Eric Rasmusen's Recent Papers (September 7, 2011)

Abstracts and downloads of all my published and unpublished papers are at http://rasmusen.org/pubabs.htm and http://rasmusen.org/unpabs.htm .
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The Economics of Regulation. I am writing an undergraduate textbook on regulation. I start with 4 chapters of theory (supply-and-demand, market failure, government failure, discounting and life valuation) and have just 2 chapters of antitrust, with 6 more chapters on other topics. My aim is to write a relatively short book (350 pages) with lots of photos and stories, skipping many topics and being interesting enough for someone to read for recreation.I also want to charge a low price, and I might well self-publish. http://rasmusen.org/g406/chapters/

"Three Years or Six to Audit? Using Substance to Judge Procedure in *Intermountain.*" The IRS wishes to interpret "omits from gross income" to mean "reports but understates gross income" to extend the period for audit from three years to six. It took that position without notice-and-comment, in the context of the hot pursuit of a particular tax shelter, and after losing in court, with all 13 Tax Court judges concurring, it made the motions of going through notice-and-comment so as to get Chevron deference on appeal. This paper discusses what should be considered in choosing a statute of limitations and points out how these considerations were completely ignored in IRS decisionmaking. This provides a good example for showing how the various theories of Chevron deference work.

Barnes v. Indiana, **"Brief of John Wesley Hall, K. Babe Howell, Eric Rasmusen, Steven Russell, and Ronald S. Sullivan as Amici Curiae in Support of Appellant's Petition for Rehearing,"** Indiana Supreme Court, Case No. 82S05-1007-CR-343 (legality of resistance to illegal police entry, 2011). http://rasmusen.org/special/barnes/0-Amicus.pdf.

"Can the Treasury Exempt Companies It Owns from Taxes? The $45 Billion General Motors Loss Carryforward Rule." (with J. Mark Ramseyer) forthcoming, *The Cato Papers on Public Policy,* ed. Jeffrey Miron, http://www.amazon.com/Cato-Papers-Public-Policy/dp/1935308483. A corporation that buys property does not thereby acquire the right to reduce its corporate income tax by deducting the seller's past years' losses against its own future income. The tax code contains express provisions to rule out various complex ways of doing that, so as to prevent assets from being purchased for the sake of the net operating loss carryovers. After the government joined private parties in purchasing most of General Motors's property, the Secretary of the Treasury issued "the EESA Notices" which said that the usual tax rules would not apply and the purchasers could deduct $45 billion from their future corporate income, a tax asset worth an estimated $16 billion. The notice gave no justification for the exception, except that the TARP act gives the Secretary authority to do what is "necessary or appropriate to carry out the purposes of EESA." This paper argues that there is no legal or economic justification for the EESA Notices, even aside from the issue of whether the government should have bought the GM property. The scant notice paid to the large wealth transfer of the EESA Notices shows the danger of allowing this kind of tax ruling, especially in comparison to the widespread criticism of the government purchase itself, an action which may well have a much smaller cost given that the government's previous loans to GM were already sunk. http://rasmusen.org/papers/gm-ramseyer-rasmusen.doc.

"Are Americans More Litigious? Some Quantitative Evidence, (with J. Mark Ramseyer) forthcoming in *An American Illness* , edited by Frank Buckley, Yale University Press, http://buckleysmix.com/american-illness-4/. Many observers suggest that American citizens sue more readily than citizens elsewhere, and that American judges shape society more powerfully than judges elsewhere. We examine the problems involved in exploring these questions quantitatively. The data themselves indicate that American law's notoriety does not result from how we handle routine disputes. Instead, it results from the peculiar and dysfunctional way American courts handle particular legal doctrines like class actions. pdf http://www.rasmusen.org/papers/litigation-ramseyer-rasmusen.pdf.

``Coarse Grades," with Rick Harbaugh. Certifiers of quality often report only coarse grades to the public despite having measured quality more finely, e.g., "A" instead of "98". Why? We show that using coarse grades can actually result in more information reaching the public, because it encourages low-quality individuals or firms to become certified. In our model the certifier aims to minimize public uncertainty over quality subject to the feasibility constraint of voluntary certification at a fixed cost. Moving from the best exact grading scheme to the best coarse one (a) induces more participation and (b) reduces public uncertainty. http://www.rasmusen.org/papers/coarse.harbaugh-rasmusen.pdf.

``Quasi-Concavity versus Concavity," with Christopher Connell. We show that if and only if a real-valued function f is strictly quasi-concave except possibly for a flat interval at its maximum, and furthermore belongs to an explicitly determined regularity class, does there exist a strictly monotonically increasing function g such that g \smallcircle f is concave. We prove this sharp characterization of quasi-concavity for functions whose domain is any Euclidean space or even any arbitrary geodesic metric space. http://www.rasmusen.org/papers/quasi-connell-rasmusen.pdf.

``What Asset Sale Price Is Fair? --- The Chrysler Bankruptcy Section 363 Sale" (with J. Mark Ramseyer). When there is only one potential buyer of an asset, the bankruptcy judge should require the sale price to split the surplus rather than giving it all the buyer, as in the Chrysler case.

"Hold-Up as a Social Cost of Monopoly with Many Buyers." It is well known that when there is one seller and one or a few buyers, buyers may refrain from undertaking value-increasing investments for fear that the seller will raise the price once the investment is a sunk cost. Long-term contracts are the solution. What does not seem to have been explored is what happens when the market has many buyers--- too many for contracting, or for tailoring the price to whether or not the buyer has made the investment. Output is inefficiently low.

