

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

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MIT PLACEMENT OFFICER

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MIT PLACEMENT ADMINISTRATOR

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**DOCTORAL
STUDIES**

Massachusetts Institute of Technology (MIT)
PhD, Economics, Expected Completion June 2009
DISSERTATION: “Essays on Optimal Insurance Design”

DISSERTATION COMMITTEE AND REFERENCES

Professor Bengt Holmstrom
MIT Department of Economics
50 Memorial Drive, E52-383A
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Professor Ivan Werning
MIT Department of Economics
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Professor Jonathan Gruber
MIT Department of Economics
50 Memorial Drive, E52-355
Cambridge, MA 02142-1347
617-253-8892
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Professor Peter Diamond
MIT Department of Economics
50 Memorial Drive, E52-344
Cambridge, MA 02142-1347
617-253-3363
pdiamond@mit.edu

**PRIOR
EDUCATION**

Université Libre de Bruxelles, M.A., Economics, 2004
Katholieke Universiteit Leuven, *summa cum laude*, B.A., Economics, 2003

CITIZENSHIP

Belgium

GENDER Male

LANGUAGES

Dutch, English, French

**RESEARCH &
TEACHING
FIELDS**

Primary Fields: Public Finance, Theory
Secondary Fields: Behavioral Economics, Organizational Economics

**TEACHING
EXPERIENCE**

Contract Theory (graduate, MIT course 14.124), Teaching Assistant to
Professor Mathias Dewatripont, Spring 2007
General Equilibrium Theory (graduate, MIT course 14.123), Teaching
Assistant to Professor Peter Diamond, Spring 2007

Game Theory (undergraduate, MIT course 14.12), Teaching Assistant to Professor Muhamet Yildiz, Fall 2006

**RESEARCH
EXPERIENCE**

Visiting Researcher, IDEI, Toulouse, January 2008
Research Assistant to Professor Peter Diamond, 2007-2008
Research Assistant to Professor Jean Tirole, 2006-2007
Visiting Researcher, ECARES, Brussels, June 2005

**INDUSTRY
EXPERIENCE**

Associate, McKinsey & Company, Brussels, June-July 2006

**FELLOWSHIPS,
HONORS, AND
AWARDS**

Participant, 3rd Lindau Meeting of Nobel Laureates in Economics, 2008
Nominated for Best Graduate Teaching Assistant, 2007
MIT Robert M. Solow Fellowship, 2004-2006
BAEF Fellowship, 2004-2005
Francqui Fellow

**PROFESSIONAL
ACTIVITIES**

Invited Presentations: IDEI Toulouse (2008), KULeuven (2007)
Conference Presentations: EEA Milan (2008), ESEM Milan (2008)
Summer Institutes: Becker Center on Price Theory, Chicago (2008), Psychology and Economics, Toulouse (2005)

PUBLICATIONS

“Solutions Manual to Accompany CONTRACT THEORY” (with Arthur Campbell, Moshe Cohen and Florian Ederer), *MIT Press*, September 2007

**RESEARCH
PAPERS**

**“Unemployed but Optimistic: Optimal Insurance Design with Biased Beliefs”
(Job Market Paper)**

Biased perceptions of risks change the perceived value of insurance and the perceived returns to avoiding these risks. I show empirically that unemployed workers overestimate how quickly they will find work, but underestimate the return to their search efforts. I analyze the consequences for the optimal design of unemployment insurance. With biased beliefs, contracts equalizing the marginal smoothing benefit and the moral hazard cost of insurance are suboptimal. Social and private insurance diverge; a paternalistic social planner corrects the moral hazard cost for the distortion in the insured’s effort choice, while private insurers focus on the perceived rather than the true smoothing benefits. When unemployed workers are optimistic, privatizing unemployment insurance may result in inefficiently low or rapidly decreasing unemployment benefits.

“Insurance and Perceptions: How to Screen Optimists and Pessimists”

Individuals have differing beliefs about risks they face and their ability to mitigate these risks. Profit-maximizing firms exploit these differences, even if beliefs are unobservable. I show that firms screen identical agents with different beliefs by providing less insurance to optimists than to pessimists. Optimists perceive the risk to be less likely than pessimists given the respective levels of precautionary efforts. I contrast the contracts offered by a monopolist and competing firms and analyze how the distortions in insurance

coverage depend on the differences in beliefs about the likelihood and the marginal return to effort. While the standard adverse selection model predicts a positive correlation between risk occurrence and insurance coverage, these differences in beliefs can explain the negative correlation found in empirical studies. Heterogeneity in beliefs also strengthens the case for government intervention in the economy.

“Training and Search during Unemployment”

This paper analyzes unemployment insurance contracts that combine monetary benefits and training. Unemployment insurance trades off the provision of search incentives and insurance against both the temporary loss of income and future losses in earnings due to the decrease in human capital. Human capital falls upon displacement and continuously depreciates during unemployment. Training counters the decrease in human capital, but also changes the willingness of the unemployed to search. I characterize the optimal insurance contract and analyze the optimal timing of consumption and training. Numerical simulations show that if the cost of training is sufficiently low, the human capital of long-term unemployed converges to a unique, positive level. The optimal contract never stops providing incentives for search. In practice, training programs are mainly targeted towards the long-term unemployed. This is optimal only if the fall in human capital upon displacement is small relative to the depreciation rate during unemployment.

“Revising Claims and Resisting Ultimatums in Bargaining Games” (with Frans Spinnewyn)

We propose a mechanism which implements a unique solution to the bargaining problem with two players in subgame-perfect equilibrium. Players start by making claims and accept a compromise only if they cannot gain by pursuing their claim in an ultimatum. The player offering the lowest resistance to his opponent's claim can propose a compromise. The unique solution depends on the extent to which claims can be revised. If no revisions are allowed, compatible claims implement the Nash solution. If all revisions are allowed, maximal claims implement the Kalai-Smorodinsky solution.

RESEARCH IN PROGRESS

“Heterogeneous Discount Rates and the Taxation of Savings” (with Peter Diamond)

Empirical evidence shows that on average people with higher skills save at higher rates. Saez (2002) suggests that with such positive correlation, taxing savings can increase welfare, even when earnings are optimally taxed. This paper analyzes this issue in a model with less than perfect correlation between ability and preference for the future. To have multiple types at the same earnings level, the number of types of jobs in the economy is restricted. Key to the analysis is that types who value future consumption less are more tempted to switch to the low earning job. We show that introducing both a small savings tax on the high earners and a small savings subsidy on the low earners increase welfare, regardless of the correlation between ability and preferences for the future. However, a uniform savings tax, as in the Nordic dual income tax, increases welfare only if that correlation is sufficiently high.

“The Signaling Value of Promotion and Delegation: The Role of Commitment”

An informed principal inefficiently refrains from promoting workers to avoid paying the market premium that results from revealing information about workers' abilities. I show that the principal may prefer to use burdensome entry jobs and up-or-out rules in order to credibly commit to promote workers more often, although such commitments are costly per se. In the same spirit, the principal inefficiently refrains from delegating projects for which the value depends on the ability of the person in charge. The principal hoards responsibility to avoid revealing information about the agent's ability relative to his own ability. This inefficiency increases if the skill sets of the principal and the agent are more complementary or if the firm is organized as an internal market. As with promotion, the principal would like to commit to delegate more often. Principals who are burdened with many other tasks, who have less reputational concerns or who show great confidence in their subordinates, may delegate more efficiently.