toxvaerd.

MAY 2015

Workshop

Tail Event Driven Risk Modelling

The workshop on tail event driven risk modelling took place on May 5 and 6 at Trinity College. The invited speakers were Christian Brownlees, John Einmahl, Matthias Fengler, Wolfgang Haerdle, Simone Manganeli, David Veredas and Qiwei Yao. This event gave both the speakers and the participants the opportunity to exchange ideas on major issues in modern financial risk analysis and management. For example, Simone Manganeli from the European Central Bank presented a method for estimation and inference in multivariate, multi-quantile models. The corresponding theory can simultaneously accommodate models with multiple random variables, multiple confidence levels, and multiple lags of the associated quantiles. In an empirical study, he showed how this methodology can successfully identify the set of financial institutions whose risk is most sensitive to market wide shocks. Wolfgang Haerdle from Humboldt University Berlin proposed the concept of Tail Event Driven ASset allocation (TEDAS) to study the dependence between assets at different quantiles. In a hedging exercise, TEDAS uses adaptive penalized quantile regression in order to determine an active set of negative non-zero coefficients. Based on these active risk factors, an adjustment for intertemporal correlation is made. Finally, the asset allocation weights are determined via a Value-at-Risk optimization.

17th Babbage Lecture

Faculty Economics: Secular stagnation, rational bubbles, and fiscal policy

Coen Teulings talked about the Ebook on *Secular Stagnation* that he co-edited with Richard Baldwin. The hypothesis of secular stagnation was first put forward by Larry Summers, who claimed that a surplus of saving over investment would not be temporary; it would be the “new normal”. Teulings discussed a number of potential explanations. Demography plays an important role. Lower fertility and the increase in life expectancy have pushed up savings, while the lack of a welfare state in China leads to high precautionary savings. The increasing importance of network externalities due to the internet and the fall in the relative price of capital goods yields a fall in the nominal demand for capital. Teulings discussed the likely implications of secular stagnation for house prices bubbles.

Chair: Ha-Joon Chang (Cambridge), Introduction: Antonio Andreoni (SOAS and IfM), Coen Teulings (Cambridge), Discussants: Giancarlo Corsetti (Cambridge), Ken Coutts (Cambridge)

Symposium

Financial Crises: Lessons from History

Organizers: Giancarlo Corsetti (Cambridge), Miguel Morin (Cambridge) and Petra Geraats (Cambridge)

Financial crises: lessons from history took place at Trinity College on May 7 and provided a forum for leading researchers in economic history to present their latest work. Solomos Solomou spoke about the lasting impact of banking crises on a country's GDP and industrial production. Michael Bordo highlighted the increased historical performance of countries who learn to manage their financial systems following the example of the financial leaders such as the UK and the US. Barry Eichengreen suggested that strong network effects led the international payment system to gravitate toward a single reserve currency (such as the pound sterling in the 19th century and the dollar today), and suggested that weakening of these network effects opened the dollar for multiple reserve currencies.

Speakers: Michael Bordo, Barry Eichengreen and Solomos Solomou

JUNE 2015

Colloquium

First Colloquium on the European Crises

On June 3rd 2015 the Cambridge INET Institute launched the *Cambridge Colloquia on the European Crises*. This is a series of events bringing together Policy-makers and Academics to discuss in an open and informal context the main issues of the European economy since the onset of the 2008-2009 global financial crisis with particular regard to sovereign risk and slow growth in the Euro area. The first Colloquium, organised by Professor G. Corsetti (Cambridge) and Dr F. Vergara Caffarelli (Bank of Italy and Cambridge), was held on June 3rd at Wolfson College (Cambridge). The Speakers were Professor Vittorio Grilli (Former Minister of Economy and Finance of Italy and currently Chairman of Corporate Investment Bank EMEA at JP Morgan), Professor Barry Eichengreen (Berkeley and Cambridge) and Professor Giancarlo Corsetti. The series will continue in the next academic year with the aim of fostering the debate between policy makers and academics and deepen the analysis of current key economic policy issues on the European economy.

Conference

Big Data – cemmap and INET – Economic and Econometric Applications of Big Data

Organisers: Victor Chernozhukov, Andrew Chesher, Oliver Linton and Lars Nesheim

The conference focused on applications using big data or big data tools in any field or on research focusing on interesting economic questions that arise from considering the rapid changes in data availability, computational technology, software, and econometric methods.

Speakers: Mehmet Caner, Richard Nickl, Shuo Cao, Cavit Pakel, Damian Kozbur, Matthew Harding, Martin Spindler, Pramila Krishnan, Lars Nesheim, Sokbae Simon Lee, Yuan Liao, Elena Manresa, Sendhil Mullainathan, Oliver Linton, Weining Wang, Wolfgang Haerdle, Matt Taddy

Workshop

Econometrics of Networks

Organiser: Alexei Onatski

The workshop has brought together many leading experts in the field. It was attended by about 40 active researchers and students from the University of Cambridge and elsewhere. The workshop has stimulated very interesting and active discussions.

