Kumulative Dissertation zum Themengebiet:

The Influence of Peers and Politics on Economic Outcomes – Empirical and Experimental Evidence in the Fields of Social Norms, Politically Connected Firms, Taxation and Climate Change

vorgelegt von

Dipl.-Kfm. Elmar A. Janssen

aus Paderborn

geboren am 23. März 1981 in Köln

zur Erlangung des Grades

Doctor rerum politicarum

(Dr. rer. pol.)

im Rahmen des Dissertationsverfahrens an der

Wirtschaftswissenschaftlichen Fakultät der Universität Paderborn.

2014

like dwarfs standing on
the shoulders of giants

Bernard of Chartres

Contents

The Influence of Peers and Politics on Economic Outcomes – Empirical and Experimental Evidence in the Fields of Social Norms, Politically Connected Firms, Taxation and Climate Change

INTRODUCTION

The research in this dissertation analyzes economic questions in very different fields: Fahr and Janssen (2014) analyze wage effects of social norms in Europe, Janssen (2014a) investigates how firm value is influenced by political connections in Germany, Fahr, Janssen and Sureth (2014) analyze how investment behavior is influenced by different tax regimes and Janssen (2014b) experimentally explores the role of transparency in investments in climate protection. While not intended ex ante, there is a common aspect to the in many respects heterogeneous studies, that is, how these economic outcomes are influenced by others than the actual actor. To be even more specific, each paper sheds light on either how peers or politics influence the respective economic outcomes.

In Fahr and Janssen (2014) the way peers can influence the economic outcome is indirect, but quite obvious. We operationalize the deviations from a social norm as deviations of an individual's Body Mass Index from the median BMI of his or her peer group to analyze the effects these norm deviations have on wages. The peer group is in this case defined as all individuals of the same gender, the same age group, and the same region of the respective countries in our data set.

The influence of politics on firm value is analyzed in Janssen (2014a). Here, an event study is conducted to find out whether the stock market assigns a value to a delegate of the Federal Parliament or one of the State Parliaments that is holding a seat of the management or supervisory board of a publicly traded company. Even so, there are many other possible ways through which companies and politics can be connected;

politicians in board rooms are of particular interest, because they are one of the rare publicly available signs revealing information about the political connectedness of a firm.

In Fahr, Janssen and Sureth (2014) again political influences are of interest. Taxes are not only a way to fill the treasury – they can also be used as a regulatory instrument to affect investment behavior. Because politics cannot just give different tax regimes a trial in the real world and observe their influence on investments decisions, experimental research such as in this study, which investigates how changes in the tax rate influence investment under entry and exit flexibility, can be a helpful tool.

Finally, Janssen (2014b) again analyzes the influence of peers. Here, an experiment was conducted to answer the question how knowledge about the investment actions of the peers in a group, by making these actions transparent, influences the achievement of an investment goal in a climate change context. The literature on the influence of transparency in other contexts suggested that transparency would help to achieve the goal for instance by peer pressure, reputation building, fairness norms etc. Instead, the results surprisingly show that politics and policy makers could have a much more pronounced positive impact on climate protection than making the actions of peers transparent, if they promote the public knowledge about climate change and climate protection and offer salient climate protection opportunities.

The next section gives a summary of each study in this dissertation and emphasizes their respective contributions and implications. In the last section, a synopsis provides detailed information for each study regarding the contributions of the different co-authors (for the papers written in co-authorship), the conferences, workshops and seminars the studies were presented at as well as their scientific dissemination.

