

VIII. Winter Workshop in Economics

Friday, December 26, 2014
Koç University

Program

9:00-9:30 Coffee & Tea

9:30-10:30 Evaluating the Impact of the Post-2008 Employment Subsidy Program in Turkey
Semih Tümen – CBRT (with Binnur Balkan & Y. Soner Başkaya)
Discussant: Mehmet Soytaş, Özyeğin University

10:30-11:30 Self-Employment and Health Care Reform: Evidence from Massachusetts
Didem Tüzemen – Kansas City Fed (joint with Thealexa Becker)
Discussant: Ayşe İmrohoroğlu – University of Southern California

11:30-11:45 Coffee Break

11:45-12:45 On the Consequences of Eliminating Capital Tax Differentials
Hakkı Yazıcı – Sabancı University (joint with Ctirad Slavik)
Discussant: Barış Kaymak – University of Montreal

12:45-13:45 Lunch at Faculty Club

13:45-14:45 Uncertainty in Financial Markets and Business Cycles
Seçil Yıldırım – Bilkent University
Discussant: Oğuz Öztunalı – Boğaziçi University

14:45-15:45 Government Subsidized Individual Retirement System
Şerife Genç – CBRT (joint with Okan Eren)
Discussant: Temel Taşkın – CBRT

15:45-16:00 Coffee Break

16:00-17:00 Investment Hangover and the Great Recession
Alp Şimşek – MIT (joint with Matthew Rognlie and Andrei Shleifer)
Discussant: Kamil Yılmaz – Koç University

17:00-18:00 Macroeconomic Implications of Top Income Tax Cuts: 1960 – 2010
Barış Kaymak – University of Montreal (joint with Markus Poschke)
Discussant: Osman Abbasoğlu – CBRT

Organizers:

Ayşe İmrohoroğlu (aimrohor@marshall.usc.edu)
Kamil Yılmaz (kyilmaz@ku.edu.tr)

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Abstracts

Semih Tümen – Central Bank of the Republic of Turkey (joint work with Binnur Balkan and Y. Soner Başkaya)

Abstract: Targeted employer-side hiring subsidy programs are implemented to reduce the gaps between the outcomes of certain groups in the labor market. This paper investigates the employment effects of a targeted subsidy scheme implemented in Turkey. The Turkish government started a subsidy program in 2008 to generate new employment for younger men and all women, which are the relatively disadvantaged groups in the Turkish labor markets. The program puts men of age 18-29 and all women into the treatment group, while men of age 30 and above are placed into the control group. We use a nationally representative micro-level dataset and a difference-in-differences approach to estimate the causal effect of this program. On aggregate, the subsidy program seems to be ineffective in increasing the employment probabilities of those individuals in the target group. However, when heterogeneity is accounted for by dividing the treatment group into several sub-groups, we observe that the program has been notably effective on some of those sub-groups. In particular, the increase in employment probability is high for older women, while a weaker positive effect is observed for younger women and almost no effect is detected for younger men. The effect on older women is subject to further heterogeneity: the program has increased the employment probabilities of low-educated and/or low-skill older women rather than the high-educated and/or high-skill ones.

Self-Employment and Health Care Reform: Evidence from Massachusetts

Didem Tüzemen – Federal Reserve Bank of Kansas City (joint with Thealexa Becker)

Abstract: We study the effect of the Massachusetts health care reform on the uninsured rate and the self-employment rate in the state. The reform required all individuals to obtain health insurance, required most employers to offer health insurance to their employees, formed a private marketplace that offered subsidized health insurance options and expanded public insurance. We examine data from the Current Population Survey (CPS) for 1994-2012 and its Annual Social and Economic (ASEC) Supplement for 1996-2013. We show that the reform led to a dramatic reduction in the state's uninsured rate due to increased enrollment in both public and private health insurance. Estimation results from difference-in-differences models and the synthetic control method indicate that the aggregate self-employment rate was higher in the state after the implementation of the reform. We conclude that easier access to health insurance encouraged self-employment in Massachusetts. There are many similarities between the Massachusetts health care reform and the national health care reform, the Patient Protection and Affordable Care Act (PPACA). Based on Massachusetts' experience, the PPACA will lower the national uninsured rate and may lead to a higher self-employment rate in the nation.

