

Characteristics of main research directions investigated at the institute and the achievements 2010–2014

Institute	Economics Institute of the CAS, v. v. i.
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We are convinced that strong and compelling evidence can be provided to argue that the Economics Institute (EI) of the Czech Academy of Sciences (CAS) is the most prominent research institution in the field of economics in the Czech Republic. Its dominance in research performance is well-known and can be documented for instance by the number of publications in leading international scientific journals in the field.¹ During the evaluated period, EI's dominance has been further strengthened towards even higher quality of research publications: (i) no other economic research institution in the Czech Republic has been able to produce a single top 5 publication (with the exception of IES FSV UK, which shared with us one of the *American Economic Review* publications mentioned below); (ii) **EI generated 54² percent of the aggregate Article Influence Score (AIS) in the area of economics in the Czech Republic from 2010 to 2013** in journals with AIS above 0.8.³ This has been achieved with only a few dozen researchers. In contrast, the University of Economics, Prague, the largest economic school in the Czech Republic, with its 66 full professors⁴ (i.e., many more than all of our researchers), produced only 2 publications with AIS greater than 0.8 from 2010 to 2013. Thus the quantity and quality of EI's research output is unparalleled by other Czech institutions and still continues to improve.

In the last 5 years, the Economics Institute has steadily continued its significant growth in the quality of its research output. The most telling fact is that, for the first time in history, EI researchers have consistently **published in the most prestigious top 5 economic journals** (*Econometrica*, *Journal of Political Economy*, *American Economic Review*, *Quarterly Journal of Economics*, *Review of Economic Studies*). EI researchers published one paper in *Econometrica*, four papers in the *American Economic Review*, and one paper in the *Review of Economic Studies*. Those papers were published throughout the entire period, one in 2010, one in 2011, three in 2012, and one in 2013 (another paper in a top 5 journal not included in this evaluation was accepted in early 2015). In addition to the top 5 publications, EI researchers have regularly published in top subfield journals including *American Economic Journal: Macroeconomics*, *American Economic Journal: Microeconomics*, *Journal of Economic Theory*, *Review of Economics*

¹ See e.g. the study „The Research Output of CERGE-EI According to RIV Evaluation Research and Development in 2009 (Period 2004-2008) [Výsledky CERGE-EI dle RIV Hodnocení výzkumu a vývoje v roce 2009 (období 2004-2008)], available as a study of the IDEA think-tank (the Institute for Democracy and Economic Analysis) at [http://idea-en.cerge-ei.cz/files/120809_IDEA_PolicyStudy3\(1\).pdf](http://idea-en.cerge-ei.cz/files/120809_IDEA_PolicyStudy3(1).pdf). Over the period 2004-2008, EI with CERGE contributed 70% of the total research output (published in impacted journals) expressed in points assigned by the governmental point scheme; the overall share of EI in CERGE-EI output is about 2/3.

² This share reaches 77% when considering the performance of CERGE-EI, the joint workplace of the Center of Economic Research and Graduate Education (CERGE) of Charles University and the Economics Institute (EI) of the Czech Academy of Sciences. As explained below, EI cooperates synthetically with CERGE under the umbrella of the joint workplace CERGE-EI in one building, Schebek Palace, in the center of Prague.

³ Author's calculations. Aggregate data for 2014 are not yet available.

⁴ Source: Annual Report of the University of Economics, Prague, 2013, [Výroční zpráva o činnosti VŠE, 2013]

and Statistics, Games and Economic Behavior, and others. For a more detailed discussion of the EI team publications see Section 3.5.

Research activities at the Economics Institute of the Czech Academy of Sciences include a wide range of activities such as seminars, workshops, and conferences in addition to the regular work on research projects. Research carried out at EI is initiated by local permanent faculty and researchers, on topics derived from their research interests and programs. Evidence of the strength of the faculty that EI has been able to build lies in the fact that numerous projects by local faculty members have been accepted and financed by Czech, European, and US grant institutions. Recently hired junior faculty members have earned their economics Ph.D. at many of the best international universities, including the University of Chicago, NYU, Princeton University, University of Minnesota, University of Pittsburgh, Saint Louis University, University College London, and London School of Economics.