OVERVIEW

Summary of Fahr and Janssen (2014)

In this fisrt paper, which is joint work with René Fahr, we show that the violation of social norms does have an impact on wages. Regarding social norms we adhere to the definition of Fehr and Gächter (2000, p. 166) who state that a social norm is "a behavioral regularity; that is ... based on a socially shared belief of how one ought to behave; which triggers ... the enforcement of the prescribed behavior by informal social sanctions." We suggest norms governing body mass, measured by a person's body mass index (BMI), as an avenue to identify and study wage effects of social norms. Of course, social norms regarding body mass differ with respect to gender, place and time. We investigate wage effects of deviations from the median body mass index (BMI) of an individual’s peer group to evaluate the influence of social norms on wages. This is possible because we argue that peers' BMI constitute a social norm in a sense that deviations from the peer group median BMI imply sanctions such as lower market wages. This peer group approach is related to the approach of Alessie and Kapteyn (1991). According to them, a set of people who share certain characteristics form a *social group* and the social group to which an individual belongs to, could serve as a proxy for his or her reference group. Our approach allows to show the existence of the influence of the social norm and to disentangle it from any (anticipated) productivity effects associated with deviations from a clinically recommended BMI in certain sections of the weight distribution.

We use data from 9 European countries – Denmark, Belgium, Ireland, Italy, Greece, Spain, Portugal, Austria and Finland – for the years 1998 to 2001, which stems from the European Community Household Panel (ECHP) which provides standardized data for most of the European countries. Estimates of between-effects models – our prefered specification – suggest that the influence of the social norm varies considerably between those countries.

Our results suggest that social norms set the relevant standard to evaluate men’s physical appearance in Austria, Finland, Greece and Spain. In particular, deviations of an individual body mass in the upward direction from the norm is sanctioned with around seven percent lower hourly wages in Austria, Greece and Spain, while in Finland men are sanctioned – again with wage cuts of about seven percent – for a downward deviation from the norm. A puzzling result compared to the findings in the literature is the observation that rather men than women incur wage penalities for being overweight. A possible explanation is that our estimation strategy is prone to fail, if the social norm body mass is embodied by an ideal body mass rather than a peer group median body mass. Altogether, the results of our prefered specification are backed by a whole set of robustness checks.

Contributions and Implications of Fahr and Janssen (2014)

While none of the papers discussed in *Fahr and Janssen (2014)* attempted to disentangle productivity effects from social norm effects in the relation between body mass and wages, our empirical strategy allows us to show that a *social norm effect* influences wages in addition to a *productivity effect*. The findings of this study are important in two dimensions.

First, from a more general point of view, the evidence presented in this paper is surprising and disturbing at the same time. Social norms seem to play an important role. For some countries, even comparatively moderate deviations from a norm on body mass lead to substantially lower hourly wages. To answer the question what particular characteristics are responsible for the effects in these countries, one could hypothesize that the cultural or institutional context has a moderating effect on the relationship between norm deviation and wages. This should raise awareness to many other factors potentially influencing wage setting and employment relations which have not been considered so far. However, to investigate these factors would go beyond the scope of this study and is left for further research.

Second, the paper contributes novel insights to the literature on the weight-wage relation. In contrast to the findings in the recent literature, a negative relation between body mass and wages is neither confined to severe obese employees nor to women alone. There is not one body mass-wage relation for the Western world. Our findings provide evidence that the body mass-wage relation is non-linear in many countries. While the findings differ substantially between countries, the negative association between wages and indicators for a higher or lower body mass index than the reference point (as set by the norm or a clinically recommended BMI) is rather confined to men.

Summary of Janssen (2014a)

This second study is single authored. It applies event study methodology to the outcomes of the 2005 election of the German Bundestag to analyze the effect – if any – of the 2005 change in government on politically connected firms in Germany. In doing so, the question is investigated whether political connections of companies are valued by the market. While political connections can take manifold forms, the influence of politicians and former politicians in the board room of publicly trades companies is investigated in this study.

For the performance data, every firm which was listed at the Frankfurt Stock Exchange on the Election Day in one of the major German stock indices – DAX, M-DAX, S-DAX or Tec-DAX – was included in the sample, which amounts to a total of 160 firms. To determine whether or not a firm is politically connected, two unique handpicked datasets are compared: one containing information about all current and former delegates of the Federal Parliament and the sixteen State Parliaments, the other containing information about all members of the management and supervisory boards of the considered firms. So, current or former delegates of the Federal Parliament or of one of the State Parliaments are identified on either the management or the supervisory board of these companies.

