

# Economics of Superstars

## Fiat Lux Freshman Seminar - Econ 19, Course 2

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**Lectures:** Thursdays 2-3:50 pm. Sessions every two weeks, starting Week 1: April 5, April 19, May 3, May 17, May 31. Bunche Hall 2181.

**Description of the course.** Tim Cook, Marissa Mayer, Bradley Cooper, Angelina Jolie, Tiger Woods and Katy Perry all earned more than 10 million dollars last year according to Forbes. That is more than 300 times the median wage in the United States. Can economics make sense of these orders of magnitudes? Who among a famous singer, a CEO running an international organization on several continents, an entrepreneur creating Microsoft, Apple or Facebook, or a successful Wall Street trader, creates more “economic value”? Should inventors, top managers and CEOs be rewarded more than rock stars or professional athletes? What are the arguments for and against counter-acting the corresponding increases in inequalities through taxation or other government interventions? Can we expect the rising “winner-takes-all” trend to continue? The Fiat Lux class *Economics of Superstars* should be a playful way to first approach basic economic concepts (optimality, incentives, Pareto distributions, public goods, complementarities, etc..), and to test the power of economic reasoning as well as its limits.

**Grading.** P/NP basis, based on attendance and 30 mn presentations by groups of 2 or 3, during the last two sessions (Week 7 and Week 9). *To pass this class, you are required to come to all five classes from beginning to end (per university regulation, because our classes are 2-hour classes). Please make sure you can make all five dates before you enroll in this class.*

**Preliminary course timetable.** The preliminary timetable for this course is shown on the next page. The format for the first three courses will be closer to lectures, although I will expect substantial participation from you. During the two last sessions, you will be required to present a paper of your choosing, among a list of papers under the “main readings” section. Papers will be assigned on a first come, first served basis.

**Required readings before classes start.** Sherwin Rosen (1938-2001), whom the title of this course is borrowed from, wrote about superstars in *The American Scholar* in 1983, following his celebrated *American Economic Review* paper in 1981 (listed under “To go further”). You are required to read this piece before classes start: [Link](#).

**Main Readings.** The material for presentations during the last 2 classes can be found in the following eight academic articles. These are articles from the *Journal of Economic Perspectives*, in complimentary access from the American Economic Association’s website. They will be assigned on a first come, first served basis. Please email-me the number of the paper you wish to present, as well as the name of your partner(s):

Week	Date	Topics
Week 1	April 5, 2018	<b>Course 1:</b> Introduction to the economics of superstars Measurement of Inequality, Pareto Distributions
Week 3	April 19, 2018	<b>Course 2:</b> Basic Concepts Optimality, Equity / Efficiency trade-off
Week 5	May 3, 2018	<b>Course 3:</b> Superstars and the political debate Globalization, and the future of superstars
Week 7	May 17, 2018	<b>Course 4:</b> Presentations 1 30 minute presentations by groups of 2
Week 9	May 31, 2018	<b>Course 5:</b> Presentations 2 30 minute presentations by groups of 2

1. Alvaredo, Facundo, Anthony B. Atkinson, Thomas Piketty, and Emmanuel Saez. "The Top 1 Percent in International and Historical Perspective." *Journal of Economic Perspectives* 27, no. 3 (September 2013): 3–20. [Link](#)
2. Kaplan, Steven N., and Joshua Rauh. "It's the Market: The Broad-Based Rise in the Return to Top Talent." *Journal of Economic Perspectives* 27, no. 3 (September 2013): 35–56. [Link](#)
3. Bivens, Josh, and Lawrence Mishel. "The Pay of Corporate Executives and Financial Professionals as Evidence of Rents in Top 1 Percent Incomes." *Journal of Economic Perspectives* 27, no. 3 (September 2013): 57–78. [Link](#)
4. Mankiw, N. Gregory. "Defending the One Percent." *Journal of Economic Perspectives* 27, no. 3 (September 2013): 21–34. [Link](#)
5. Corak, Miles. "Income Inequality, Equality of Opportunity, and Intergenerational Mobility." *Journal of Economic Perspectives* 27, no. 3 (September 2013): 79–102. [Link](#)
6. Bonica, Adam, Nolan McCarty, Keith T. Poole, and Howard Rosenthal. "Why Hasn't Democracy Slowed Rising Inequality?" *Journal of Economic Perspectives* 27, no. 3 (September 2013): 103–24. [Link](#)
7. Philippon, Thomas, and Ariell Reshef. "An International Look at the Growth of Modern Finance." *Journal of Economic Perspectives* 27, no. 2 (May 2013): 73–96. [Link](#)

