

Economics 365: Economics of Life-Course Events

Syllabus, Fall 2007
Reed College

Tues., Thurs. 10:30-11:50am
Vollum 302

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Office Hours: Mon. 1:30-3:00pm
 Tue. & Thu. 4:10-5:40pm
 Wed. 10:30am-noon

We go through life making small and large decisions on how to allocate limited resources among competing uses. Such decisions include how much schooling to obtain, what career to pursue, where to live, how much to work, and how much to spend and save, among others. We make choices because we want to be happiest given the constraints we face. The obvious constraints are time we have, market wages we earn, and our innate ability. This course introduces how economists think about and analyze such choices we make throughout our life course. The focus of this course will be on empirical investigation of how individuals and families allocate resources and of the key economic outcomes determined in a family context. Throughout, we will emphasize methods of confronting theory with data, of devising simple and effective tests for hypotheses, and building skills for persuasive storytelling.

The life-cycle economics is one of the main paradigms of modern economics and covers a wide array of topics. This course is by no means comprehensive in the economics of life-course events. Because of time constraints, we will not be able to cover certain important topics, such as living arrangements, long-term care insurance, and intergenerational transmission of human capital. If you are interested in these topics, I can provide you with references.

Requirements:

The requirements for this course consist of four in-class presentations of research papers and six written summaries—including the four papers you have presented and one data exercise. You choose the papers from the reading list but you may not pick multiple papers from the same section. To equalize your workload throughout the semester, you must complete two presentations and three summaries before Fall Break and the remaining assignments after the Break.

Presentations of each paper should be ten minutes maximum, and should consist of a summary of the procedures and results, and an analysis of the paper and its significance. You are also expected to lead the discussion following your presentation. The summary should be 3-5 pages, double-spaced, and should include a summary of the paper and the main results, a critique of the methods and/or approach (which need not be negative, but should be analytical), and your assessment of whether you were convinced by the author's arguments. The purpose of this assignment is to develop your ability to read closely and critically analyze research, and to develop a sense of how good research builds its argument and uses statistics to aid the argument.

Reading the Papers:

Many of the papers that we are going to read are written for academic economists and thus use the language of economics. These papers may be challenging sometimes, but we should be able to crack them with diligence and perseverance. Read your articles very carefully, taking lots of notes. Read them twice or more if you can. Pay particular attention to the following points:

- What is the research question asked?
- Why is that question important?
- What methods are used to address that question (experiments? econometrics?)
- What is/are the data set(s) used to address that question? What is special about the data?
- What are the hypotheses tested? What is the dependent variable? What are the key control variables?
- Does the paper address causality from one variable to another or just correlation between key variables?
- What are the exogenous variations in data that the author has taken advantage of?
- How strong are the “effects” of the main variables? Are the effects statistically significant? Economically large?
- There may be other reasons why the author has obtained the results she got. What are the possible reasons? How does the author dispel alternative explanations and try to convince readers that her results are sensible with the theory?
- Do you agree with the paper’s methodology and findings? Is there anything you think should have been done differently?

After you have thought about these issues, get together with your friends and discuss the article. Check your own and each other’s understanding. Together, try to figure whatever you don’t understand about the article. Consult external references if necessary.

In-Class Presentation:

A considerable part of academic research is how to market your ideas and to tell a good story so that your audience “buys” your argument. Good presentations are crucial to your success. Practice makes your presentation perfect, and I want you to practice your presentation skills early and often.

Your presentation must be short, concise and to the point. Prepare anything you might need to have available during the discussion. This could include handouts for the class or computer projection. In making presentations, please keep in mind one more question: what should the class get out of this article? You want to nudge the class toward discovering the lessons you think they need to learn. If you have questions about the paper, please come and talk to me before your scheduled presentation and we can discuss what you should cover.

Writing Assignment:

Writing a summary of a long, complicated document is an oft-repeated task in a job in the real world. Writing well is an important part of most jobs using degrees in economics. By writing well and persuasively, you can get ahead in the workplace. I consider writing well to be the most important skill you can acquire in your life, and I thus take the writing assignment very seriously. I hope you will do so, too. I will distribute writing tips later in class. The Writing Center

(<http://academic.reed.edu/writing/>) also provides a tutoring service to all Reed students in the Dorothy Johansen (DoJo) House.