Results are compared to those of Goldman, Rocholl and So (2009) who found that following the 2000 presidential election in the US, value effects were positive for firms connected to the Republicans (who won the election) and significantly different from the negative ones of firms connected to the Democrats (who lost). The present study shows that, contrary to expectations, political connections had little impact on the value of politically connected corporations among the analyzed listed companies. The key results of this study are: First, there is a significantly smaller fraction of about twelve percent politically connected firms in Germany compared to the 31 percent found by Goldman, Rocholl and So (2009) in the US. Second, following the start of the exploratory talk and the inauguration of the new government, politically connected companies generate about 0.7 and 1.2 percent higher abnormal returns, respectively. Finally, while there is no significant impact of the election results on the returns of companies with political connections with respect to other different characteristics, there is slight support that connections to the federal parliament are more valuable than those to the state parliaments. The different reactions of the US and the German Stock Market are likely to occur due to the different corporate governance systems. Nearly all identified political connections in the present study are based on memberships on the supervisory board which main duties are to give advice and control. Therefore, politicians on these types of boards do not have the possibility to engage in the operative management of the respective firms and thus influence firm value.

Contributions and Implications of Janssen (2014a)

This study adds to the growing body of literature on the impact of political connections of firms in several ways. First, in contrast to the few previous studies with German data, the present study also takes into account connections of firms to members of the State Parliaments and does not confine itself to connections with members of the Federal Parliament. This is possibly because of the use of the unique, hand-picked data set that contains information for about all delegates of the respective parliaments covering all elections since the foundation of the Federal Republic of Germany and since the German reunification in the case of the State Parliament elections in the five new federal states. Second, this study analyzes the effect of a governmental change on stock market returns of politically connected firms in a country with a *two-tier corporate governance system*. Because of the division of management functions and control functions into two organs in such systems, the market reactions for firms in a two-tier system generates new insights on the value of political connections.

Summary of Fahr, Janssen and Sureth (2014)

This third study is joint work with Caren Sureth and René Fahr. We study investors' reactions to tax reforms under timing flexibility and risk to determine whether the theoretically identified (tax reform- and exit flexibility-driven) reaction patterns can be observed in an experimental setting and if so, how often. It is well-known that taxes affect risky investment decisions. In addition to continuous-time models, binomial models have been applied and indicate that at first sight, unexpected investor reactions (acceleration upon tax rate increases and deceleration upon tax rate decreases) occur for specific classes of investment only if an exit option is available. Unfortunately, there is no suitable data on investment in the face of tax reforms for the archival studies. Because an empirical test is still missing, we design an experiment that is based on the analytical model of Schneider and Sureth (2010) with binomial random walk and entry and exit flexibility to close this research gap.

Corroborating the results of the underlying analytical economic model, an exit option in the case of a high tax rate seems to be the crucial setting to observe an accelerating tax effect. Concentrating on the impact of the tax rate changes, in the next step we find both the accelerating effect upon a tax rate increase and the decelerating effect upon a tax rate decrease. Moreover, we find evidence that higher taxes foster (accelerate) investment independent of the existence of an exit option. This is surprising and contrasts with the reactions predicted by the theoretical literature on the tax effects on investment timing under simultaneous entry and exit flexibility. High taxes seem to speed up investment. Contrary to the predictions from the theoretical literature, our findings suggest that the presence of an exit option attenuates accelerated investments. However, we observe the latter only in the case of a tax increase, while the presence of an exit option seems to be irrelevant for the timing of investment in the case of a tax rate decrease. This asymmetric investment behavior is possibly driven by tax salience (Ackermann, Fochmann and Mihm (2013)) and the mechanisms known from the theory of irreversible choice under uncertainty and prospect theory, whereby bad news affects investment decisions, while good news has a minimal effect or none at all (cf. e.g. Bernanke (1983) or Kahneman and Tversky (1979))). Surprisingly, we find investor risk attitudes do not impact their behavior if the tax rates are high.