There were three sessions. The first session was devoted to econometric models of dyadic link formation in social networks. It featured presentations by Andreas Dzemski from the University of Mannheim and by Bryan Graham from the University of California, Berkeley. The topic of the second session was network formation with many agents and based on subgraphs. The session featured presentations by Conrad Menzel from New York University and by Arun Chandrasekhar from Stanford University. Finally, the third session was concerned with the identification of preferences and estimation in network games, as well as network estimation using time series. It consisted of three presentations – by Aureo de Paula from University College London, by Shuyang Sheng from the University of California at Los Angeles, and by Matteo Barigozzi from London School of Economics. The cutting-edge research presented was of the highest quality.

Meeting

Third European Meeting on Networks

Organized by Vasco Carvalho and Sanjeev Goyal, and co-sponsored by the European Research Council and Cambridge-INET Institute.

This Workshop forms part of a European level initiative; the first workshop was held in Budapest (2013) and the second in Essex (2014).

The Workshop brought together some of the best research in networks; it covered theory and empirics with potential applications in the fields of macro-economics, finance, development, and microeconomic theory.

Workshop

The Economic Development of India

On 26-27 June, the Cambridge INET Institute and the Harvard-Cambridge Centre for History and Economics organized an interdisciplinary workshop on the economic development of India. The aim of the workshop was to encourage discussion across economics, history, and related disciplines. Speakers at the event included historians – Sunil Amirth (Harvard), Rohit De (Yale), Joya Chatterji (Cambridge) – and economists – Abhijit Banerjee (MIT), Esther Duflo (MIT), and Kaivan Munshi (Cambridge). A common thread running through the presentations was the importance of ethnic communities in shaping the South Asian development experience, in important and diverse areas that included migration and politics.

Lunch Workshop

Economics – Sanjeev Goyal and Julien Gagnon

Cambridge – INET hosted a lunch workshop in economics on the 23 June, 2015, with the special contribution of three visiting scholars: Alex Wolitzky (MIT), Jay Lu (UCLA) and Erzo Luttmer (Dartmouth). Julien Gagnon (Cambridge) completed the set of presentations. The workshop, mostly focusing on microeconomic theory, welcomed a high number of participants.

JULY 2015

Conference

15th SAET Conference on Current Trends in Economics

Organisers: Hamid Sabourian, Tiago Cavalcanti, The University of Iowa and Springer

This biannual event took place at Churchill College Cambridge. It is one of the largest gathering of economic theorists worldwide. There were five Plenary sessions given by five highly eminent economists:

Bernard Cornet (PSE-University of Paris I & University of Kansas) – Ambiguity in Financial Economics

Robert Townsend (MIT) – A Market Based Solution for Fire Sales and other Price Externalities:

Segregated Security Exchanges and Ex Ante Rights to Trade

Partha Dasgupta (University of Cambridge) – Welfare Axiomatics Chair: Hamid Sabourian
(University of Cambridge)

Philip Reny (University of Chicago) – Sequential Equilibria of Multistage Games with Infinite Sets
of Actions and Types

Gabriel Carroll (Stanford University) – Robust Incentive Contracting Chair

In addition, there were around 540 presentations on all aspects of economic theory, including macroeconomics and finance. The quality of presentations was very high and the event was considered a great success.

SEPTEMBER 2015

Conference

Persistent Output Gaps: Causes and Policy Remedies

Invited Speakers: Gauti Eggertsson, Bob Hall, Alp Simsek

Conference organisers: Elisa Faraglia, Klaus Adam, Giancarlo Corsetti, Gabriel Perez Quiros
and Ricardo Reis.

Workshop

Big Data Big Methods – Oliver Linton

Invited Speakers and presentations:

Xiaohong Chen (Yale) – MCMC confidence sets for partially identified parametric models

Jianqing Fan (Princeton University) – Big Data Big Thinking: A revisit of Tukey's wisdom

Wolfgang Härdle (Humboldt Universität zu Berlin) – Q3-D3-LSA

Degui Li (University of York) – Semiparametric Model Averaging of Ultra-High Dimensional Time Series

Roger Moon (University of Southern California) – Forecasting with Dynamic Panel Data Models

Alexei Onatski (University of Cambridge) – Testing in High-Dimensional Spiked Models

Richard Samworth (University of Cambridge) – Random Projection Ensemble Classification

Chen Wang (University of Cambridge) – Order Determination of Large Dimensional Dynamic Factor Model

Jon Wellner (University of Washington) – Signal Detection and Goodness of Fit: The Berk-Jones
goodness-of-fit statistics revisited