The EI, in cooperation with the Center for Economic Research and Graduate Education of Charles University, in the frame of a joint workplace [CERGE-EI⁵](#), forms a unique institution in the Czech Republic which operates as a **standard economic department at Western Europe and US universities**, and has created an environment in which teaching and research are carried out together. Even now, almost twenty five years after the collapse of communism, there is still a critical lack of modern educated economists in countries completing their transition from central planning to a market economy. Hence, one of the key missions of the Economics Institute (EI) in addition to the production of high quality research is to supply the region with highly qualified experts and academics. The EI, together with CERGE, runs a premier doctoral program in theoretical and applied economics, which is fully accredited by the Ministry of Education, Youth & Sports of the Czech. Furthermore, the Board of Regents of the Education Department of New York State granted CERGE-EI an absolute charter of the doctoral and in-transit masters program in economics in 2005. The charter confirms the high quality of the CERGE-EI Ph.D. program in economics and the fact that it meets US standards for Ph.D. degree programs. Over 70% of all CERGE-EI graduates remain in the region or deal with the region in their work for international organizations, in sharp contrast with the 10% of Central and Eastern Europeans who return to the region after receiving a Ph.D. in economics from leading American programs. See more on the CERGE-EI PhD program in Section 3.3.1.1.

Student involvement in the research projects of EI (and CERGE-EI) has also become a critical and irreplaceable part of their education; their dissertation topics are typically closely related to research programs focused on topical problems relating to the economic and social development of countries in transition. An important research goal of EI is to carry out studies of the Czech economy and to be active in the Czech economic community.

Single EI Team

⁵ In order to deploy the synergy of the joint workplace, most of core research workers are employed both at EI of the Czech Academy of Sciences and CERGE of Charles University. Furthermore, EI and CERGE share their administrative structures as much as possible: the director and all deputy directors are common to both workplaces.

The Economics Institute is presented as a single team in this evaluation exercise. There are several reasons for this:

- 1) the members of the EI research staff, similarly to a typical economic department at leading world universities, do not create permanent teams formally organized by the university but rather work independently and create small ad hoc teams related to the content and purpose of a particular research project;
- 2) due to continuing lack of funding, the number of core faculty members is very small; actually, it is only half the size of a typical econ department, which creates some significant problems for the proper functioning of EI – see the item 3 on weaknesses and future threats in this section below;
- 3) another part of the team consists of researchers almost exclusively financed from funding from external sources such as the Czech Science Foundation and other (mostly local) grant agencies; this allows EI to partially offset the noted size problem and to generate mostly locally relevant applied research, which helps us to accomplish the part of the EI mission focused on building economic expertise and community impact; on the other hand such ad hoc project funding excludes to build human resources of the research base over longer horizons;
- 4) the final part of our team is composed of the best performing advanced doctoral students selected to be employed as junior researchers at EI.

Researchers Orientation and Evaluation

In the past 5 years, EI has shown strengths in several areas of economic research. One of the most successful is the area of theoretical macroeconomics, and especially the area of rational inattention, where EI has produced several top papers. The area of economic theory has also been strong, with several top papers in the area of global games, and active research on auction theory. EI has also done well in the area between macroeconomic and public finance, with several high quality papers on taxation in dynamic economies. The area of experimental economics has been another strength of EI, with two top five papers published in this area. Further, EI has published well in other areas of economics, including labor economics and financial economics. The following table summarizes the main fields of economic research pursued at EI:

Macroeconomics	Rational Inattention, dynamic general equilibrium models with heterogeneous agents, optimal fiscal and monetary government policies, adaptive learning, Bayesian estimation of DSGE models, numerical methods in macroeconomics
Microeconomics	Global games, decision theory, auction theory, mechanism design, firm behavior, competition and industrial policy, foreign direct investment, small and medium size enterprises
Labor Economics	Labor supply and policies, labor market institutions, empirical issues of unemployment, gender wage gaps, human capital, regional human capital spillovers, labor market and education, transition job reallocations, unemployment insurance
Financial Economics	Financial markets, asset pricing with asymmetric information, portfolio choice, quantitative financial economics, corporate governance
Other Fields	Applied econometrics, measurement error issues, experimental economics, behavioral economics, economics of science and innovation, economic history

The unique success of the EI's research is a consequence of two principles, to which EI (and the joint workplace CERGE-EI⁶) rigorously adheres. First and foremost, CERGE-EI puts **much higher weight on the quality of research, rather than its quantity**. This is reflected in hiring decisions, where CERGE-EI only hires people who have prospects to publish in the top journals. It only hires people on an international market, and who hold PhDs from the best institutions in the world. In the past, CERGE-EI has hired faculty with PhDs from the University of Chicago, Princeton University, University of Minnesota, University College London, University of Michigan, London School of Economics, Saint Louis University, University of Virginia, and others. CERGE-EI does not, as a rule, practice „inbreeding“, i.e. does not hire its own PhDs immediately after they are granted their degree (though some have become faculty members after spending several years at other institutions). The focus on the quality of research is also reflected in the evaluation of CERGE-EI faculty members. Publications in top journals are the main factor. Publications without an impact factor, publications in non-refereed volumes or journals, or policy oriented activities with only local impact have no relevance for tenure decisions.

