

REVIEW SHEET FOR EC325

The first midterm will cover material through the lecture of October 4 and the accompanying readings through labor market policies. Note that we are about one lecture behind schedule. I have not yet written the exam and therefore cannot tell you the format. I expect that it will consist of a mixture of short essays and one paragraph answers.

The following is a guide to the sorts of things you should think about. **IT IS NOT EXHAUSTIVE.**

1. What is the distinction between a natural experiment and a randomized trial?
2. What is the difference between correlation and causality? If two events tend to occur together or sequentially, must one of them cause the other?
3. Explain what is meant by the Pareto principle. What are the limitations of this principle as a guide to policy.
4. A friend tells you that you should never be a patient in a teaching hospital because the death rate among patients in teaching hospitals is higher than in other hospitals. How do you respond?
5. Suppose that, relative to policy analysts who oppose more funding for job training programs, policy analysts who support more funding for job training programs, on average, believe that job training programs generate a larger increase in employment. Does this mean that policy analysts' beliefs are biased by their values?
6. Suppose that, policy analysts who support and who oppose more funding for Head Start, on average, have similar beliefs about the effectiveness of the program. Does this mean that policy analysts' views about policy are not influenced by their beliefs about the scientific evidence?
7. On average, students who are retained in grade continue (after being retained in grade) to make less academic progress than those who are not retained in grade. Does this mean that retention in grade is a bad policy?
8. If you were attempting to study the effect of retention in grade on student performance, what group or groups might you use to compare with students who are retained in grade?
9. The World Bank defines people as being poor if their incomes are less than \$2/day. Does this mean that the United States has almost entirely eliminated poverty?
10. What evidence is there that people adjust their perceptions of what constitutes poverty in response to changes in overall standards of living?
11. For each of the following, explain whether they are poor under the official U.S. definition.
 - A homeless schizophrenic man who has \$500,000 in a bank account but lives off the money he gets from returning deposit bottles that he finds.
 - A young woman who lives with her wealthy aunt in a beautiful home. She receives free room and board. She and her aunt enjoy each other's company. She accompanies her aunt to various social events such as the theater, and she happily helps her aunt by doing various chores around the house (shopping, some light cleaning). When she needs money her aunt gives it to her. In a typical year, her aunt gives her \$3000.
 - A similar young woman but who is not related to the owner of the house.
 - A graduate student couple that lives on a total of \$11,000. They share a room in a group apartment. The couple pays \$200/month for the room (obviously this is not Boston).

- That same couple if they spend more than 1/3 of their income on food.
- That same couple if they spend less than 1/3 of their income on food.
- An eighty-year-old widow who has lived for sixty years in a house that is now worth \$500,000. Her total income is barely adequate to pay the taxes on the house. She survives by keeping the house heated to 60 degrees in the winter, by skipping meals or eating at the local soup kitchen. There are no inexpensive houses in her neighborhood which is the only place where she has a network of friends and feels comfortable.

12. A group living in the United States in 2005 consisted of 15 households with no elderly members. There were five single individuals living separately from each other. Their incomes were \$8,000, \$8,500, \$9,000, \$10,000 and \$11,000, respectively. There were five married-couple households with incomes of \$10,000, \$11,000, \$12,000, \$13,000 and \$14,000, respectively. And there were five two-parent/two-children households with incomes of \$10,000, \$15,000, \$20,000, \$25,000 and \$30,000, respectively. What percentage of these households were poor? What was the poverty rate among this group? *[Note: To answer this question, you will need to refer to the table with the poverty thresholds that I handed out in class. You can also access the table at <http://www.census.gov/hhes/www/poverty/threshld/thresh06.html> You do not need to memorize this table, but you should have a rough sense of the numbers, e.g. the poverty threshold for a single individual is around \$10,000, for a family of four is around \$20,000 depending on household composition and that the thresholds for other households will be consistent with these numbers.]*

13. Describe the principal criticisms of the official definition of poverty? For each explain whether correcting it would lower or raise the official poverty estimate.

14. A family receives \$100 per month in food stamps. It spends \$150 per month on food that can be purchased with food stamps. How much are the food stamps worth relative to cash for the family?

15. A different family also receives \$100 per month in food stamps but only spends \$100 per month on food that can be purchased with food stamps. There is an active market in which food stamps can be sold (without fear of legal or social sanctions) at 80 cents per dollar of food stamps. What can we say about the value of the food stamps to the family?

16. Which sociodemographic groups (e.g. age groups, race/ethnic groups) have the highest poverty rates? Which are a majority of the poor? Do these answers differ for people in extreme poverty?

