

Exam 2 Study Guide

ECON 380
UNC Chapel Hill

Stuff to know for exam 2:

Human Capital Theory

1. What has been the trend in the proportion of people without a HS degree over the last 70 years? In the proportion of people with a college degree?
2. How has the relative pay of those with a college degree compared to those without a HS degree changed since 1975? What about the relative pay of those with some college compared to those with no HS degree?
3. How to find present value and net present value
4. How to find an individual's optimal choice from two choices with different costs/future earnings
5. What is the relationship between r and an individual's college choice?

The Schooling Model

1. How to find MRR given an individual's wage-schooling locus (both from a table or a graph)
2. What are the properties of the MRR curve?
3. How to find individual stopping choice given MRR schedule and an individual's discount rate (both from a table or a graph)
4. How does an individual's choice change with r ?

Estimating the Returns to Schooling

1. Why might two individuals differ in their schooling choices?
2. If individuals have different rates of discount, how does that affect their optimal schooling choice? Can we accurately estimate MRR if individuals differ only in their discount rate?
3. If individuals have different ability levels, how does that affect their optimal schooling choice? Can we accurately estimate MRR if individuals differ in ability?
4. Why might unobserved ability bias MRR estimates upwards? Downwards?

5. What methods have been attempted to deal with ability bias? What are some of the drawbacks of each?
6. Know 2-3 of the other issues that come up when estimating the returns to schooling

Job Market Signaling

1. What is the basic idea of the signaling model?
2. Under a pooling equilibrium, who is better off? Worse off?
3. Know how to find threshold level of earnings or school level given information about worker productivity and costs of education (e.g., homework question and example from class)
4. Can we easily separate the productivity enhancing component of schooling from the the “sheep-skin effect”? Why or why not?

Human Capital and Development

1. Homework 4 questions about Duflo (2001) and Jensen (2010)

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