

Topics in Applied Economics II: Economics of Inequality and Redistribution

2017-2018 Academic Year
Master of Research in Economics, Finance and Management

1. Description of the subject

- Topics in Applied Economics II
 - Total credits: 3 ECTS
 - Type of subject: Optative
 - Department of Economics and Business
 - Teaching team: R. Enikolopov / M. Petrova
- Code: 32087
Workload: 75 hours
Term: 2nd

2. Teaching guide

• Introduction

In recent years, there has been a growth of papers using applied empirical methods in political economy and related fields. The purpose of this course is to introduce basic concepts from the literature in political economy of inequality and redistribution. The main focus will be on the study of research approaches used in recent top papers in the area. This class is designed for students interested in doing research in political economy, public economics, and related fields.

The class is focused on the topics of inequality and different redistributive and social policies. This section will overview general aspects of redistribution, such as social insurance, redistribution and divided societies, preferences for redistribution, intergenerational mobility, as well as particular types of redistributive policies, such as labor protection and pensions.

The course will mostly focus on empirical research, though some theoretical models will be included as well.

This is PhD level class.

All MRes students are allowed to take this class. For Master in Economics students, we ask for concurrent enrollment in Econometric Methods II.

• Contents

Inequality and Redistribution: basic facts

- **Peter Gottschalk, "Inequality, Income Growth, Mobility: The Basic Facts," *Journal of Economic Perspectives*, 1997, 11 (2), 21-40.
- **X. Sala-i-Martin, "The World Distribution of Income: Falling Poverty and ... Convergence, Period," *Quarterly Journal of Economics*, Vol. 121(2), May 2006 pp. 351-97.
- Alesina and Glaeser, *Fighting Poverty*, ch. 1, 2.
- B. Atkinson, "Income Inequality in OECD Countries: Data and Explanations," *CESifo Economic Studies* 49:4 2003
- Bommier, Antoine, Ronald Lee and Timothy Miller, Stephane Zuber (2004) "Who Wins and Who Loses? Public transfer accounts for US generations born 1850-2090," National Bureau of Economic Research Working Paper No. 10969, December 2004
- F. Bourguignon and C. Morrison, "The Size Distribution of Income among World Citizens", *American Economic Review*, Sept. 2002
- Garfinkel, L. Rainwater, and T. Smeeding, "A Re-examination of Welfare States and Inequality in Rich Nations: How In Kind Transfers and Indirect Taxes Change the Story," *Journal of Policy Analysis and Management*, 25(4), 897-919.
- Atkinson, T., T., Piketty, and E. Saez "Top Incomes in the Long Run of History," *Journal of Economic Literature*, 2011, 49(1): 3-71
- Piketty, T., G., Postel-Vinay, and J.-L. Rosenthal "Wealth Concentration in a Developing Economy: Paris and France, 1807-1994," *American Economic Review*, 96(1), 2006

- Pinkovskiy, Maxim, and Xavier Sala-i-Martin. *Parametric estimations of the world distribution of income*. No. w15433. National Bureau of Economic Research, 2009.
- Maximilian Kasy (2014) "Who wins, who loses? Tools for distributional policy evaluation," Working paper

Some Relevant Models

- **Allan H. Meltzer and Scott F. Richard, "A Rational Theory of the Size of Government." *Journal of Political Economy* 89 (1981), 914-27.
- R. Boadway and M. Keen, "Redistribution", Parts 1-3 of Ch. 12 in Atkinson and Bourguignon(eds.), *Handbook of Income Distribution* Vol. 1.
- D. Austen-Smith, "Redistributing Income under Proportional Representation," *Journal of Political Economy* 108(6), 2000 pp. 1235-69.
- M. Petrova "Inequality and Media Capture", *Journal of Public Economics*, February 2008, 92 (1-2), pp. 183-212
- Agranov, M. and T. Palfrey (2013) "Equilibrium Tax Rates and Income Redistribution: A Laboratory Study," Working paper.

Preferences for Redistribution

- **Alesina, A., and N. Fuchs-Schuendeln "Good Bye Lenin (or not?) - The Effect of Communism on People's Preferences," *American Economic Review*, September 2007 (97), 1507-1528
- **Benabou, Roland, and Efe Ok. 2001. "Social Mobility and the Demand for Redistribution: The POUM Hypothesis." *Quarterly Journal of Economics* 116 (2), 447-487
- Alesina, A, G. Cozzi and N. Mantovan (2012) "The Evolution of Ideology, Fairness and Redistribution" *Economic Journal* 122: 1244-1261.
- Alberto Alesina and Paola Giuliano (2010) "Preferences for Redistribution," in A. Bisin and J. Benhabib (eds.) *Handbook of Social Economics*, North Holland.
- Durante, Ruben, and Louis Putterman. (forthcoming) "Preferences for redistribution and perception of fairness: An experimental study." *Journal of European Economic Association*
- Epple, Dennis and Thomas Romer. 1991. "Mobility and Redistribution." *Journal of Political Economy* 99 (4), 828-858.
- Alesina, Alberto, and George-Marios Angeletos "Fairness and Redistribution: US vs. Europe," *American Economic Review*, September 2005 (95), 913-35
- Benabou, Roland and Jean Tirole. 2006. "Belief in a Just World and Redistributive Politics." *Quarterly Journal of Economics* 121 (2), 699-745.
- Scheve, Kenneth and David Stasavage. 2006. Religion and Preferences for Social Insurance. *Quarterly Journal of Political Science* 1 (3), 255-286.
- Kuziemko, Ilyana, Michael Norton, Emmanuel Saez, and Stefanie Stantcheva (forthcoming) "How Elastic Are Preferences For Redistribution: Evidence From Randomized Survey Experiments," *American Economic Review*.

