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Recommendations for Further Reading

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This section will list readings that may be especially useful to teachers of undergraduate economics, as well as other articles that are of broader cultural interest. In general, with occasional exceptions, the articles chosen will be expository or integrative and not focus on original research. If you write or read an appropriate article, please send a copy of the article (and possibly a few sentences describing it) to Timothy Taylor, preferably by email at taylort@macalester.edu, or c/o *Journal of Economic Perspectives*, Macalester College, 1600 Grand Ave., St. Paul, MN 55105.

Smorgasbord

The United Nations Development Programme has published its *Arab Human Development Report 2016*, subtitled "Youth and the Prospects for Human Development in a Changing Reality." "Most recent statistics indicate that two-thirds of the Arab region's population is below thirty years of age, half of which falling within the 15–29-year age bracket. … The report asserts that today's generation of young people is more educated, active and connected to the outside world, and hence have a greater awareness of their realities and higher aspirations for a better future. However, young people's awareness of their capabilities and rights collides with a reality that marginalises them and blocks their pathways to express their opinions, actively participate or earn a living. As a result, instead of being a massive potential

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for building the future, youth can become an overwhelming power for destruction. … Unemployment among youth in Arab countries is the highest in the world, 29 percent in 2013, versus 13 percent worldwide. … The region needs to create more than 60 million new jobs in the next decade to absorb the large number of workforce entrants and stabilize youth unemployment. ... The state-led development model … hobbles promising enterprises, discourages economic efficiency and deters young talents because its goal is not to promote innovation or competition, but solely to preserve access to wealth and power among a few. The result is a top-down model that is based on hand-outs, undermines individual agency and encourages short-term consumption at the expense of long-term investment in human capabilities and competitive production. ... Resource rents in the region have been channelled into lavish and conspicuous real estate projects, unproductive public sector spending and military expenditures, but the spending benefits a tiny slice of society." November 2016. http://arab-hdr.org/PreviousReports/2016/2016.aspx.

Laurence Ball, Joseph Gagnon, Patrick Honohan, and Signe Krogstrup make the case that central banks continue to have considerable power to engage in an expansionary monetary policy, should they wish to do so, in their monograph *What Else Can Central Banks Do?* "Short-term interest rates have been near zero in advanced economies since 2009, making it difficult for central banks to cut rates further and provide needed economic stimulus. There is reason to believe that this lower bound problem will be common in the decades to come. … [T]here is much that policymakers can and should do to provide further stimulus in environments with underemployment and inflation below target. We emphasise two policy options: • *Negative interest rates.* Since 2014, some central banks have pushed nominal interest rates modestly below zero, providing some increase in stimulus. Although there is a limit to how far below zero interest rates can go, it is likely that rates could go somewhat further than what has been done so far without adverse consequences. • *Quantitative easing.* Central banks, beginning with the Federal Reserve and the Bank of England, have already used this tool to mitigate the slumps in their economies since 2008. More stimulus can be provided if policymakers increase the scale of quantitative easing, and if they expand the range of assets they purchase to include risky assets such as equity. … We argue, however, that any side effects are manageable and not of a magnitude to justify timidity in using available tools to regain price stability and restore full employment." Geneva Reports on the World Economy #18, published by the International Center for Monetary and Banking Studies and the Centre for Economic Policy Research, at http://cepr.org/sites/default/files/geneva_reports/GenevaP285.pdf.

Caroline M. Hoxby delivered the 2016 Martin Feldstein Lecture at the National Bureau of Economic Research on the subject: "The Dramatic Economics of the U.S. Market for Higher Education." "We have in the United States what is arguably the world's only true *market* for higher education, as opposed to systems that are largely centrally controlled or financed. This market exhibits a strong positive correlation between students' college readiness (hereafter 'CR') and the educational resources of the institution they attend. … Strikingly, among institutions that experience strong market forces, the productivity of a dollar of educational resources is fairly similar, even if the schools serve students with substantially different CR. On the other hand, among institutions that experience weak market forces, productivity is lower and more dispersed. … If we take the productivity results and the resources-CR correlation as manifestations of market forces, then it follows that a student with higher CR must make more productive use of any marginal dollar of educational resources than a student who is less prepared for college. This property, which economists call 'single-crossing,' has long been hypothesized to be a law of nature, at least in tertiary education. This is the first compelling evidence. Single-crossing has profound consequences for the role of higher education in income growth …" *NBER Reporter* (2016, Number 3, pp. 1–6) has published an edited version of the talk at http://www.nber.org/reporter/2016number3/2016number3.pdf. You can also view the hour-long lecture and the slides at http://www.nber.org/feldstein_lecture_2016/feldsteinlecture_2016.html.

