

MSc Economic Policy Analysis

EC406, Michaelmas 2007

Weeks 1-5 LECTURER: John Van Reenen

Professor John Van Reenen, Director Centre for Economic Performance (CEP)
Web-site: <http://cep.lse.ac.uk/people/bio.asp?id=1358>. See also:
<http://cep.lse.ac.uk/people/vanreenen/EC406/default.asp> (for lecture notes and reading lists, etc.) and <http://econ.lse.ac.uk/staff/sredding/teaching04.htm> for some of the teaching materials

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Dates: 11/10, 16/10, 25/10, 1/10, 8/10

COURSE STRUCTURE

- MT weeks 1-5
 - Introduction, Methods for non-experimental data
- MT weeks 6-10
 - Experimental data, Regression Discontinuity, welfare reform, immigration

READINGS:

(*) denotes essential reading.

MICHAELMAS TERM

Weeks 1- 5 (John Van Reenen)

General Reading

- (*) Wooldridge, J (2003) *Introductory Econometrics: A Modern Approach*, Prentice Hall, Second Edition.
- (*) Ravallion, M (2001) "The Mystery of the Vanishing Benefits: An Introduction to Impact Evaluation", *World Bank Economic Review*, 15(1), 115-40.
- (*) Blundell, R and Costa Dias, M (2000) "Evaluation Methods for Non-Experimental Data", *Fiscal Studies*, 21(4), 427-68.
- Angrist, J. and Krueger, A. (1999) "Empirical strategies in Labor Economics" in Ashenfelter, O. and Card, D. *Handbook of Labor Economics* Volume III
- (more advanced) Wooldridge, J. (2002) *Econometric Analysis of Cross Section and Panel Data*, Prentice Hall, Second Edition, (chapter 18, 603-642)

- (very advanced) Lee, Myoung-Jan (2005) *Micro-econometrics for policy, program and treatment effects* Oxford: Oxford University Press

Week 1: Introduction, Ex Ante vs. Ex Post, Cost-Benefit Analysis

(*) - Layard, R and Glaister, S (1994) Introduction in (eds) Layard, R and Glaister, S, *Cost-Benefit Analysis*, Oxford University Press.

Dreze, J and Stern, N (1994) "Shadow Prices and Markets: Policy Reform, Shadow Prices and Market Prices", Chapter 1 in (eds) Layard, R and Glaister, S, *Cost-Benefit Analysis*, Oxford University Press, reprinted from *Journal of Public Economics*, 42(1), 1990, 1-45.

- Layard, R and Walters, A (1994) "Allowing for Income Distribution", Chapter 5 in (eds) Layard, R and Glaister, S, *Cost-Benefit Analysis*, Oxford University Press, reprinted from Layard, R and Walters, A, *Microeconomic Theory*, McGraw Hill.

(*) Stiglitz, J (2000) *Economics of the Public Sector*, Third Edition, W. W. Norton & Company, Chapter 11.

Road Pricing

(class presentation)

(*) - Newberry, D (1994) "Pricing and Congestion: Economic Principles Relevant to Pricing Roads", Chapter 13 in (eds) Layard, R and Glaister, S, *Cost-Benefit Analysis*, Cambridge University Press.

(*) - Blow, L, Leicester, A and Smith, Z (2003) "London's Congestion Charge", *Institute for Fiscal Studies Briefing Note*, 31, available from

http://econ.lse.ac.uk/staff/sredding/EC406teach/IFSCongestionCharge_bn31.pdf

- Transport for London (2003) "Central London Congestion Charging Scheme: Three Months On", available from

<http://econ.lse.ac.uk/staff/sredding/EC406teach/TFLCongestionCharge.pdf>

- Transport for London web page, http://www.tfl.gov.uk/tfl/cc_fact_sheet.shtml

Week 2: Problems in Applied Econometrics

- Wooldridge, J (2003) *Introductory Econometrics: A Modern Approach*, Prentice Hall, Second Edition.

- Revision of multiple regression analysis (Chapters 3 and 4)
- (*) Simple panel data methods (Chapter 13)
- (*) Advanced panel data methods (Chapter 14)
- (*) Instrumental variables estimation and 2SLS (Chapter 15)

- (*) Besley, T and Burgess, R (2004) "Can Labour Regulation Hinder Economic Performance? Evidence from India", *Quarterly Journal of Economics*, CXIX(1), 91-134.