When you are in doubt about styles and grammar, consult writing guides. I find the following references extremely helpful:

Strunk, William Jr. and White, E.B. The Elements of Style, 4th edition, Allyn and Bacon. 2000.

Hacker, Diana. Rules for Writers, 5th edition, Bedford/St. Martin's, 2004.

To improve writing, I suggest you form a small writing group of two to three students. Get together with classmates to review and critique another's writing. Research shows that such "peer review" can be highly effective and successful. The logistics are easy: you schedule a team meeting, everyone brings copies of his/her paper (or you e-mail them around ahead of time), and select one person to honcho the meeting so you use your time efficiently (and rotate the chief job each time). As individuals and as a team, you are working to achieve that most critical goal in academic writing: have I understood the questions and answered them fully and clearly?

Data Exercise:

There will be one data exercise during the second half of the course. The exercise is intended to familiarize you with one of the standard data sets used in economic research. You will test implications of models we study in this course. Details of the data exercise will be provided in class later.

Student Research:

Economics of life course events is a treasure box of intriguing research topics. You will see in this course that advanced mathematics is not necessary to conduct high-quality research in this field. With a little creativity and ingenuity, you should be able to come up with a brilliant idea, which may lead to a publishable paper. The sky is the limit. You are strongly encouraged to undertake independent research. Opportunities for obtaining funding for student research are listed in the Reed's Student Fellowships & Grants page (<http://web.reed.edu/academic/studentgrants/>).

Reading List and Tentative Schedule

The course is principally conducted as a conference. We will read and discuss three papers per session, listed under *Papers* in each section. The readings under the **Background** heading generally provide a basic survey of literature and U.S. historical trends, and we may not cover them explicitly in class, unless the reading is marked with an asterisk (*, under the **Background (Lecture)** heading).

Journal articles in this list are available from on-line journals that the Reed Library subscribes to and thus are accessible from the Reed IP address. If not, URLs to the papers are provided in the list. Book chapters are put on reserve at the library for this course.

Tentative Schedule

Week	Tuesday	Thursday
1	8/28 I. Introduction Review on regressions	8/30 II. Pre-natal and Birth
2	9/4 III. 1. Family Structures and Resource Allocation	9/6 III. 2. Height and Weight
3	9/11 IV. 1. Human Capital Review lecture on human capital theory and econometric issues	9/13 IV. 2. Returns to Education
4	9/18 IV. 3. College Life and After	9/20 V. 1. Occupational Choice Review lecture on compensating differentials and discussion of 2 articles
5	9/25 V. 2. Occupational Choice of Women	9/27 VI. 1. Labor Supply Review lecture on static and dynamic theory of labor supply and econometric issues
6	10/2 VI. 2. Labor Supply of Men and Married Couples	10/4 VI. 3. Labor Supply of Women and Mothers
7	10/9 VII. 1. Residential Location Review lecture on land rent and discussion of 2 articles	10/11 VII. 2. Residential Location Choice of gay men and single women
8	10/16 Fall Break	10/18 Fall Break
9	10/23 VIII. Consumption and Saving	10/25 VIII. Consumption and Saving

Week	Tuesday	Thursday
10	10/30 VIII. Portfolio Choice	11/1 VIII. Buying & Selling a House
11	11/6 IX. Marriage	11/8 IX. Dowry
12	11/13 X. Having Babies	11/15 XI. Divorce
13	11/20 XII. Care for the Elderly	11/22 Thanksgiving, No Class
14	11/27 XIII. Retirement - Labor Supply	11/29 XIII. Retirement - Consumption
15	12/4 XIV. Bequests	12/6 No class

Reading List

I. Introduction

Background

Becker, Gary. "Nobel Lecture: The Economic Way of Looking at Behavior," *Journal of Political Economy*, June 1993, 385-409. Read only Sections IV and V.

Background on Econometrics (Lecture)

*Meier, Gerald and Rauch, James. Leading Issues in Economic Development, 8th edition, Oxford University Press, Appendix on "How to Read Regression Tables," 633-638.

*Angrist, Joshua and Krueger, Alan. "Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments," *Journal of Economics Perspectives*, Fall 2001, 69-85.

II. Pre-natal & Birth

Papers

Almond, Douglas. "Is the 1918 Influenza Pandemic Over? Long-Term Effects of In Utero Influenza Exposure in the Post-1940 U.S. Population," *Journal of Political Economy*, August 2004, 672-712.