Contributions and Implications of Fahr, Janssen and Sureth (2014)

Within this study, we provide a new and rather simple experimental design to close the above discussed research gap. This basic design offers the possibility to analyze other and even more complex timing and risk structures in further research. Additionally, it is a blueprint for other experimental analyses of tax effects such as exit costs, loss offset restrictions, taxation of capital gains or others. Therefore, it can be used for wind tunnel research of theoretical literature on tax effects.

Our empirical evidence suggests that at-first-sight unexpected tax effects, which are often called paradoxical investor reactions, are much more common than can be predicted by the economics-based theoretical tax literature. By nature, these results are limited by the underlying set of assumptions. As these assumptions include the specific growth patterns that are typical for R&D-intensive and export-oriented industries, they provide important insights for the discussions on the interplay of taxation (tax rate changes, tax incentives) and economic growth. Our results imply that tax rate changes often may not be likely to induce the intended investment effects. Thus, policy makers should generally be well aware of at-first-sight unexpected outcomes of tax reforms and carefully consider the behavioral aspects that might invoke unexpected reactions of the taxpayers that are often neglected.

Summary of Janssen (2014b)

This forth study is again single authored. It analyzes the influence of transparency on investments in climate protection. Climate change is one of the biggest problems humankind is currently facing and therefore, there have recently been a rising number of studies which analyze the economic components of climate change. Especially experimental economics offer a promising way to circumvent the missing data problem, the lack of control in the field and the problem of identifying causality of effects, of the economic analyses of climate change and climate protection. The present study uses experimental economics and extends the collective-risk social dilemma framework of Milinski, Sommerfeld, Krambeck, Reed and Marotzke (2008). This framework allows for analyzing how a group of people behave in a kind of public bad situation, where personal wealth is threatened by the negative consequences of climate change, which can be avoided if a fixed target amount of investments in climate protection is reached by the group at a certain point in time. All prior studies that used this framework assumed that every player knows how much any of the other group members has invested in climate protection, at any point in time during the experiment. When turning from the lab to the real world, the assumption that CO_2 reductions – or more generally the investments in climate protection – are common knowledge is questionable. Therefore, in the present study a treatment with a low transparency level was introduced besides the described high level of transparency.

The results show that under high and low transparency over 70 percent of the groups reached or exceeded a predefined investment target and in doing so prevented negative climate change consequences. The amount of groups that did prevent these negative consequences is much higher than in previous experiments. When it comes to the influence of transparency, the amount of groups in the sample that achieve the target and therefore prevent negative consequences of climate change is 10 percent higher in the high transparency treatment than in the low transparency treatment. However, this difference is not statistically significant at any conventional level. The same is true when it comes to the distribution of investments in the groups. The standard deviation of total investments is about one monetary unit (in this case: Taler) smaller in the high transparency treatment, yet the difference again is not significant. In contrast to the results of Burton-Chellew, May and West (2013), subjects who are more affirmative regarding climate change and the subsequent responsibilities, invested significantly more in the present sample. Subjects with a lower risk aversion invested significantly less in contrast.

Finally, the results of this study show that there seem to be two other important factors: information and saliency. The results suggest that a high level of information about the topic of climate change and a high saliency, i.e. a realistic disaster probability and a direct and quantifiable result of the investment in climate protection, lead to high levels of achievement of the climate protection target. This conclusion draws on the comparison of the findings with the results of former studies using the collective-risk social dilemma framework.

Contributions and Implications of Janssen (2014b)

This study provides an extensive structured review of experimental studies in the field of emission reduction that is not available in the prior literature. Further, a design is suggested to study the impact of transparency in this established framework. With the real compensation of CO_2 via a service provider, a new instrument is introduced to operationalize the consequences of the investments in climate protection. This instrument has a high external validity, because a real CO_2 compensation takes place and it is also salient, because each subject can link each of her or his investments in the climate account to a specific result in the real world. Together with the use of a realistic disaster probability, these instruments yield a high external validity of the experiment.

As the results of the present study show, this high external validity and saliency, as well as a high level of information about climate change and climate protection seem to be driving forces of climate protecting behavior. Therefore, these results are of particular interest for policy makers – be it in politics, in NGOs or in science – who could make an important contribution towards solving the climate change problem. This could happen by increasing the public knowledge of climate change and climate protection through education and information campaigns or by providing salient climate protection programs.

