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Meeting Technologies and Optimal Trading Mechanisms in Competitive Search Markets

In a market in which sellers compete by posting mechanisms, the authors allow for a general meeting technology and show that its properties crucially affect the mechanism that sellers select in equilibrium. In general, it is optimal for sellers to post an auction without a reserve price but with a fee, paid by all buyers who meet with the seller. However, the authors define a novel condition on meeting technologies, which they call invariance, and show that meeting fees are equal to zero if and only if this condition is satisfied. Finally, the authors discuss how invariance is related to other properties of meeting technologies identified in the literature.

14-15. Benjamin Lester, Federal Reserve Bank of Philadelphia; Ludo Visschers, University of Edinburgh and Universidad Carlos III; Ronald Wolthoff, University of Toronto.

The Evolution of U.S. Community Banks and Its Impact on Small Business Lending

There have been increasing concerns about the declining number of community banks and that the acquisitions of community banks by larger banks might result in significant reductions in small business lending (SBL) and disrupt relationship lending. This paper examines the roles and characteristics of U.S. community banks in the past decade, covering the recent economic boom and downturn. The authors analyze risk character-

istics (including the confidential ratings assigned by bank regulators) of acquired community banks, compare pre- and post-acquisition performance and stock market reactions to these acquisitions, and investigate how the acquisitions have affected small business lending. The authors find that community banks that were merged during the financial crisis period were mostly in poor financial condition and had been rated as unsatisfactory by their regulators on all risk aspects. They also find that the ratio of SBL lending to assets has declined (from 2001 to 2012) for all bank size groups, including community banks. The overall amount of SBL lending tends to increase when the acquirer is a large bank. The authors' results indicate that mergers involving community bank targets so far have enhanced the overall safety and soundness of the overall banking system and that community bank targets are willing to accept a smaller merger premium (or even a discount) to become a part of a large banking organization. Overall, the decline in the number of community banks during this period does not appear to have adversely impacted SBL lending, and larger bank acquirers have tended to step in and play a larger role in SBL lending.

Working Paper 14-16. Julapa Jagtiani, Federal Reserve Bank of Philadelphia; Ian Kotliar, Rutgers University; Ramain Quinn Maingi, Rutgers University.

How Do Exogenous Shocks Cause Bankruptcy? Balance Sheet and Income Statement Channels

The authors are the first to examine whether exogenous shocks cause personal bankruptcy

through the balance sheet channel and/or the income statement channel. For identification, they examine the effect of exogenous, politically motivated government payments on 200,000 Canadian bankruptcy filings. The authors find support for the balance sheet channel, in that receipt of the exogenous cash increases the net balance sheet benefits of bankruptcy (unsecured debt discharged minus liquidated assets forgone) required by filers. The authors also find limited support for the income statement channel, in that exogenous payments reduce bankruptcy filings from individuals whose current expenses exceed their current income.

Working Paper 14-17. Vyacheslav Mikhed, Federal Reserve Bank of Philadelphia; Barry Scholnick, University of Alberta.

Financial Benefits, Travel Costs, and Bankruptcy

The authors are the first to show that the cost of personal bankruptcy filers traveling to their bankruptcy trustees affects bankruptcy choices. The authors use detailed balance sheet, income statement, and location data from 400,000 Canadian bankruptcies. To control for endogenous trustee selection, the authors use the location of local government offices as an instrument for the location of bankruptcy trustees (while filers interact with trustees, and trustees interact with local government, filers do not interact with the local government). The authors find that increased travel costs reduce the number of filings. Furthermore, for those individuals who do file, the authors find that their increased travel costs need to be compensated by increased financial benefits of bankruptcy. Filers without cars (higher travel costs), as well as those with jobs (higher opportunity costs), receive larger per-kilometer financial benefits from bankruptcy.

Working Paper 14-18. Vyacheslav Mikhed, Federal Reserve Bank of Philadelphia; Barry Scholnick, University of Alberta.

Partisan Conflict

American politics have become extremely polarized in recent decades. This deep political divide has caused significant government dysfunction. Political divisions make the timing, size, and composition of government policy less predictable. According to existing theories, an increase in the degree of economic policy uncertainty or in the volatility of fiscal shocks results in a decline in economic activity. This occurs because businesses and households may be induced to delay decisions that involve high reversibility costs. In addition, disagreement between policymakers may result in stalemate, or, in extreme cases, a government shutdown. This adversely affects the optimal implementation of policy reforms and may result in excessive debt accumulation or inefficient public sector responses to adverse shocks. Testing these theories has been challenging given the low frequency at which existing measures of partisan conflict

have been computed. In this paper, the author provides a novel high-frequency indicator of the degree of partisan conflict. The index, constructed for the period 1891 to 2013, uses a search-based approach that measures the frequency of newspaper articles that report lawmakers' disagreement about policy. The author shows that the long-run trend of partisan conflict behaves similarly to political polarization and income inequality, especially since the Great Depression. Its short-run fluctuations are highly related to elections but unrelated to recessions. The lower-than-average values observed during wars suggest a "rally around the flag" effect. The author uses the index to study the effect of an increase in partisan conflict, equivalent to the one observed since the Great Recession, on business cycles. Using a simple VAR, the author finds that an innovation to partisan conflict increases government deficits and significantly discourages investment, output, and employment. Moreover, these declines are persistent, which may help explain the slow recovery observed since the 2007 recession ended.

Working Paper 14-19. Marina Azzimonti, Federal Reserve Bank of Philadelphia.

Macro Fiscal Policy in Economic Unions: States as Agents

An important component of the American Recovery and Reinvestment Act's (ARRA's) \$796 billion proposed stimulus budget was \$318 billion in fiscal assistance to state and local governments, yet the authors have no precise estimates of the impact of such assistance on the macroeconomy. In evaluating ARRA, both the Council of Economic Advisors (CEA) and the Congressional Budget Office (CBO) used instead the impacts of direct federal spending and tax relief. These estimates miss the role of states as agents. The authors provide estimates of aid's multiplier effects allowing explicitly for state behavior, first from an SVAR analysis separating federal aid from federal tax relief, second from a narrative analysis using the political record for unanticipated federal aid programs, and third from constructed macroeconomic estimates implied by an estimated model of state governments' fiscal choices. The authors reach three conclusions. First, federal transfers to state and local governments are less stimulative than transfers to households and firms. Second, federal aid for welfare spending is more stimulative than is general purpose aid. Third, an estimated model of state government fiscal behavior provides a microeconomic foundation for the observed macroeconomic impacts of aid.

Working Paper 14-20. Gerald Carlino, Federal Reserve Bank of Philadelphia; Robert P. Inman, The Wharton School, University of Pennsylvania.