



## NEWSLETTER 2016-23

## CALENDAR:

**Departmental Seminar**

Kathrin Schlafmann (Stockholm University)  
*Overpersistence bias in individual income expectations and its aggregate implications*

Monday, November 14  
 16:30–18:00  
 VG H26

**PhD Seminar**

Kilian Niedermayer (IAB)  
*Short-time work as an instrument of labor market policy*

Monday, November 14  
 18:00  
 RW(S) 101

**IOS Seminar**

Jerg Gutmann (University of Hamburg)  
*The rule of law: Measurement and deep roots*

Tuesday, November 15  
 13:30–15:00  
 WiOS 109 (Landshuter Str. 4)

**Power Lunch – Regensburger wirtschaftspolitische Gespräche**

Margit Wild MdL (SPD)

Wednesday, November 16  
 12:00-13:00  
 VG 2.35

**roots lecture in economics**

Gregor Gysi (Abgeordneter im Deutschen Bundestag,  
 Rechtsanwalt, Publizist)  
*Die Europäische Union in der Krise*

Wednesday, November 16  
 18:00  
 H24

## ABSTRACTS:

### Departmental Seminar

Kathrin Schlafmann

*Overpersistence bias in individual income expectations and its aggregate implications*

*Abstract:* We study the role of household income expectations for consumption decisions. Using micro level data, we first document an income-related systematic component in household income forecast errors. We show that these systematic errors can be explained by a modest deviation from rational expectations, where agents overestimate the persistence of their income process. We then study the implications of this overpersistence bias in a quantitative model. Low income households who overestimate the persistence of their income are too pessimistic about their future income. This has two effects. First, they are unwilling to borrow to smooth their consumption even though their borrowing constraint is not binding, thereby allowing the quantitative model to match the distribution of liquid assets across the income distribution. Second, they have lower marginal propensities to consume than their fully rational counterparts. This implies that standard models of household consumption overpredict the effectiveness of government stimulus payments if they do not take deviations from rational income expectations into account.

### IOS Seminar

Jerg Gutmann

*The rule of law: Measurement and deep roots*

*Abstract:* This paper does three things. First, based on a limited number of theoretically established dimensions, it proposes a new de facto indicator for the rule of law. It is the first such indicator to take the quality of legal norms explicitly into account. Second, using this indicator we shed new light on the relationship between the rule of law and the political system of a country. Presidential governments tend to score significantly lower on the rule of law indicator than parliamentary ones. Many presidential democracies are even outperformed by dictatorships. The observation that political systems hardly predetermine the rule of law level raises the question why the authority of law differs across societies in its capacity to constrain the behavior of public officials. Third, because of this question, we investigate the roots of the rule of law. As theory on this specific question is scarce and the rule of law is closely associated with income levels, we draw on a topical literature that deals with the fundamental causes of economic development. Our findings suggest that specific determinants of long-run development operate via the rule of law, whereas others are not related to the rule of law at all. Our empirical evidence does, however, support not only the "primacy of institutions" view, but also the important role that human capital, which European settlers brought to their colonies, played in historical economic development.

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University of Regensburg

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Editorial deadline for Newsletter No. 2016-24:  
Wednesday, November 16 – 11 pm

FAKULTÄT FÜR  
WIRTSCHAFTSWISSENSCHAFTEN

INSTITUT FÜR  
VOLKSWIRTSCHAFTSLEHRE UND  
ÖKONOMETRIE

Universitätsstraße 31 • 93040 Regensburg

Newsletter-Redaktion: Martina Kraus-Pietsch

Telefon: +49 941 943-2710

Fax: +49 941 943-2734

E-Mail: [econ.news@ur.de](mailto:econ.news@ur.de)

Internet: [www-economics.ur.de](http://www-economics.ur.de)

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