

IHS Wien, May 2016
Syllabus for:
Empirical Research on Economic Inequality

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class times

Mon May 9 3-5pm
Tue May 10 3-5pm
Wed May 11 3-5pm
Thu May 12 4-6pm
Tue May 17 3-5pm
Wed May 18 3-5pm
Thu May 19 4-6pm
Fri May 20 4-6pm
Mon May 23 3-5pm
Tue May 24 3-5pm

Overview and Objectives

This class is open to all who are interested. To make sure you can benefit from this class, you should have taken classes in econometrics and in microeconomics before.

The purpose of this class is twofold. First, to teach you about economic inequality, some of its causes, and how it is affected by policy. Second, to teach you econometric methods that have been used in the literature

on economic inequality, which will help prepare you to conduct your own research on this or related topics.

We will focus on mechanisms affecting income inequality, such as racial discrimination, (de)unionization, minimum wages, shifts in labor demand due to changes in technology and trade, shifts in labor supply due to migration, intergenerational transmission of economic status, and taxation. We will briefly talk about the historical evolution of income and wealth inequality, as well as about international inequality; mostly, however, we will focus on mechanisms affecting the distribution of incomes in the United States. This focus is a reflection of the focus of the economics literature. There is ample opportunity of applying and adapting the ideas we will discuss to other countries and contexts.

Class time will be dedicated to:

1. Presentations of the papers on our reading list by you, and (hopefully) subsequent discussions about these papers.
2. Lectures by me on methodological issues that come up in these papers, taking them as points of departure for teaching you some econometrics.
3. Guest-lectures by specialists for some of our topics, including Julia Schuster on audit experiments and discrimination, and Pirmin Fessler on household surveys and wealth inequality. I'm still organizing these; details will follow.
4. Time permitting, towards the end of the class, group work on assignments that have you implement (program) the methods used in these papers.

My role in this class is to (i) select the literature and topics we discuss, (ii) give lectures on econometric methods that are used in the literature on economic inequality, (iii) prepare lecture notes and assignments that teach you how to implement these methods, and (iv) guide discussions.

Your role in this class is to (i) read all the lecture notes and the assigned papers, and prepare 2-page summaries for at least 5 of them, (ii) present one of the papers, (iii) actively participate in discussions, and (iv) complete the in-class assignments and a final exam.

Assignments

Your grade for this class will be determined as follows:

1. Five **summaries of empirical papers**, which you can choose from the ones on this Syllabus. (6% of grade each)
Summaries should be about 2 pages long and should demonstrate that you read and understood the paper in question. Try to emphasize the question and method of the paper more than the results. Please email these to teachingmaxkasy@gmail.com.
2. One **in class presentation**, jointly with a classmate, on one of the papers. (35% of grade)
Presentations should take about one hour per paper. You should prepare slides for your presentation. Please sign up via Doodle. We will send out the link a week or so before class starts.
3. A **short final exam**, taking place in class on Tuesday May 24. (35% of grade)

Course outline and readings

I am in the process of writing an open online “textbook” for this class, available at <http://inequalityresearch.net>. This webpage is intended to accompany the reading of the original articles assigned, as opposed to serving as a stand-alone textbook. The purpose of this webpage is to give you some conceptual background and a compact overview of formal definitions and derivations and of the econometric methods used, but often left implicit, in the papers discussed. Any feedback on the webpage is welcome!

Required readings

We will discuss the following articles in class. For each of these articles, the webpage provides some technical and methodological background and summary.

1. Topic: The long run evolution of inequality as measured by top income shares
Method: Pareto distribution, maximum likelihood, (interval) censored data

