

From: [Ayes, Ian](#)
To: [Ayes, Ian](#)
Subject: Ayres Newsletter (formerly "More Ayres Spam")
Date: Saturday, September 04, 2010 3:53:16 PM
Attachments: [image002.png](#)
[image003.png](#)

Happy End of Summer,

My dad at 89 died peacefully this summer. I'm missing him and have had a chance to spend lots of time with my family and friends.

I've also continued to write.

Here's an article that grows out of expert witnessing I've been doing for several years regarding race discrimination claims in both car loan and mortgage markets. [Testing for Discrimination and the Problem of "Included Variable Bias,"](#) working paper (2010).

Disparate impact and disparate treatment claims have distinct legal elements and require distinct statistical tests. In a disparate treatment test, the primary statistical concern is most often "excluded variable bias" – the worry that the quantitative estimates of disparate treatment are biased because the regression inappropriately excludes necessary non-race variables. But this article shows that in disparate impact testing, the primary statistical concern is most often "included variable bias" – the worry that the statistical estimates of disparate impact are biased because the regression inappropriately includes non-race variables. Somewhat surprisingly, this article will show that it is appropriate to exclude from a regression non-race control variables that even are thought to be causally related to the decision that is being modeled. Appropriate statistical testing for disparate impact that attends to included-variable bias will thus often be less data intensive and particularly well suited for class action adjudication. The article develops regressions specifications testing for four distinct civil rights concerns: disparate treatment, *prima facie* disparate impact, unjustified disparate impact, and subgroup disparate impact.

Here's an article coauthored with Michael Abramowicz that suggests a way to get people who are overoptimistic about their future willpower to sign up for commitments today. [Compensating Commitments: The Law and Economics of Commitment Bonds That Compensate for the Possibility of Forfeiture](#)

This Article introduces compensating commitment bonds, which make it more affordable for a government, entity, or individual to commit to some course of action. These bonds, like traditional government or corporate bonds, can generate revenue for committing parties. A bond seller makes a commitment and promises to pay a forfeit if the seller fails to meet the bond conditions. The bond buyer pays the seller to be contractually designated as the recipient of any amounts the bond seller forfeits. This approach has potential application in a range of legal situations. Governments and other parties may use such bonds to facilitate commitments to principles from which they later may face temptation to deviate. Such bonds also can facilitate legislative compromise or the settlement of private legal disputes. The Article identifies a variety of incentive-equivalent commitment bond structures as well as the circumstances under which a particular implementation is likely to be most effective. It also explores hurdles to the use of such bonds, including the concerns that the courts might find a legislature's use of such bonds to entrench its preferences unconstitutional and that a legislature might issue such bonds but cancel them after failing to maintain a commitment.

Here's a substantial revision of an article now coauthored with both Michael Abramowicz & Yair Listokin, which suggests that some statutes, regulations and even judicial opinions could usefully be subjected to randomized testing before they went into effect generally (or before they are repealed). Indeed, lawmakers might pass a self-executing law making the particular future content of law depend on the results of a randomized test. [Randomizing Law](#), University of Pennsylvania Law Review (forthcoming 2011)

Governments should embrace randomized trials to estimate the efficacy of different laws and regulations. Just as random assignment of treatments is the most powerful method of testing for the causal impact of pharmaceuticals, randomly assigning individuals or firms to different legal rules can help resolve uncertainty about the consequential impacts of law. We explain why randomized testing is likely to produce better information than nonrandom evaluation of legal policies and offer guidelines for conducting legal experimentation successfully, considering a variety of obstacles, including ethical ones. Randomization will not be useful for all policies, but once government gains better experience with randomization, administrative agencies should presumptively issue randomization impact statements justifying decisions to implement particular policies. Making the content of law partially contingent on the results of randomized trials will promote ex ante bipartisan agreements, as politicians with different

empirical predictions will tend to think that the experiments will support their position.

