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WIRTSCHAFTSTHEORETISCHES FORSCHUNGSSEMINAR

RESEARCH SEMINAR IN ECONOMIC THEORY

April 2, 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

Christian Keuschnigg,

University of St. Gallen:

“Corporate Finance and Comparative Advantage”

Abstract printed on the next page

5:30pm

Arno Riedl,

Maastricht University:

“Overcoming coordination failure through neighborhood choice”

Abstract printed on the next page

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

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



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ABSTRACTS

Christian Keuschnigg,
University of St. Gallen:

“Corporate Finance and Comparative Advantage”

Innovative firms typically have a high growth potential, need external funds to finance investment, and rely on the key effort and know-how of inside entrepreneurs. Given the limited amount of tangible assets and the non-contractible nature of entrepreneurial effort, these firms are often financially constrained. Access to external funds becomes an important factor in the expansion of innovative industries. This paper models a two sector economy of innovative and standard industries and shows how the pattern of comparative advantage is shaped by factor endowments and variables relating to corporate finance. In particular, a larger equity ratio of young entrepreneurial firms and tough corporate governance standards relax the financing constraints and create a comparative advantage in innovative industries.

with Peter Egger (University of Munich and Ifo Institute).

Arno Riedl,
Maastricht University:

“Overcoming coordination failure through neighborhood choice”

In laboratory experiments subjects often fail to coordinate on the surplus maximizing equilibrium in a variety of environments. Yet, outside the lab people seem to agree on rather efficient arrangements. The possibility to choose interaction partners is a natural feature of almost any interaction between human beings. Surprisingly enough, it is neglected in the experimental literature. The theoretical economic literature only recently took up this point. In this paper we experimentally investigate the effect of partner choice in the StagHunt game. Our experiment is based on the recent theoretical contributions of Goyal and VegaRedondo (2005) and Jackson and Watts (2002). In the experiment each member of a group plays staghunt games with all interaction partners. In contrast, to other coordination game experiments participant's in our experiment choose both an action in the coordination game and linking decisions regarding the interaction partners. In a control treatment each participant has to play the coordination game with all other group members. The experimental treatments vary in the required consent and in the costs of linking. Specifically, we investigated (i) twosided costless link formation, (ii) onesided costless link formation, and (iii) onesided costly link formation. The experimental data clearly show that the endogenous choice of interaction partners is a powerful force to achieve coordination on the payoff dominant equilibrium. The frequency of play of payoff dominant equilibria is significantly higher in all three experimental treatments than in the control treatment. Moreover, in the treatments with endogenous linking the frequency of play of the payoff dominant equilibrium is increasing over rounds whereas it decreases in the control treatment. However, in the treatment with onesided costly link formation the additional coordination problem in link formation leads to a low and decreasing interaction density implying efficiency losses not predicted by the theoretical models.

with Ingrid Rohde (Maastricht University) and Martin Strobel (Maastricht University).

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