Summary

This book consists of four self-contained essays in macroeconomics with a special focus on international economics and labour economics. The common theme of this research is the role of information frictions and micro level heterogeneity in shaping of the macroeconomic aggregates. The first two chapters focus on pitfalls and perils of cross-country financial integration, while the other two chapters investigate the drivers and consequences of career choice between payroll- and self-employment.

Chapter 2, *Public Data Quality and International Risk Sharing*, documents striking relationship between the quality of public information and cross-country risk sharing. We document that certain countries with good quality data and efficient statistical agencies receive less insurance against fluctuations in their GDP growth rate than countries that either do much better or much worse in terms of the quality of data they supply to the general public. Standard theories of borrowing and lending when applied to cross-country consumption and GDP data predict that the relationship between public information quality and insurance was monotone. It should be either strictly increasing, if the set of available securities is incomplete, or strictly decreasing when there were no constraints on available assets.

We provide a theoretical model that can replicate the pattern found in the data. Our key novelty is that we also account for countries transparency. Hence, a country can provide very narrow, but high quality data to the general public, withholding parts of the data due to either institutional lags, legal reasons or for political gain. Thus, high quality public information may coexist with various degrees of withheld private
information. The interaction of the two is the source of non-monotone relationship between data quality and cross-country insurance. The more precise withheld private information is, the more difficult it is for a country to negotiate terms of its borrowing and lending. If private information is sufficiently precise, public information improves risk sharing by reducing the adverse selection problem.

In our quantitative exercise we demonstrate that efforts towards improving publicly available data by, say, the IMF or the World Bank are dwarfed by effects of individual countries move towards more transparency, thus revealing more of their privately stored information to the world.

In Chapter 3, Monetary Policy and Foreign-Owned Banks in Emerging Economies, we investigate the effects of banking system penetration by foreign owned banks in Central and Eastern Europe economies. Ongoing political debate points towards perils of uncontrolled cross-country capital flows which can be perilous especially in times of financial crisis and calls for increased scrutiny of foreign banks subsidiaries.

We look at the differences in the type of bank ownership and the conduct of monetary policy. We find that foreign-owned banks are less-responsive to host country monetary policy. This finding at first glance supports the narrative of increase in exposure to risk in emerging economies that comes from financial integration. However, when we dissect this effect we find that it is fully explained by higher foreign owned banks profitability. Thus, our findings suggest that the tamed response of these banks to monetary policy is not necessarily a manifestation of hidden threat of sudden capital outflow. It is rather coming from competitive advantage of foreign banks over domestic banks.

In Chapter 4, A Model of Confounded Entrepreneurial Choice, I build a model of labour market learning that aims at understanding frequent switches between payroll and self-employment of young workers. This chapter reconciles the switching behaviour with other studies that document a sizeable fraction of entrepreneurs persistently earn less than what they would be earning as employees with similar characteristics.
In my model earnings in entrepreneurship and payroll employment are correlated, as individual abilities that determine employee earnings, are also supplied in entrepreneurship and determine entrepreneurial outcomes jointly with the business idea. However, entrepreneurs can’t disentangle the two, as they only observe the income their business generates. Because of that, an underperforming entrepreneur might confuse the negative quality of the business idea with low own ability, postponing return to payroll employment. Thus, because of a more complicated learning problem, entrepreneurs may suffer from a lock-in effect. This finding provides an alternative to the non-pecuniary benefits of being one’s own boss. My model suggest that reducing uncertainty about individual ability through internships and payroll jobs improves selection into entrepreneurship.

Finally, Chapter 5, *Efficient insurance in market theory of payroll and self-employment*, continues to investigate the choice between payroll- and self-employment but it focuses on the role of goods market frictions. We show that it is possible to think of this choice as a randomisation of identical workers who trade the risk of not finding a job and sharing the surplus of the match with a firm against the risk of not finding a consumer on their own when self-employed. The key driver force of our model are differentiated business conditions, like productivity or ease of finding customers by firms and self-employed. Thus, our theory may explain the fraction of probability of selecting into each of the two types of employment that is not captured by differences in gender, education and alike and speaks well to the increase of the so called ‘gig-economy’ and the prevalence of ‘tap-workers’.

In our model, if workers’ preferences feature aversion towards risk, the market equilibrium is inefficient, because wages paid by the firms are too low, but also because the self-employed down-price their good attracting inefficiently many customers given their production capacities. We show that there should be unemployment benefits for unemployed together with income support for self-employed who fail to generate income to ameliorate the inefficiency. Financing of such an insurance scheme also requires transfers between the two types of employment via differentiated taxes. Thus, our theory
provides rationale for benefit policies introduced recently in Denmark and Sweden.