Second, CERGE-EI stresses the importance of **credible and independent research evaluation**. To that end, CERGE-EI has the Executive and Supervisory committee ([ESC](#)), which advises CERGE-EI. In addition to the representatives of the Czech Academy of Sciences and Charles University and senior (tenured) CERGE-EI faculty members, the ESC consists of internationally recognized economists, including Philippe Aghion (Harvard University), Gérard Roland (University of California, Berkeley), Joseph Stiglitz (Columbia University, Nobel prize winner in 2001), Henry Farber (Princeton University), Chris Sims (Princeton University, Nobel prize winner in 2011), Alan Krueger (Princeton University, former Chairman of President Barack Obama's Council of Economic Advisers) and Larry Samuelson (Harvard University). ESC members typically have no connection to CERGE-EI other than their ESC membership, and play a leading role in, among other things, hiring and tenure decisions. The hiring decisions are further made on a basis of recommendation letters written by a candidate's advisors. Similarly, tenure decisions are made on the basis of evaluation letters written by experts in the candidate's field. ESC members select and solicit the evaluation letters, and their credibility ensures that the selected experts are of high quality, and know the candidate's research area well.

Strictly enforcing these principles is unique in the Czech Republic. For example, in 2010-2014, CERGE-EI has denied tenure to 4 faculty members, despite the fact that some of their research output is of higher quality than anything that, for example, the University of Economics, Prague has been able to produce in the same time period. We can only wish that more research institutions would adopt similar principles.

Expertise and Applied Research

Apart from research and teaching, the EI offers a large variety of economics expertise to both local and EU administrations, thus generating substantial community

⁶ As explained above, CERGE-EI is a joint workplace of CERGE UK and the Economics Institute of the Czech Academy of Sciences. The principles are common to both institutions, and so, in what follows, we will use the term CERGE-EI.

impact. Recently, this type of research has been mostly performed by the Institute for Democracy and Economic Analysis (IDEA), a project of EI. EI, and particularly researchers from its IDEA think-tank section, are recognized [experts](#) in numerous areas of public policies: labor market functioning, taxation, social policies and poverty reduction; R&D policies (evaluation and funding); pension schemes, reforms, ageing, retirement; macroeconomic analysis including forecasting; international trade; public budgeting; economics of education and schooling.

The [IDEA](#) think-tank is an innate part of EI, publishing influential policy oriented studies and organizing public events including seminars, smaller conferences and ‘IDEA for breakfast’ press conferences with journalists. The audiences range from ministry-level policymakers, members of parliament, the business community, specialized journalists, to various strands of the general public. IDEA’s output has a clearly identifiable influence on public debates and policy formation. The findings of IDEAs studies appear as top headline stories in major daily newspapers in the Czech Republic. IDEA researchers intensively contribute to op-ed sections of [daily newspapers](#), provide [expert opinions](#) to journalists, publish policy comments via blogs, and appear in [TV and radio media](#), etc.

EI researchers collaborate regularly with international institutions including the World Bank, the OECD, IMF, and the UNDP in developing policy prescriptions for the Czech Republic. They also provide numerous systematic or ad-hoc expert responses to the Czech government’s legislative proposals and to the European Commission (memberships in advisory boards of the government: economic, regulatory impact assessment, research and development, family policy, pension reform).

To highlight just three examples at the EU level, EI academics have been involved in key activities of the EC Directorate-General for Employment, a unique involvement for a new EU Member State academic institution in the area of social sciences and humanities. Specifically, together with ICF GHK consultancy in the UK, EI researchers have formed the core team coordinating the [European Employment Policy Observatory](#) (EEPO), which has been providing independent expert background to the European Commission (EC) monitoring and developing the [European Employment Strategy](#) (EES), the Lisbon and Europe 2020 Strategy, by providing academic opinions, comparative research evidence, and evaluation of employment policies and labor market trends in EU member and candidate countries. At the beginning of 2009, this partnership established a consortium assisting the EC to carry out the [Mutual Learning Programme](#), where the main objectives are to encourage and facilitate Member States to learn from each other’s experiences and to enhance the transferability of best practices of labor market policies in priority areas of the EES. EI, via its senior experts, is involved in the agenda of the European Expert Network of Economics of Education (www.EENEE.org), assisting the EC in building expert capacity to foster policy formation in the area of education and schooling within the EU.