Patrick Wolfe (University College London) – Understanding the Behaviour of Large Networks

Qiwei Yao (London School of Economics) – Eigenanalysis for Time Series

Conference

Search and Matching

Until 30 years ago, most of economics worked with a stylised description of markets as centralised auctions. During the past decades there has been an increasing attention on how exactly demand and supply meet and how trade is realised. During this conference, new results in this booming area were presented. The two keynote speakers were Fabien Postel-Vinay and Jan Eeckhout. Postel-Vinay talked about a model where workers' human capital is multidimensional, distinguishing cognitive, inter-personal and physical abilities. He showed how people acquire new abilities on the job, making the evolution of their human capital path dependent. Jan Eeckhout talked about multiple equilibria in job search. When all workers spend more effort in job search, employers will find it more attractive to open vacancies. But when there are more vacancies, workers will find it attractive to invest more in job search. Hence, both a low search effort/low vacancy and a high effort/high vacancy equilibrium can be stable.

Organisers: Jake Bradley (Cambridge) and Coen Teulings (Cambridge)

Seminars

October 2014

Wouter Den Haan (Macro)	Inventories and the Role of Goods-Market Frictions for Business Cycles
Jonathan Eaton (Micro)	Firm-to-Firm Trade: Imports, Exports, and the Labor Market
Ali Jadbabaie (Micro)	Information Heterogeneity and Social Learning

November 2014

Nick Vriend (Micro)	Social Identity and Punishment in a Minimum Effort Game
Kieran Walsh (Macro)	Asset Pricing and the One Percent
Matt Elliott (Micro)	Social Investments, Informal Risk Sharing, and Inequality
Antonio Merlo (Micro)	The Home Selling Problem: Theory and Evidence
Jeremy Greenwood (Macro)	Why Doesn't Technology Flow from Rich to Poor Countries?

January 2015

Simon Lee (Econometrics)	Optimal Data Collection in Randomized Experiments
Yoon-Jae Whang (Econometrics)	The Cross-Quantilegram: Measuring Quantile Dependence and Testing Directional Predictability between Time Series

March 2015

Kaivan Munshi (History and Economics)	Black Networks after Emancipation: Evidence from Reconstruction and the Great Migration
Arun Chandrasekhar (Micro)	Savings Monitors
Edouard Challe (Macro)	Cambridge Finance Workshop

April 2015

Dilip Mookherjee (Micro)	Asymmetric Information and Middleman Margins: An Experiment with West Bengal Potato Farmers
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May 2015

Roger Myerson (Micro)	Sequential Equilibrium Distributions in Multi-Stage Games with Infinite Sets of Types and Actions (joint with Philip J. Reny)
Mirko Draca (Micro)	The Changing Returns to Crime: Do Criminals Respond to Prices
Bhaskar Dutta (Micro)	Rumours
Sylvain Chassang (Micro)	Minimum Prices and Collusion in Procurement Auctions
Ramana Nanda (Micro)	Housing Collateral, Credit Constraints and Entrepreneurship -Evidence from a Mortgage Reform
Zhen Huo (Macro)	Higher Order Beliefs, Confidence, and Business Cycles.
Esteban Rossi-Hansberg (Micro)	The Geography of Development: Evaluating Migration Restrictions and Coastal Flooding
Joel Watson (Micro)	Contractual Chains
Ed Glaeser (Micro)	An Extrapolative Model of House Price Dynamics

June 2015

Sylvain Chassang (Micro)	Minimum Prices and Collusion in Procurement Auctions (joint with Juan Ortner)
Jesus Fernandez-Villaverde (Macro)	The Pruned State – Space System for Non-Linear DSGE Models: Theory and Empirical Applications

Reading Groups

September 2014

Charles Engel (Macro)	Real Exchange Rates and Sectoral Productivity in the Eurozone
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October 2014