17. Most poverty spells are short but most of the poor are in long poverty spells. How can we reconcile these two facts?

18. Suppose we look at the distribution of years spent in poverty over a period of ten years. Explain why this underestimates the frequency of long-term poverty.

19. We observe that people who have been poor for two years are more likely to be poor the following year than are people who have been poor for only one year. Explain the two broad categories of explanations that can account for this fact.

20. How would our assessment of the prevalence of poverty be likely to differ if, instead of the official definition, we relied on measures of inadequacy of consumption such as homelessness and hunger?

21. Describe the major trends in federal spending on anti-poverty programs over the last thirty-four years. Which programs have grown and which have declined? How would these changes be expected to affect the official poverty rate? Which programs are most targeted to the poor?

22. What are the economic arguments for preferring cash transfers rather than in-kind transfers to the poor? What are the economic arguments for in-kind transfers?

23. How did AFDC affect incentives to work (legally)?

24. Why might mothers who were eligible for AFDC have lower levels of consumption if they worked than if they did not work?

25. It is generally accepted that high implicit tax rates in cash transfer programs such as AFDC discourage work. What are the tradeoffs between high implicit tax rates and other aspects of cash transfer programs?

26. Describe schematically how the earned-income-tax credit affects the budget constraint. Explain how it affects work incentives at different points along the budget line.

27. Evaluate each of the following strategies for measuring the effect of the EITC expansion for families with two children.

a. Compare, using data for 1998, the labor force participation of households with two children with the labor force participation of households with only one child.

b. Examine the growth between 1993 and 1998 in the labor force participation of households with two children.

c. Compare the change between 1993 and 1998 in labor force participation of households with two children relative to households with one child.

28. Why might the efficiency loss associated with in-kind transfers be higher or lower than the efficiency loss associated with cash transfers?

29. For each of the following, describe the broad trends in poverty rates over the last several decades and explain the causes of those trends.

- The overall poverty rate
- The elderly
- Female-headed families
- Blacks
- Children
- Families

30. Why does Freeman believe that a "rising tide" cannot eliminate a substantial fraction of existing poverty? Are there arguments against this view?

31. Why did the official poverty rate fail to decline after 1973 even though GDP per capita grew rapidly?

32. What might median earnings of men be more closely related to the poverty rate than GDP per capita is?

33. Why was the poverty rate two percentage points higher in 1994 than in 1971 even though median earnings of men were almost identical in the two years?

34. Why might a change in the way government makes transfers to the poor change the poverty rate even if it does not change the amount of money that it transfers?

35. Did the rise in the fraction of households that are female-headed contribute significantly to the failure of the poverty rate to decline significantly since the early to mid-1970s?

36. What is meant by assortative mating? How might changes in assortative mating affect the poverty rate?

37. The labor force participation of married women increased dramatically between 1960 and 1990. How did this affect the poverty rate?

38. Describe how shifts in supply and demand and institutional factors can affect inequality in the labor market.

39. What are the major demand factors that may have increased wage inequality over the last thirty years?
40. How have changes in the supply of different types of labor affected wage inequality over the last thirty years?
41. How have institutional factors affected inequality over the last thirty years?
42. How does raising the minimum wage affect the poverty rate? Give both a theoretical explanation and describe any empirical findings.
43. How do living wage laws differ from minimum wage laws? How do they affect the poverty rate?
44. Government training programs target close to 3 million people per year. Given all that spending, if government knew anything about training, the only poor adults left would be those unable or unwilling to work. Discuss.
45. Describe the principal findings of the JTPA evaluation study.
46. When evaluating job training programs, what are the problems that arise if we compare people who entered training programs with those who did not? What are the problems with comparing people before they entered the program with their performance after they complete it?
47. Why might the social and private benefits of job training programs differ?
48. Describe the principal findings of the Job Corps evaluation study based on survey data for the first four years.
49. How did the results from administrative records and survey data differ in the Job Corps evaluation study? How did the results of the ten year follow-up differ from the results of the first four years?
50. Describe the principal findings of the JOBSTART evaluation study.
51. Describe the principle findings of the evaluation of the Center for Employment Training? Why do these results suggest that we should be cautious about applying the results of such studies?
52. Suppose that a job training program costs more than the (appropriately discounted) amount by which it increases worker earnings over their lifetimes. Why might it nevertheless be better to give training than to give cash transfers?
53. What is meant by "work first?" What are the arguments for and against work first rather than skill-based training programs? What light does the National Evaluation of Welfare to Work Strategies throw on these arguments?
54. What has been the U.S. experience with employment tax credits for low-skill workers?

In addition, you should be able to read a table, explain what the coefficients mean and know whether the parameters are statistically significant.