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To CERF Board Members:

This is the report on progress for the project “Financial contagion in dynamic networks” which is funded by a CERF grant.

As I explained in previous reports, feedback from reviewers on the working paper for a previous project led to a simplification of the experimental design with the objective of constructing a theoretical model to formulate precise hypotheses to test in the lab. The first phase of the lab experiment has now been completed, we presented the results at various seminars and conferences, and we are now in the process of conducting further analysis to incorporate some of the feedback we received.

The simplification and reduction in scope of the lab experiment meant that we left out an investigation of how policy interventions may help with mitigating the effects of contagion. We have therefore designed a further experiment to test how policy interventions can prevent systemic contagion to occur on hub-like and regular networks. We examine financial interventions in terms of (i) subsidies and (ii) fines, as well as behavioural interventions in terms of (iii) positive and (iv) negative informational “nudges” given to participants. The objective is to understand what type of intervention is most effective to get (close) to the efficient outcome.

Given that the experiments involve approximately 700 participants, we have decided to conduct them online. Conducting an experiment of this complexity with live interactions among participants entailed more ad hoc coding than planned as oTree – the leading platform to conduct online experiments – did not have many features needed. We have now completed the coding and run pilots. The plan is to conduct the experiments in the next 2-3 months. As I have anticipated in my July 2019 report, it is likely I may have to ask for an extension to the original deadline of July 2020. I will, however, wait until Easter Term before requesting an extension. Despite the experiments being conducted online, it is possible current developments with the Covid-19 epidemic may also lead to delays.

Yours ever,

Edoardo Gallo