Week 3 Introduction to the Program Evaluation Problem

- (*) Wooldridge, J (2003) *Introductory Econometrics: A Modern Approach*, Prentice Hall, Second Edition

- Multiple regression with qualitative information (Chapter 7)
- Limited dependent variable models and sample selection corrections (Chapter 17)
- (*) Ravallion, M (2001) "The Mystery of the Vanishing Benefits: An Introduction to Impact Evaluation", *World Bank Economic Review*, 15(1), 115-40. A condensed version of this paper is published as Chapter 3 in Baker, J (2000) *Evaluating the Impact of Development Projects on Poverty*, World Bank, Washington.
- (*) Blundell, R and Costa Dias, M (2000) "Evaluation Methods for Non-Experimental Data", *Fiscal Studies*, 21(4), 427-68.
- (*) Willis, R and Rosen, S (1979) "Education and Self-Selection", *Journal of Political Economy*, 87(5), part 2, S7-S36.

Week 4, Instrumental Variables Methods

- (*) Wooldridge, J (2003) *Introductory Econometrics: A Modern Approach*, Prentice Hall, Second Edition. (Chapter 15)
- (*) Angrist, J and Krueger, A (2001) "Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments", *Journal of Economic Perspectives*, 15(4), 69-86.
- Meyer, B (1995) "Natural and Quasi-Experiments in Economics", *Journal of Business and Economic Statistics*, 13(2), 151-61.
- (*) Angrist, J and Krueger, A (1991) "Does Compulsory Schooling Affect Schooling and Earnings?", *Quarterly Journal of Economics*, 106(4), 979-1014.
- Bound, J, Jaeger, D and Baker, R (1995) "Problems with Instrumental Variables Estimation When the Correlation Between the Instruments and the Endogenous Explanatory Variables is Weak", *Journal of the American Statistical Association*, 90(430), 443-50.
- Van Renselen, J. (1996) "The Creation and Capture of Economic Rents: Wages and Innovation in a Panel of UK Companies" *Quarterly Journal of Economics* (February 1996) CXI, 443, 195-226;
<http://cep.lse.ac.uk/people/vanreenen/papers/innovationwages.pdf>

Week 5: Differences in Differences, Matching

- (*) Blundell, R and Costa Dias, M (2000) "Evaluation Methods for Non-Experimental Data", *Fiscal Studies*, 21(4), 427-68.
- (*) Ravallion, M (2001) "The Mystery of the Vanishing Benefits: An Introduction to Impact Evaluation", *World Bank Economic Review*, 15(1), 115-40. A condensed version of this paper is published as Chapter 3 in Baker, J (2000) *Evaluating the Impact of Development Projects on Poverty*, World Bank, Washington.
- Meyer, B "Natural and Quasi-Natural Experiments in Economics", *Journal of Business and Economic Statistics*, 13, 151-62.
- (*) Duflo, E (2001) 'Schooling and Labour Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment', *American Economic Review*, 91(4), 795-813.
- (*) Wooldridge, J (2003) *Introductory Econometrics: A Modern Approach*, Second edition, Chapter 17.

Heckman, J, Ichimura, H and Todd, P (1997) "Matching as an Econometric Evaluation Estimator: Evidence from Evaluating a Job Training Programme", *Review of Economic Studies*, 64, 605-54.

(*R. Blundell, M. Costa Dias, C. Meghir and Van Reenen, J. (2004) *Journal of the European Economic Association* (2004) 2(4) 569-606.

<http://cep.lse.ac.uk/people/vanreenen/papers/0305.pdf>

Weeks 5-10 LECTURER: [Rajeev Dehejia](#)

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READINGS:

* denotes essential reading.

Week 6 Social Experiments (with an application to discrimination)

*J. Heckman and J. Smith (1995) "Assessing the Case for Social Experiments", *Journal of Economic Perspectives*, Spring 1995, pp85-110.

*David Card and Philip Robins, "Do Financial Incentives Encourage Welfare Recipients to Work? Evidence from a Randomized Evaluation of the Self-Sufficiency Project," NBER Working Paper No. 5701.

*Charles Michalopoulos, et al., "Making Work Pay: Final Report on the Self-Sufficiency Project for Long-Term Welfare Recipients", Social Research Demonstration Corporation, July 2002.

*Marianne Bertrand, Dean Karlan, Sendhil Mullainathan, et al., "What's Psychology Worth? A Field Experiment in the Consumer Credit Market," Working Paper, 2005.

*Joshua Angrist and Victor Lavy, "The Effect of High School Matriculation: Evidence from Randomized Trials," NBER Working Paper No. 9389.

*Esther Duflo and Emmanuel Saez, "The Role of Information and Social Interactions in Retirement Savings Decisions: Evidence from a Randomized Experiment," *QJE*, August 2003.

M. Bertrand and S. Mullanaithan, (2004) “Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination”, *American Economic Review*, September, 2004 or NBER Working Paper, No.9873 <http://www.nber.org/papers/w9873>

G. Burtless (1995) “The Case for Randomized Field Trials in Economic and Policy Research”. *Journal of Economic Perspectives*, Spring 1995, pp63-84.

R. Fryer and S. Levitt (2004) “The Causes and Consequences of Distinctively Black Names”, *Quarterly Journal of Economics*, August 2004, pp767-805.