Research Seminars and Other Public Appearances

CERGE-EI also offers the local scientific community the [premier seminar series](#) of some of our profession’s best scientists. Annually, we invite about 50 seminar speakers who typically come from prestigious EU or US research institutions. The seminars are open to the public. Further, the joint library of the Economics Institute and CERGE is the

premier economics library in the region. The community value of the Library is clear when one considers that it serves over 1,700 users a year, of which four-fifths are from outside CERGE-EI. For more information on the library see Section 3.3.4.

Finally, EI researchers are frequently invited by the media to express their opinions on current economic issues, and to participate in public discussions (on TV, radio and in the newspapers, especially on public TV ČT1 and ČT24, *Hospodářské noviny*, *Respekt*, *Mladá fronta*, *ČRo 6* and others). Our experts contribute to current public policy debates by disseminating their opinions in popular articles and interviews or by participating in expert government committees. During the period considered in this exercise, they have contributed over 100 newspaper articles and made over 1,400 appearances (were cited by newspaper or other media and appeared in TV discussions). For more information on public discussions and research popularization – see Section 3.10.3.

International Collaboration

International scientific collaboration is primarily based on a rich network of the contacts of individual researchers, most of whom received their doctorates in the US and Western Europe. EI has also greatly benefited from more than a dozen grants funded by the European Commission – especially within the 6th and 7th Framework Programmes, enabling participation in international research networks, establishing research collaboration with other European institutions, and bringing a number of visitors via organization of pan-European workshops and conferences, e.g. *Dynamics of Institutions and Markets in Europe (DIME)*, *Reflexive Governance in the Public Interest (REFGOV)*, *Public Policy, Market Organization and Transition Economies (PUBPOLTRANS)*, *A New Agenda for European Security Economics (EUSECON)*, *Intangible Capital and Innovations: Drivers of Growth and Location in the EU (INNODRIVE)*, and *Finance, Innovation and Growth: Changing Patterns and Policy Implications (FINNOV)*. Recently, we have also begun to participate in the Norwegian Financial mechanism with the grants: *Diversity 2013+ - Getting Women on Board*, and *Lifetime Economic Impacts of Maternity*. For more information on participation in international grants and research projects see Section 3.3.1.1.

In another example, EI is a national partner in the [Survey of Health, Ageing and Retirement in Europe \(SHARE\)](#) which has recently become the first European Research Infrastructure Consortium. In this framework we have participated in a series of large international projects: *Employment and Health at 50+: A Life History Approach to European Welfare State Interventions (SHARELIFE)*, *Upgrading the Survey of Health, Ageing and Retirement in Europe – preparatory phase (SHARE-PREP)*, *Longitudinal Enhancement and Access Improvement of the SHARE Infrastructure (SHARE_LEAP)*, and *Multinational Advancement of Research Infrastructures on Ageing (SHARE_M4)*. We are also the Central and East European Regional Network representative for the [Global Development Network \(GDN\)](#) – a leading worldwide network of policy and research institutes whose aim is to support the generation and sharing of knowledge for economic development and to promote its application to public policy.

International Conferences and Workshops

EI researchers regularly present their research output at important economics and field conferences and workshops as well as at invited research seminar talks at international economics departments. Annually, EI researchers actively participate in over 150 conferences and workshops, including the leading international economic conferences:

- Allied Social Science Associations (ASSA) Meeting, American Economic Association (AEA)
- Annual Congress of the European Economic Association (EEA)
- European Meeting of the Econometric Society (ESEM)
- Joint Statistical Meetings, American Statistical Association
- North American Summer/Winter Meeting of the Econometric Society
- Annual Conference of the Royal Economic Society (RES)
- Annual International Conference on Macroeconomic Analysis and International Finance
- Annual Meeting of the Society for Economic Dynamics (SED)
- Annual Conference of the Association for Applied Econometrics (IAAE)
- World Congress, International Economic Association (IEA)
- Annual NBER Summer Institute
- Annual Conference of the European Association for Research in Industrial Economics (EARIE)
- Economic Science Association (ESA) World/European Meeting
- Conference of the European Association of Labour Economists (EALE)

