

# Exam 3 Study Guide

ECON 380  
UNC Chapel Hill

Stuff to know for exam 3:

## Inequality

1. What has been the trend in US wage inequality since ~1970 (increasing, decreasing, neither)?
2. Has the trend in (1) been mostly driven by the changes in the bottom, middle, or top of the wage distribution?
3. What the 90-10, 90-50, 50-10, etc. wage gaps measure
4. How to draw a Lorenz curve given data on household shares and income (e.g., class example or homework problem)
5. How to compute Gini coefficient
6. Why might wage inequality be bad? In what ways might it be good?
7. Basic gist of possible explanations for recent trend in wage inequality: (i) tax changes, (ii) supply shifts in skilled labor, (iii) skill-based technology change, and (iv) composition effects
8. What are the weaknesses of each of the above explanations (e.g., composition effects don't explain the rise in upper tail inequality)?

## Superstars & Intergenerational Inequality

1. What is a “superstar” in the context of labor economics?
2. What characteristics do occupations with superstars generally share?
3. Can rising superstar earnings explain much of the wage growth of the top .1%?
4. What is the basic mechanism driving why inequality might persist across generations?
5. What is regression towards the mean? Why might we observe this?
6. How to compute and interpret the intergenerational correlation coefficient

## **Labor Market Discrimination**

1. What is labor market discrimination?
2. What are pre-labor market differences?
3. What has been the trend in the black-white wage since the 1970s (shrinking gap, rising, neither)?
4. What has been the trend in the male-female wage since the 1970s (shrinking gap, rising, neither)?

## **Taste-Based Discrimination**

1. What is taste-based discrimination?
2. Know how to do HW6, #1
3. Know the graphs from class related to employer-based discrimination
4. Who are the “winners” and “losers” from the presence of discriminatory firms?
5. What is the relationship between the profits of discriminatory firms vs ND firms?
6. What is the long-run outcome predicted by employer-discrimination?
7. Does employer-based discrimination explain the existence of wage gaps?
8. Does employee-based discrimination explain the existence of wage gaps?
9. Does customer-based discrimination explain the existence of wage gaps?

## **Statistical Discrimination**

1. What is statistical discrimination?
2. Know graphs from class related to statistical discrimination
3. Implications of statistical discrimination if average test scores are the same, but the signal is more “noisy” for one group? Who benefits? Who is hurt?
4. Can a “noisy” signal (even if test scores, on average, are equal) lead to wage gaps? Will average wages be different?
5. Implications of statistical discrimination if the average test score of one group is lower than the other (assuming the signal is just as “noisy” for each group)?
6. How do different average test scores lead to wage gaps? Does this hold in the long-run? Why?

## Measuring Discrimination

1. How to interpret linear wage schooling locus
2. How different coefficients are evidence of discrimination
3. Oaxaca-Blinder decomposition: pre-market component and discrimination component
4. Know graph from class and interpretation: discrimination component is  $w_m^* - \bar{w}_m$  (what average minority worker would receive if “treated as white worker” minus average minority worker wage); pre-market component is  $\bar{w}_w - w_m^*$

## Discrimination Evidence

1. Know 2-3 of the potential issues that arise when estimating the typical earnings model testing for discrimination
2. Neal & Johnson (1996): What do the authors find drives a large portion of the black-white wage gap? Do they argue the wage gap is largely driven by discrimination or pre-labor market factors?
3. Altonji & Pierret (2001): Do the authors find evidence that firms statistically discriminate on the basis of race?
4. Bertrand & Mullainathan (2004): Know basic set-up of the study. How did the callback rates for “white sounding names” compare to that of “black sounding names?”
5. In recent years, how has the role of explicit labor market discrimination in driving different socio-economic outcomes changed? Will policies targeting labor market discrimination or policies targeting school achievement gaps be more effective in closing wage gaps and other differences in socio-economic outcomes?
6. What is likely the greatest mechanism driving the gender wage gap? How does the shape of the relative earnings curve between males and females over the life-cycle reflect this?
7. What is occupational crowding? Does it necessarily play a large role in driving the gender wage gap?