

Problem Set VI
Econ 350, Winter 2021
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1. Using the NLSY data posted for Problem Set I, determine the appropriate characterization of the panel error process for male earnings over the period 1980-2015.
 - (a) Specifically replicate the analysis of Hryshko (2012) to determine the appropriate panel characterization (RIP vs HIP) of the error process. For what purpose does it matter? (Discuss in terms of agent welfare.)
 - (b) How much of the variance in log earnings is due to unanticipated shocks?
 - (c) Discuss how to test for agent information sets. For what does this matter?
2. Read Moffitt and Zhang (2018) on trends in permanent and transitory income. Using your welfare analysis for Problem 1 above, has welfare decreased because of greater income uncertainty?
3. What is the value of human wealth (human capital) in the U.S. and how much does it contribute to inequality in wealth of all forms? What are the trends in the past 30 years? (Hint: See Huggett and Kaplan, 2016 and Abbott and Gallipoli, 2019.) How can one estimate human wealth? Is human wealth fungible?

4. Read the three papers by Chetty and his coauthors (Chetty and Hendren, 2018a,b; Chetty et al., 2020). Evaluate their identification strategies used to establish neighborhood exposure as a determinant of child lifetime outcomes.

References

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- Chetty, R. and N. Hendren (2018a, 02). The Impacts of Neighborhoods on Intergenerational Mobility I: Childhood Exposure Effects*. *The Quarterly Journal of Economics* 133(3), 1107–1162.
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- Chetty, R., N. Hendren, M. R. Jones, and S. Porter (2020). Race and economic opportunity in the united states: An intergenerational perspective. *Quarterly Journal of Economics* 135(2), 711–783.
- Hryshko, D. (2012). Labor income profiles are not heterogeneous: Evidence from income growth rates. *Quantitative Economics* 3(2), 177–209.
- Huggett, M. and G. Kaplan (2016). How large is the stock component of human capital? *Review of Economic Dynamics* 22, 21–51.
- Moffitt, R. and S. Zhang (2018). Income volatility and the PSID: Past research and new results. In *AEA Papers and Proceedings*, Volume 108, pp. 277–80.