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# WIRTSCHAFTSTHEORETISCHES FORSCHUNGSSEMINAR

## RESEARCH SEMINAR IN ECONOMIC THEORY

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**November 19, 2009**

Institute for Advanced Studies  
Stumpergasse 56, 1060 Wien  
lecture room II, groundfloor (HSII)

**4:00pm**

**Paola Conconi,**  
*Université Libre de Bruxelles (ECARES) and CEPR:*

***“Policymakers’ Horizon and Economic Reforms”***

Abstract printed on the next page

**5:30pm**

**Jochen Mankart,**  
*University of St. Gallen:*

***“Personal Bankruptcy Law, Debt Portfolios and Entrepreneurship”***

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

**Paola Conconi,**

Université Libre de Bruxelles (ECARES) and CEPR:

### ***“Policymakers’ Horizon and Economic Reforms”***

This paper investigates the relation between policymakers’ term length and their willingness to support economic reforms. We describe a model in which office-motivated legislators have mandates of different length and consider the introduction of a trade liberalization reform, which gives rise to distributional effects that only become known over time. We show that legislators’ voting behavior depends on their political horizon and on the trade policy interests of their constituencies. In particular, legislators with shorter mandates are less likely to support the reform, if they represent import-competing constituencies. To assess the validity of these results, we examine the determinants of all votes on major U.S. trade liberalization bills cast between 1973 and 2005. We exploit the particular features of the U.S. Congress, in which House and Senate representatives have respectively two-year and six-year mandates, with one-third of the Senate being up for election every two years. We find that members of the House are generally more protectionist than members of the Senate. However, this difference in voting behavior disappears for senators in the last two years of their mandate and for representatives of export constituencies.

with Giovanni Facchini (Erasmus University, Università di Milano, LdA, CEPR and CES-Ifo) and Maurizio Zanardi (Université Libre de Bruxelles [ECARES] and Tilburg University).

**Jochen Mankart,**

University of St. Gallen:

### ***“Personal Bankruptcy Law, Debt Portfolios and Entrepreneurship”***

Every year 400,000 entrepreneurs fail and 60,000 file for bankruptcy. Thus the personal bankruptcy law has important implications for entrepreneurship. The option to declare bankruptcy encourages entrepreneurship through providing insurance since entrepreneurs may default on unsecured credit in bad times. However, perfectly competitive financial intermediaries take the possibility of default into account and they charge higher interest rates which reflect these default probabilities. Thus personal bankruptcy provides insurance at the cost of worsening credit conditions. Since the benefits depend on agents degree of risk-aversion but the costs depend on intertemporal preferences, we use Epstein-Zin preferences to investigate the robustness of our results. We develop a quantitative general equilibrium model of occupational choice that examines the effects of the US personal bankruptcy law on entrepreneurship. The model explicitly incorporates the US legislative framework and replicates empirical features of the US economy regarding entrepreneurship, wealth distribution and bankruptcy filings by entrepreneurs. Entrepreneurs in the model can obtain secured and unsecured credit. Secured credit must be repayed and therefore provides no insurance but is cheap. Our quantitative evaluations show: First, the current US bankruptcy law is too harsh. It does not provide enough insurance. According to our simulations, increasing the wealth exemption level to the optimal one would increase entrepreneurship, the median firm size, welfare and social mobility without increasing inequality. Second, and this is an important methodological contribution, the modeling of the credit market matters. Any analysis of unsecured credit and bankruptcy has to include secured credit as well. If agents had only access to unsecured credit (as is the case in most of the previous literature), the optimal bankruptcy law would be harsher.

with Giacomo Rodano, LSE and Bank of Italy.

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