Giancarlo Corsetti (Macro)	International Competitiveness and Monetary Policy
Charles Gottlieb (Macro)	Communal Land and Agricultural Productivity
Ali Jadbabaie (Theory)	Learning to Coordinate in Social Networks
Vasco Carvalho (Networks)	Input Diffusion and the Evolution of Production Networks
Ali Jadbabaie (Networks)	Dynamic Pricing in Social Networks: The Word of Mouth Effect
Jaume Ventura (Macro)	Globalization and Political Structure
Vasco Carvalho (Macro)	Supply Chain Disruptions: Evidence from the Great East Japan Earthquake
Rohit Lamba (Theory)	Optimal Dynamic Contracting: the First-Order Approach and Beyond
Coen Teulings (Networks)	Welfare Benefits of Agglomeration and Worker Heterogeneity
Charles Brendon (Macro)	Time-consistent Institutional Design
Claudia Herresthal (Theory)	Mobility, Learning and School Choice
Matt Elliott (Networks)	Decentralized Bargaining: Efficiency and the Core
Elisa Faraglia (Macro)	Government Debt Management: the Long and the Short of it
Kaivan Munshi (Networks)	Networks and Misallocation: Insurance, Migration, and the Rural-Urban Wage Gap
Flavio Toxvaerd (Theory)	On the Dynamics of Beliefs and Risky Sexual Behavior
Christopher Rauh (Macro)	Early Childhood Education, Maternal Labor Supply, and Cross-Country Differences in Intergenerational Mobility
Charles Roddie (Theory)	Demographic Competition and Inequality Aversion
Pier-Andre Bouchard St-Amant (Networks)	Interbanking Networks: Controlled Cascade Failures Through Taxation
Jeff Campbell (Macro)	Quantitative Easing in Joseph's Egypt with Keynesian Producers
Miguel Morin (Macro)	The Labor Market Consequences of Electricity Adoption: Concrete Evidence from the Great Depression
Julien Gagnon (Networks)	The Great Transformation Social Structure, Markets and Inequality
Farzad Saidi (Macro)	Networks, Finance, and Development: Evidence from Hunter-Gatherers
Fernando Vega-Redondo (Theory)	Production Networks and General (market) Equilibrium
Bartosz Redlicki (Networks)	Information Diffusion by Cheap Talk and Optimal Targeting

December 2014

Petra Geraats (Macro)	The Effect of Inflation Targeting: A Mean-reverting Mirage?
David Rahman (Theory)	The Dilemma of the Cypress and the Oak Tree
Sanjeev Goyal (Networks)	Networks in Economics: A Perspective on the Literature

January 2015

Heinrich Nax (Theory)	A Behavioral Study of 'Noise' in Coordination Games
Sanjeev Goyal (Networks)	Financial Linkages, Risk Taking and Volatility (joint with A. Galeotti and C. Ghiglino)

February 2015

Jonathon Hazell (Networks)	Efficiency, Stability and Contagion in Financial Networks (joint work with M. Elliott)
Richard Weber (Theory)	A More General Pandora Rule
Filippo Vergara Caffarelli (Networks)	Quantifying Productivity Effects of Global Value Chains
Coen Teulings (Macro)	Secular Stagnation, Rational Bubbles, and Fiscal Policy
Alexander Teytelboym (Networks)	Cascades in Networks: a Simple Theory and Applications (joint work with Y. Lim and A. Ozdaglar)
Tim Uy (Macro)	Zeros and the Gains from Openness
Aytek Erdil (Theory)	Two-sided Matching with Indifferences.
Scott Swisher (Networks)	Reassessing Railroads and Growth

March 2015

Tiago Calvacanti (Macro)	(Mis)Allocation Effects of an Overpaid Public Sector
Abhimanyu Khan (Theory)	Imitation by Firms in a Differentiated Market
Alex Harris (Networks)	Social Structure, Social Preferences and Cooperation (joint work with J. Gagnon)
Scott Swisher (Macro)	Reassessing Railroads and Growth: Accounting for Transport Network Endogeneity
Anja Prummer (Networks)	Spatial Advertisement in Political Campaigns

April 2015

Maren Froemel (Macro)	The Macroeconomic and Distributional Effects of Targeting Transfers
Jake Bradley (Macro)	Search, Sorting and Heterogeneity: A Structural Decomposition of Wage Inequality in Germany
Christopher Harris (Theory)	Self Control and Liquidity: How to Design a Commitment Contract –

May 2015

Luis Corchon (Theory)	Oligopolistic Competition with Financial Constraints
Frank Kelly (Theory)	Efficient Advert Assignment
Joel Watson (Theory)	Relational Contracting/Repeated Games with Bargaining
Hamish Low (Macro)	Durables, Lemons and Shocks
Timo Hiller (Networks)	Peer Effects in Endogenous Networks
Lorenzo Ductor (Networks)	Gender Differences in Social Networks
Giancarlo Corsetti (Macro)	Backstops to Government Debt
Bryony Reich (Networks)	Riots Through Networks
Zhen Huo (Macro)	Higher Order Beliefs, Confidence, and Business Cycles
Pontus Rendahl (Macro)	Unemployment Benefits and Unemployment Volatility
Robert Evans (Theory)	Third Party Sale of Information

June 2015

Milan Vojnovic (Theory)	Utility Sharing and Social Welfare
Scott Swisher (Networks)	Transport Networks and Internal Trade Costs: Quantifying the Gains from Repealing the Jones Act
Margit Reischer (Networks)	Prices, Profits & Production in Pardus

Working Papers

The working papers listed below demonstrate the broad range of expertise and academic activity at Cambridge-INET. They can be viewed online at www.inet.econ.cam.ac.uk/papers/working-papers