Intergenerational Mobility

- Raj Chetty, Nathaniel Hendren, Patrick Kline, Emmanuel Saez, and Nick Turner (2014) Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility, *American Economic Review Papers and Proceedings* 104(5): 141-147.
- Raj Chetty, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez (2014) Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States, *Quarterly Journal of Economics* 129(4): 1553-1623, 2014
- Raj Chetty, Nathaniel Hendren (2015) The Effects of Neighborhoods on Intergenerational Mobility: Childhood Exposure Effects and County Level Estimates, working paper

- Raj Chetty, Nathaniel Hendren, and Lawrence Katz (2015) The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment, forthcoming in *American Economic Review*
- Miles Corak (2013) "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," *The Journal of Economic Perspectives*, 27 (3): 79-102

Redistribution in Divided Societies

- ** Miguel, Edward and Mary Gugerty (2005): "Ethnic Divisions, Social Sanctions, and Public Goods in Kenya" *Journal of Public Economics*, 2005, 89(11-12), 2325-2368
- ** Alexander, Marc and Fotini Christia (2011): "Context Modularity of Human Altruism" *Science* 334, 1392-1394
- John Roemer, "Why the poor do not expropriate the rich: an old argument in new garb," *Journal of Public Economics*, 1998 (70), 399-424.
- Alesina, A., Bakir, R., Easterly, W., 2000. Redistributive public employment. *Journal of Urban Economics* (48), 219-241.
- Alesina and Glaeser, *Fighting Poverty*, ch. 6.
- Patacchini, Eleonora, Thierry Verdier, and Yves Zenou. 'Bend It Like Beckham': *Identity, Socialization and Assimilation*. Centre for Economic Policy Research, 2006.
- Kenneth Scheve and David Stasavage, "Religion and Preferences for Social Insurance" *Quarterly Journal of Political Science* 1(3), 255-286.
- Moses Shayo, "A Model of Social Identity with an Application to Political Economy: Nation, Class, and Redistribution." *American Political Science Review* 103 (2), 147-174.
- Erzo F.P. Luttmer and Monica Singhal, "Culture, Context, and the Taste for Redistribution" *American Economic Journal: Economic Policy* 3 (February 2011): 157-179.
- Noam Lupu and Jonas Pontusson. "The Structure of Inequality and the Politics of Redistribution." *American Political Science Review* 105, no. 2 (May 2011): 1-21.

Redistribution as Social Insurance

- ** Moene, Karl Ove and Michael Wallerstein, "Inequality, Social Insurance and Redistribution." *American Political Science Review* 95 (4) (2001), 859-874.
- ** Torben Iversen and David Soskice, "An Asset Theory of Social Policy Preferences." *American Political Science Review*, 95 (December 2001), 875-893.
- Dan Rodrik and T. van Ypersele. "Capital mobility, distributive conflict and international tax coordination." *Journal of International Economics* 54 (1), 57-73 (2001).

Inequality and growth

- ** Perotti, Roberto (1996) 'Growth, income distribution and democracy.' *Journal of Economic Growth* 1, 149-187
- ** Benabou, Roland (2000) 'Unequal societies: Income distribution and the social contract.' *American Economic Review* 90(1), 96-129
- Barro, Robert J. (2000) 'Inequality and growth in a panel of countries.' *Journal of Economic Growth* 5(1), 5-32
- Banerjee A.V. Duflo E. "Inequality and growth: what can the data say?" *Journal of Economic Growth*, Volume 8, Number 3, September 2003, pp. 267-299(33)
- Van der Ploeg, Frederick, "Do Social Policies Harm Employment and Growth?" (March 2003). CESifo Working Paper Series No. 886.
- Rodrik, Dani The Social Cost of Foreign Exchange Reserves, December 2005. Forthcoming in the *International Economic Journal*.

