**CERF-mid-term report – additional information**

**Research Title and Abstract as provided upon your funding application to CERF**

Cambridge-INET Institute

Research themes: Networks, crowds and markets, transmission mechanisms and economic policy, information, uncertainty and incentives, empirical analysis of financial markets

The Institute has four themes of research:

• **Networks, crowds and markets:** Facebook, Twitter, the World Wide Web, old-school clubs, caste and religious communities, rail and canal transport networks, airline routing, commuting patterns in cities, and inter-bank loans are example of networks. What are the incentives to create and dissolve network links? How do these networks shape economic activity? This theme is coordinated by Prof. Kaivan Munshi and Prof. Sanjeev Goyal

• **Transmission mechanisms and economic policy:** There has been increasing interest in the study of the role of financial frictions and distortions in shaping the transmission of shocks and policies, and determining the level of demand and economic activity both within and across borders. This theme is coordinated by Dr Vasco Carvalho and Prof Hamish Low

• **Information, uncertainty and incentives:** Economic phenomena arise out of individual decisions. The research aims to deepen our understanding of risk-sharing, herding and crises in financial markets, and the incentives and efficiency of auctions and matching mechanisms. This theme is coordinated by Prof. Hamid Sabourian and Prof. Chris Harris.

• **Empirical Analysis of Financial Markets:** Financial markets serve the important function of transferring risk across individuals and over time, and they provide information on the performance of firms and economies. So their effective performance is of great interest to policymakers, pension holders, and consumers, yet recent events have created profound mistrust about their operation. This theme is coordinated by Prof. Oliver Linton and Dr. Alexei Onatski.

Web page: <http://www.inet.econ.cam.ac.uk/about/researchpage>,

Home page: <http://www.inet.econ.cam.ac.uk/>

**Key Research Findings to date**

Cambridge-INET research in the past 6 months has achieved important advances in all the main themes. Many projects have already produced working papers and submission to leading international journals. New collaborations and projects have been developed, led by Faculty members and postdocs. Most importantly, Cambridge-INET and the Cambridge Faculty have established an international intellectual leadership in key areas such as network and markets, institutions and development; the micro-macro link in the propagation of shocks, stabilization of deep recessions and unemployment crisis, financial econometrics, herding behaviour and behavioural theories of decision making.

Sampling from the projects already in the form of working papers, the following are the highlights by theme.

Leading work in network theory is clarifying a new frontier for studies integrating network and markets; breaking grounds on the role of communities in process of development; new empirical strategies for establishing the transmission of economic policy; refining equilibrium and game theoretical results; integrating lab experiments; addressing financial stability issues.

Cambridge-INET researchers have further pursued the broad research agenda “micro to macro”, with work on income risk and saving along the business cycle; the propagation of shocks via production networks (using data on the Fukuyama earthquake); stabilization policy via liquidity enhancing transfers; monetary and fiscal interaction and the backstop of government debt; a new model of unemployment crises in deep recessions; the analysis of the propagation of sovereign risk crisis; the political economy of inequality.

Boosted especially through collaboration with and among post-docs, Cambridge-INET researchers are pursuing the frontier of dynamic mechanism design and bounded rationality, and addressing issues in the emergence of cooperative behaviour, theoretical foundations of identity and discrimination, culture and institutions, evolutionary games and group decision making.

Particularly strong is the research programme on financial econometrics, increasingly focused on high-frequency trading and the analysis of potential market anomalies; as well as stock market predictability.

Two important initiatives include first, the joint organization by theme 3 and 4 of the workshop on microstructure, which successfully brought together cutting edge theoretical and empirical research in market microstructure debating issues of contemporary importance. Second, the organization of the conference International Trade, Finance, and Macroeconomics Conference,at the Bank of England, in collaboration with the Centre for Macroeconomics.

The current academic year continues the tradition of extraordinary visitors to the Faculty, including Nobel Prize winner, feeding the intellectual growth and debate. Cambridge-INET is collaborating with international societies and hosting international events, such as the biannual meeting of the Society for the Advancement of Economic Theory and, closer to policy, the conferences run by the Euro Area Business Cycle Network.

To provide a more general description of the ongoing work, we include a description of the activities of the post-docs in the programme.

Our Postdoctoral fellows: <http://www.inet.econ.cam.ac.uk/research-support/postdocs>

**Dissemination**

Work by Cambridge-INET researchers (in the form of working papers) is submitted to leading international journals. Some of the working papers have already been accepted for publication in top international journals. Researchers are however also involved in scientific and policy-related debates in different forms. The Institute holds International Conferences, Workshops, Public Talks, Seminars and Reading Groups to disseminate the findings of research. There are many instances of close interaction between research conducted at the Institute and policy. Researchers in theme 1 are working on issues relating to public health policy and financial stability, under theme 2 they are working on issues relating to macroeconomic cycles and monetary and fiscal policy, public insurance of large risk; researchers under theme 3 are working on herding behaviour and decision making, with applications to financial stability and institutional reforms; researcher under the theme 4 are working on issues related to automated trading in financial markets.

Cambridge-INET has intensified its programme of public talks and debates on emerging issues in theory and policy.

Cambridge-INET has started a video series, with interviews and dialogues aiming to explain in a simple and accessible manner major research topics and results. This video series also covers public events on contemporary issues, sponsored by Cambridge-INET.

Working papers**:** <http://www.inet.econ.cam.ac.uk/papers/working-papers>

Events: <http://www.inet.econ.cam.ac.uk/our-events>, <http://www.inet.econ.cam.ac.uk/our-events/past-events>