Organized Conferences and Workshops

EI conferences and workshops, organized under the auspices of the CERGE-EI joint workplace, aim primarily at disseminating research results of EI and visiting researchers and encouraging intensive analysis of current economic issues. The events target not only seasoned economists: in an effort to blend the research and educational activities of CERGE-EI, some workshops are geared toward Ph.D. students and young scholars, as well as toward the general public. The following events with international participation organized at EI within the period from 2010 to 2014 are the most important:

11TH ANNUAL GLOBAL DEVELOPMENT NETWORK CONFERENCE

“REGIONAL AND GLOBAL INTEGRATION: QUO VADIS?”

CERGE-EI, Clarion Congress Hotel, Prague Municipal House, Prague, January 13-19, 2010

Organizers: Global Development Network (GDN), CERGE-EI

Number of participants (of whom from abroad): 125 (113)

The GDN Conference was held for the first time in the Central and Eastern European region. The event offered a significant opportunity for the region to share its rich experience of economic integration, and how it can be used to understand and mitigate the impact of the global crisis on developing and transition countries. The conference was organized under the auspices of the Ministry of Foreign Affairs, Czech Republic and the City of Prague and in partnership with CERGE-EI, giving an opportunity to discuss risks to both developed and developing countries emanating from the increasingly globalized economic and financial system

CERGE-EI: ECONOMISTS CHANGING THE WORLD

CERGE-EI, October 7-9, 2011

Organizer: CERGE-EI

Number of participants (of whom from abroad): 33 (20)

As part of the CERGE-EI 20th Anniversary Celebration, alumni conducting research at world-leading universities and institutes contributed papers to the conference that also featured a special panel of members of CERGE-EI's Executive and Supervisory Committee:

Chair: Jan Švejnar (Columbia U, CERGE-EI)

Gerard Roland (UC Berkeley): *From Economics of Transition to Economic of Institutions*

Michelle White (UC San Diego): *Bankruptcy, Mortgage Default and the Financial Crisis*

John Sutton (LSE): *Transferring Capabilities: From the Transition Economies of the 1990s to Sub-Saharan Africa Today*

RATIONAL INATTENTION AND RELATED THEORIES CONFERENCE

CERGE-EI, June 3-5, 2012

Organizer: CERGE-EI

Number of participants (of whom from abroad): 21 (20)

The visit of Christopher Sims was part of a top-quality international conference on rational inattention organized by Filip Matějka, which included other prominent economists such as M. Woodford of Columbia University and further M. Angeletos (MIT), X. Gabaix (NYU), C. Hellwig and G. Saint-Paul (U Toulouse), J. La'o (U Chicago), S. Morris and C. Sims (Princeton U), L. Stevens (Columbia U). Details of Christopher Sims' public lecture titled "[Current Macroeconomics and Reality](#)" are given in section 3.10.3.

THEORY WORKSHOP

CERGE-EI, October 6 - 7, 2012

Organizer: CERGE-EI

Number of participants (of whom from abroad): 11/8

A workshop organized by Jakub Steiner with participants W. Dzuida, E. Shmaya, and B. Rog from Northwestern University in Chicago, P. Eso from University of Oxford, and O. Gossner from London School of Economics.

ESEI MARKET DESIGN CONFERENCE

CERGE-EI, October 11-13, 2012

Organizers: CERGE-EI, University of Zurich

Number of participants (of whom from abroad): 39 (23)

The conference organized by F. Michelucci (CERGE-EI) featured Paul Milgrom of Stanford University, a recent winner of the prestigious "BVVA Foundation Frontiers of Knowledge Award" in the category of economics, finance and management, and an auction design expert Paul Klemperer of Oxford University. Paul Milgrom gave a public lecture titled "[The US Incentive Auctions](#)". Further, there were E. Baldwin, and A. Teytelboym from Oxford University, E. Cantillon from ECARES in Brussels, L. Ehlers from Montreal University, P. Jehiel from Paris School of Economics, N. Kos from Bocconi University, L. Lindsay and K. Mierendorff from University of Zurich.