Black, Sandra, E.; Devereux, Paul J. and Sylvanes, Kjell G. "From the Cradle to the Labor Market? The Effect of Birth Weight on Adult Outcomes," *Quarterly Journal of Economics*, February 2007, 409-439.

III. Early Childhood and Young Adulthood

1. Family Structures and Resource Allocation within Families and Households

Papers

Conley, Dalton and Glauber, Rebecca. "Parental Educational Investment and Children's Academic Risk," *Journal of Human Resources*, Fall 2006, 722-737 (available from Dalton Conley's web page: <http://homepages.nyu.edu/~dc66/Papers.html>).

Sacerdote, Bruce. "How Large are the Effects from Changes in Family Environment? A Study of Korean American Adoptees," *Quarterly Journal of Economics*, February 2007, 119-156.

2. Height, Weight, and Economic Outcomes

Background

Cutler, David E., Glaeser, Edward L. and Shapiro, Jesse. "Why Have Americans Become More Obese?" *Journal of Economic Perspectives*, Summer 2003, 93-118.

Papers

Persico, Nicola; Postlewaite, Andrew and Silverman, Dan. "The Effect of Adolescent Experience on Labor Market Outcomes: The Case of Height," *Journal of Political Economy*, October 2004, 1019-1053.

Cawley, John. "The Impact of Obesity on Wages," *Journal of Human Resources*, Spring 2004, 451-474.

IV. Education

1. Human Capital – Theory and Econometric Issues

Background (Lecture)

*Berndt, Ernst R. *The Practice of Econometrics, Classic and Contemporary*, Addison Wesley, Chapter 5, sections 5.1-5.3 (on Mincer wage regressions).

*Wise, Andrew. "Human Capital vs. Signalling Explanations of Wages," *Journal of Economic Perspectives*, Fall 1995, 133-154.

*Hanushek, Eric. "Measuring Investment in Education," *Journal of Economic Perspectives*, Fall 1995, 133-154.

2. Returns to Different Types of Educational Programs

Background

Heckman, James J. and Rubinstein, Yona. "The Importance of Noncognitive Skills: Lessons from the GED Testing Program," *American Economic Review*, May 2001, 145-149.

Federal Reserve Bank of Minneapolis "Interview with James Heckman," *The Region*, June 2005 (<http://www.minneapolisfed.org/pubs/region/05-06/heckman.cfm>).

Papers

Garces, Eliana; Thomas, Duncan and Currie, Janet. "Long-Term Effects of Head Start," *American Economic Review*, September 2002, 999-1012.

Rose, Heather and Betts, Julian R. "The Effect of High School Courses on Earnings," *Review of Economics and Statistics*, May 2004, 497-513.

3. College Life and After

Papers

Brown, Charles and Corcoran, Mary. "Sex-Based Differences in School Content and the Male-Female Wage Gap," *Journal of Labor Economics*, July 1997, 431-465.

Berg Dale, Stacy and Krueger, Alan B. "Estimating the Payoff to Attending a More Selective College: An Application of Selection on Observables and Unobservables," *Quarterly Journal of Economics*, November 2002,

V. Career and Occupational Choice

1. Standard Theory and Empirical Evidence

Background (Lecture)

*Borjas, George. Labor Economics, 4th edition, McGraw-Hill, Chapter 6

Frank, Robert H. Microeconomics and Behavior, 6th edition, Chapter 14, section on the internal wage structure (p. 535-p. 537)

Papers

Betts, Julian R. "What Do Students Know about Wages? Evidence from a Survey of Undergraduates," *Journal of Human Resources*, Winter 1996, 27-56.

Rothstein, Jesse and Rouse, Cecilia Elena. "Constrained after College: Student Loans and Early Career Occupational Choice," *NBER Working Paper* No. 13117, May 2007.

2. Women

Papers

Goldin, Claudia and Katz, Lawrence. "The Power of the Pill: Oral Contraceptives and Women's Career and Marriage Decisions," *Journal of Political Economy*, August 2002, 730-770.

Blau, Francine D. and Ferber, Marianne A. "Career Plans and Expectations of Young Women and Men," *Journal of Human Resources*, Fall 1991, 581-607.

