REVIEW SHEET FOR EC325

The first midterm will cover material from the lectures and the accompanying readings through accounting for trends in poverty. 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 similar to last year’s exam.

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? *[Things to think about: causality; other effects of the policy such as an effect on student effort; should we compare students at the same age or same grade?]*

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. Explain how “discontinuities” can help us identify causal effects.

10. What are some of the limitations of the discontinuity approach?

11. Explain how differences-in-differences can help us identify causal effects.

12. What are some of the limitations of the differences-in-differences approach?

13. Make sure you understand the graphics from the Chicago retention in grade study.

14. 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?

15. What evidence is there that people adjust their perceptions of what constitutes poverty in response to changes in overall standards of living?
16. I have suggested that someone is poor if he or she lacks adequate financial resources for food, clothing, shelter and medical care and to participate in the society. What are the principal criticisms of this definition?

17. Describe the principal criticisms of the official definition of poverty? For each explain whether correcting it would lower or raise the official poverty estimate. [Hint: You will probably want to look at the reading by Blank.]

18. What are the principal differences between the Supplemental Poverty Measure (SPM) and the official poverty measure? Why might poverty as measured by the SPM have a tendency to fall in recessions?

19. 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 women but who is not related to the owner of the house.

• A graduate student couple that lives on a total of $13,500. They share a room in a group apartment. The couple pays $400/month for the room.

• 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.

• That same couple if they also receive tax credits of $2,500

• 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.

20. A group living in the United States in 2011 consisted of 15 households with no elderly members. There were five single individuals living separately from each other. Their incomes were $10,000, $10,500, $11,000, $11,500 and $13,000, respectively. There were five married-couple households with incomes of $12,000, $13,000, $14,000, $15,000 and $16,000, respectively. And there were five two-parent/two-children households with incomes of $14,000, $19,000, $24,000, $29,000 and $34,000, 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/data/threshld/index.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 $11,500, for a family of four is around $23,000 depending on household composition and that the thresholds for other households will be consistent with these numbers. Any question I ask on the exam should be answerable without exact knowledge of the thresholds.]

21. 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?
22. A different family receives $120 per month in food stamps but in the absence of food stamps only spent $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?

23. Which socio-demographic 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?

24. Does the SPM do a better or worse job of identifying the poor than the official rate does?

25. Why might you measure poverty by consumption rather than by income even if you believe that poverty should be defined in terms of “financial resources” rather than consumption?

26. Meyer and Sullivan show that when poverty is measured using a consumption-based measure a lower percentage of the poor own cars and their homes than when poverty is measured using income. Why is this not surprising?

27. How does the government measure homelessness? chronic homelessness? Roughly how many people were homeless in (January) 2011 by this definition? chronically homeless in 2011?

28. What is the distinction between point-in-time (PIT) and prevalence estimates of homelessness? What does a comparison of the number of people in shelters at a point-in-time and the prevalence of sheltered homelessness suggest about the duration of sheltered homelessness? Why might this be misleading?

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

30. 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.

31. 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.

32. 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?

33. Describe the major trends in federal spending on anti-poverty programs over the last thirty-fourty 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?

34. 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?

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

36. How does SNAP (Food Stamps) affect incentives to work?

37. How does providing low quality housing for free affect the demand for housing?

38. Why might mothers who were eligible for AFDC have lower levels of consumption if they worked than if they did not work?
39. 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?

40. 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.

41. 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.

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

43. 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

[See the reading by Hoynes, Page and Stevens.]

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

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

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

47. 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?

48. 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?

49. 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?

50. What is meant by assortative mating? How might changes in assortative mating affect the poverty rate?
51. The labor force participation of married women increased dramatically between 1960 and 1990. How did this affect the poverty rate?

52. A researcher reports that in the land of Welfaria, for the years 1950-2006, a regression of the poverty rate (the dependent variable) on welfare spending (the independent variable, measured in millions of dollars) gives a coefficient of .25 with a standard error of .1. How would you interpret this result? Be sure to address whether the finding is statistically significant and whether welfare spending affects the poverty rate in Welfaria.

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