

**Final Exam**  
Econ 350, Spring 2022  
James J. Heckman  
Due June 4, 2022, by 11:59 PM

*The exam is open book. It must be written singly by each test taker. The exam is available May 31st, and it is due June 4th by 11:59 PM. Be concise. All exams should fall within a 30-page limit with standard spacing 8.5×11, 12-point font. Excess verbiage and regurgitation will be penalized. Creative dissent with the literature is strongly encouraged. Students should synthesize, dissect, and discuss the literature relevant to the questions below, rather than simply summarizing the papers.*

1. Provide a concise analysis of the state of knowledge of the literature that claims that “zip code is destiny.” What is the role in the Chetty and Hendren analyses of family choice of neighborhood? What is the evidence on choice? Present all relevant empirical evidence. To what extent does neighborhood sorting (sometimes called segregation) explain inequality, the rise in inequality, and the evidence on social mobility? How do school quality, local neighborhood finance, and peer effects matters in this discussion? How relevant are these issues?
2. Answer the following questions:
  - (a) How does dynamic complementarity affect the formation of child skills and what does it mean for optimal investment patterns?
  - (b) To what extent can personality and cognition be shaped by family, neighborhoods, schools, and social interventions?
  - (c) What is the evidence on the genetic basis for personality? For cognition?
  - (d) How reliable (predictive) are alternative ways to measure personality and cognition? Discuss the role of person vs. situation in measuring personality?
3. What are the roles of automation, robotics, and monopsony in explaining the evolution of inequality and in explaining wage differentials?
4. What is the evidence on the growth of individual and family inequality in income, wages, and welfare in the U.S.?

- (a) How reliable are IRS and Social Security data for addressing these questions? In particular, discuss the work of Saez, Piketty, and Zucman and the work of Burkhauser, Corinth, Elwell, and Meyer.
  - (b) Summarize evidence on the sources of the rise of inequality among individuals and families.
  - (c) Which explanations do you find the most plausible and why?
  - (d) What is the true U.S. poverty rate? What is the proper measure of poverty?
5. Conventional measures of rates of return to education suggest that many American youth are not realizing their potential in terms of labor market earnings.
- (a) What is the rate of return to education? (Distinguish *ex ante* from *ex post* measures and modern improvements over the “Mincer” coefficients.) How comparable are the estimates for the different measures?
  - (b) How important are
    - i. Psychic costs (define);
    - ii. Credit constraints;
    - iii. Lack of information;
    - iv. Personality and cognition;
 in explaining the lack of take up of educational opportunities? Be quantitatively precise.
6. Many papers that compare gender and racial wage differentials compare wages at the same quantiles of the wage distributions of the groups being compared. Discuss the validity of this practice in terms of the material discussed in class on heterogeneous skills and comparative advantage. Use the framework of the Generalized Roy model. How do the papers of Mulligan and Rubinstein (2008) and Maasoumi and Wang (2019) shed light on the validity of quantile comparisons?

## References

- Maasoumi, E. and L. Wang (2019). The gender gap between earnings distributions. *Journal of Political Economy* 127(5), 2438–2504.
- Mulligan, C. B. and Y. Rubinstein (2008). Selection, investment, and women's relative wages over time. *Quarterly Journal of Economics* 123(3), 1061–1110.