



universität  
wien

Department of Economics  
Contact: Sandra Weißenböck  
+43-1-4277-37402  
[sandra.weissenboeck@univie.ac.at](mailto:sandra.weissenboeck@univie.ac.at)



INSTITUT FÜR HÖHERE STUDIEN  
INSTITUTE FOR ADVANCED STUDIES  
Vienna

Department of Economics and Finance  
Contact: Marion Kelemen  
+43-1-59991-145  
[economics@ihs.ac.at](mailto:economics@ihs.ac.at)

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# WIRTSCHAFTSTHEORETISCHES FORSCHUNGSSEMINAR

## RESEARCH SEMINAR IN ECONOMIC THEORY

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**March 19, 2009**

**University of Vienna**

1010 Wien, Dr. Karl Lueger-Ring 1

“Elise Richter-Saal”

(from the main entrance go left and then straight all the staircases up)

**4:00pm**

**Antonio Cabrales,**

*Universidad Carlos III de Madrid and CEPR:*

***“Social Interactions and Spillovers: Incentives, Segregation and Topology”***

Abstract printed on the next page

**5:30pm**

**Guilherme Carmona,**

*Universidade Nova de Lisboa:*

***“Equality Matching: An Optimal Risk Sharing Institution”***

Abstract printed on the next page

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DOWNLOAD SITE FOR PAPERS (IF AVAILABLE) AND SEMINAR SCHEDULE

<http://www.univie.ac.at/vwl/EconomicTheory.html>

NOTE: Participation of advanced students in this seminar is highly recommended.

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## ABSTRACTS

**Antonio Cabrales,**  
Universidad Carlos III de Madrid and CEPR:

### *“Social Interactions and Spillovers: Incentives, Segregation and Topology”*

The aim of this paper is to understand the interactions between productive effort and the creation of synergies that are the sources of technological collaboration agreements, agglomeration, and social interactions. We model this interaction in a way that allows us to characterize how agents devote resources to both activities. This permits a full-edged equilibrium/welfare analysis of network formation with endogenous productive efforts, to derive unambiguous comparative statics results and to analyze community sorting by individual traits. In spite of its parsimony the model retains enough richness to replicate a broad range of empirical regularities displayed by social and economic networks, and to relate them to individual and social welfare.

with Antonio Calvó-Armengol (ICREA, Universitat Autònoma de Barcelona and CEPR) and Yves Zenou (University of Stockholm, GAINS, and CEPR).

**Guilherme Carmona,**  
Universidade Nova de Lisboa:

### *“Equality Matching: An Optimal Risk Sharing Institution”*

We consider a two-player game in which one player can take a costly action (i.e., to provide a favor) that is beneficial to the other. The game is infinitely repeated and each player is equally likely to be the one who can provide the favor in each period. In this context, equality matching is defined as a strategy in which each player counts the number of times she has given in excess of received and she gives if and only if this number has not reached an upper bound.

We show that the equality matching strategy is a symmetric subgame perfect equilibrium. Furthermore, we show that it remains an equilibrium when strategies are also required to be minimal complex. The two-state equality matching is the unique such strategy with two states, and so optimal within the class of the symmetric, subgame perfect, minimal complex strategies with two states. Furthermore, for any number of states  $n$ , the  $n$ -state equality matching maximizes the sum of long-run payoffs in the class of the strongly symmetric subgame perfect, minimally complex strategies with  $m \leq n$  states. Thus, we rationalize equality matching as being an efficient way to achieve those properties.

This result is applied to risk sharing in village economies and used to rationalize the observed correlations between individual consumption and individual with income and between present and past transfers across individuals.

with Hamid Sabourian (University of Cambridge).

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