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IWH Research Seminar in Economics

December 17, 2018, 2.15pm – 3.45pm, conference room, ground floor

The Stability of Dividends and Wages: Effects of Competitor Inflexibility

Professor Dr Alex Stomper, Humboldt University of Berlin

(together with Daniel A. Rettl, University of Georgia and Humboldt University of Berlin; Josef Zechner, Vienna University of Economics and Business)

We analyze how risk sharing between a firm's employees and owners depends on its competitors' response to industry-wide shocks. Focusing on the electricity industry, we obtain a sample of firms with exposure to similar industry risks but different production technologies. We document that firms are more exposed to industry shocks, when their competitors use lower-cost production technologies. This "competitor inflexibility" destabilizes payouts to equityholders, but there is no evidence that it compromises wage stability. Firms do not share systematic risk due to competitor inflexibility with their employees and set wages as if their shareholders' risk preferences were given. (read more)

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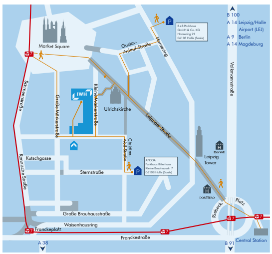

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