

The Master's thesis is your first major academic research project. In it, you should demonstrate that you are familiar with the scientific methods of modern economics and that you can apply the knowledge you have acquired in the Master's program to a specific problem that interests you. The Master's thesis takes the form of an essay of 50 - 60 pages in total. I supervise Master's theses on a wide range of topics in the field of international economics. I will help you choose a topic, search for relevant literature and advise you on writing the thesis. The writing process consists of several phases. First, you need to decide on the topic of your paper with me. You can either choose from the list of topics below or suggest a topic of your own (see next section). Once the topic has been decided, you should work independently according to a predetermined schedule. Your work should then be submitted within 6 months. In the first month, you should collect and read the relevant literature and write a synopsis. The synopsis should be 4 - 5 pages long and contain a detailed preview of your Master's thesis. It should give the reader a clear idea of the content, structure and literature sources used in your thesis. You then spend the remaining three months writing the thesis. Everyone writing a Master's thesis must attend the Master's colloquium, which takes place once a month. In this colloquium, you will present your exposé and, in the final stage of your thesis, the final result. This will give you the opportunity to receive feedback from us and from your colleagues. At the end of the processing time, you will submit your finished work. Please note that the submission process takes some time and requires you to complete a number of formalities. Please follow the SOWI Faculty's guidelines for submitting academic papers.

Topics:

Your Master's thesis can have either a theoretical or an empirical focus. When you choose a topic, you also need to decide what the focus of your thesis should be. A theoretical thesis is typically a model-based analysis of your chosen topic or a comparison of different models. An empirical thesis can, for example, be about confronting a specific theory with existing empirical evidence. However, you can also collect and analyze new data and compare it with existing data as part of your Master's thesis. Below you will find a few topic suggestions from us. If you are interested in one of these topics, please contact me. The topics will be assigned according to the proven first come, first served principle. You can also suggest a topic of your own, as long as it is in the field of international economics. Once you have found a topic, write a detailed description (approx. 2 pages) and send it to me. I will be happy to discuss it with you.

Topic 1: Product Differentiation in General Equilibrium Models: Beyond the CES-Representative Consumer Model

The understanding of product differentiation is crucial to understand how modern market economies operate. Many general equilibrium models incorporate product differentiation by using the CES representative consumer model. Yet, this representation satisfies the restrictive condition of independence from irrelevant alternatives. Thus, the ratio of demand for any two varieties is independent of the other varieties prices. Firms compete only through the common price index but there is no strategic interaction. Linear demand models can offer an alternative to the CES representation because they are analytically tractable and allow analyzing strategic behavior.

Literature:

Zhelobodko, E., S. Kokovin, S., Parenti, M. and Thisse, J.F. (2011). Monopolistic Competition in General Equilibrium: Beyond the CES. Mimeo.

Anderson, S.P., de Palma, A. and Thisse, J.F. (1992). Discrete Choice Theory of Product Differentiation. Cambridge, Massachusetts : MIT Press.

Ottaviano, G.I.P. and Thisse, J.F. (1999). Monopolistic Competition, Multiproduct Firms and Optimum Product Diversity. EUI Working Paper ECO No. 99/31.

Melitz, M. J. and Ottaviano, G.I.P. (2005). Market Size, Trade, and Productivity. NBER Working Paper 11393.

Topic 2: Search-theoretic models of the labor market

In the Corona-crisis, short-time employment has been heavily subsidized by all governments in the EU in order to keep employment up. This is not done, as repeatedly said, in order to stabilize incomes of the employees to keep demand high but to stabilize employees-firm relationships. It is very hard, is argued, to bring dismissed people back to a job. Why is that? Why can it be optimal for a worker not to take the first offer but to wait unemployed for a better offer later? Why might it reduce the potential of productivity growth if job seekers are forced to take on any job?

This master thesis shall have a look in the literature of labor market search.

Literature to start with:

Rogerson, Richard, Shimer, Robert and Wright, Randall (2005). Search-Theoretic Models of the Labor Market: A Survey. *Journal of Economic Literature*, 43 (4): 959-988.

Patterson, Christina, Şahin, Ayşegül, Topa, Giorgio and Violante, Giovanni L. (2016). Working hard in the wrong place: A mismatch-based explanation to the UK productivity puzzle. *European Economic Review* 84(C): 42-56.

Hall, Robert E. and Kudlyak, Marianne (2020). Why Has the US Economy Recovered So Consistently from Every Recession in the Past 70 Years? NBER Working Paper 27234.

Topic 3: Perfect competition and the creativity of the market

“Perfect competitions” is usually associated with price taking behavior which restricts the actions that a firm can take. Yet, that is not the only possible way to formulate perfect competition. In a series of papers, Makowski and Ostroy have proposed a different formulation that features prices that are not exogenous but resulting from bargaining and markets that are not given but emerge from innovation.

The master thesis shall have a look at this approach.

Suggested literature to start with:

Makowski, Louis and Ostroy, Joseph M. (2001). Perfect competition and the creativity of the market. *Journal of Economic Literature* 39: 479-535.

Makowski, Louis and Ostroy, Joseph M. (1998). Arbitrage and the flattening effect of large numbers. *Journal of Economic Theory* 78: 1-31.

Topic 4: Heterogeneous agents in general equilibrium models

Krusell and Smith (2006) study a inter-temporal general equilibrium model with heterogeneous firms. Individuals are hit by idiosyncratic unemployment shocks, the economy by aggregated once. Krusell and Smith discuss a numeric solution concept to solve for equilibria of such an economy recursively. They show that the equilibrium solution depends on the distribution of individuals' wealth. Discuss the role of heterogeneity for the equilibrium solution in order to understand how the equilibrium deviates from the representative agent's solution.

Literature:

Krusell and Smith (2006). Quantitative Macroeconomic Models with Heterogeneous Agents. *Advances in Economics and Econometrics: Theory and Applications*, Ninth World Congress, Econometric Society Monographs, 41, Cambridge University Press, 298-340.