SYNOPSIS

Publication

Fahr, R. and Janssen, E. A. (2014): The Wage Effects of Social Norms: Evidence of Deviations from Peers' Body-Mass in Europe. Working Paper, University Paderborn.

Contribution of joint work with co-authors

Co-authorship with Prof. Dr. René Fahr

Idea and first draft by René Fahr

Revision and clarification of identification strategy by Elmar Janssen

Re-estimation and additional estimations and robustness checks by Elmar Janssen

Revision and extension of paper by Elmar Janssen, feedback and comments by René Fahr

Conferences/Workshops

The paper was presented at the following conferences and workshops:

03/2004♠: Conference "7th Colloquium on Personal Economics (POEK)" University of Bonn, Bonn, Germany.

05/2006♠: Seminar "Center for Economic and Business Research (CEBR) Research Seminar", Copenhagen Business School, Copenhagen, Denmark.

10/2006♠: Seminar "Soziologisches Oberseminar", University of Cologne, Cologne, Germany.

04/2007♠: Seminar "Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI) Brown Bag Seminar", RWI, Essen, Germany.

02/2010: Conference "3rd Ruhr Graduate School (RGS) Doctoral Conference in Economics", Ruhr University of Bochum, Germany.

♠ Paper was presented by a co-author.

06/2010: Conference "3rd International Conference of The European Association of Labour Economics and The Society of Labor Economists (EALE/SOLE)", University College London, Great Britain.

Scientific Dissemination

Work on this paper started in February 2004

First Draft published September 2006 as IZA Discussion Paper No. 2323, Bonn, Germany

Revision of paper started in March 2009

Submission is planned in 2014 to Economics and Human Biology

Publication

Janssen, E. A. (2014a): Do Election Results Affect the Value of Politically Connected Firms? - The Effect of the Schröder-Merkel Change of Government on German Prime Standard Firms. Working Paper, University Paderborn.

Contribution of joint work with co-authors

This work is single-authored

Conferences/Workshops

The paper was presented at the following conferences and workshops:

09/2011: Conference "Jahrestagung 2011 des Vereins für Socialpolitik Gesellschaft für Wirtschats- und Sozialwissenschaften", Goethe-University, Frankfurt am Main, Germany.

06/2012: Conference "The 74th Annual Meeting of the German Academic Association for Business Research (VHB)", Free University of Bozen-Bolzano, Bozen/Bolzano, Italy.

Scientific Dissemination

Work on this paper started in September 2010

First draft February 2011

Submission is planned in 2014 to The German Economic Review

Publication

Fahr, R., Janssen, E. A. and Sureth, C. (2014): Can Tax Rate Increases Foster Investment under Entry and Exit Flexibility? – Insights from an Economic Experiment. WU International Taxation Research Paper Series No. 2014 - 05, available at SSRN Working Paper No. 2442721 and as arqus Discussion Paper No. 166.

Contribution of joint work with co-authors

Co-authorship with Prof. Dr. René Fahr and Prof. Dr. Caren Sureth

Idea developed jointly

Theoretical model developed by Caren Sureth, feedback by René Fahr and Elmar Janssen

Experimental design developed by Elmar Janssen and René Fahr, feedback and comments by Caren Sureth

Programming of experiment in z-tree and experimental procedure by Elmar Janssen

Non-parametric and multivariate analysis conducted by Elmar Janssen, feedback, comments and corrections by René Fahr and Caren Sureth.

Write-up of paper jointly

Conferences/Workshops/Seminars

The paper was presented at the following conferences and workshops:

09/2012[*]: Workshop "5th Faculty Research Workshop", University of Paderborn, Meschede, Germany.

06/2013[♠]: Seminar "Doctoral Colloquium" University of Graz, Graz, Austria.

10/2013*: Workshop "Experiments in Tax Research", University of Paderborn, Paderborn, Germany.

10/2013[♠]: Seminar "Research Seminar" Beijing Institute of Technology, Beijing, China.

