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Advanced Macro II

HW#1

Notes

- In the main folder, there is a do-file called "Main_Do_File.do". This file executes the whole program.
- First you need to set paths in "HW1_Build_File.do", "Decode_PSID.do" and "HW1_Analysis.do". They are in the code folders.
    - o The Main Do-File calls on Build and Analysis codes.
    - o The Build Do-File decodes the PSID text file and outputs a PSID wide panel into the Build Output
    - o The Analysis Do-File calls on the PSID wide panel and outputs the Earnings Mobility Matrix, Lorenz Curve and the Gini Coefficients into the Analysis output.

Summary

1) Data Cleanup

- First, I removed missing observations
- Second, I removed individuals who were ineligible to earn in the <u>baseline</u> (reported earnings =$0 in 2001). E.g. individuals who did not work in observed year, were under age 18 when observed, or who worked in own unincorporated business that broke even during observed year.
- Third, I removed individuals who *did not know* their earnings and who *refused* to answer the earnings question.

2) Mobility Matrix

Table 1

Transition Matrix for Earnings Using PSID Waves 2001 and 2007.

| | Earnings Mobility | | | | |
	1st	2nd	3rd	4th	5th
1st	0.38	0.30	0.20	0.08	0.04
2nd	0.28	0.19	0.37	0.12	0.04
3rd	0.23	0.08	0.30	0.32	0.07
4th	0.23	0.05	0.08	0.40	0.24
5th	0.23	0.03	0.03	0.09	0.61

3) Lorenz Curve and Gini

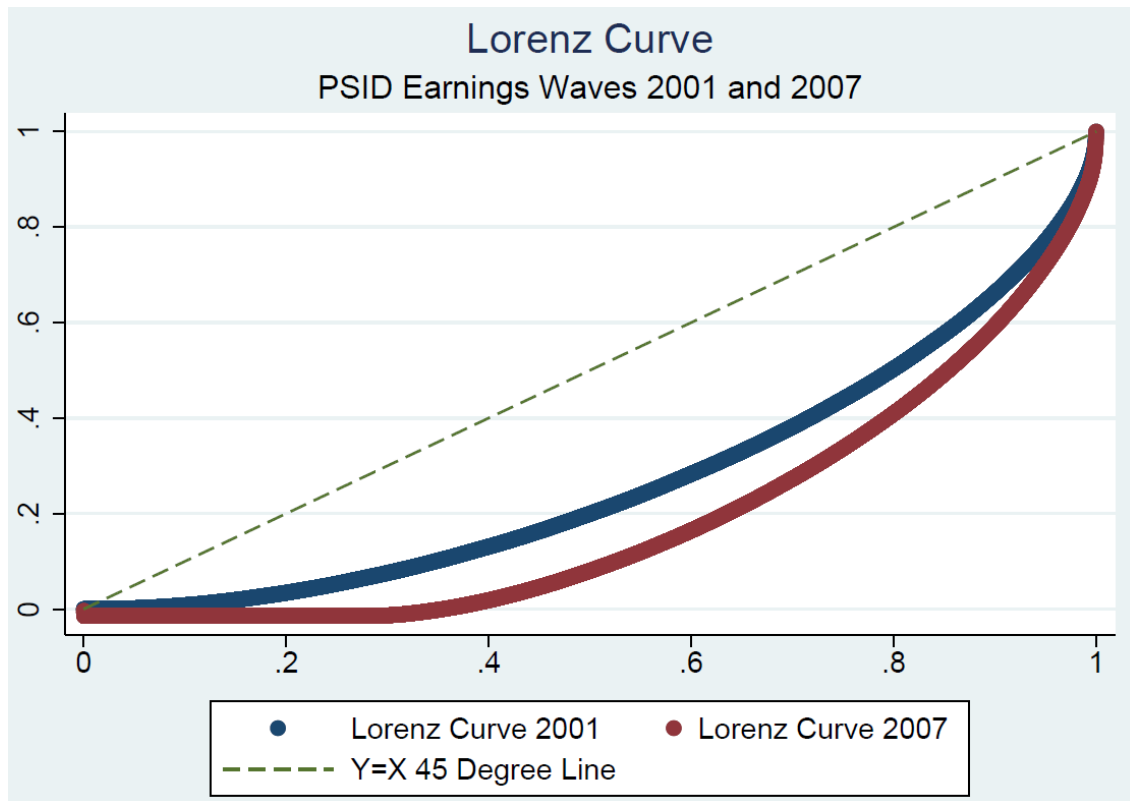**Fig 1.** The Lorenz Curve

Table 2

Gini Coefficients for 2001 and 2007.

Gini Coefficient	
2001	2007
0.457	0.618