

NEGOTIATING FOR RANSOM: AN EMPIRICAL INVESTIGATION OF BARGAINING WITH TRANSACTION COSTS

Attila Ambrus, Eric Chaney and Igor Salitskiy

The paper uses ransom prices and time taken to ransom for over 10,000 captives rescued from two Barbary strongholds, to investigate in ransoming settings the empirical relevance of dynamic bargaining models with one-sided asymmetric information. Considered were both multiple negotiations that were *ex ante* similar from the uninformed party's (seller's) point of view, and information that only the buyer knew. Reduced-form analysis was used to test some common qualitative predictions of dynamic bargaining models. The authors also estimate structurally the model in Cramton (1991), to compare negotiations in different Barbary strongholds. The estimates suggest that the historical bargaining institutions were remarkably efficient, despite the presence of substantial asymmetric information.

COGNITIVE ABILITIES AND STRATEGIC UNCERTAINTY IN A BANK-RUN EXPERIMENT

Hubert János Kiss

The author studies in a laboratory experiment whether cognitive abilities and strategic uncertainty affect depositors' decisions. The paper considers choices in which the depositor has a dominant strategy, i. e. where it is possible independently of the other depositors' decisions to withdraw money from the bank. However, strategic uncertainty (a situation where it is not unambiguous how the other depositors decided, based on observed previous choices) renders it harder to discern the dominant strategy. The results show that cognitive abilities help to explain depositors' decisions if there is strategic uncertainty, but they fail to predict those decisions where there is not.

MARK-UPS OF HUNGARIAN FIRMS

Balázs Muraközy and Cecília Hornok

This paper presents the methods for estimating firm-level markups, with special emphasis on that of De Loecker and Warzynski (2012), which calls for relatively little data and relies on few assumptions. Firm mark-ups are estimated by this method using 2001–2012 data from Hungarian manufacturing firms with at least five

employees. Then the way the mark-ups relate to the characteristics of the firm are analysed. It is shown that firms charge higher mark-ups relative to other firms in the same industry if they have larger market shares, are younger, charge lower wages, or are based in a more developed region. Also discussed is the role of foreign trade. It is shown that importing is associated with a higher mark-up even after taking the firm's productivity into account, whereas the mark-up premium for exporters is due to self-selection for exporting by firms that are more productive.

THE LONG-TERM EFFECTS OF EARLY EDUCATIONAL SELECTION
A QUASI-NATURAL POLICY EXPERIMENT FROM HUNGARY

Klára Gurzó and Dániel Horn

Using a unique institutional change, the paper offers causal estimates of the long-term effects of early education selection. During the post-socialist transition, the structure of the Hungarian education system changed gradually as new early-selection tracks were established. These elite tracks cherry-pick the best students at ages 10 and 12 – as opposed to the typical age of 14 – with the aim of improving the education and employment prospects of those selected. The authors use spatial and time variance in establishing these early-selection tracks to produce difference-in-difference estimates for the effect of early selection on probability of unemployment and other long-term outcomes. The 2011 Hungarian Census data are used to estimate cohort and settlement fixed-effect models, and event-study models. The paper goes beyond previous policy evaluations of the effect of de-tracking school reforms to identify the effect of a re-tracking policy that made the Hungarian school system more selective. Secondly, establishment of the early-selection tracks did not overlap with other major changes in education policy, which allows accurate identification of the effects of early educational tracking. The results show that early selection has no effect on average unemployment chance, imputed wage or tertiary participation probability for young adults. The effects are not just insignificant but precisely estimated zeros. This in itself questions the social desirability of early-selection policy.