On the Consequences of Eliminating Capital Tax Differentials

Hakkı Yazıcı – Sabancı University (joint with Ctirad Slavik)

Abstract: In the United States structure and equipment capital are effectively taxed at different rates. Recently, President Obama joined the group of policy makers and economists who propose to eliminate these differentials. This paper analyzes the consequences of such a reform using an incomplete markets model with equipment-skill complementarity. We find that the reform increases average welfare by approximately 0.1%. Importantly, we find that the reform does not involve the usual efficiency vs. equality trade-off: it improves both.

Uncertainty in Financial Markets and Business Cycles **Seçil Yıldırım – Bilkent University**

Abstract: Can financial uncertainty shocks induce real downturns? To investigate this question theoretically, this paper develops a dynamic stochastic general equilibrium framework with two period lived heterogeneous agents, monopolistically competitive firms and sticky prices. In the model financial uncertainty is measured by the volatility of stock prices and this volatility results from the stochastic irrational beliefs of nonsophisticated agents about the future performance of the stock. An increase in the stock price volatility decreases aggregate demand and generates a significant contraction in output. The model contributes to the literature by modeling financial market volatility in a general equilibrium framework, establishing its causal impact on real variables, highlighting the mechanisms through which the impact works, and providing estimates of its magnitude.

Government Subsidized Individual Retirement System **Şerife Genç – Central Bank of the Republic of Turkey (joint with Okan Eren)**

Abstract: A new private pension scheme where the government makes direct contributions to the retirement accounts has been effective in Turkey since 2013. In this paper we examine the quantitative impacts of this new individual retirement system on the savings rate, capital stock and welfare of the individuals. We build a multi-period OLG model and simulate an economy with a pension scheme similar to the one observed in Turkey. Our simulation results reveal that the introduction of this private pension scheme increases the net saving rate by 0.27 percentage points. Around 28 percent of the increase in individual retirement assets constitute incremental saving. The impact of the new system on physical capital stock is a 15 percent rise. According to our long-run welfare analysis, an unborn individual prefers to be born into the economy with IRA's. In order to make this individual indifferent between the two economies, his/her consumption needs to be reduced by 6.9 percent across all states and periods of the IRA economy.

Investment Hangover and the Great Recession **Alp Simsek – MIT (joint with Matthew Rognlie and Andrei Shleifer)**

Abstract: We present a model of investment hangover motivated by the Great Recession. In our model, overbuilding of residential capital requires a reallocation of productive resources to nonresidential sectors, which is facilitated by a reduction in the real interest rate. If the fall in the interest rate is limited by the zero lower bound and nominal rigidities, then the economy enters a liquidity trap with limited reallocation and low output. The drop in output reduces nonresidential investment through a mechanism similar to the acceleration principle of investment. The burst in nonresidential investment is followed by an even greater boom due to low interest rates during the liquidity trap. The boom in nonresidential investment induces a partial and asymmetric recovery in which the residential sector is left behind, consistent with the broad trends of the Great Recession.

Macroeconomic Implications of Top Income Tax Cuts: 1960 – 2010 **Baris Kaymak – University of Montreal (joint with Markus Poschke)**

Abstract: Over the last 40 years the US tax system went through a striking transformation that considerably reduced the effective tax rates for top income groups. This paper investigates the macroeconomic repercussions of this change in tax policy, particularly for the distributions of income, wealth, consumption and welfare. The results suggest that top income tax cuts explain up to 40% of the rise in wealth inequality since 1960. By contrast, the impact of tax cuts on income and consumption inequality is much smaller due to changes in equilibrium prices.