

THE IMPACT OF PROVIDING SCHOOL AND CHILD TEST-SCORES ON EDUCATIONAL MARKETS

Economists generally theorise that the proliferation of information will lead to improvements in the quality of public services, but the empirical evidence is less conclusive (for example, Jacob and Levitt, 2003). Prior analyses have usually focussed on markets with restricted pricing. When prices can move and quality is unobserved, the theoretical literature (Wolinsky 1993) states that prices can act as a substitute for information i.e. high quality schools will charge significantly higher prices to differentiate themselves from lower quality schools. For prices to effectively signal quality, they must be widely dispersed. Hence, medium quality schools are not possible as such a school will not be able to effectively signal that it is not of poor quality.

Jishnu Das presented the results from an experiment conducted rural Pakistan's education market. Randomly selected villages implemented a report card system allowing parents to observe school quality and their own child's absolute and relative

performance. Children in all villages were tested at the start of the experiment and again a year later. It was found that in the report-card villages, the low-quality schools improved whereas the low-quality schools in the control group villages did not. These improvements were entirely driven by increases in school effort, rather than changes in enrolment or parental efforts.

Consistent with the 'price as a signal' theory outlined by Das at the beginning of his talk, the distribution of school fees was indeed compressed in the report card villages. All schools reduced prices, but the high quality schools reduced their prices the most as they no longer needed to distinguish themselves using the mark-up.

Papers

Andrabi, T., Das, J., & Khwaja, A. I. (2009), *Report cards: The impact of providing school and child test scores on educational markets*. Unpublished Working Paper.

Wolinsky, A. (1993), *Competition in a market for informed experts' services*, *RAND Journal of Economics* 24, 380-398.

PUBLIC SECTOR WAGE POLICY AND LABOUR MARKET EQUILIBRIUM: A STRUCTURAL MODEL

Governments across the developed world are seeking to drastically reduce spending so as to bring government debt under control. However, the impact of such policies on economic prosperity remains a contentious issue. This paper presented by **Fabien Postel-Vinay** contributes to the policy debate through explicitly modelling the relationship between the public and private sectors. This is important since the sectors differ fundamentally in their objectives and hence in their employment policies.

A search-theoretic framework is developed in which the public and private sectors compete in a labour market characterised by job-search frictions. There are many small profit-maximising firms and a single large public sector. Workers search for jobs and accept employment offers if the wage is sufficiently high. The framework can be used to understand the impact of public

sector wage and hiring policy on wages and employment throughout the economy.

The model is fitted to the UK using data from the British Household Panel Survey. The wage data show that whilst average earnings are higher in the public sector, wage dispersion is greater in the private sector. The framework is able to match these features closely. The model can be used to simulate the effects of three different policies geared towards reducing the public sector wage bill: redundancies of existing employees, hiring fewer new employees and decreasing wages. The results of this analysis are still being formulated. One drawback of the approach is that it is a model of the long-run and hence cannot be used to predict the short-run impact of austerity policies.

Paper

Bradley, J., Postel-Vinay, F. & Turon, H., *Public sector wage policy and labor market equilibrium: A structural model*, Working Paper.



IS THERE A PPP INTEREST RATE PREMIUM?

Eduardo Engel (University of Chile and Yale University) presented a paper that examines how risk is assessed in public-private partnerships (PPP) that deliver large infrastructure projects for governments such as motorways, airports and bridges. A PPP is a venture in which a private firm finances, builds and operates the project and is compensated either through user fees or government transfers. Previous research has documented that finance is more costly to obtain through a PPP than through a publicly managed project: interest rates are typically 2-3 percentage points higher. This has led to the conclusion that a PPP ought only to be used if efficiency gains from the involvement of a private enterprise outweigh the increased cost of finance.

Infrastructure projects are risky in that future demand for them is uncertain. This paper shows that risk may offer an explanation for the observed interest rate premium, and that correcting contracts to take risk into account may reduce the premium. Contracts for PPPs are often fixed-term, allowing the private company to profit from the project for a finite period. This implies that private firms are exposed to more risk than if the contract were flexible and guaranteed a fixed present value of return. The increased risk makes finance more costly, and hence offers an explanation for the interest rate premium. The premium could be reduced through adopting flexible contracts.

The paper also shows that a PPP is superior to public delivery since the private firm has an incentive to invest in quality if it is able to profit from it in the future.

Paper

Engel, E., Fischer, R. & Galetovic, A., *Is there a PPP interest rate premium?*, Working Paper.



COLLAPSING MORALE IN BUREAUCRATIC ENVIRONMENTS

Paul Grout's paper seeks to explain how seemingly irrelevant changes can have a large impact on the morale of individuals and thus performance. He gave the example of Carver High School in Atlanta. In the early 1980s the school was failing and teachers were demoralised. However, the appointment of a new principal led to a dramatic turnaround despite little tangible change. From an economic perspective, it is not clear how appointing a new principle with similar objectives and constraints can lead to such an improvement.

Grout explains the effect using a model to show how the hierarchical structure of a bureaucracy is sensitive to change; both individuals or small shifts in power. In a hierarchy consisting of a worker, a bureaucrat and a higher authority production relies on the worker's (or in this case the teacher's) efforts and this level of effort is in turn dependent on the support he receives from his superiors. If the teacher judges that the support he is receiving is not sufficient he asks for more. If this does not result in more support the teacher can either threaten to go over the bureaucrat's head and seek support from a higher authority or simply not bother and put in less effort. The first option is costly in time and effort for the teacher, and the second is demoralising.

In the Carver High School example replacing the principal had a dramatic positive effect. The new principal (a bureaucrat) was more supportive to his staff and was able to use his power and influence to appeal to the higher authority on behalf of his teachers to obtain results.

Paper
Grout, P. & Schnedler, W., *Collapsing Morale in Bureaucratic Environments*, Working Paper.

HOW DOES WOMEN'S POLITICAL PARTICIPATION RESPOND TO ELECTORAL SUCCESS?

Sonia Bhalotra's paper compares female voter turnout and female candidacy in India. Women currently hold 11 per cent of seats in India's national parliament, the Lok Sabha, half that of the House of Commons (22 per cent). The degree of female representation is of substantial importance as previous studies have shown that the gender composition of legislatures has significant effects on policy choices.

Bhalotra examined female turnout and candidacy in states where women had previously narrowly won elections and states where women had narrowly lost. The premise for such an analysis is that to all extensive purposes, such states are largely comparable and those elections had been decided by such small margins that the whether a woman won or lost was essentially random. This strategy allows the researcher to estimate the impact of a woman winning an election on future female political participation.

In states where women narrowly won elections, the share of women candidates increased by two percentage points (from a mean of 11.7 per cent), driven by a substitution away from male candidates. These effects endured for up to 10 years and were largely found within incumbent parties i.e. female candidacy among opponent parties did not change at all. Additionally, it was found a woman winning an election did not increase female turnout in subsequent elections, nor did male turnout decrease. Bhalotra argued that these results indicate that the female political representation is held back by party rather than voter bias.

Paper
Bhalotra, S., Clots-Figueras, I., & Iyer, L. (2012), *Path-Breakers: How Does Women's Political Participation Respond to Electoral Success?*, Working Paper.

