

Research Statement – Tim Huegerich

Interpreting High Returns to Microenterprise Investment – Job Market Paper

The average microenterprise in a developing country has very high marginal returns to capital (on the order of 100% annually), according to several recent studies. Financial constraints are part of the explanation for how these high returns persist. But, given these constraints, it remains to explain the limited self-financing by the households running these businesses. In particular, little is known about the elasticity of intertemporal substitution (EIS) of poor households, which describes how quickly households save in response to rates of return higher than their rate of time preference. If poorer households have a lower EIS, reflecting the difficulty of reducing their already low consumption to finance investment, then they will save slowly in response to high returns despite having a normal rate of time preference, or discount rate. However, separately identifying the EIS from the discount rate is difficult because it requires variation in the returns to capital, which is not present in many data sets. I examine extant data on microenterprises in Sri Lanka, including the results of a field experiment distributing grants to a random selection of firms, which aids in identifying households' varying returns to capital. I document gradual investment by most firms in response to their very high returns. I estimate the EIS of these households to be 0.03, substantially lower than recent estimates around 0.7 for US and UK households. This explains why households are found with such high unexploited returns. The main implication is that households invest cash grants productively with persistent benefits rather than consuming them away shortly after receiving them.

The Implications of Search Frictions for Measuring Workers' Preferences for Job Characteristics

This paper examines the impact of labor market frictions on the equilibrium relationship between wages and non-pecuniary job characteristics. In a search equilibrium, firms providing greater non-pecuniary job amenities have incentives to offer higher overall utility to workers. This positive correlation between amenity level and utility contrasts with the perfect competition framework commonly used to estimate worker preferences.

Work in Progress

“On-the-Job Search and On-the-Job Training” (with Seung-Gyu Sim)

This work analyzes training and on-the-job search in an equilibrium model with on-the-job search. Firms post both a wage contract and a training rate, taking into account the effect of endogenous turnover on their expected payoffs from training. Observed patterns of on-the-job wage growth and job-to-job wage changes reveal the impact of search frictions on training rates.

“Asymmetric Information with the Unemployed Worker as Principal”

Adverse selection on employers' productivity or opportunities for advancement, combined with limited commitment, may be a source of partial labor market unraveling. Firms want to offer lower wages to reflect required training periods or temporary shocks, but workers also interpret low wages as a signal of low future wages, being uninformed about firms' future prospects.

“Specificity of Innovation and the Distribution of Wealth”

Ideas differ by the specificity of their application, and only general ideas have positive externalities. The idea to move a food cart to a better location is very specific. The specificity of ideas an individual researcher is shaped by access to the resources needed to implement them.