- Atkinson, A. B., Piketty, T., and Saez, E. (2011). Top incomes in the long run of history. *Journal of Economic Literature*, 49(1):3–71.
2. Topic: The long run evolution of gender inequality
 Method: Elasticities of labor supply
 Goldin, C. (2006). The quiet revolution that transformed women’s employment, education, and family. *American Economic Review*, 96(2):1–21.
 3. Topic: Racial discrimination
 Method: Potential outcomes, treatment effects, randomized experiments
 Bertrand, M. and Mullainathan, S. (2004). Are Emily and Greg More Employable Than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination. *American Economic Review*, 94(4):991–1013.
 4. Topic: The effect of de-unionization on inequality
 Method: Distributional decompositions, reweighting
 Fortin, N. M. and Lemieux, T. (1997). Institutional changes and rising wage inequality: Is there a linkage? *The Journal of Economic Perspectives*, 11(2):pp. 75–96.
 Firpo, S., Fortin, N., and Lemieux, T. (2011). Decomposition methods in economics. *Handbook of Labor Economics*, 4:1–102.
 5. Topic: Labor demand and labor supply, technical change, immigration
 Method: Estimation of demand systems
 Card, D. (2009). Immigration and inequality. *The American Economic Review*, 99(2):1–21.
 Boustan, L. P. (2009). Competition in the promised land: Black migration and racial wage convergence in the north, 1940–1970. *The Journal of Economic History*, 69(03):755–782.
 Autor, D. H., Katz, L. F., and Kearney, M. S. (2008). Trends in US wage inequality: Revising the revisionists. *The Review of Economics and Statistics*, 90(2):300–323.
 Fessler, P. and Kasy, M. (2015). How to use economic theory to improve estimators, with an application to labor demand and wage inequality. *Working Paper*.

6. Topic: Intergenerational mobility
Method: Measurement error

Chetty, R., Hendren, N., Kline, P., and Saez, E. (2014). Where is the land of opportunity? The geography of intergenerational mobility in the United States. *Quarterly Journal of Economics*, 129(4):1553–1623.

Black, S. and Devereux, P. (2011). Recent developments in intergenerational mobility. *Handbook of Labor Economics*, 4:1487–1541.
7. Topic: The welfare impact of changing prices and wages
Method: Equivalent variation, conditional causal effects

Deaton, A. (1989). Rice prices and income distribution in Thailand: a non-parametric analysis. *The Economic Journal*, pages 1–37.

Kasy, M. (2014). Who wins, who loses? Tools for distributional policy evaluation. *working paper*.
8. Topic: Redistributive taxation
Method: Computing optimal income tax schedules

Saez, E. (2001). Using elasticities to derive optimal income tax rates. *The Review of Economic Studies*, 68(1):205–229.

Chetty, R. (2009). Sufficient statistics for welfare analysis: A bridge between structural and reduced-form methods. *Annual Review of Economics*, 1(1):451–488
9. Topic: International inequality
Method: Matching

Clemens, M. A., Montenegro, C. E., and Pritchett, L. (2009). The place premium: wage differences for identical workers across the US border.

Milanovic, B. (2015). Global Inequality of Opportunity: How Much of Our Income Is Determined by Where We Live? *The Review of Economics and Statistics*, 2(97):452–460
10. Topic: Policy options

Atkinson, A. (2014). After Piketty? *The British Journal of Sociology*, 65(4):619–638.

Recommended books

1. Normative theories of distributive justice:

- Rawls, J. (1973). *A theory of justice*. Harvard University Press, Cambridge
- Sen, A. (1995). *Inequality reexamined*. Oxford University Press, Oxford
- Roemer, J. E. (1998). *Theories of distributive justice*. Harvard University Press, Cambridge

2. Economists on the history of inequality:

- The long run evolution of wealth-inequality and its causes:
Piketty, T. (2014). *Capital in the 21st Century*. Harvard University Press, Cambridge
- Education, technology, and inequality:
Goldin, C. D. and Katz, L. F. (2009). *The race between education and technology*. Harvard University Press
- Global inequality of health and incomes:
Deaton, A. (2013). *The great escape: Health, wealth, and the origins of inequality*. Princeton University Press, Princeton
- Historical origins - slavery in the United States
Fogel, R. W. (1994). *Without consent or contract: the rise and fall of American slavery*. WW Norton & Company
- Policy alternatives:
Atkinson, A. B. (2015). *Inequality: What Can be Done?* Harvard University Press

3. Perspectives outside economics:

- The sociology of social classes:
Wright, E. O. (2005). *Approaches to class analysis*. Cambridge University Press, Cambridge
- Feminist perspectives:
Fraser, N. (2013). *Fortunes of Feminism: From State-Managed Capitalism to Neoliberal Crisis*. Verso Books