The International Labour Organization has published "Non-Standard Employment Around the World: Understanding Challenges, Shaping Prospects." "In over 150 countries, the average use of temporary employees in registered private sector firms is 11 per cent, with about one-third of countries around this mean. … Casual employment is a prominent feature of labour markets in developing countries, and has grown in importance in industrialized countries. … In Australia, where casual employment is a specific employment category, one out of four employees is casual. … Approximately 10 per cent of the workforce in the United States have irregular and on-call work schedules, with the lowest-income workers the most affected … In countries with available data, TAW [temporary agency work] spans from 1 to over 6 per cent of wage employment. … NSE [non-standard employment], particularly when it is not voluntary, may increase workers' insecurities in different areas …" November 2016, http://www.ilo.org/global/publications/books/WCMS_534326/lang–en/index.htm.

Symposia and Special Issues

Cityscape offers a 10-paper symposium with various perspectives on gentrification. For example, in their essay "Advancing our Understanding of Gentrification," Ingrid Gould Ellen and Lei Ding (the editors of the symposium) write: "In sum, since 2000, U.S. cities have seen greater increases in the SES [socioeconomic status] index and other measures in downtown neighborhoods and an expansion of SES index increases to more cities and neighborhoods. Compositional shifts toward White, prime-age, and college-educated households—not population growth—are more characteristic of recent changes. Although lower-skilled or lower-education jobs continue to suburbanize, jobs employing college-educated workers have stopped declining or have even increased in traditional downtowns. Downtown safety and amenity values appear to have increased. A sizable number of downtown neighborhoods in big cities, however, have not seen increases in our SES index at all, and a number of peripheral neighborhoods in smaller metropolitan areas have seen dramatic changes." In "Commentary: Causes and Consequences of Gentrification and the Future of Equitable Development Policy," Derek Hyra writes: "Gentrification, in some places, is associated with political and cultural displacement. … In certain respects changing norms may be positive in terms of counteracting norms of violence or a lack of health-producing amenities and activities, but do the new norms and incoming amenities in gentrifying neighborhoods sufficiently cater to the preferences of low-income people or do they predominately represent newcomers' tastes and preferences?" U.S. Department of Housing and Urban Development, 2016, vol. 18, no. 3, at https://www.huduser.gov/portal/periodicals/cityscpe/vol18num3/index.html.

Future of Children has published a 10-paper symposium, plus an overview essay, about the existing research on "Starting Early: Education from Prekindergarten to Third Grade." In the overview essay, "Starting Early: Introducing the Issue," Jeanne Brooks-Gunn, Lisa Markman-Pithers, and Cecilia Elena Rouse write: "[W]e believe the weight of the evidence, as reflected in the articles in this issue, indicates that high-quality pre-K programs can indeed play an important role in improving later outcomes, particularly for children from more disadvantaged families. At the same time, significant questions remain. … At the end of most evaluated [early childhood education] programs, researchers find effects on school achievement, though these effects diminish over elementary school. When program effects are large, they tend to be maintained into elementary school, though they are smaller than the initial impacts. At the same time, we see long-term effects on adult outcomes—for example, a reduction in crime or the completion of more schooling. It's puzzling that during elementary school, the achievement-test scores of children who attended prekindergarten converge with the test scores of children who did not, a phenomenon commonly called fadeout. Studies document that those who participate in a pre-K program have a significant advantage in kindergarten in terms of educational achievement. But those assigned to the control group tend to catch up in the first through third grades; in most evaluations, more than half the difference between the two groups disappears by the end of first grade." Fall 2016, http://www.futureofchildren.org. The symposium extends and expounds on a number of themes from the paper by Greg J. Duncan and Katherine Magnuson, "Investing in Preschool Programs," in the Spring 2013 issue of this journal.

The *Russell Sage Foundation Journal* has devoted an issue to the topic "A Half-Century of Change in the Lives of American Women," including a short introduction and 10 readable essays. As one example, Kim A. Weeden, Youngjoo Cha, and Mauricio Bucca write on "Long Work Hours, Part-Time Work, and Trends in the Gender Gap in Pay, the Motherhood Wage Penalty, and the Fatherhood Wage Premium": "One of the key empirical insights of this literature is that the gender gap in wages at the aggregate level is perpetuated by persistent gender differences in individual labor market behaviors: whether men and women work for pay, the occupations and industries in which they work, and the number of hours per week they work. These gender differences emerge in the context of structural changes in the distribution of jobs with particular attributes (such as expected work hours) and in the wages associated with these attributes, resulting in complex and offsetting effects on the gender gap in wages. For example, … the diffusion of long work hours in the United States in the 1990s and 2000s, coupled with the persistent gender gap in long work hours and rising hourly compensation for long work hours, was associated with an increase in the gender gap in wages after adjusting for other wage-relevant attributes. These trends largely offset wage-equalizing shifts in women's educational attainment. A second empirical insight is that much of what appears to be a gender wage gap is better understood as a gender-specific family gap in pay or, as they are known in the economic and sociological literatures, the motherhood wage penalty and fatherhood wage premium: mothers earn less than observationally similar childless women, and fathers earn more than observationally similar childless men." August 2016, vol. 2, issue 4, at http://www.rsfjournal.org/toc/rsf/2/4. These papers complement the symposium on "Women in the Labor Market" in this issue.

