WS594H – Topics in Policy Analysis (Half-Term): Economic Approaches to Poverty and Inequality

Spring 2012                                      Off. Hrs. Th 12:30-2:30 or by appnt.
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Overview:
This six week course will focus on economic approaches to measuring and explaining inequality. Particular attention will be paid to understanding the effects of public policy on inequality. We will begin with an overview of Economic research on inequality, and will then focus on particular policies, with special emphasis on the labor market, education, and health care systems. Lectures will frame each class, followed by a student-led discussion of the readings and memos.

Course requirements:
All of the course readings are available on the blackboard. Every week, there are required readings which all students are expected to have read. After the first week, there are also “Readings for discussion.” All students will be required to write a three-four page memo each week on one of the readings for discussion for that week. All students will also be required to present two of the discussion articles at some point in the semester. Everyone will be asked for their top five choices for presentation and then articles will be assigned. A presentation should clearly lay out: The main question the article address, why it is interesting, the data and empirical methods, the main findings, and a critical reaction to the paper. Note that the typical economics paper includes not only the main findings but numerous robustness and specification checks. It is not necessary to go into those, though if any seem especially compelling, they may be worth mentioning. The reaction could take the form of contrasting the approach with another paper, discussing methodological problems or puzzles, or talking about possible extensions (for example). Presentations should not take more than 10 minutes in order to allow time for discussion. All memos and presentations should be on the blackboard by noon of the day before class (Monday) and all students are encouraged to read them.

Students might find the following book useful as an econometrics reference: Joshua Angrist and Steven Pischke. Mostly Harmless Econometrics. This reading list also has a section of background readings which I will draw on in my lectures. These papers are not required reading but may be of interest.
March 26: Measurement and Trends in Poverty and Inequality

We will begin with some introductory remarks about the way that economists think about policy evaluation. We will then provide an overview of economic approaches to the study of inequality. As we will see, great deal of research in economics has been devoted to measuring and tracking income inequality over time in the belief that understanding trends can shed light on the underlying causes of inequality.

**Required Readings:**


*Question:* Do we care about inequality because places that are more unequal generally have more poor people, or do we care about inequality per se?

April 3: Labor Market Institutions and Wage Inequality

Economists often focus on labor market institutions including minimum wages, unions, performance pay, unemployment insurance, immigration regulations, and trade regulations to explain changes in wage inequality.

**Required Readings:**


*Questions:*

What mechanisms have been proposed to account for the increasing income inequality in the U.S.?

To the extent that immigration increases inequality, who is it that suffers reductions in relative income?
Readings for Discussion:


Question: Many observers point to declining unionization as one of the reasons for increases in inequality in the U.S. Does this mean that restoring union strength would reduce wage inequality?


Question: What types of jobs have performance pay? What has caused employers to embrace this form of compensation arrangement?


Question: Why is it difficult to determine whether outsourcing (or more generally trade) is increasing wage inequality?

April 10: Transfer Programs

Transfer programs are a direct societal response to inequality. Some questions that economists are particularly interested in are: How effective are they at reducing inequalities? What is the best way to design redistribution policies?

Required Reading:

Currie, Janet. “The Invisible Safety Net: Federal Programs for Poor Children and Families,” Princeton University Press, 2006. Please read the Introduction, Chapter 1 and Chapter 6 as well as one of Chapters 2-5. Please also familiarize yourself with Appendix Table 1.

Currie, Janet and Firouz Gahvari. “Transfers in Cash and In-Kind: Theory Meets the Data,” Journal of Economic Literature, 46 #2, June 2008. Section 1-3 (but not 3.1 and following), Section 5, all of Sections 8, 9, and 10, and Section 12 (Conclusions).

Questions:
Why is it difficult to tell whether welfare programs are “working” or not?

What are the costs and benefits of remediating inequality through transfer programs?

What are the major economic explanations for why so much aid is provided in kind rather than in cash.

Readings for Discussion:


Question: School nutrition programs have been criticized for contributing to childhood obesity. Do you think this is a fair criticism? Why or why not?


Question: Why does it matter whether there are “network effects” in welfare takeup or not?


Question: What are the implications for transfer programs if the “highest payoff” time to intervene is before children are born?

April 17: Human Capital

Economists recognize that inequality begins well before people enter the labor market. One of the most important areas is in the development of human capital. In this section we discuss both human capital development before school age, and some of the literature discussing schooling and returns to schooling.

Required Reading:

Questions:

What do economists mean by the “return” to education and how is it usually measured?

What are some of the problems that arise in interpreting the coefficient on education in a regression of wages on education as a “return”?

What has been happening to measured returns to education as income inequality has risen?

Why do you think there is a relationship?

Readings for Discussion:


Question (for 2 papers above): While economists often focus on quantity of education, quality is also likely to be important (particularly given growing uniformity in the quantity of education). What aspects of quality can be easily measured?


Question: What are the implications for measured returns to education if a mother’s education affects the human capital of her child?


Question: What are the implications for measured returns to education if a worker’s education affects the productivity of her fellow workers?

April 24: Health and Inequality

Health is a dimension of human capital whose importance is increasingly recognized.


*Question*: How do inequalities in health exacerbate or mitigate inequalities in income and earnings?

*Readings for discussion*:


*Question (re: previous 3 papers):* We often think of health as the absence of disease or chronic physical health problems. What are some of the other determinants of health that are important?


*Question: Inequality in access to medical care exists even in fully insured populations.* What do you think are the major reasons?

**May 1: Inequality by Race and Gender**

Inequalities between recognizable demographic groups, particularly in the labor market, have constituted an important area of study for economists for many years.

*Required Reading:*

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Questions:

How is “discrimination” normally measured?

What are the major trends in earnings gaps between men and women and between blacks and whites?

Why do you think that some gaps have closed faster than others?

Readings for Discussion:


Question: In Goldin’s opinion, what were the underlying drivers of the increase in female education and employment in the 20th century?


Question: How does this study resolve some of the problems involved in measuring discrimination?


Question: What does this study suggest about the federal role in reducing discrimination through legislation?


Question: Is it sensible to think in terms of “pre-market” and “market” sources of wage differentials?
**Additional Optional Background Readings (Not Required)**


**April 3: Labor Market Institutions and Wage Inequality**


Lee, David. “Wage Inequality in the United States During the 1980s: Rising Dispersion or

**April 10: Transfer Programs**


**April 17: Human Capital**


**April 24: Health and Inequality**


**May 1: Inequality by Race and Gender**


