

# Econ 590: Family, Human Development and Economic Growth

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Tuesdays, Room # LH-315A 7:00-9:45PM

Office hours: Wednesday and Thursdays 5:00-7:00PM in my office LH715

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## Course Description

In this course, I will focus mainly on the theories of labor market earnings distribution and dynamics and the role of family. The topics include the determinants human capital such as school credentials and other skills that are useful for labor market performance, the role of early childhood investment in acquiring the learning and earning abilities. I will consider models of earnings mobility and intergenerational social mobility within our framework. If time permits I will discuss the economics of disease and old-age crises around the world.

The relevant mathematical tools and econometric tools will be developed in the class, and the term paper will be based on an empirical analysis of an issue to be discussed in the class. One of the three data sets listed below should be used. I will put a lot of input in developing the paper, and it is hoped that we can develop the paper into a joint research article to be published by a journal.

**Grading:** 20% based on a Mid-Term Exam, 20% based on a presentation during the last two weeks of the semester, and 60% based on a term paper.

## Recommended Text books

1. Becker, Gary [1991], "A Treatise on Family", Harvard University Press.
2. The World Bank [1994], "Averting the Old-age Crisis," Oxford University Press.

## Part I: Family formation: Marriage and Children Marriage

- Becker [1991] Ch. 2, 3 (pp:80-84),
- Shapley, Loyd []
- Koopmans T. and M. Beckman [1957], "Assignment Problems and the Location of Economic Activities", *Econometrica*.

## Demand for children

- Becker [1991, Chapter 3]

- Raut, L. K.(1998) 'Learning to Perfect Manipulation: Implications for Fertility, Savings, and Old-Age Social Security ', (Revised, April 1997) (Originally) Subgame Perfect manipulation of Children by overlapping generations of agents with two-sided altruism.', mimeo.

## Part II: Education, Labor Markets and Earnings.

I first discuss determinants and distribution of earnings. I then consider models of schooling choices, focusing on human capital approach. I will argue that investment in early childhood is even more important than spending too much resources in school reforms. I will begin with a simple model of labor supply and earnings. Motivate the econometric specifications and problems that are associated with it.

### A. Earnings function: returns to education

- Katz, L. and K. Murphy [1992], "Changes in Relative Wages: 1963-1987" QJE.
- Mincer, Jacob [1974], Schooling, Experience and Earnings", Columbia University Press.
- Willis, R. [1986], "Wage Determinants: A Survey of Human Capital Earnings", in O. Ashenfelter and R. Layard (eds), "Handbook of Labor Economics, Vol.1", North-Holland.
- Psacharopoulos, George and Maureen Woodhall [1985], "Education for Development: an analysis of Investment choices," Oxford University Press.
- Raut, L.K. and Lien Tran(1999) 'Reciprocity with two-sided altruism in intergenerational transfers: evidence from Indonesian Family Life survey Data, in the Proceedings of International Conference on Economics of Reciprocity, Gift-giving and Altruism', Macmillan, London.

### B. Introduction to Related Econometric Methods

Regression analysis, selectivity bias, Limited Dependent Variable Analysis

- Green, William [1999], Last chapter.

### C. Investing in Human Capital: Models of Schooling Choices

Signalling, human capital approach, and education as utility maximizing decision; Education production function approach, private vs public school, school voucher, class size, parental investment.

- Class notes (my notes from last few years)
- Ben-Porath, Yoram [1967], "The Production of Human Capital and Life Cycle Earnings", JPE, 75:352-365.
- Comay, Y.; A. Melnik and M. Pollatschek [1973], "The Option Value of Education and the Optimal Path for Investment in Human Capital", International Economic Review, 14(2):421-435.

- Hanushek, JEL
- Heckman, James [1976], "A Life-Cycle Model of Earnings, Learning and Consumption", JPE S11-44.
- Willis R. [1986], "Handbook of Labor Economics chapter
- Raut (1980,1990), Raut and Tran (2001): old-age security motive, in LDCs.