Prominent Economists

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel for 2016 has been awarded to Oliver Hart and Bengt Holmström "for their contributions to contract theory." Each year, the committee posts a "Popular Science Background" with a readable overview of the laureates' work. Here's a slice of the description of Holmström's work:

> This *informativeness principle* does not merely say that payments should depend on outcomes that can be affected by agents. For example, suppose the agent is a manager whose actions influence her own firm's share price, but not share prices of other firms. Does that mean that the manager's pay should depend only on her firm's share price? The answer is no. Since share prices reflect other factors in the economy—outside the manager's control—simply linking compensation to the firm's share price will reward the manager for good luck and punish her for bad luck. It is better to link the manager's pay to her firm's share price relative to those of other, similar firms (such as those in the same industry). A related result is that the harder it is to observe the manager's effort—perhaps due to many distorting factors blurring the relationship between her effort and the company's performance—the less the manager's pay should be based on performance. In industries with high risk, payment should thus be relatively more biased towards a fixed salary, while in more stable environments it should be more biased towards a performance measure.

Here's a slice of the description of Hart's work:

> The main idea is that a contract that cannot explicitly specify what the parties should do in future eventualities, must instead specify who has the right to

> decide what to do when the parties cannot agree. … In complex contracting situations, allocating decision rights therefore becomes an alternative to paying for performance. … Suppose a new invention requires the use of a particular machine and a distribution channel. Who should own the machine and who should own the distribution channel—the inventor, the machine operator, or the distributor? If innovation is the activity for which it is most difficult to design a contract, which seems realistic, the answer could be that the innovator should own all the assets in one company, even though she may lack production and distribution expertise. As the innovator is the party that has to make greater non-contractible investments, she also has greater need of the future bargaining chip that property rights bring to the assets. … Should providers of public services, such as schools, hospitals, and prisons, be privately-owned or not? According to the theory, this depends on the nature of non-contractible investments.

The "Popular Science Background" and a more technical "Scientific Background" paper called "Oliver Hart and Bengt Holmström: Contract Theory" are available with other background information at https://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2016.

Douglas Clement has an "Interview with David Autor," and the subheading reads: "MIT economist on tech, trade & job markets, how Chinese imports affect U.S. politics & family structure, and the Janus-faced gig economy." "Computerization changes what type of work people do—that's very clear; we see the occupational change going on. But the part that people miss is that displacement of a set of tasks or even entire job categories does not augur the end of work. … Most of the jobs we have didn't really exist in any significant number 200 years ago. As a result, work is much better. It's more interesting, it's more productive, it's safer and more rewarding. … We've adjusted to the displacement of human labor by automation along at least three margins. One is that we've just created many new and interesting things to do. … Two, more of us work, but we work fewer hours. People don't work until the day they die. They work 40- and 50-hour weeks instead of 80-hour weeks. They work five days a week instead of seven. They take vacations. So they've spread the work in a way that's constructive and leads to a better quality of life. And the other thing, of course, is that as we get wealthier, our consumption demands rise, so we create a lot of work because we choose to consume rather than just taking it all in leisure. If a worker in 2015 wanted to have a 1915 level of income, he or she could work about 17 weeks a year. But most of us choose not to. We'd rather have a bigger house and a couple of cars and whatever else." *The Region*, Federal Reserve Bank of Minneapolis, September 7, 2016, https://www.minneapolisfed.org/publications/the-region/interview-with-david-autor.

David A. Price has an "Interview" with Josh Lerner with a focus on venture capital, private equity, crowdfunding, and entrepreneurship. On fees: "An interesting thing is that fees in private equity and venture capital are remarkably sticky.