2nd CONFERENCE ON RATIONAL INATTENTION AND RELATED THEORIES

University of Oxford, September 17-19, 2014

Organizers: University of Oxford, CERGE-EI
Number of participants (of whom from abroad): 22 (19)

The “Rational Inattention and Related Theories” conference marked the most important annual event in the ‘Rational Inattention’ field of economic research. An impressive roster of international experts attended and presented their latest ideas, with EI represented by Filip Matějka and Jakub Steiner and several doctoral students. The institutional collaboration generated widespread attention in the Czech media. Participants included including M. Angeletos and A. Orphanides from Massachusetts Institute of Technology, F. Bianchi from Duke University, A. Caplin from New York University, M. Ellison from Oxford University, C. Hellwig from Toulouse University, M. Kacperczyk from Imperial College London, A. Pavan from Northwestern University, S. Sundaresan from Columbia University, C. Tonetti from Stanford Graduate School of Business, L. Veldkamp from New York University, Stern School of Business, and M. Wiederholt from Goethe University.

CONFERENCE ON THE RELATIONSHIPS BETWEEN SKILLS, SCHOOLING AND LABOR MARKET OUTCOMES

CERGE-EI, September 16-17, 2014

Organizers: EI

Number of participants (of whom from abroad): 15 (4)

The conference that was organized within the context of EI’s Center of Excellence grant awarded by the Czech Science Foundation was concluded with a public lecture by Eric Hanushek (Stanford University) titled “[The Economic Returns to a Good Teacher](#)” (see section 3.10.3).

CONFERENCE ON INVESTMENTS IN HUMAN CAPITAL

CERGE-EI, November 4, 2014

Organizer: EI

Number of participants (of whom from abroad): 8 (1)

A public keynote talk by George Psacharopoulos (CESifo) titled “[Sixty Years of Returns to Education: Where Do We Stand?](#)” (see section 3.10.3) was followed by a presentation of two new studies exploring returns to education in the Czech Republic and EU countries by EI researchers. Several other talks then discussed various aspects of human capital formation.

More information on events organized by CERGE-EI can be found in Section 3.10.3.

Research Stays and Mobilities

Faculty research stays and doctoral student mobilities are another sign of the international character of CERGE-EI and its global interconnectedness, with faculty and students visiting from 1 to 10 months at Princeton U, New York University, Columbia U, U Pennsylvania, U Chicago, California Institute of Technology, UC Santa Barbara, UC San Diego, U College London, U Warwick, Paris-Dauphine U, Toulouse School of Economics, European U Institute, Autonomous U Barcelona, Goethe U Frankfurt, Stockholm School of Economics and for many more short stays. For more information see Section 3.3.1.1.

Awards

EI has been able to generate a number of grants and awards for its excellence in research. Jakub Steiner and Marek Kapička were awarded the Purkyně Fellowship in 2011 and 2013, a significant achievement. Only 25 fellowships have been awarded between 2010-2014 in all fields of science. No other Purkyně fellowship in economics has been awarded. The fellowships last 5 years, and so EI will hold them until 2016 and 2018. Further, EI researchers have been awarded a number of GACR grants and other sources of support. Among other important awards are 2 Otto Wichterle Award (CAS) (2011, 2014), Young Economist of the Year Award (Czech Economic Society) 4x 1st place, 3x 2nd place, 3x 3rd place, Prof. Frantisek Vencovsky Prize 2x 1st place and 1x 3rd place. Further awards are as follows:

- Neuron Prize for Lifetime Achievement in Economics – 2012 Jan Švejnar
- Neuron Award for young economics researchers under 40 years of age – 2013 Filip Pertold, 2012 Jakub Steiner, 2010 Michal Pakoš
- Commemorative medal of Charles University in Prague – 2014 Štěpán Jurajda
- Doctor Honoris Causa by Mendel University in Brno – 2010 Jan Švejnar
- Scopus award (for Czech scientists under 35 years of age) – 2011 Jakub Steiner (2nd)
- Prize from the Governor of the National Bank of Slovakia – 2013 Peter Ondko
- Olga Radzyner Award of the Oesterreichische Nationalbank – 2013 Peter Toth
- “University Meets Microfinance” PhD Award – 2013 Nargiza Alimukhamedova
- Best young economist paper, Warsaw International Economic Meeting – 2011 Gurgen Aslanyan

Research Report of the team in the period 2010–2014

Institute	Economics Institute of the CAS, v. v. i.
Scientific team	Economics Institute