8. Haskel, Jonathan, Robert Z. Lawrence, Edward E. Leamer, and Matthew J. Slaughter. “Globalization and U.S. Wages: Modifying Classic Theory to Explain Recent Facts.” *Journal of Economic Perspectives* 26, no. 2 (May 2012): 119–40. [Link](#)

**To go further (Optional).** My goal will be to try to convey economic intuitions with the minimum amount of mathematical formalism. However, you may want to try reading the corresponding academic articles yourself. They are very often very mathematical, and I certainly do not expect you to understand their technical derivations. But the introductions and conclusions usually translate the mathematics into words, and can actually be fascinating to read. For example, I advise you to read Sherwin Rosen’s introduction to his AER article *The Economics of Superstars*. (it is the first reference below) You should also find Handbook chapters and to a lesser extent, the *Annual Review of Economics*, way more accessible. Again, clicking on the titles should redirect you directly to a download page. Should the links be dead, the articles are also available from a computer connected to the UCLA Wifi, for example through Jstor <http://www.jstor.org/> or directly on Google Scholar <https://scholar.google.com/>:

- Rosen, Sherwin. “The Economics of Superstars.” *The American Economic Review* 71, no. 5 (1981): 845–58. [Link](#)
- Terviö, Marko. “The Difference That CEOs Make: An Assignment Model Approach.” *American Economic Review* 98, no. 3 (June 2008): 642–68. [Link](#)
- Gabaix, Xavier, and Augustin Landier. “Why Has CEO Pay Increased So Much?” *The Quarterly Journal of Economics* 123, no. 1 (February 1, 2008): 49–100. [Link](#)
- Bertrand, Marianne, and Sendhil Mullainathan. “Are CEOs Rewarded for Luck? The Ones Without Principals Are.” *The Quarterly Journal of Economics* 116, no. 3 (August 1, 2001): 901–32. [Link](#)
- Neal, Derek, and Sherwin Rosen. “Chapter 7 Theories of the Distribution of Earnings.” In *Handbook of Income Distribution*, 1:379–427. Elsevier, 2000. [Link](#)
- Malmendier, Ulrike, and Geoffrey Tate. “Superstar CEOs.” *The Quarterly Journal of Economics* 124, no. 4 (November 1, 2009): 1593–1638. [Link](#)
- Piketty, Thomas, and Emmanuel Saez. “Income Inequality in the United States, 1913–1998.” *The Quarterly Journal of Economics* 118, no. 1 (February 1, 2003): 1–41. [Link](#)
- Rosen, Sherwin. “Authority, Control, and the Distribution of Earnings.” *The Bell Journal of Economics* 13, no. 2 (1982): 311–23. [Link](#)
- Garicano, Luis, and Esteban Rossi-Hansberg. “Knowledge-Based Hierarchies: Using Organizations to Understand the Economy.” *Annual Review of Economics* 7, no. 1 (2015): 1–30. [Link](#)
- Hamlen, William A. “Superstardom in Popular Music: Empirical Evidence.” *The Review of Economics and Statistics* 73, no. 4 (1991): 729–33. [Link](#)

**Books (Optional).** To go further, you may want to read the following related references:

- Piketty, Thomas. *Capital in the Twenty-First Century*. Harvard University Press, 2014.
- Goldin, Claudia, and Lawrence F. Katz. *The Race Between Education And Technology*. Harvard University Press, 2008.
- Moretti, Enrico. *The New Geography of Jobs*. Houghton Mifflin Harcourt, 2012.
- Stiglitz, Joseph E. *The Price of Inequality: How Today's Divided Society Endangers Our Future*. W. W. Norton & Company, 2012.

**Lighter Reading.** The following pieces are written by academic economists for a broader audience:

- *Land of Hope and Dreams: Rock and Roll, Economics, and Rebuilding the Middle Class*. Alan B. Krueger (Chairman, Council of Economic Advisers). [Link](#)
- *Trade and Inequality, Revisited*. Paul Krugman, Vox EU. [Link](#)
- *Public Applauds Huge Salaries for Sports Stars - while Business Stars Get Abuse*. Kenneth Rogoff, The Guardian. [Link](#)

**Press articles.** The rise in top incomes is very much in the news these days. Here is a choice of press articles on the subject:

- *How Superstars' Pay Stifles Everyone Else*. Eduardo Porter, NY Times. [Link](#)
- *Forces of Divergence*. John Cassidy, New Yorker. [Link](#)
- *The Programmer's Price*. Lizzie Widdicombe, New Yorker. [Link](#)