Supervision 3: Part IIB Paper 8

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Networks and Mobility

(a) The canonical model of migration in economics ignores the role of networks. In this model, the individual's migration decision is determined by his wage at the origin, his wage at the destination, and the moving cost. Individuals have two levels of education in this model: low (L) and high (H). Less educated individuals are channeled into low-skill occupations, while more educated individuals are channeled into high-skill occupations. Wages at the origin (O) and the destination (D) for the two types of workers are denoted by W_e^O, W_e^D, where e={L,H}. The moving cost, c, is independent of the individual's education and is uniformly distributed on the unit interval. Derive conditions under which migrants are positively selected; i.e. the fraction of high-educated among those who move is greater than the corresponding fraction for those who stay.

(b) Studies of migration from Mexico to the U.S. have documented that initial cohorts of migrants from sending communities are positively selected on education, while later cohorts are negatively selected. Show how this result can be obtained by adding networks at the destination to the canonical model. Justify your modeling assumptions.

(c) Cross-country migration studies often find that migration *flows* between particular origin-destination pairs do not square up with observed (average) wage differences between these countries. They attempt to reconcile these differences by introducing a moving cost, which is decreasing in the *stock* of migrants from the origin country at the destination. Do you think this practice is justified? Discuss.