In the last 5 years, the Economics Institute (EI) has steadily continued its significant growth in the quality of its research output.. The most telling fact is that, for the first time in its history, EI team members were able to **publish on a consistent basis in the top 5 economic journals** (*Econometrica*, *Journal of Political Economy*, *American Economic Review*, *Quarterly Journal of Economics*, *Review of Economic Studies*). In the previous evaluation period of 2005-2009, there were no papers published in the top 5 journals. In the current 2010-2014 evaluation period, EI team members have published one paper in *Econometrica*, four papers in the *American Economic Review*, and one paper in the *Review of Economic Studies*. Those papers were published throughout the entire period, one in 2010, one in 2011, three in 2012, and one in 2013 (another paper in a top 5 journal, not included in this evaluation, was accepted early in 2015). In addition to the top 5 publications mentioned above, EI researchers have regularly published in top field journals like *American Economic Journal: Macroeconomics*, *American Economic Journal: Microeconomics*, *Journal of Economic Theory*, *Review of Economics and Statistics*, *Games and Economic Behavior*, and others.

In the past 5 years, EI has shown strengths in several areas of economic research. One of the most successful is the problem of rational inattention, an area that lies somewhere between economic theory and macroeconomics, and which has become a „hot“ topics in economics in recent years. Models of rational inattention study situations in which individuals can obtain information about alternatives only at a cost, and rationally limit the amount of information they obtain. They are used to study the real effects of monetary policy, various decision problems faced by a consumer, or a monopolist's problem of choosing price and quantity. EI has produced several papers related to the problem of rational inattention. In 2012, Filip Matějka, together with Alstair McKay, published a paper in the *American Economic Review* entitled “A simple market equilibria with rationally inattentive consumers”. The paper is the first to introduce the theory of rational inattention to industrial organization. It shows that the assumption that consumers do not pay full attention to product prices leads to demand systems that are often used in industrial organization literature. However, the authors show that some of the policy implications are different from those found in the existing literature. Other papers on rational inattention have been accepted for publication only recently, or are in a „revise and resubmit“ stage in top journals, and are not included in the list of publications submitted for this evaluation: Filip Matějka, again with Alstair McKay, has a paper „Rational Inattention to Discrete Choices: A New Foundation for the Multinomial Logit Model“ forthcoming in the *American Economic Review*, which studies the problem of a discrete choice under rational inattention. Filip Matějka's paper „Rationally Inattentive Seller: Sales and Discrete Pricing.“ Is in a revise and resubmit stage for the *Review of*

Economic Studies. Michal Bauer, Vojtěch Bartoš, Julie Chytilová and Filip Matějka in their paper “Attention Discrimination: Theory and Field Experiments with Monitoring Information Acquisition” empirically study the implications of rational inattention. Specifically, they study how information about ethnicity influences allocation of attention to available information about an applicant (a potential tenant or job applicant). This paper is also in the revise and resubmit stage for the *American Economic Review*. Notably, the paper has been written together with an EI graduate student, Vojtěch Bartoš, documenting a high level of interaction between faculty and graduate students.

The last paper mentioned is an experimental paper. Experimental economics is another area of economic research in which EI has been successful over the last five years. In 2010, Dirk Engelmann and Guillaume Hollard published an *Econometrica* paper “Reconsidering the Effect of Market Experience on the “Endowment Effect”. In the paper they provide new insights into the robustness of exchange asymmetries, which describe how people tend not to exchange goods they have been assigned. These effects are important deviations from predictions based on rational behavior. The paper is the first to demonstrate that comparatively little trading experience can eliminate exchange asymmetries and thus suggests that an aversion to trading is the cause, rather than loss aversion. Michal Bauer, together with Julie Chytilová and Jonathan Morduch, published a paper in 2012 in the *American Economic Review* “Behavioral foundations of Microcredit: Experimental and Survey Evidence from Rural India.” The paper contributes to literature on motivations of the poor to demand microcredit, and shows evidence that microcredit contracts provide support for people with self-discipline problems, who use it as a disciplined way to save. The study contributes to the debate about how to design financial products for the poor and, methodologically, it illustrates the usefulness of combining lab-in-field experiments with surveys. Another experimental economics paper that has been very successful is „War’s Enduring Effects on the Development of Egalitarian Motivations and In-Group Biases“ by Michal Bauer, Alessandra Cassar, Julie Chytilová, and Joseph Henrich, published in *Psychological Science* in 2014. The authors ask whether the experience of war generates an enduring elevation of people’s egalitarian motivations toward their in-group. They administered surveys to more than a thousand people who were differentially affected by war in both the Republic of Georgia and Sierra Leone, and find that greater exposure to war creates a lasting increase in egalitarian motivations towards one’s in-group, but not toward out-groups, especially between the ages of 7 and 20. The paper contributes to theories of human cooperation, which emphasize the importance of war in development of group-level cooperation, to literature on legacies of war, and also to literature studying formation of social behavior over a lifecycle. Other papers in the area of experimental economics have been published in *Games and Economic Behavior* (3x) and in *Experimental Economics*.