On the origins of inequality

- Branko Milanovic, Peter H. Lindert, and Jeffrey G. Williamson (2010) "Pre-Industrial Inequality," *Economic Journal*, 121, 255-272

- Putterman, L., and D.N. Weil (2010) "Post-1500 Population Flows and The Long-Run Determinants of Economic Growth and Inequality," *Quarterly Journal of Economics*, 125 (4): 1627-1682.
- **Monique Borgerhoff Mulder, Samuel Bowles, Tom Hertz, Adrian Bell, Jan Beise, Greg Clark, Ila Fazzio, Michael Gurven, Kim Hill, Paul L. Hooper, William Irons, Hillard Kaplan, Donna Leonetti, Bobbi Low, Frank Marlowe, Richard McElreath, Suresh Naidu, David Nolin, Patrizio Piraino, Rob Quinlan, Eric Schniter, Rebecca Sear, Mary Shenk, Eric Alden Smith, Christopher von Rueden, and Polly Wiessner (2009) "Intergenerational Wealth Transmission and the Dynamics of Inequality in Small-Scale Societies," *Science*, 326 (5953), 682-688
- **Daron Acemoglu and James Robinson (2009) "Foundations of Societal Inequality," *Science*, 326 (5953), 678-679.
- Boix, Carles (2010) "Origins and Persistence of Economic Inequality," *Annual Review of Political Science*
- Carles, and Frances Rosenbluth (2014) "Bones of Contention: The Political Economy of Height Inequality," forthcoming in *American Political Science Review*

Inequality and wealth bias in policy making

- Daron Acemoglu and James A. Robinson (2000) "Why Did the West Extend the Franchise? Democracy, Inequality, and Growth in Historical Perspective," *Quarterly Journal of Economics*, Vol. 115, No. 4 (Nov., 2000) , pp. 1167-1199
- Daron Acemoglu & James A. Robinson (2001)"A Theory of Political Transitions," *American Economic Review*, vol. 91(4), pages 938-963
- Acemoglu, Daron and James Robinson (2012): *Why Nations Fail*, Crown Business
- Engerman, Stanley L. and Kenneth L. Sokoloff. 1997. "Factor Endowments, Institutions, and Differential Paths of Growth Among New World Economies: A View from Economic Historians of the United States." In Stephen Haber, ed., *How Latin America Fell Behind*. Stanford.
- Boix, Carles (2003) *Democracy and Redistribution*. 2003. New York: Cambridge University Press.
- Grossman, G., and Helpman, E. (2001) *Special Interest Politics*, MIT Press
- Petrova, Maria (2008) "Inequality and Media Capture," *Journal of Public Economics*, February 2008, 92 (1-2) , pp. 183-212
- Campante, Filipe (2011) "Redistribution in a Model of Voting and Campaign Contributions," *Journal of Public Economics* 95 (7-8): 646-656
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- Glaeser, E., Scheinkman, J., Shleifer, A., 2003. The injustice of inequality. *Journal of Monetary Economics* 50 (1), 199-222.
- You, J.-S., Khagram, S., 2005. A comparative study of inequality and corruption. *American Sociological Review* 70 (1), 136-157.
- Bartels, L., 2005. Homer gets a tax cut: inequality and public policy in the American mind. *Perspectives on Politics* 3:1, 15-31.

Labor market stratification and performance

- **Barry Eichengreen, "Institutions and Economic Growth: Europe after World War II" in Nicholas Crafts and Gianni Toniolo (eds.), *Economic Growth in Europe since 1945*. Cambridge: Cambridge University Press, 1997.
- Michael Wallerstein, "Wage-Setting Institutions and Pay Inequality in Advanced Industrial Societies." *American Journal of Political Science* 43 (3) (July 1999), 649-680
- Alberto Alesina, Edward Glaeser and Bruce Sacerdote, "Work and Leisure in the U.S. and Europe: Why so Different?. Harvard Institute of Economic Research Discussion Paper No. 2068.

- Oliver Blanchard, "The Economic Future of Europe," *Journal of Economic Perspectives* 18,4 (Fall 2004), 3-26.

• **Teaching methodology**

Approach and general organization of the subject

The course will be based on the discussion of the relevant research papers. There will be two weekly lectures and no seminars, but the student will be required to spend substantial amount of time reading the required papers outside the classroom.

• **Assessment**

Assessment system

The grade will be a combination of active class participation and attendance, weekly referee reports, and the final short research paper.

Grading system

The weight in the final grade:

- referee reports – 45%
- class participation – 5%
- research paper – 50%

3. Programme of activities

- 🕒 Description of the subject: Topics in Applied Economics III
- 🕒 Total credits: 3 ECTS Total number of hours: 20
- 🕒 Estimated time spent on the subject: 60
 - In the classroom: 20
 - Outside the classroom: 40

Weekly timetable of learning and assessment activities

Week (dates)	Work in the classroom (plenary, seminar, practical, etc.)	Estimated time	Activities outside the classroom (time studying, preparing activities, etc.)	Estimated time
1st week				
2nd week				
3rd week				
4th week				
5th week				
6th week	Basic facts, measures of inequality	2		
	Basic models	2		
7th week	Inequality and information	2	Referee report	5
	Redistribution in Divided Societies	2	Brainstorming topics	1
8th week	Origin of Inequality	2	Referee report	5
	Intergenerational Mobility	2	Brainstorming topics	1
9th week	Role of Beliefs, Luck, Religion	2	Referee report	5
	Skill specificity. Inequality and democracy	2	Preliminary research for term paper	3
10th week	Non-income inequality	2	Referee report	5
	Student presentations	2	Preparing presentation	5
Exam Period			Writing term paper	10
Total hours		20		40