The compensation structures don't look that different in today's era of $10 billion-plus funds than they did back in an era of $10 million funds. They've come down somewhat, so instead of 2 percent committed capital, it's more likely to be 1.5 percent. But given the economies of scale of running a larger fund, it means the profits per partner can be staggering." On crowdfunding: "Moreover, when you look at attempts to create entrepreneurial finance models with crowdfunding-type flavors to them, the outcomes have not been great. For instance, there was an effort in Europe during the 1990s to create a whole series of small capitalization models where riskier young companies could list and so forth with relatively lax regulations. They ended up with a phenomenon where the bad drove out the good. All it took was a few scammers to come in and undertake 'pump and dump' schemes, and the interest in those markets declined precipitously. And I think some of the same danger lurks here." On the timing of initial public offerings: "For instance, among venture-backed firms today, the average company going public was 12 years old at the time of IPO last year. Historically, it was around four or five years old. And so you've got all these companies that are privately held sitting there raising money but staying private. They're getting funded not just by venture capitalists, but also by sovereign wealth funds and family offices and even mutual funds. *Econ Focus*, Federal Reserve Bank of Richmond, Second Quarter 2016, pp. 26–30, https://www.richmondfed.org/publications/research/econ_focus/2016/q2/interview.

Discussion Starters

Diane Whitmore Schanzenbach, Ryan Nunn, Lauren Bauer, Megan Mumford, and Audrey Breitwieser present "Seven Facts on Noncognitive Skills from Education to the Labor Market." "[T]there is a robust and growing body of evidence that noncognitive skills function similarly to cognitive skills, strongly improving labor-market outcomes. These noncognitive skills—often referred to in the economics literature as soft skills and elsewhere as social, emotional, and behavioral skills—include qualities like perseverance, conscientiousness, and self-control, as well as social skills and leadership ability. The value of these qualities in the labor market has increased over time as the mix of jobs has shifted toward positions requiring noncognitive skills. Evidence suggests that the labor-market payoffs to noncognitive skills have been increasing over time and the payoffs are particularly strong for individuals who possess both cognitive and noncognitive skills …" Hamilton Project at the Brookings Institution, October 2016, http://www.hamiltonproject.org/assets/files/seven_facts_noncognitive_skills_education_labor_market.pdf.

The IMF *Fiscal Monitor* for October 2016 is subtitled "Debt: Use it Wisely." "The global gross debt of the nonfinancial sector has more than doubled in nominal terms since the turn of the century, reaching $152 trillion in 2015. About two-thirds of this debt consists of liabilities of the private sector. Although there is no consensus about how much is too much, current debt levels, at 225 percent of world GDP, are at an all-time high. The negative implications of excessive private debt (or what is often termed a "debt overhang") for growth and financial stability are well documented in the literature, underscoring the need for private sector deleveraging in some countries. The current low-nominal-growth environment, however, is making the adjustment very difficult …" http://www.imf.org/external/pubs/ft/fm/2016/02/pdf/fm1602.pdf.

Alain Marciano and Nathalie Moureau discuss "Museums, Property Rights, and Photographs of Works of Art: Why Reproduction Through Photograph Should be Free." From the abstract: "The law concerning the reproduction of works of art is unambiguous: the owner of the physical item does not own the right to copy and reproduce it. The copyright or right to reproduce a work of art either belongs to the artist and his/her heirs, or to everybody when the work is in the public domain. However, a large number of museums use their property rights to assume a copyright, i.e. a right to reproduce works of art. These illegal practices are the result of choosing a business model based on the desire to cross-subsidise the upstream market of the services provided to the public with the benefits obtained by monopolising the 'downstream' market of the copies or reproductions of works of art. … We argue that this strategy conflicts with the mission upheld by museums and prevents certain externalities from circulating in the society." *Review of Economic Research on Copyright Issues*, 2016, vol. 13, no. 1, pp. 1–28). Also available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2840305.

Samuel Hammond has written "Bone Marrow Mismatch: How Compensating Bone Marrow Donors Can End the Transplant Shortage and Save Lives." "The most common goal of bone marrow donation is to harvest hematopoietic (blood-forming) stem cells (HSC) for transplant in patients with life threatening diseases like leukemia and anemia. For decades, the main method of HSC extraction was aspiration: a painful procedure wherein a needle is inserted directly into the donor's bone, extracting the soft, spongy tissue from its source. Today, over 70% of HSC donations are instead extracted indirectly from the bloodstream through a safe, non-invasive technique known as apheresis, after which the cells quickly regenerate. … [W]hile the volunteer donor registry has grown in recent years, it remains beset by low follow-through rates. … [T]his paper estimates that the gap between the actual and optimal size of the bone marrow registry leads to 1318 fewer transplants and 275 deaths per year. … This report argues that legalizing compensation for HSC donors would help to close that gap by increasing registry size among target populations while improving follow-through rates of those who are called upon to donate … Internal market research by the healthcare company Hemeos indicates a payment of $2000 is sufficient to increase the follow-through rate of pledged donors to 90% ..." Niskanen Center Discussion Paper, November 15, 2016, https://niskanencenter.org/wp-content/uploads/2016/11/Bone-Marrow-Mismatch-1.pdf.