EI has also published strongly in other areas of economic theory. Jakub Steiner published several papers in the area of global games. Together with Jozef Sákovics in their 2013 *American Economic Review* paper “Who Matters in Coordination Problems?” they analyze a coordination problem akin to the adoption of a network technology. Government announces investment subsidies that, at minimal cost, attain a given likelihood of successful coordination. Optimal subsidies target agents who impose high externalities on others and on whom others impose low externalities. The paper provides a methodology that can be used to find the optimal targets for interventional government

policies. Another paper using the global games approach, by Laurent Mathevet and Jakub Steiner, “Tractable dynamic global games and applications” appeared in the *Journal of Economic Theory* in 2013. This paper extends an economic model of coordination processes, such as those in bank runs or political revolutions. These processes are typically studied in static settings. The paper studies a family of tractable dynamic global games and their applications. The results are used to examine how frictions, including those similar to the Tobin tax, affect equilibrium behavior. Other papers on global games have been published in the *Journal of Economic Theory*, *Economic Journal* and *Games and Economic Behavior*. EI team members have also published in other areas of economic theory, especially on auction theory, with two papers in *Games and Economic Behavior* (2x).

The area of theoretical macroeconomics has been another strength of EI. Marek Kapička in his 2013 *Review of Economic Studies* paper “Efficient allocations in dynamic private information economies with persistent shocks: a first-order approach” studies a recursive formulation of dynamic private information problems, where private information is persistent. This problem has previously been considered intractable due to the curse of dimensionality. The paper shows that one can significantly simplify the dimensionality of the problem by using the so called first-order approach. This result allows researchers to apply dynamic private information models to a larger set of potential problems and research questions in macroeconomics and optimal policy design. The first-order approach is also used in the paper „Optimal Mirrleesian Taxation in a Ben-Porath Economy”, published in 2015 in the *American Economic Journal: Macroeconomics*, by Marek Kapička. The paper is one of the first to quantitatively investigate the life-cycle pattern of optimal income taxes in a Ben-Porath economy with unobserved heterogeneity and unobserved human capital formation, without imposing any ad-hoc restrictions on the tax functions. Moreover, the paper is the first to link the optimal tax formulas in a dynamic economy with unobserved human capital formation of the optimal tax formulas in static economies. Another paper on tax reforms, “A flat tax reform in an economy with occupational choice and financial frictions” by Radim Boháček, and Jozef Zubrický, was published in the *Economic Journal* in 2012. This paper introduces occupational choice into the literature of optimal taxation and provides important results for understanding the effects of tax reforms on dynamics of business firms. Additional papers in macroeconomics have been published on asset pricing under long-run risk in the *Journal of Economic Dynamics and Control* and in the *Review of Finance*, on tax evasion in the *Journal of Human Capital*, and on the relationship between growth and inflation in *Economica*.

The unique success of CERGE-EI’s research is a consequence of two principles to which CERGE-EI rigorously adheres.¹ First and foremost, CERGE-EI puts **much higher weight on the quality of research than its quantity**. This is reflected in the hiring decisions, where CERGE-EI only hires people that have a prospect of publishing in the top journals. It only hires people at an international market, and with PhD’s from the best institutions in the world. In the past, CERGE-EI has hired people with PhD’s from the University of Chicago, Princeton University, University of Minnesota, University College

¹ CERGE-EI is a joint project of CERGE UK and the Economics Institute of the CAS. The principles are common to both institutions, and so, in what follows, we will use the term CERGE-EI.

London, University of Michigan, London School of Economics, Washington University in Saint Louis, University of Virginia, and others. CERGE-EI does not, as a rule, practice „inbreeding“, i.e. does not hire its own PhD's immediately after they are granted their PhD (some of them have become faculty members after spending several years at other institutions). The focus on the quality of research is also reflected in the evaluation of CERGE-EI faculty members. Publications in top journals are the main factors. Publications without an impact factor, publications in non-refereed volumes or journals, or policy oriented activities with only local impact have no relevance for the tenure decisions.

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