Reference number

wp1516	Beyond Competitive Devaluations: The Monetary Dimensions of Comparative Advantage Paul R. Bergin and Giancarlo Corsetti
wp1515	Aggregating Elasticities: Intensive and Extensive Margins of Female Labour Supply Orazio Attanasio, Peter Levell, Hamish Low and Virginia Sanchez-Marcos
wp1514	Contagion Exposure and Protection Technology Diego Cerdeiro
wp1513	Large Firm Dynamics and the Business Cycle Vasco M. Carvalho and Basile Grassi
wp1512	Discrimination, Social Identity, and Coordination: An Experiment Vessela Daskalova
wp1511	The Labour Market Consequences of Electricity Adoption: Concrete Evidence from the Great Depression, Miguel Morin
wp1510	The Consumption Response to Liquidity-Enhancing Transfers: Evidence from Italian Earthquakes Antonio Acconcia, Giancarlo Corsetti and Saverio Simonelli
wp1509	An Investigation into Multivariate Variance Ratio Statistics and their Application to Stock Market Predictability Seok Young Hong, Oliver Linton, and Hui Jun Zhang
wp1508	Networks in the Laboratory Syngjoo Choi, Edoardo Gallo and Shachar Kariv
wp1507	Input Diffusion and the Evolution of Production Network Vasco M. Carvalho and Nico Voigtländer
wp1506	Social Structure, Markets and Inequality Julien Gagnon and Sanjeev Goyal,
wp1505	Networks in Economics: A Perspective on the Literature Sanjeev Goyal
wp1504	Contagion Risk and Network Design Diego Cerdeiro, Marcin Dziubinski and Sanjeev Goyal
wp1503	Efficiency and Equilibrium in Network Games: An Experiment Edoardo Gallo and Chang Yan
wp1502	Community Networks and the Process of Development Kaivan Munshi
wp1501	The New Economics of Religion Sriya Iyer

Seed Funding Initiative

The Cambridge-INET Institute Seed Fund accepts applications throughout the year and seeks to provide a swift response to support pilot and exploratory work. The initiative awards up to £3,000 per project on the basis that the work has a clear path to generating larger grant applications to external sponsors and fits within the remit of the Institute.

We have had six applications to the Cambridge-INET Seed Fund, two of which have been supported in 2015:

Alexander Kentikelenis (Department of Sociology) Funds supported the research strand activities of the International Monetary Fund.

Giancarlo Corsetti (Faculty of Economics) Funds supported preparation of the application to the European Commission Horizon 2020 for the project *Effective Mechanisms of Fiscal Policy Coordination in the EU*. The application was successful and the project *Ademu – A Dynamic Economic and Monetary Union* began in June 2015.

Faculty Support

To ensure Cambridge supports the top people in the Institute's research fields, funds have been made available to the Faculty of Economics for salary supplements. These supplements have ensured that our researchers are fairly rewarded and that the Institute remains a top centre for economics research.

The Institute supported two Faculty members, Dr Elisa Faraglia and Dr Jane Cooley-Frühwirth. The support was awarded for 3 years (2013-2016).

Dr Jane Cooley-Frühwirth was promoted to a Reader post in June 2014. She also won the prestigious Philip Leverhulme Prize in 2013.

Dissemination and Outreach

One of the key goals of the Institute is to engage the public with cutting edge research in economics. Taking advantage of the high calibre of visitors we receive, the Institute has initiated a branded video series where high profile academics are interviewed on their research and encouraged to speak about their research in a topical and accessible way. The video series will also include select lectures delivered by visitors during their stay. These videos will be made available through the University's Streaming Media Service. We also plan to feature the series on iTunes U for greater exposure.

Institute Video Series

CONVERSATIONS IN ECONOMICS

Coen Teulings	Secular Stagnation
Jean-March Robin	Job Search Theory
Paul Ormerod	Using Networks to Revolutionise Economic Theory and Policy
David Easley	Rationality, Learning and Market Selection
Maureen O'Hara	High Frequency Trading and Finance
Matthew O. Jackson	Research Directions: Networks and their Roles in Economics
Duncan Watts	Social Science, Small Worlds and Big Data
Shachar Kariv	Confronting Theory with Experimental Data and Vice Versa
Stephen Morris	What do you Believe Others Believe? Mechanism Design, Contagion, and the Crisis
Larry Samuelson	Beyond the Standard Model in Economic Behaviour

Economics and Policy in a Historical Mirror: The 'Thirties and the Noughties' – Debate

LECTURE VIDEOS

Steven Durlauf	Lectures on Social Interactions 5-7 March 2013
	Video 1: Basic Ideas
	Video 2: Theory
	Video 3: Econometrics