I also have a revised version of one of my more mathematical efforts which has just been accepted for publication: [Optimal Voting Rules for Two-member Tenure Committees](#), Social Choice & Welfare (forthcoming) (with Colin Rowat and Nasser Zakariya).

We study option management by committee. Analysis is illustrated by tenure decisions. Our innovations are two-fold: we treat the committee's problem as one of social choice, not information aggregation; and we endogenise the outside option: rejecting a candidate at either the probationary or tenure stage return the committee to a candidate pool. For committees with N members, we find: (1) a candidate's fate depends only on the behaviour of two 'weather-vane' committee members - generalised median voters; (2) enthusiastic assessments by one of these weather-vanes may harm a candidate's chances by increasing others' thresholds for hiring him; and (3) sunk time costs may lead voters who opposed hiring a candidate to favour tenuring him, even after a poor probationary performance. We characterise the optimal voting rule when $N=2$. A patient or perceptive committee does best with a (weak) majority at the hiring stage and unanimity at the tenure stage. An impatient or imperceptive committee does best under a double (weak) majority rule. If particularly impatient or imperceptive, this rule implies that any hire is automatically tenured. Perversely, the performance of a patient, imperceptive committee improves as its perceptiveness further declines.

I've also just published a couple of Forbes pieces [coauthored with Barry Nalebuff](#):

[Bring on the Share Economy](#), (Sept. 13, 2010) was part of the Forbes cover story on 4 radical ideas to promote job growth. We try to resuscitate an idea that Marty Weitzman taught me way back in graduate school.

[Make a Commitment](#) (August 30, 2010) is an update on my beloved www.stickK.com and an early plug for a book that will be the subject of my next newsletter.

And as always I have a number of Freakonomics posts (including in this Summer of LeBron a couple of basketball posts as well as several promoting my [Lifecycle Investing](#) book also [coauthored with Barry Nalebuff](#)):



September 1, 2010, 1:00 pm

[Is Your University Complying With the New Textbook Law?](#)

By **[IAN AYRES](#)**

University students are returning to campuses throughout the country. It is a migration that raises my spirits — seeing the energetic, eager faces tackling another course in contracts or intellectual property. But this year something is different. For the first time, a federal law has taken effect which requires “institution of higher education receiving Federal financial assistance” to provide students with information on textbook pricing.



August 27, 2010, 12:30 pm

[Ticketfree Responds](#)

By **[IAN AYRES](#)**

I received the following email from Kyle Tower, one of the lead members of the Ticketfree team, responding to my earlier post on speeding insurance.



August 24, 2010, 2:30 pm

[Never Pay a Speeding Ticket Again?](#)

By **[IAN AYRES](#)**

A couple weeks ago, Ian Ayres became briefly fascinated and somewhat appalled by the appearance of a new Internet business that offered a sort of insurance against speeding tickets. In return for an annual fee of \$169, ticketfree.org promised to reimburse you for the costs of up to \$500 in moving violations. Then, the site suddenly disappeared. Why?



August 11, 2010, 10:30 am

[Make-It-Yourself Prediction Widgets](#)

By [IAN AYRES](#)

Wolfram Alpha has just launched a free Widget Builder that lets you easily create widgets to calculate all kinds of things – seamlessly integrating data from the Alpha server.



August 5, 2010, 2:00 pm

[A Reverse Auction to Conserve Kilowatts](#)

By [IAN AYRES](#)

The Missouri Department of Natural Resources on July 28th ran what may be the first-ever online reverse auction for energy efficiency grants. The state allocated \$3 million of American Recovery and Reinvestment Act funding in a series of three one-hour auctions by having 23 pre-qualified businesses bid on a \$/kWh saved basis for projects that were expected to enhance energy efficiency. Grants with fixed dollar amounts were awarded to the bidders who promised the best (conservation) bang for the (grant) buck.



July 27, 2010, 10:45 am

[Statistical Forensics Launches a Polling Donnybrook](#)

By [IAN AYRES](#)

The Research 2000 case.



