Overview and Plan of the Course

James J. Heckman
University of Chicago

Econ 350, Winter 2023

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- **Instructor:** James J. Heckman
- **Lectures:** Tuesdays and Thursdays, 5:00pm – 6:20pm
- **Classroom:** Saieh Hall 141
- **Teaching Assistants:**
  - Huge Lopez Lopez (hugolopez@uchicago.edu)
  - Philip Monagan (pmonogan@uchicago.edu)
- **TA Session:** Friday, 3:30pm – 4:20pm (room TBA)

*Occasionally, the instructor may use a TA session to supplement or make up a class.

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Human Capital, Markets, and the Family

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Course Description

- This course examines the theory and evidence about inequality and social mobility (within and across generations). We focus on skills, how they are produced, their pricing, and their supply to the market.

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Figure 1: Larrimore (2014): Estimated Average Annual Percentage Change in the Size-Adjusted Household Income Gini Coefficient Attributable to Factor Components by Business Cycle

	1979–89	1989–00	2000–07	1979–07
(1) Actual Gini average annual percentage change	0.97	0.08	0.10	0.40
Average annual percentage change accounted for by:				
(2) Marriage rates	0.13	0.05	0.10	0.09
(3) Male head employment	0.03	–0.02	0.05	0.02
(4) Male head earnings distribution	0.65	0.36	–0.35	0.29
(5) Female head employment	–0.15	–0.16	0.08	–0.10
(6) Female head earnings distribution	0.09	0.01	0.17	0.08
(7) Spouses' earnings correlation	0.14	0.02	–0.05	0.04
(8) Non-head labor earnings distribution	–0.01	–0.10	–0.02	–0.05
(9) Non-head labor earnings correlation	0.03	–0.03	–0.02	0.00
(10) Private non-labor income distribution	–0.09	0.04	0.08	0.00
(11) Private non-labor income correlation	0.08	–0.01	–0.01	0.02
(12) Public transfers distribution	0.01	–0.06	0.02	–0.02
(13) Public transfers correlation	0.06	–0.01	0.03	0.02

Notes: References to male and female head employment and earning refer to those of both the household head and his or her spouse. Due to changes in the March CPS data collection procedures between 1992 and 1993 that limit comparability between those years, inequality changes from 1992 to 1993 are suppressed using the procedure from Atkinson et al. (2011) and described in the main text.

Will Consider the Following Topics:

I. Measures (wealth, income, earnings, health, employment and labor supply)
   a. The claims, the evidence and the quality of evidence
   b. Units of measurement (persons, households, extended families?)
   c. Transfers, welfare dependence, social transfer programs, and the growth of the welfare state

II. Roles of:
   a. Abilities, skills, and prices; skill prices vs. rates of return
   b. Credit market constraints: Lending and borrowing

Will Consider the Following Topics:

III. Income Dynamics within the Lifecycle
   a. Income
   b. Labor supply

IV. Life Cycle Skill and Preference Formation
   a. Parenting and production of traits, skills, and capacities
   b. Traditional human capital models (OJT; schooling)
   c. Learning by doing

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Will Consider the Following Topics:

V. Tasks and Skills
   a. Definition of tasks and relationship with skills
   b. Hedonic models, sorting, and endogenous tasks

VI. Labor supply, incentives, and public policy
   a. Growth of the welfare state
   b. Disincentive to work

VII. Families
   a. Household models
   b. Marriage markets
   c. Fertility

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Will Consider the Following Topics:

VIII. Markets and Technology

a. Monopsony and monopoly: impacts and inequality
b. Technology: AI, innovation, robots, and skill-biased technical change

IX. Neighborhood and Peer Effects: Is zip code destiny? Does geography matter for life outcomes? Sorting, peer effects, and neighborhoods

Important Background:
The Roy Model and the Generalized Roy Model

- The Roy Model and its generalization are basic tools of applied economics and econometrics. I will draw on your knowledge of it in this course. Economics 312 and other courses teach this model. It helps you interpret the statistical estimates reported in many applied papers estimate in terms of well-posed economic models instead of ill-defined "effects."

Grading and Course Participation

This is a seminar-style course based on weekly student participation by all students (including auditors) guided by faculty lectures and TA review sessions. For each topic, we will select a few leading papers to be discussed by the entire class. Choice of topics and papers will be influenced by student preferences. Different students will be designated to lead discussions and the quality of the discussion figures into their grades. In addition, each week all students(including auditors) will be asked to assess the papers discussed in a concise, 2-3 page summary. Student engagement in the weekly reports will receive credit. In addition, there will be some homework exercises to cement understanding of the material. This may entail some empirical work applying the methods learned. There will be a take-home final synthesizing class material. Grades are determined as follows:
Weekly reports and classroom participation: 30%
Homework: 20%
Final exam: 50%

Bonus credit will be given for active, informed participation, high-quality dissent, and insightful final exams.

Lecture Notes

- Lecture notes for each week will be posted on the Canvas site in advance of each lecture on the website. The handouts distill and complement the readings.

Supplemental Reading List

- The Some Suggested Reading list contains paper of interest for this course. Background material on methodology and additional readings on each topic are available on the Supplemental Reading List which gives students detailed information on frontier papers.

Required Reading

- Before class meets, read Gramm, Phil, Robert Ekelund, and John F. Early. (2022). *The Myth of American Inequality: How Government Biases Policy Debate.* New York, NY: Rowman and Littlefield.

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Week by Week General Topics

1. Inequality and social mobility: Surprising Facts and Measures That Challenge Conventional Claims
2. Skills, Schools, and Learning-by-Doing
3. Preferences: Preference and Habit Formation
4. Tasks, Occupations, and Skills
5. Labor Supply and Work Incentives
6. Income Dynamics
7. Family Influence: Marriage, Genes, Parenting, and Credit Constraints
8. Family Influence
9. Neighborhood and Peer Effects
10. Monopoly and Monopsony as Sources of Inequality
11. Impacts of Public Policies

Reports by Week

- Week 1 – January 3, 2023: Inequality and Social Mobility: Some Surprising Facts and Basic Measures That Challenge Conventional Claims
  - Bruce Meyer and Thomas Coleman will participate in the first week. Please consult their suggested readings on the Guest Lectures page.