VI. Labor Supply

1. Standard Theory, Historical Background, and Econometric Issues

Background (Lecture)

Juhn, Chinhui and Potter, Simon. "Changes in Labor Force Participation in the United States." *Journal of Economic Perspectives*, Summer 2006, 27-46.

*Frank, Robert H. Microeconomics and Behavior, 6th edition, Chapter 14, section on labor supply (p. 511-p. 519)

*Blau, Francine D.; Ferber, Marianne A. and Winkler, Anne E. *The Economics of Women, Men and Work*, 5th edition, Prentice-Hall, 2006. Chapter 4.

*Romer, David. Advanced Macroeconomics, 3rd edition, McGraw-Hill, Sections 4.3-4.4 (p. 180-p. 186).

*Berndt, Ernst R. The Practice of Econometrics, Classic and Contemporary, Addison Wesley, Chapter 11, sections 11.1-11.3 (on Heckman selection correction).

Heckman, James J. "What Has Been Learned about Labor Supply in the Past Twenty Years," *American Economic Review*, May 1993, 116-21.

2. Recent Empirical Evidence – Individuals and Married Couples

Background

Borjas, George. Labor Economics, 4th edition, McGraw-Hill, Chapter 2, Section on the EITC.

Papers

Lundberg, Shelly and Rose, Elaina. "The Effects of Sons and Daughters on Men's Labor Supply and Wages," *Review of Economics and Statistics*, May 2002, 251-68.

Eissa, Nada and Hoynes, Hilary W. "Taxes and the Labor Market Participation of Married Couples: The Earned Income Tax Credit," *Journal of Public Economics*, August 2004, 1931-1958.

3. Women: Mothers and Wives

Papers

Bailey, Martha J. "More Power to the Pill: The Impact of Contraceptive Freedom on Women's Life-Cycle Labor Supply," *Quarterly Journal of Economics*, February 2006, 289-320.

Currie, Julie B. and Gruber, Jonathan. "Does Unemployment Insurance Crowd out Spousal Labor Supply?" *Journal of Labor Economics*, July 2000, 546-572.

VII. Residential Location

1. Standard Theory and Empirical Evidence

Background (Lecture)

*Arthur O'Sullivan Urban Economics, 6th edition, McGraw-Hill, Chapters 6-8

Papers

Costa, Dora and Kahn, Matthew. "Power Couples: Changes in the Locational Choice of the College Educated, 1940-1990," *Quarterly Journal of Economics*, November 2000, 1287-1315.

Glaser, Edward L.; Kahn, Matthew E. and Rappaport, Jordan. "Why Do the Poor Live in Cities?" *National Bureau of Economic Research Working Paper* No. 7636, April 2000.

2. Clustering of Certain Groups (gay men, single unmarried women)

Papers

Black, Dan; Gates, Gary; Sanders, Seth and Taylor, Lowell. "Why Do Gay Men Live in San Francisco?" *Journal of Urban Economics*, January 2002, 54-76.

Edlund, Lena, "Sex and the City," *Scandinavian Journal of Economics*, March 2005, 25-44

Fall Break

VIII. Consumption and Saving

3. Standard Theory and Empirical Evidence

Background (Lecture)

* Romer, David. Advanced Macroeconomics, 3rd edition, McGraw-Hill, Sections 7.1-7.4 (p. 346-p. 365) and 7.6 (p. 370-p. 380)

Modigliani, Franco. "Life Cycle, Individual Thrift, and Wealth of Nations," *American Economic Review*, June 1986, 297-313.

Papers

Souleles, Nicholas S. "The Response of Household Consumption to Income Tax Refunds," *American Economic Review*, September 1999, 947-958.

Kantor, Shawn E., and Price Fishback. "Precautionary Saving, Insurance, and the Origins of Worker's Compensation," *Journal of Political Economy*, April 1996, 419-442.

4. Alternative View Points

Bernheim, B. Douglas, Jonathan Skinner, and Steven Weinberg. "What Accounts for the Variation in Retirement Wealth among U.S. Households?" *American Economic Review*, September 2001, 832-857.

Madrian, Brigitte C., and Dennis F. Shea. "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior," *Quarterly Journal of Economics*, November 2001, 1149-1187.

5. Portfolio Choice

Heaton, John, and Deborah Lucas. "Portfolio Choice in the Presence of Background Risk," *Economic Journal*, January 2000, 1-26.