July 6, 2010, 2:00 pm

[Did Paul Samuelson Support Leveraged Lifecycle Investing?](#)

By [IAN AYRES](#)

Here is a post coauthored with Yale School of Management professor, Barry Nalebuff, regarding Paul Samuelson's criticisms of our Lifecycle Investing strategy.



July 1, 2010, 10:30 am

[“You Should Walk Home”?](#)

By [IAN AYRES](#)

There is a brief vignette in the uninspired movie Killers in which an inebriated guest is about to drive away after a wild party at the home of the film's two leads. One of the film's leads advises the departing guest to walk home. Readers of SuperFreakonomics will realize this is bad advice.



June 28, 2010, 12:30 pm

Would Cleveland Be Better Off With LeBron James or a New DaimlerChrysler Plant?

By [IAN AYRES](#)

LeBron economics.



June 17, 2010, 1:30 pm

Can LeBron James Learn From Karl Malone?

By [IAN AYRES](#)

Will he choose salary or a championship?



June 10, 2010, 2:30 pm

Ode to Lifecycle Investing

By [IAN AYRES](#)

Ayres and Nalebuff coauthor a poem.



June 7, 2010, 11:30 am

[Asymmetric Penalties for the Double Technical](#)

By [IAN AYRES](#)

A strategy for the Lakers.



May 24, 2010, 10:00 am

[Game Theory TV](#)

By [IAN AYRES](#)

Game theory lessons on YouTube.



May 18, 2010, 2:00 pm

[Dilbert on Diversification](#)

By [IAN AYRES](#)

Scott Adams's investing advice.



May 14, 2010, 3:30 pm

Pitch Me Your Day

By [IAN AYRES](#)

The art of story telling.



May 11, 2010, 11:00 am

Market Volatility Has Doubled: What's in Your Portfolio?

By [IAN AYRES](#)

How should volatility affect an investment strategy?



May 5, 2010, 2:00 pm

Cognitive Bias Song

By [IAN AYRES](#)

A high school teacher creates a fun study aid.



May 4, 2010, 2:00 pm

Dare to Diversify

By [IAN AYRES](#)

Ian Ayres's new book discusses diversifying risk across time.

Finally, I want to solicit your interest in helping Innovations for Poverty Action. IPA is a non-profit organization doing great policy work and is interested in getting ongoing legal advice related to its operations. I'm a big [proponent of randomized control trials](#), and IPA is at the forefront of this movement using RCTs to understand what works, what does not, and why, in the world of poverty programs. IPA was founded by Dean Karlan, a Yale economics professor many of you may know as my partner in the creation of stickK.com.

To give you some sense of their size, IPA operates in around 30 countries and has nearly 200 projects. This growth occurred all in just the past 8 years. The increasing interest in evidence-based policy has led to fast and impressive growth for IPA, and an increased complexity in their operations. The work of IPA includes running randomized trials of education, health, microcredit, microsavings, and agriculture programs (to give some examples) and also supporting the scale up of several large initiatives. At this point, the organization is exploring several options for getting regular legal advice on both strategic and operational issues that the organization faces.

Some examples of the legal tasks involve include: providing input on strategic decisions related to the operating and setting up new offices in developing countries, working with IPA's board of directors on legal questions, reviewing and revising international and US contracts, protecting intellectual property, and also advising on human resources and other corporate issues.

To provide this kind of input, IPA is considering the following (not mutually exclusive) options:

- the creation of a full-time or part-time internal counsel position ([job description on the IPA website](#)),
- engaging established law firms for pro bono work or temporary secondment of seasoned staff
- developing an external counsel relationship with a firm for with non-profit and developing country legal expertise
- identifying a lawyer to be on the board

IPA would very much appreciate your help. If you, or someone you know, would be interested in providing this kind of help for IPA, please ask them to email Dean Karlan (dean.karlan@yale.edu) or Delia Welsh (dwelsh@poverty-action.org).

Thanks.

If this newsletter is annoying you, you can unsubscribe [here](#).

Or you can received more contemporaneous links to my writing by following me on:



Happy Labor Day.

Ian

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