## C. Parental Investment in Early Childhood Development

- Cawley, John; James Heckman,Edward Vytlacil(1998) 'Cognitive Ability and the Rising Return to Education', NBER, W6388.
- Currie, Janet(2001) 'Early Childhood Education Programs', Journal of Economic Perspectives, vol.15(2):213-238.
- Currie, Janet and Duncan Thomas(1995) 'Does Head Start Make a Difference?', American Economic Review, Vol. 85, No. 3. (Jun., 1995), pp. 341-364.
- Entwisle and others(1995) 'The Future of Children: Long-Term Outcomes of Early Childhood Programs', , Vol. 5, No. 3 – Winter 1995.
- Heckman, James(1999) 'Policies to Foster Human Capital', NBER, W7288.

## Part III: General Equilibrium and Aggregate Outcomes

### Growth models with endogenous human capital investment and fertility choices

- Barro, Robert J. and Gary S. Becker(1989) 'Fertility Choice in a Model of Economic Growth', Econometrica, 57(2),481-501.
- Becker, Gary;Kevin Murphy, Robert Tamura(1990) 'Human Capital, Fertility and Economic Growth', J. Polit. Econ., vol.98(5)pt.2.
- Lucas, Robert E. Jr.(1988) 'On the Mechanics of Economic Development', J. Mon. Econ., Vol.22, 3-42.
- Raut, L.K.(1990) 'Capital Accumulation, Income Distribution, and Endogenous Fertility in an Overlapping Generations General Equilibrium Model', Journal of Development Economics, vol. 34 No1/2.
- Raut, L.K. and T.N. Srinivasan(1993) 'Theories of Long-Run Growth: Old and New', in (eds) Kausik Basu, Mukul Majumdar and Tapan Mitra, ) "Capital, Investment and Development", Basil Blackwell.

## Models of Distribution and Dynamics of Labor Earnings

- Jovanovic, Boyan(1979) 'Job Matching and the Theory of Turnover', Journal of Political Economics, Vol. 87, No. 5, Part 1. (Oct., 1979), pp. 972-990.
- Neal, Derek and Sherwin Rosen [1998], "Theories of Distribution of Labor Earnings", NBER Working Paper #6378.  
Rosen and Willis [1979], "Education and Self-Selection", JPE, vol.87 S7-36.
- Roy, A.D. [1951], "Some Thoughts on the Distribution of Earnings", Oxford Economic Papers, "vol.3 135-146.
- Sattinger [1993], "Assignment Models of the Distribution of Earnings," Journal of Economic Literature, 31:831-880.

## Social Mobility

- Becker, Gary S. And Nigel Tomes(1979) 'An Equilibrium Theory of the Distribution of Income and Intergenerational Mobility', Journal of Political Economics, Vol. 87, No. 6. (Dec., 1979), pp. 1153-1189.
- Becker, Gary, and Nigel Tomes(1986) 'Human Capital and the Rise and Fall of Families', J. Lab. Econ., Vol.4(3),pt2,S1-S47.
- Loury, Glenn(1981) 'Intergenerational Transfers and the Distribution of Earnings', Econometrica, Vol. 49, No. 4. (Jul., 1981), pp. 843-867.
- Loury, Glenn(1981) 'Is Equal Opportunity Enough?', American Economic Review, Vol. 71, No. 2 (Proceedings).
- Raut, L.K.(1990) 'Capital Accumulation, Income Distribution, and Endogenous Fertility in an Overlapping Generations General Equilibrium Model', Journal of Development Economics, vol. 34 No1/2.
- Raut, L. K.(1995) 'Signaling Equilibrium, Intergenerational social mobility and long-run growth" (draft presented at the Seventh World Congress of the Econometric Society, Tokyo1995.

## Part IV: Disease and Aging Crises

- Strauss, J. and Duncan Thomas(1998) 'Health, Nutrition, and Economic Development', Journal of Economic Literature, Vol. 36, No. 2, June 1998.
- Raut, L.K. [2001], "Economic Epidemiology of Malaria," Draft presented at the Far Eastern Econometric Society Meeting, Kobe, Japan.
- World Bank [1994], "Averting the Old-age crisis", Selected Chapters.

## Part V: Datasets and Project topics

You can use any of the following data sets for your empirical research. The type of data set you choose depends on the issues that you analyze.

- NLSY (for US)
- HRS (for US)
- IFLS (Indonesian Family Life Survey)

**Project Topics:**