Research Themes

Networks, Crowds and Markets

Social, economic, and infrastructure networks are a defining feature of modern economies. There is a large and vibrant community of researchers, cutting across multiple disciplines including economics, computer science, and sociology who are currently examining how networks are formed, how they evolve, and how they impact the economy. One line of research is concerned with the resilience of networks. This is motivated by topical problems like financial contagion, cybersecurity, disease epidemics, supply chain disruptions and international conflict. A second strand of work explores community networks; how traditional communities and modern markets interact to determine the behaviour of individuals and groups. This work has important implications for the optimal design of development policy. A third research theme explores bargaining, production and exchange in networks, with implications for industrial policy and the regulation of markets. The Cambridge-INET Networks Group is unusual in its diversity, both with regard to the methods we use – theory, experiments, and statistical analyses with observational data – and the areas we work in – spanning micro and macro analyses in developing and developed economies and covering all three research areas discussed above. Members of this research group have received funding from the European Horizon 2020 Programme, the Keynes Fund for Applied Economic Research, and from the Newton Trust.

In the past academic year our group continued to conduct and promote frontier research on networks. We organised a weekly working group and a number of seminars (presented by INET visitors). In addition, we hosted three major events: *The Symposium on Contagion*, *The Third European Meeting on Networks*, and the *Economic Development of India Workshop*. Leading researchers on networks visited INET over the year, one of whom – Matt Elliott – visited for two months and was subsequently hired as a permanent lecturer (starting October 2015). The research was further strengthened by the addition of a post-doctoral fellow, Scott Swisher, who joined in October 2014.

The highlights of our activities in the 2014-15 academic year included:

THEME COORDINATORS:



PROFESSOR KAIVAN MUNSHI



PROFESSOR SANJEEV GOYAL



The Third European Meeting on Networks

CONFERENCES AND WORKSHOPS

- **Symposium on Contagion**
April 2015
- **The Third European Meeting on Networks**
June 2015
- **Economic Development of India**
June 2015

VISITORS

Pier-André Bouchard St-Amant (INET)
 Matthew Elliott (Caltech)
 Marcin Dziubinski (University of Warsaw)
 Ali Jadbabaie (University of Pennsylvania)
 Jonathan Eaton (Brown University)
 Nick Vriend (Queen Mary University of London)
 Benjamin Golub (Harvard University)
 Arnold Polanski (UEA)
 Aditya Goenka (National University of Singapore)
 Mark Cliffe (ING Group)
 Omer Tamuz (Caltech, MIT and Microsoft Research)
 Esteban Rossi-Hansberg (Princeton University)
 Alexander Wolitzky (Stanford)
 Erzo Luttmer (Dartmouth)

PHD STUDENT

David Minarsch

POST-DOC APPOINTMENTS

Current appointments (from summer and fall of 2014):

Anja Prummer
 Vessela Daskalova
 Scott Swisher

The theme has an ambitious range of activities planned for the coming academic year 2015-2016. This includes visitors, weekly meetings of the Reading Group, and workshops. The (tentative) set of visitors includes Francis Bloch (Paris School of Economics), Andrea Galeotti (EUI), Matthew Leduc (Vienna), Fernando Vega-Redondo (Bocconi), Maarten Janssen (Vienna), Scott Kominers (Harvard) and Botond Koszegi (Budapest). There is a workshop on 'Networks and Search' scheduled for February 2016, and another workshop on 'Experiments and Networks' tentatively scheduled for September 2016. We will also be recruiting two Post-doctoral Fellows.

Research Themes

Transmission Mechanisms and Economic Policy

The great recession has challenged mainstream views of the origins, scope and scale of business cycles and rendered clear the need to rethink policy. The theme brings together Cambridge researchers conducting fundamental research on economic fluctuations, focusing on the interplay between micro decisions and macroeconomic dynamics. We use a variety of approaches (encompassing micro and macro econometrics, macro models and historical and institutional analysis) to develop theoretical and empirical work on heterogeneous firms choices, supply chains, household level savings and inequality, international and global imbalances. Our research aims to generate inputs for stabilization and structural policy.

During the 2014-2015 academic year, our group continued to conduct research in macroeconomics with a focus on macroeconomic stabilization policies in the context of financial crises. In addition to teaching and research work, we successfully organised a major international conference on Aggregate Demand, co-organised and co-funded another major interdisciplinary conference on Contagion, and organised a workshop on Financial Crises and Economic History alongside several academic seminars. We invited and hosted 18 leading experts in macroeconomics and related fields. We have also established a new internal workshop to help integrate the three new INET post-docs and the broader macroeconomics faculty. In the following report, we list the highlights of our activities in the 2014-2015 academic year.