[*] Paper was presented jointly with a co-author.

[♠] Paper was presented by a co-author.

06/2014♠: Conference “The 76th Annual Meeting of the German Academic Association for Business Research (VHB)”, Leipzig University, Leipzig, Germany.

Awards

2012: Best Paper Award at the “5th Faculty Research Workshop”, University of Paderborn.

2014: Best Practice Paper Award of the German Academic Association for Business Research (VHB).

Scientific Dissemination

Work on this paper started in September 2011

First draft October 2013

Published draft May 2014 as WU International Taxation Research Paper Series No. 2014 - 05, available at SSRN Working Paper No. 2442721

Submitted in June, 2014 to The Accounting Review

Publication

Janssen, E. A. (2014b): The Influence of Transparency on Investments in Climate Protecting – An Economic Experiment. Janssen (2014b).

Contribution of joint work with co-authors

This work is single-authored.

Conferences/Workshops

09/2014: Conference “Annual Meeting 2014 of the Gesellschaft für experimentelle Wirtscahftsforschung e.V. (GfeW), University of Passua, Passau, Germany.

Scientific Dissemination

Work on this paper started in June 2013

First draft July 2014

REFERENCES

ACKERMANN, H., M. FOCHMANN, AND B. MIHM (2013): “Biased effects of taxes and subsidies on portfolio choices,” *Economics Letters,* 120, 23–26.

ALESSIE, R., AND A. KAPTEYN (1991): “Habit Formation, Interdependent References and Demographic Effects in the Almost Ideal Demand System,” *The Economic Journal,* 101, 404–419.

BERNANKE, B. S. (1983): “Irreversibility, Uncertainty, and Cyclical Investment,” *The Quarterly Journal of Economics,* 98, 85–106.

BURTON-CHELLEW, M. N., R. M. MAY, AND S. A. WEST (2013): “Combined inequality in wealth and risk leads to disaster in the climate change game,” *Climatic Change,* 120, 815–830.

FAHR, R., AND E. A. JANSSEN (2014): “The Wage Effects of Social Norms: Evidence of Deviations from Peers' Body-Mass in Europe,” Working Paper, University Paderborn.

FAHR, R., E. A. JANSSEN, AND C. SURETH (2014): “Can Tax Rate Increases Foster Investment under Entry and Exit Flexibility? - Insights from an Economic Experiment,” WU International Taxation Research Paper Series No. 2014 - 05, available at SSRN Working Paper No. 2442721.

FEHR, E., AND S. GÄCHTER (2000): “Fairness and retaliation,” *Journal of Economic Perspectives,* 14, 159–181.

GOLDMAN, E., J. ROCHOLL, AND J. SO (2009): “Do politically connected boards affect firm value?,” *Review of Financial Studies,* 22, 2331–2360.

JANSSEN, E. A. (2014a): “Do Election Results Affect the Value of Politically Connected Firms? - The Effect of the Schröder-Merkel Change of Government on German Prime Standard Firms,” Working Paper, University Paderborn.

——— (2014b): “The Influence of Transparency on Investments in Climate Protecting - An Economic Experiment,” Working Paper, University Paderborn.

KAHNEMAN, D., AND A. TVERSKY (1979): “Prospect Theory: An Analysis of Decision under Risk,” *Econometrica,* 47, 263–291.

MILINSKI, M., R. D. SOMMERFELD, H.-J. KRAMBECK, F. A. REED, AND J. MAROTZKE (2008): "The collective-risk social dilemma and the prevention of simulated dangerous climate change," *Proceedings of the National Academy of Sciences,* 105, 2291–2294.

SCHNEIDER, G., AND C. SURETH (2010): "Capitalized investments with entry and exit options and paradoxical tax effects," *Review of Managerial Science,* 4, 149–169.

