

EC3311 Labour Economics
Seminar 9

Questions 1 – 5 are drawn from: Becker G. and N. Tomes, “Human Capital and the Rise and Fall of Families”

1. Refer to equation 1 on page s2. What would $b \geq 1$ imply? What would $0 < b < 1$ imply? What would $b = 0$ imply?
2. In the absence of capital market imperfections, what determines investment in human capital? What does this imply for intergenerational inequality?
3. Explain why family wealth might influence investment in human capital when there are imperfect capital markets? What does this imply for intergenerational inequality?
4. What do the estimated elasticities from table 1 (p. S26) imply for the relationship between grandfather’s earnings and son’s earnings?
5. What is meant by “regression to the mean”?

Questions 6 – 8 are drawn from: Solon, G., “Intergenerational Income Mobility in the United States”

6. Why does Solon believe that the PSID data is well-suited to the objectives of the study?
7. What is the estimated elasticity (ρ) from table 2 and 3?
8. How does your answer to 7 compare to the results reported by Becker and Tomes? What do the differences imply?

Questions 9 - 13 are drawn from: Dearden, L., S. Machin, and H. Reed, “Intergenerational Mobility in Britain”

9. Is the estimated relationship between father’s earnings and child’s earnings stronger for sons or daughters? Provide an economic intuition for why this might be so.
10. Is the estimated relationship between mother’s earnings and child’s earnings stronger for sons or daughters? Provide an economic intuition for why this might be so.
11. Compare the estimates obtained for adopted son to birth son. What do the results imply?
12. Does the transition matrix on p. 62 suggest a high or low degree of intergenerational income mobility?
13. Based the results from all three papers, do you think there exists a permanent underclass?

Questions 14 – 18 are based on the article Evans, Oates and Schwab, “Measuring Peer Group Effects”

14. What advantages does the NLSY data set have for the study of peer effects?

15. What type of behaviour is examined in this article?
16. How are family effects measured in their model?
17. What are their main results when they use single stage OLS?
18. What are their main results when they use simultaneous equations (2SLS)?

Questions 19-22 are based on the article Andrea Ichino and Giovanni Maggi, "Work Environment and Individual Background: Explaining Regional Shirking Differentials in a Large Italian Firm"

19. How large are the differences between northern and southern Italy
20. Outline the following hypotheses: individual effects, sorting, local attributes, peer effects
21. How do the authors estimate the extent of peer effects?
22. How large are the estimated peer effects?