CONFERENCES AND WORKSHOPS

- **Aggregate Demand, the Labor Market and Macroeconomic Policy**
September 2014
- **Symposium on Contagion**
April 2015
- **Financial Crises: Lessons from History**
May 2015

SEMINARS

INET continues to partially fund the main macroeconomics seminar at the Faculty of Economics throughout the academic year. INET funding was also instrumental for a new, internal macroeconomics lunch workshop where post-docs and Cambridge Faculty present early-stage work.

THEME COORDINATORS:



DR VASCO CARVALHO



PROFESSOR HAMISH LOW



Aggregate Demand, the Labor Market and Macroeconomic Policy

VISITORS

Jeff Campbell (Federal Reserve Bank of Chicago)
 Jesus Fernandez-Villaverde (University of Pennsylvania)
 Ed Glaeser (Harvard University)
 Andy Haldane (Bank of England)
 Ramana Nanda (Harvard Business School)
 Zhen Huo (University of Minnesota)
 Julieta Caunedo (Cornell University)
 Mirko Draca (University of Warwick)
 Michael Bordo (Rutgers University)
 Edouard Challe (CNRS, Ecole Polytechnique & CREST-ENSAE)
 Gernot Müller (Bonn University)
 Luca Dedola (European Central Bank)
 Antonio Merlo (Rice University)
 Kieran Walsh (Yale University)
 Jeremy Greenwood (University of Pennsylvania)
 Jaume Ventura (Barcelona GSE)
 Hyun Song Shin (Bank for International Settlements)
 Charles Engel (University of Wisconsin)
 Joel Mokyr (Northwestern University)
 Wouter Den Haan (LSE)

PHD STUDENTS

Edward Martyn

POST-DOC APPOINTMENTS

Maren Froemel
 Miguel Morin
 Christopher Rauh

Among its new initiatives, the theme is promoting a series of mini conferences on macro and policy topics (the first three are scheduled in April and May 2016), as well as research-intensive reading groups open to doctoral students. Researchers in the theme group were instrumental in setting up the Horizon 2020 project *A Dynamic Economic and Monetary Union* (see the Cambridge-INET Seed Funding initiative in this report). This was successfully launched in October 2015 in Cambridge. Thanks to this collaboration we are planning a major research conference on debt sustainability at the end of the Summer of 2016. This will be the third major Cambridge-INET conference on frontier macroeconomics issues.

Research Themes

Information, Uncertainty and Incentives

Microeconomics starts from the premise that phenomena should be understood as a result of individual choices. These choices are determined by the incentives that individuals face, and by the psychological make up of these individuals. Furthermore competition, coordination and learning are vital in aggregating individual choices, and thereby shaping them into the collective behaviour observed in markets and even whole economies. This theme brings together researchers working on individual and group decision making, risk sharing, behavioural approaches to savings decisions, competition among firms and crises in financial markets. It is hoped that a better understanding of individual choices will allow policy makers to eliminate some of the more obvious design flaws in their policies, and that a better understanding of how these choices interact to determine collective outcomes will help to identify policies that result in more stable collective outcomes (possibly at the expense of sacrificing some features that appear desirable at the individual level)."

In the past academic year the research group has continued its research on issues related to the theme of the project. During the year we successfully organised a number of events and workshops (large and small) and hosted a very large number of eminent economic theorists (including three Nobel Prize winners) in Cambridge for anywhere between a few days to a few weeks. These events and the presence of so many first class visitors have been very beneficial to the microeconomics researchers and PhD students in Cambridge. They have also been very helpful in raising the profile of Cambridge in economic theory worldwide.

This academic year we expanded our research group with the addition of three post-doctoral fellows: Juan Block, Abhimanyu Khan and Rohit Lamba. They have been very active during the year producing a number of good papers, organising weekly economic theory workshops and contributing to the running of the different events. Dr Lamba is leaving Cambridge-INET in September 2015 after one year to take up a position as an assistant professor in Pennsylvania State University. In February 2015 we made one new appointment, Dr Mikhail Safranov of Northwestern University, as a post-doctoral fellow from September 2015.

Highlights of our activities in the 2014-15 academic year included:

THEME COORDINATORS:



PROFESSOR HAMID SABOURIAN



PROFESSOR CHRIS HARRIS



Symposium on Contagion

EVENTS AND WORKSHOPS

- **Symposium on Contagion** – April 2015
- **Workshop on Microstructure Theory and Application** – March 2015
- **15th Society for Advancement of Economic Theory Conference on Current Trends in Economics** – July 2015

During the academic year we have also had a number of individual workshops given by INET visitors.

In addition to this, many of the visitors to the different themes of Cambridge-INET made additional presentations at the Microeconomics seminars related to the theme of *Information, Uncertainty and Incentives*.

Faculty of Economics Microeconomics seminars

In addition to the individual workshops, many of the visitors to the different themes of Cambridge-INET made additional presentations at the Microeconomics seminars related to the theme of *Information, Uncertainty and Incentives*.