"A Simple Model of Keynesian Fiscal Policy." A one-input, one-period, two-good, extremely simple structural model with rigid prices and labor markets can generate Keynesian effects.

``Isoperfect Price Discrimination: Bargaining and Market Power," with David Myatt. Standard discussions of perfect price discrimination rest on a hidden assumption: that the monopolist can make take-it-or-leave-it offers. If a monopoly charges different prices to each of a large number of buyers, the correct paradigm is not the ultimatum game, but bilateral monopoly. Under ``isoperfect price discrimination"--- a constant .5 split with each buyer--- and constant marginal cost, the monopolist has the same profit as monopoly pricing if the demand curve is linear, less if demand is concave, and more if demand is convex. Increasing marginal cost tends to make the monopolist prefer price discrimination. http://www.rasmusen.org/papers/pdisc-myatt-rasmusen.pdf.

``How Useful Is a Product Umbrella for Reputation?" A firm with a reputation for high quality in one product may usefully extend that reputation to other products. I look at how that works in a moral hazard model of product quality. http://www.rasmusen.org/papers/umbrella.pdf.

"Career Concerns and Ambiguity Aversion," *Economics Letters,* 108(2): 175--177 (August 2010). Why do people have ambiguity aversion, preferring, a gamble with a 50% chance of success to one whose expected probability of success is 50% but where that 50% is an unbiased estimate? The answer modelled here, in the spirit of the career concerns literature, is learning: a risk-averse person does not wish observers to learn whether he is good or bad at estimating probabilities. He therefore prefers a gamble with objective probabilities. http://www.rasmusen.org/papers/ambiguity-rasmusen.pdf

"Prosecutors' Choices of Prosecution and Conviction Rates; Theory and Evidence" (with Manu Raghav and J. Mark Ramseyer). *The American Law and Economics Review,* 11(1): 47--78 (Spring 2009). An empirical study using U.S. local data on prosecutor budgets, crime rates, prosecution rates, and trial win rates. http://rasmusen.org/papers/prosecutors-raghav-ramseyer-rasmusen.pdf

"The Concealment Argument: Why No Proof for God's Existence Will Be Found," Logic and Biblical evidence suggest that God wishes that some but not all humans become convinced of His existence and desires. If so, this suggests that attempts to either prove or disprove such things as God's existence, past miracles, or present supernatural intervention are doomed to failure, because God could and would take care to evade any such efforts. http://rasmusen.org/papers/conceal-rasmusen.pdf. .

"Internalities and Paternalism: Applying the Compensation Criterion to Multiple Selves across Time," forthcoming, *Social Choice and Welfare.* One reason to call an activity a vice and suppress it is that it reduces a person's future happiness more than it increases his present happiness. Gruber & Koszegi (2001) show how a vice tax can increase a person's welfare in a model of multiple selves with hyperbolic preferences across time. An interself analogy of the compensation criterion can justify a vice ban whether preferences are hyperbolic or exponential, but subject to the caveat that the person has a binding constraint on borrowing. The puzzles that intrapersonal altruism raises, however, lend support to using the ``Marshallian" wealth maximization criterion of Friedman (1988) instead of the Kaldor- Hicks criterion. http://www.rasmusen.org/papers/internality-rasmusen.pdf.

"Executive Compensation in Japan: Estimating Levels and Determinants from Tax Records," *Journal of Economics and Management Strategy,* 20 (3) 843--885 (Fall 2011) (with Minoru Nakazato and J. Mark Ramseyer). An empirical study of how CEO income varies with size, governance, and profitability of firms. (http://rasmusen.org/papers/exec/exec.htm

"First versus Second-Mover Advantage with Information Asymmetry about the Size of New Markets," (with Young-Ro Yoon), forthcoming in *The Journal of Industrial Economics.* Is it better to move first, or second--- to innovate, or to imitate? Suppose one player has superior information about which of two new markets is better. If he enters first, he might be able to secure a natural monopoly; if second, he can prevent imitation. As the informed player's information becomes more accurate industry profits can fall because both players choose what they hope is the bigger market, leaving the other market unserved. http://rasmusen.org/papers/entry-rasmusen-yoon.pdf

"Public and Private Firm Compensation Compared: Evidence from Japanese Tax Returns," (with Minoru Nakazato and J. Mark Ramseyer). *Korean Economic Review,* 25(1): 5--34 (Summer 2009). We use tax data on some 1,400 presidents of public and 4,100 presidents of private corporations and find that public and private company presidents have similar incomes. Both groups earn incomes that rise with the size and profitability of the firm, but the presidents' incomes are more sensitive to profitability at public firms than at private ones. http://www.rasmusen.org/papers/exec/nak-ram-rasmusen.unlisted.pdf .

"The Industrial Organization of the Japanese Bar," (with Minoru Nakazato and J. Mark Ramseyer), *Journal of Empirical Legal Studies,* 7(3): 460--489 (September 2010). An empirical study of how lawyer incomes vary geographically, by college, by age at start of career and by experience. http://rasmusen.org/papers/jpnbar.nakazato.ramseyer.rasmusen.pdf

Games and Information, 4th Edition, Published in October 2006. Some major changes: more problems, a totally revamped auctions chapter, revised mechanism design. http://rasmusen.org/GI/index.html

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