



## Eric Rasmusen's Recent Papers (October 2020)

Abstracts and all my published and unpublished papers are at <http://rasmusen.org/pubabs.htm> and <http://rasmusen.org/unpubabs.htm>. Erasmuse@indiana.edu. [Twitter: @erasmuse](https://twitter.com/erasmuse).

**"Writing, Reading, and Speaking in the Age of the Internet."** I am revising my old book chapter, "[Aphorisms on Writing, Speaking, and Listening](#)," into a short book, with special emphasis on how the Internet is changing what we do in economics. I have notes on my blog at "[Aphorisms on Writing, Talking, Listening in the Internet Age](#)" and "[Tips for Online Seminars](#)".

"How Covid-19 Infects Our Brains: The Idols of the Forum," <http://www.rasmusen.org/papers/4idols-forum600.docx>.

"The Political Economy of Epidemic Control: Fixing the CDC," (with J. Mark Ramseyer) <http://www.rasmusen.org/papers/cdc.doc>.

**"Ostracism in Japan"** with J. Mark Ramseyer. Group ostracize members. Sometimes they do it to enforce welfare-maximizing norms, but other times ostracism reduces welfare. Japanese villages have long used ostracism as a tool for conformity, and the targets have sometimes sued in response. The cases that have reached the courts disproportionately involve welfare-reducing behavior by the community; for example, ostracism against targets who report corruption. The targets usually win the civil cases against ostracizers and prosecutors usually win the criminal cases. Yet the targets seem not to have sued for financial or injunctive relief, and the prosecutors seem not to have pushed for prison terms. Instead, they have used the courts for an informational end: to certify and publicize innocence. This end is of minor importance in normal litigation, but crucial for ostracism, as we explain using a formal model. We use case examples and the model to explore the factors that cause disputes to lead to ostracism and ostracisms to lead to litigation. <http://www.rasmusen.org/papers/ostracism.pdf>.

**"Why Firms Reduce Business Risk Revisited: Projects with Risky Cash Flows Are Harder To Evaluate?"** Firms seem to care a lot about "risk management": the practice of hedging risks whether they are correlated with market risk or not. The standard reasons why widely held corporations might be averse to idiosyncratic risk are based on the principal-agent problem, bankruptcy costs, external finance, and tax convexity. This paper offers a different reason: idiosyncratic risk makes business decisions more difficult. Risk can increase the value of investment projects because of option value. We must distinguish, however, between risk over the expected value of profits ("value risk") and risk over the volatility of cash flows ("cash-flow noise"). Value risk is good because an unprofitable policy can be abandoned. Cash-flow noise is bad because it makes learning when to abandon more difficult. This distinction is unrelated to Knightian risk or ambiguity aversion, and it matters even if the firm's agents are risk neutral. [http://www.rasmusen.org/papers/risk\\_aversion.pdf](http://www.rasmusen.org/papers/risk_aversion.pdf).

**"Splitting a Pie: Mixed Strategies in Bargaining under Complete Information,"** with Christopher Connell. We characterize the mixed-strategy equilibria for the bargaining game in which two players simultaneously bid for a share of a pie and receive shares proportional to their bids, or zero if the bids sum to more than 100%. Of particular interest is the symmetric equilibrium in which each player's support is a single interval. This consists of a convex increasing density  $f_1(p)$  on  $[a, 1-a]$  and an atom of probability at  $a$ , and is unique for given  $a$  in  $(0, .5)$ . The two outcomes with highest probability are breakdown and a 50-50 split. We use the same approach to characterize all symmetric and asymmetric equilibria over multiple intervals, and all equilibria (such as "hawk-dove") that mix over a finite set of bids instead of intervals. <http://www.rasmusen.org/papers/mixedpie.pdf>.

**"Disgorgement in Defamation Suits."** If a defamer profits financially from his lies, the victim should be awarded those profits. This has profound implications for cases such as Nick Sandmann's against the TV networks. I will do a doctrinal and a law-and-economic analysis and discuss fine points such as discovery, pleading, and damage computation for common law countries. No draft ready yet.

**"Using Agency Theory To Understand Procedure: Mandamus, En Banc, and Rule 48 Dismissal As Controls for Rogue Judges and Prosecutors."** Principal-agent theory makes sense of many confused topics in civil and criminal procedure, and is potentially very useful to courts trying to puzzle over incoherent caselaw tests. I use the case of *In re Flynn* as an example. This paper will take off from my [amicus brief](#) in the panel mandamus proceeding and [my pseudo-brief](#) that expands the amicus for the en banc proceeding.