Guiso, Luigi, Tullio Jappelli, and Danielle Terlizzese. "Income Uncertainty, Borrowing Constraints, and Portfolio Choice," *American Economic Review*, March 1996, 158-172.

6. Buying & Selling a House

Black, Sandra. "Do Better Schools Matter? Parental Valuation of Elementary Education," *Quarterly Journal of Economics*, May 1999, 577-599.

Genesove, David, and Christopher Mayer. "Loss Aversion and Seller Behavior: Evidence from the Housing Market," *Quarterly Journal of Economics*, November 2001, 1233-1260.

IX. Marriage

1. Public Policy and Marriage

Papers

Gould, Eric D., and M. Daniele Paserman. "Waiting for Mr. Right: Rising Inequality and Declining Marriage Rates," *Journal of Urban Economics*, March 2003, 257-281.

Brien, Michael J., Stacy Dickert-Conlin, and David A. Weaver. "Widows Waiting to Wed? (Re)Marriage and Economic Incentives in Social Security Widow Benefits," *Journal of Human Resources*, Summer 2004, 585-623.

2. Dowry

Papers (these two papers are challenging)

Botticini, Maristella, and Aloysius Siow. "Why Dowries?" *American Economic Review*, November 2003, 1385-1398.

Anderson, Siwan. "Why Dowry Payments Declined with Modernization in Europe but Are Rising in India," *Journal of Political Economy*, April 2003, 269-310.

X. Having Babies

Aside:

Sen, Amartya. "More than 100 Million Women Are Missing," *The New York Review of Books*, December 20, 1990. (available at <http://ucatlus.ucsc.edu/gender/Sen100M.html>)

Papers

Dickert-Conlin, Stacy, and Chandra, Amitabh "Taxes and the Timing of Birth" *Journal of Political Economy*, February 1999, 161-77.

Duncan, Greg J., and Saul D. Hoffman. "Welfare Benefits, Economic Opportunities, and Out-of-Wedlock Birth Among Black Teenage Girls," *Demography*, November 1990, 519-535.

XI. Divorce

Background:

Stevenson, Betsey, and Justin Wolfers. "Marriage and Divorce: Changes and Their Driving Forces," *Journal of Economic Perspectives*, Spring 2007, 27-52.

Papers

Stevenson, Betsey, and Justin Wolfers. "Bargaining in the Shadow of the Law: Divorce Laws and Family Distress," *Quarterly Journal of Economics*, February 2006, 267-288.

Charles, Kerwin Kofi, and Melvin Stevens, Jr. "Job Displacement, Disability and Divorce," *Journal of Labor Economics*, April 2004, 489-522.

XII. Taking Care of Parents

Wolf, Douglas A., and Beth J. Soldo. "Married Women's Allocation of Time to Employment and Care of Elderly Parents," *Journal of Human Resources*, Autumn 1994, 1259-1276.

Checkovich, Tennille J. and Steven Stern. "Shared Caregiving Responsibilities of Adult Siblings with Elderly Parents," *Journal of Human Resources*, Summer 2002, 441-478.

XIII. Retirement

Background

*Costa, Dora. "The Evolution of Retirement: Summary of a Research Project." *American Economic Review*, May 1998, 232-236.

1. Labor Supply

Gruber, Jonathan, and Brigitte Madrian C. "Health-Insurance Availability and the Retirement Decision," *American Economic Review*, September 1995, 938-948.

Baker, Michael. "The Retirement Behavior of Married Couples: Evidence from the Spouse's Allowance," *Journal of Human Resources*, Winter 2002, 1-34.

Coile, Courtney, and Jonathan Gruber. "Future Social Security Entitlements and Retirement Decision," *Review of Economics and Statistics*, May 2007, 234-246.

2. Consumption

Banks, James, Richard Blundell, and Sarah Turner. "Is There a Retirement-Consumption Puzzle?" *American Economic Review*, March 1996, 769-788.

Aguiar, Mark, and Erik Hurst. "Consumption versus Expenditure," *Journal of Political Economy*, October 2006, 919-948.

XIV. Bequests

Papers

Hurd, Michael. "Savings of the Elderly and Desired Bequests," *American Economic Review*, June 1987, 298-312.

Light, Audrey, and Kathleen McGarry. "Why Parents Play Favorites: Explanations for Unequal Bequests," *American Economic Review*, December 2004, 1669-1681.