The Wage Effects of Social Norms – Evidence of Deviations from Peers' Body Mass in Europe

René Fahr
University of Paderborn
and IZA

Elmar A. Janssen
University of Paderborn

No 4, Working Papers Dissertations from University of Paderborn, Faculty of Business Administration and Economics
http://EconPapers.repec.org/RePEc:pdn:dispap:04

ABSTRACT: We investigate wage effects of deviations from peer group body mass index (BMI) to evaluate the influence of social norms on wages. Our approach allows to show the existence of the influence of the social norm and to disentangle it from any (anticipated) productivity effects associated with deviations from a clinically recommended BMI in certain sections of the weight distribution. Estimates of between-effects models for 9 European countries for the years 1998 to 2001 suggest that the influence of the social norm varies considerably between countries, and wage penalties are rather found for upward deviations from the norm and for men.

Do Election Results Affect the Value of Politically Connected Firms? - The Effect of the Schröder-Merkel Change of Government on German Prime Standard Firms

Elmar A. Janssen
University Paderborn

No 5, Working Papers Dissertations from University of Paderborn, Faculty of Business Administration and Economics
http://EconPapers.repec.org/RePEc:pdn:dispap:05

Abstract: This study applies event study methodology to the outcomes of the 2005 election of the German Bundestag. Results are compared to those of Goldman, Rocholl and So (2009) who found that following the 2000 presidential election in the US, value effects were positive for firms connected to the Republicans and significantly different from the negative ones of firms connected to the Democrats. The present study shows that, contrary to expectations, political connections had little impact on the value of politically connected corporations among the companies listed at the DAX, MDAX, SDAX or TecDAX. The key results of this study are: First, there is a significantly smaller fraction of politically connected firms in Germany than in the US. Second, following the start of the exploratory talk and the inauguration of the new government, politically connected companies generate about 0.7 and 1.2 percent higher abnormal returns, respectively. Finally, while there is no significant impact of the election results on the returns of companies with political connections with respect to other different characteristics, there is slight support that connections to the federal parliament are more valuable than those to the state parliaments. The different reactions of the US and the German Stock Market are likely to occur due to the different corporate governance systems. Nearly all identified political connections in the present study are based on memberships on the supervisory board which duties are to give advice and control.

Can Tax Rate Increases Foster Investment under Entry and Exit Flexibility? – Insights from an Economic Experiment

René Fahr
University of Paderborn
and IZA

Elmar A. Janssen
University of Paderborn

Caren Sureth
University of Paderborn
and Vienna University of
Economics and Business

arqus, Quantitative Research in Taxation, Discussion Paper No. 166,
http://www.arqus.info
ISSN 1861-8944

ABSTRACT: It is well-known that taxes affect risky investment decisions. Analytical studies indicate that tax rate increases can foster (accelerate) investment if there is flexibility, in particular when an exit option is available. We design an experiment that is based on an analytical model with binomial random walk and entry and exit flexibility. Contrasting the underlying model, we find accelerated investment, which is often considered as an increased willingness to invest, on tax rate increases to be independent of the existence of an exit option. However, we observe this investor reaction only for a tax increase, not for a tax decrease. This investment behavior is driven possibly by tax salience and the mechanisms known from the theory of irreversible choice under uncertainty. Our empirical evidence suggests that the accelerating tax effects are much more common than is predicted by the theoretical literature. Policy makers should therefore carefully consider the behavioral aspects when anticipating taxpayer reactions.

The Influence of Transparency on Investments in Climate Protecting – An Economic Experiment

Elmar A. Janssen
University of Paderborn

No 6, Working Papers Dissertations from University of Paderborn, Faculty of Business Administration and Economics
http://EconPapers.repec.org/RePEc:pdn:dispap:06

ABSTRACT: Climate change is one of the biggest problems humankind is currently facing. Therefore, there have recently been a rising number of studies which analyze the economic components of climate change. Especially experimental economics offer a promising way to circumvent the missing data problem and the lack of control in the field. The present study experimentally analyzes the influence of transparency on investments in climate protection using a collective-risk social dilemma framework. The results are as follows: There is a positive influence of transparency on investments in climate change, but it turns out to be not significant. However, the results of the present study taken together with the results of former studies using the same framework indicate that information saliency regarding climate change and climate protection have a huge promoting influence on investments in climate protection and therefore could be a part of the solution of the climate change problem.