Cox, *The Planning of Experiments*, selected chapters.

Week 7: Unions; Regression Discontinuity

* Joseph Tracy, “An Investigation into the Determinants of US Strike Activity,” *AER*, 1986.

* John DiNardo and David Lee, “Economic Impacts of New Unionization,” *QJE*, 1994.

Peter Crampton, Morley Gunderson, and Joseph Tracy, “The Effect of Collective Bargaining Legislation on Strikes and Wages,” *ReStat*, 1999.

Orley Ashenfelter and Dean Hyslop, “Measuring the Effects of Arbitration on Wage Levels,” *ILRR*, 2001.

Alexandre Mas, “Pay, Reference Points, and Policy Performance,” manuscript.

Card, “The Effect of Unions on the Structure of Wages,” *Econometrica*, 1996.

Week 8: Instrumental Variables Revisited and an Application to Labor Supply

*Imbens, Guido, and J. Angrist, “Identification and Estimation of Local Average Treatment Effects,” *Econometrica*, Vol. 62, 467-75.

*Angrist, J., G. Imbens, and D. Rubin, “Identification of Causal Effects Using Instrumental Variables” (with discussion), *Journal of the American Statistical Association*, 91, 444-72.

*Joshua Angrist and William Evans, “Children and Parents’ Labor Supply: Evidence from Exogenous Variation in Family Size,” *American Economic Review*, Vol. 88, No. 3 (June 1998), pp. 450-477.

James Heckman, “Instrumental Variables: A Study of Implicit Behavioral Assumptions”, *Journal of Human Resources*.

Joshua Angrist and Guido Imbens, “Comment on ‘Instrumental Variables: A Study of Implicit Behavioral Assumptions,’” *JHR*.

James Heckman, Reply to previous, *JHR*.

Week 9: Matching Estimators

*Abadie, Alberto, and Guido Imbens, “Bias Corrected Matching Estimators for Average Treatment Effects”,

<http://ksghome.harvard.edu/~.aabadie.academic.ksgh/bcm.pdf>

*Rajeev Dehejia and Sadek Wahba, “Causal Effects in Non-Experimental Studies: Re-Evaluating the Evaluation of Training Programs,” *Journal of the American Statistical Association*, Volume 94, Number 448 (December 1999), pp. 1053-1062.

*Rajeev Dehejia and Sadek Wahba, “Propensity Score Matching Methods for Non-Experimental Causal Studies,” *Review of Economics and Statistics*, Volume 84 (February 2002), pp. 151-161.

Week 10: Discrimination

Theory—

*Altonji, Joseph and Rebecca Blank, Handbook, Vol. 3C.

Aigner and Cain, “Statistical Theories of Discrimination in Labor Markets,” *Industrial and Labor Relations Review*, 30(2), 1977, 175 – 187.

Phelps, Edmund, “The Statistical Theory of Racism and Sexism,” *American Economic Review*, 62(4), 1972, 533-539.

Arrow, Kenneth, “The Theory of Discrimination,” in Ashenfelter and Rees, eds., *Discrimination in Labor Markets*. Princeton: Princeton University Press, 1973.

Becker, Gary, *The Economics of Discrimination*, 2nd ed.. Chicago: University of Chicago Press, 1971.

Evidence—

*Goldin, Claudia and C. Rouse, “Orchestrating Impartiality: The Impact of Blind Auditions on the Sex Composition of Orchestras.” *American Economic Review* 90(4), 2000, 715-41.

Fershtman, Chaim and Uri Gneezy, “Discrimination in a Segmented Society.” *Quarterly Journal of Economics*, 116(1), 2001, 351-377.

*Bertrand, Marianne and Sendhil Mullainathan, “Are Emily and Brendan More Employable than Latoya and Tyrone? A Field Experiment on Labor Market Discrimination,” NBER Working Paper No. 9873, July 2003.

*Neal, Derek A. and William R. Johnson, "The Role of Premarket Factors in Black-White Wage Differences," *Journal of Political Economy*, 104(5), 1996, 869 – 895.

Holzer, Harry J. and Keith R. Ihlanfeldt, "Customer Discrimination and Employment Outcomes for Minority Workers." *Quarterly Journal of Economics*, 113(3), 1998, 835-867.

Symposium: Discrimination in Product, Credit and Labor Markets, *Journal of Economic Perspectives*, 12(2), Spring 1998.

Hamermesh, Daniel and Jeff Biddle, "Beauty and the Labor Market," *American Economic Review*, 84(5), 1994, 1174-1194.

*Farber, Henry and Robert Gibbons, "Learning and Wage Dynamics," *Quarterly Journal of Economics*, 111(4), 1996, 1007 – 1047.

*Altonji, Joseph and Charles Pierret, "Employer Learning and Statistical Discrimination," *Quarterly Journal of Economics*, 116(1), 2001, 313-350.