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WIRTSCHAFTSTHEORETISCHES FORSCHUNGSSEMINAR

RESEARCH SEMINAR IN ECONOMIC THEORY

March 11, 2010

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

Armin SCHMUTZLER,

University of Zurich, ENCORE and CEPR:

“Rotten Kids with Bad Intentions”

Abstract printed on the next page

5:30pm

Sjaak HURKENS,

Institute for Economic Analysis, Barcelona:

“Mobile Termination, Network Externalities, and Consumer Expectations”

Abstract printed on the next page

./2

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

Armin SCHMUTZLER,

University of Zurich, ENCORE and CEPR:

“Rotten Kids with Bad Intentions“

We examine a "Rotten Kid" model (Becker 1974) where a player with social preferences interacts with an egoistic player. We assume that social preferences are intention-based rather than outcome-based. In a very general multi-stage setting we show that any equilibrium must involve mutually unkind behavior of both players, endogenously generating negative emotions rather than positive altruism. In a large class of two-stage games that includes principal-agent and gift-giving games, this prevents equilibrium from being materially Pareto efficient. Compared to the subgame-perfect equilibrium without social preferences, efficiency is still generally increased. On the other hand, the materialistic player has lower whereas the reciprocal player has higher material payoffs, so that reciprocity does not increase equity: For sufficiently strong reciprocity concerns, the materialistic player ends up with a negligible share of the gains from trade.

with Nick Netzer (University of Zurich).

Sjaak HURKENS,

Institute for Economic Analysis, Barcelona:

“Mobile Termination, Network Externalities, and Consumer Expectations”

Abstract

We re-examine the literature on mobile termination in the presence of network externalities. Externalities arise when firms discriminate between on- and off-net calls or when subscription demand is elastic. This literature predicts that profit decreases and consumer surplus increases in termination charge in a neighborhood of termination cost. This creates a puzzle since in reality we see regulators worldwide pushing termination rates down while being opposed by network operators. We show that this puzzle is resolved when consumers' expectations are assumed passive but required to be fulfilled in equilibrium (as defined by Katz and Shapiro, AER 1985), instead of being rationally responsive to non-equilibrium prices, as assumed until now.

with Ángel Luis LÓPEZ (IESE Business School, Barcelona).

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