

Public Economics
PS #5

Due: November 27th in class

1. Read two comment papers on the Structural estimation on Hausman's paper on labor supply, one by MaCurdy, T., D. Green and H. Paarsch and another by Soren Blomquist. (Both are available on the class webpage). One is criticizing Hausman's paper and the other is defending it. First summarize the points of each paper. Then, state your own opinion regarding which side is more appropriate.

2. Read the paper by Hammermesh in Industrial Labor Relation and the paper by Angrist and Kruger "empirical strategy in labor economics". Both papers are available on the class web. In the paper by Hammermesh, read the section on the panel data section. In the paper by Angrist and Kruger, read the section on the Panel data section. Both papers critically state that the use of the fixed effect in a Panel data have a dangerous property. They say that it tends to make the coefficient of interest close to zero. Explain why. (By the way, the paper by Angrist and Kruger is very well written in thinking of identification strategy. Thus, it is highly recommended to read all parts of the paper for your own research.)

3. Read the paper by Jonath Gruber "The Incidence of Mandated Maternity Benefits" American Economic Review 1994 which is available on the class web and answer the following questions.

- (a) In this paper, what is the author's interest? State very specifically.
- (b) What does the economic theory predict the effect on wages when the maternity benefit is mandated?
- (c) What is the author's identification strategy?
- (d) In equation (1), the author states that equation 1 is the same as DDD. To simplify the argument, forget about X_{ijt} . Show that β_8 shows the Difference of Differences of Differences.
- (e) What is the author's conclusion?

4. Read the paper by Angrist and Pischke in American Economic Review "Children and Their Parents' Labor Supply: Evidence from Exogenous Variation in Family Size"

- (a) In this paper, what is the authors' interest?
- (b) Why are they interested in this issue?
- (c) In this paper, what is the identification strategy? More specifically, what is the control group and what is the treatment group?
- (d) The key identifying assumption is that such an IV does not enter the main equation of the interest? Under what condition, such an IV should enter the

main equation? In other words, under what condition, such an IV should affect female labor supply directly?

(e) What is the authors' conclusion?