**"Informational Cascades Are Good, Not Bad."** Informational cascades are good, not bad. [sdf](#)

**"Incomplete Information in Repeated Coordination Games,"** in *Essays in Honor of Moriki Hosoe*, eds. Woohyung Lee, Tohru Naito, and Yasunori Ouchida, Springer. Asymmetric information can help achieve an efficient equilibrium in repeated coordination games. If there is a small probability that one player can play only one of a continuum of moves, that player can pretend to be of the constrained type and other players will coordinate with him. This hurts efficiency in the repeated battle of the sexes, however, by knocking out the pure-strategy equilibria.

**"Deciding Whether to Buy a Public Good for Two Players Who Know Each Others' Valuations: A Simple, Almost Efficient, Budget-Balancing, Breakdown Mechanism,"** (with Christopher Connell). Consider two players with values  $v_1$  and  $v_2$  for a public good known each other but not the decider, who knows only the cost of 100. It is natural that both would lobby the decider, and that he would decide whether to build the project and how much each should pay as a continuous function of the intensity of their

stated desires. This will not attain the efficient result (build if and only if  $v_1 + v_2 \geq 100$ ) but it has a unique Nash equilibrium, with a fair cost allocation. Moreover, if the decider can use his own choice of "authorization probability function" he can come arbitrarily close to the efficient result. We compare this with a variety of well-known mechanisms that attain full efficiency but have other drawbacks such as lack of budget balance, complexity, and multiple equilibria. <http://www.rasmusen.org/papers/xxx.pdf>

**"Back to Bargaining Basics."** Nash (1950) and Rubinstein (1982) give two different justifications for a 50-50 split of surplus to be the outcome of bargaining with two players. I offer a simple static theory that reaches a 50-50 split as the unique equilibrium of a game in which each player chooses a "toughness level" simultaneously, but greater toughness always generates a risk of breakdown. Introducing asymmetry, a player who is more risk averse gets a smaller share in equilibrium. If breakdown is merely delay, then the players' discount rates affect their toughness and their shares, as in Rubinstein. The model is easily extended to three or more players, unlike earlier models, and requires minimal assumptions on the functions which determine (a) breakdown probability and (b) surplus share, as functions of toughness.

**"Concavifying the Quasi-Concave,"** with Christopher Connell, *Journal of Convex Analysis*, 24(4): 1239-1262 (December 2017). 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  $g \circ f$  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.

**"Coarse Grades,"** with Rick Harbaugh, *American Economic Journal: Microeconomics*. Certifiers of quality often report only coarse grades to the public despite having measured quality more finely, e.g., "A" instead of "98". 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.

**Market Failure and Government Failure: The Regulation of Business.** I have notes for an undergraduate textbook on regulation. I start with 5 chapters of theory (supply- and- demand, market failure, government failure, discounting and life valuation) and have just 1 chapter of antitrust, with 6 more chapters on other topics. My aim is to write a relatively short book (350 pages) with lots of stories. <http://rasmusen.org/g406/chapters/>.

**"Law, Coercion, and Expression: A Review Essay on Frederick Schauer's *The Force of Law* and Richard McAdams's *The Expressive Powers of Law*."** *Journal of Economic Literature*, 55 (3):1098-1121 (September 2017). What is law and why do people obey it? Frederick Schauer's *The Force of Law* and Richard McAdams's *The Expressive Powers of Law*, consider alternative motivations for law. While coercion, either directly or in its support of internalized norms, seems to dominate law *qua* law (and not as a mere expression of morality), a considerable portion of law serves other uses such as coordination, information provision, expression, and reduction of transaction costs.

**"Identity Politics and Organized Crime in Japan: The Effect of Special Subsidies for Burakumin Communities,"** (with J. Mark Ramseyer), *Journal of Empirical Legal Studies* 15(1):192-238 (March 2018). In 1969 the Japanese government launched a subsidy program targeted at the burakumin outcasts. The subsidies attracted organized crime, who diverted them for private gain. Although the program improved infrastructure, it also lowered the cost to the public of identifying burakumin neighborhoods. We use municipality data and a 1936 census of burakumin to show that after the program ended in 2002, outmigration from municipalities with more burakumin increased and real estate prices rose.

**"Understanding Shrinkage Estimators: From Zero to Oracle to James-Stein."** Constructing an estimator by shrinking the sample mean results in a biased estimator, with an expected value less than the population mean. On the other hand, shrinkage reduces the estimator's variance and mean squared error. This paper tries to explain how that works. I start with estimating a single mean using the zero estimator and the oracle estimator, and continue with the unrelated-average estimator and the James-Stein estimator.

Project: **Niccolò Machiavelli: The Han Fei of Italy?** (with Dan Zhao) Machiavelli and Han Fei are similar in their innovations, style, and influence, except for Han Fei's lack of scholarly followers.

**"Conventional Artillery and Nuclear Missiles in North Korea,"** *RealClearDefense* (May 12, 2017). Korea analysts have paid too little attention to the credibility of threats. A danger of North Korean nuclear missiles is that they make credible the threat to use conventional artillery to shell Seoul if ransom is not paid.

**"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.