VISITORS

Sylvain Chassang (Princeton University)
Bhaskar Dutta (University of Warwick)

Claudia Herresthal (Oxford)
Ali Jadbabaie (University of Pennsylvania)
Frank Kelly (INET, New York)
Jay Lu (Princeton)
Eric Maskin (Harvard University)
Roger Myerson (University of Chicago)
Heinrich Nax (ETH Zurich)
Akira Okada (Hitotsubashi University)
David Rahman (University of Minnesota)
Fernando Vega-Redondo (Università Bocconi)
Milan Vojnovic (Microsoft Research)
Joel Watson (University of California, San Diego)
Richard Weber (Cambridge, Math-Stats)

POST-DOC APPOINTMENTS

Current Appointments: Juan Block, Abhimanyu Khan, Rohit Lamba
New Appointment: Mikhail Safronov

We are currently exploring an interdisciplinary collaboration with colleagues at the Department of Medicine looking at various aspects of the provision of origins for transplantation. We will also organise a two-day Cambridge Workshop on Economic Theory in 2016.

Research Themes

Empirical Analysis of Financial Markets

Financial markets serve the important function of transferring risk across individuals and over time, and they provide information on the performance of firms and economies. As such their effective performance is of great interest to policymakers, pension holders, and consumers, yet recent events have created profound mistrust about their operation.

The theme brings together researchers working on fundamental methodological issues that can help provide evidence on the functioning of financial markets. We have several projects concerned with market microstructure, about how the trading environment impacts the outcomes for long term investors and policy makers. Does the presence and use of advanced technology improve or degrade outcomes for pension funds and retail investors? What is the best way of measuring volatility with a view to comparisons across markets and across time? Does the presence of market stabilisation mechanisms such as circuit breakers reduce the potential for nonlinear feedback loops and volatility spillovers across securities and markets? Speed is one aspect of current financial markets, but big data is another. The vast databases and the improved hardware and software environments mean that the research cutting edge is constantly being redefined to take account of the better possibilities for evidentiary analysis. We have several projects and researchers who are at the forefront of this work.

In the past academic year, our group has continued to focus on conducting research in the econometric analysis of financial markets. In addition to teaching and research work, we successfully organised one conference, five workshops and several seminars. Furthermore, we invited and hosted seven leading international econometricians. To expand our research group, we appointed two new post-doctoral fellows.

In the following report, we list the highlights of our activities in the 2014-2015 academic year:

CONFERENCE

- **Big Data conference**
June 2015

WORKSHOPS

- **Empirical Market Microstructure Workshop**
November 2014
- **Workshop on Microstructure Theory and Application**
March 2015

THEME COORDINATORS:



PROFESSOR OLIVER LINTON



DR ALEXEI ONATSKI



Empirical Market Microstructure Workshop

- **Workshop on Developments in Time Series**
April 2015
- **Workshop on Tail Event Driven Risk Modelling**
May 2015
- **Econometrics of Networks Workshop**
June 2015

VISITORS

Yoonsoo Chang (University of Indiana)
 Timothy Guinnane (Yale University)
 Wolfgang Haerdle (Humboldt University Berlin)
 Nikolaus Hautsch (University of Vienna)
 Roger Koenker (University of Illinois)
 Simon Lee (Seoul National University)
 Offer Lieberman (Bar-Ilan)
 Marcelo J. Moreira (FGV/EPGE)
 Joon Park (University of Indiana)
 Yoon-Jae Whang (Seoul National University)

PHD STUDENT

Ekatarina Smetanina

POST-DOC APPOINTMENTS

Current appointment:

Peter Malec (September 2014 – Present)

New appointments (September 2015):

Chen Wang (from National University of Singapore)
 Soheil Mahmoodzadeh (from Simon Fraser University, Canada)

UPCOMING EVENTS

- Big Data Big Methods
September 2015
- New Directions in Quantile Regression
December 2015

The theme will organize conferences on big data and market microstructure in 2016 that will bring together the best researchers in this field and showcase our work.

Cambridge-INET Institute Management Committee Members

Professor Giancarlo Corsetti (Director)

Professor Coen Teulings (Co-Director)

Professor Phil Allmendinger (School of Social Sciences and Humanities)

Dr William Janeway (INET Board member)

Dr Robert Johnson (INET Board Member)

Professor Sanjeev Goyal (Chairman of Faculty)

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Professor Giancarlo Corsetti

Professor Sanjeev Goyal

Mr Andrew Haldane

Dr William Janeway

Dr Robert Johnson

Professor Bart Lambrecht

Professor Stephen Morris

Professor Coen Teulings

Institute Manager: **Marion Reusch**

Assistant: **Julia Foglia**
