



Department of Economics

Course Outline

Course:	Economics 611.14 [Public Finance: Income Instability and Inequality]	Term:	Fall 2009
Section:		Section:	03
Time:	TBA	Place:	TBA
Instructor:	Dr. Jean François Wen		
Office:	SS 418	Telephone.:	220-2478
Office Hours:	MW 14:30 – 15:45	E-mail:	wen@ucalgary.ca

Course Description

This is a self-directed reading course addressing the role of social programs and taxation in reducing income risk and income inequality. The course focuses on empirical work but will also cover some theoretical work on the topic. There will be two written assignments, worth 50 percent each; the first is due by October 15 and the second is due on November 15.

Assignment #1: Literature Review.

- Describe the role of government transfers and progressive taxation in reducing income inequality and income instability.
- Find between 5 to 15 articles on income inequality or income instability that have estimated parameters of interest. For each article write one paragraph describing the main findings. Comment about differences in methodology.
- Study variance decomposition techniques, and transition matrix theory. Prepare a table ordering articles on variance decomposition chronologically. Are there any discernible patterns of changes in the estimation methods or empirical findings over time? How much agreement or disagreements is there amongst the studies concerning the question of interest? .../2

Assignment #2: Empirical Analysis

- Describe the methodology or baseline specification you will estimate. Describe the innovative components of the model: the advantages of using SLID instead of LAD.
- Describe the SLID dataset (who collects, what years, observations, sample design). Describe your defined group of study and counterfactual group if any (pre-tax vs after-tax income, and capital income could play the counterfactual role for our purposes), and present summary statistics. What did you do with missing values for some variables?
- Interpret the estimates and emphasize both the economic and statistical significance.
- Identify three statistical issues requiring you to improve upon the baseline specification (measurement error, endogeneity, autocorrelation, sample selection bias, non-continuous dependent variables, etc.)

Reading List: The following readings, arranged by topic, are suggested to assist with the assignments.

1. *Trends of earnings, earnings inequality and earnings instability.*

a. *Cross sectional analysis*

Cutler, D., and Kats, Lawrence. 'Rising? Changes in the Distribution of Income and Consumption in the 1980s' *American Economic Review*, 82 (1992): 546-61.

Kats, Lawrence, and Murphy, K. 'Changes in the Wage Structure and Earnings Inequality' *Quarterly Journal of Economics*, 107 (1992): 35-78.

Levy, F., and Murnane, R.J. 'U.S. Earnings Levels and Earnings Inequality: a Review of Recent Trends and Proposed Explanations' *Journal of Economic Literature*, 30 (1992): 35-78.

Gottschalk, Peter, 'Inequality, Income Growth, and Mobility: The Basic Facts' *Journal of Economic Perspectives*, 11 num. 2 (1997): 21-40.

b. *Longitudinal Analysis*

Beach, Charles M., Finnie, Ross. 'A Longitudinal Analysis of Earnings Change in Canada', *The Canadian Journal of Economics*, 37 num. 1 (2004): 219-40.

Beach, Charles M., Finnie, Ross, and Gray, David. 'Long-Run Inequality and Annual Instability of Men's and Women's Earnings in Canada', *Analytical Studies Brach Research Paper Series*, 311 (2008).

Gottschalk, Peter, 'Inequality, Income Growth, and Mobility: The Basic Facts' *Journal of Economic Perspectives*, 11 num. 2 (1997): 21-40.

Morissette, Rene, and Ostrovsky, Yuri, 'The Instability of Family Earnings and Family Income in Canada 1986-1991 and 1996-2001' *Canadian Public Policy*, 31, num 3 (2005): 273-302.

2. *Variance Decomposition and alternate methods*

Beaudry, Paul, and Green, David A. 'Cohort Patterns in Canadian Earnings: Assessing the Role of Skill Premia in Inequality Trends', *Canadian Journal of Economics*, 33 (2000) 907-36.

Gottschalk, Peter, Moffitt, Robert, and William T. Dickens, 'The Growth of Earnings Instability in the U.S. Labor Market', *Brookings Papers on Economic Activity*, 2 (1994) 217-72.

Meghir, C. and Pistaferri, L. 'Income Variance Dynamics and Heterogeneity' *Econometrica*, 72 num 1, (2004): 1-32.

Moffitt, Robert A., and Gottschalk, Peter, 'Trends in the Transitory Variance of Earnings in the United States' *The Economic Journal*, 112 (2002): 68-73.

Shorrocks, A. F. 'Income inequality and Income Mobility', *Journal of Economic Theory*, 19 (1978): 376-93.

3. *Persistence of earnings instability*

Gottschalk, Peter; and Moffitt, Robert, 'Welfare Dependence: Concepts, measures, and Trends', *The American Economic Review*, 84 num 2 (1994): 38-42.

Johnston, J. Transition Matrix Techniques in Chapter 10 of *Econometrics Methods*, Third ed, (1984): 396-407.

4. *Theory of the welfare state*

Arjona, R., M. Ladaique, M. Pearson, 'Growth, Inequality and Social Protection', *Canadian Public Policy* 29 (2003): S119-S139. .../4

Eaton, J. and H.S. Rosen, Optimal Redistributive Taxation and Uncertainty, *Quarterly Journal of Economics* (1980) 357—364.

Hacker, Jacob S., Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States, *American Political Science Review* (2004) 98(2): 243—260.

Beveridge, William, *Social Insurance and Allied Services*, 1942 (London: Her Majesty's Stationery Office).

Grade Determination and Final Examination Details:

There will be two assignments, worth 20 percent each and a term paper worth 60 percent. The paper should be approximately 30 pages written in double space.

Grading is a numerical (percentage) basis, then converted to letter grades. The course grade is then calculated using the weights indicated above. As a guide to determining standing, these letter grade equivalences will generally apply:

A+	90-100	B	70-74	C-	56-58
A	85-89	B-	65-69	D+	53-55
A-	80-84	C+	62-64	D	50-52
B+	75-79	C	59-61	F	0-49

A passing grade on any particular component of the course is not required for a student to pass the course as a whole.

Notes:

- Students seeking reappraisal of a piece of graded term work (term paper, essay, etc.) should discuss their work with the Instructor *within fifteen days* of the work being returned to the class.
- It is the student's responsibility to request academic accommodations. If you are a student with a documented disability who may require academic accommodation and have not registered with the Disability Resource Centre, please contact their office at 403-220-8237. Students who have not registered with the Disability Resource Centre are not eligible for formal academic accommodation. You are also required to discuss your needs with your instructor no later than fourteen (14) days after the start of this course.

Safewalk / Campus Security: 403-220-5333

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