

**WASHINGTON AND LEE UNIVERSITY  
SCHOOL OF COMMERCE, ECONOMICS AND POLITICS**

**ECONOMICS 205: ECONOMICS OF SOCIAL PROBLEM  
Winter 2004**

**INSTRUCTOR:** Art Goldsmith, *Jackson T. Stephens Professor of Economics*

**CONTACT INFO.:** Phone: (540) 458-8970  
Room 2210 Williams School of Business  
e-mail: GoldsmithA@wlu.edu

**CLASS TIMES:** Monday, Wednesday, and Friday: 1:00-2:00 (F hour)-Section 1  
Monday, Wednesday, and Friday: 2:00-3:00 (G hour)-Section 2

**CLASS LOCATION:** Williams School, Room 235

**OFFICE HOURS:** Monday, Wednesday, and Friday: 8:30-10:00, and 3:00-4:00  
or by appointment. To make an appointment please see me before  
or after class, leave a message on my door, call my office at 458-  
8970, or leave an e-mail message.

**OVERVIEW**

The purpose of the course is to use economic reasoning and analysis to better understand a wide range of contemporary social problems. The course is organized as a seminar. Each class period participants will discuss an article, typically from the *Journal of Economic Perspectives*, on a designated socio-economic problem. Class discussion will focus on three elements. First, what is known about a particular problem? Second, the predictions generated by analysis of formal socio-economic models about the causes and consequences of this problem. Finally, whether evidence is consistent with the predictions of the formal model. Interdisciplinary perspectives will be weaved into every aspect of the discussion. Topics covered include issues pertaining to: poverty, education, health care, race, property rights, immigration, crime, fiscal policy, social security, and corporate performance and transparency.

**REQUIRED READING AND PARTICIPANT RESPONSIBILITIES**

Mimeographed course Reading Pac (to be purchased from the Secretary)

*Wall Street Journal* (sign up in class for delivery)

It is imperative that members of the seminar read the assigned readings in a timely (i.e., by the time class meets) and a professional or thorough fashion, since seminars only work when

students are prepared. Members of the seminar will be asked to fill out an *Overview Paper Form* for each assigned reading prior to attending class (the form is provided by the instructor). The “Form” asks students to; identify the questions examined in the paper, describe the economic model presented in the paper, set out the key findings of the paper, identify shortcomings of the analysis conducted in the paper, and to reflect on how the analysis might be extended. Completion of the *Overview Paper Form* is a student’s ticket to attend class. *Overview Paper Forms* are to be kept in an Overview Notebook (a 3 ring notebook) which should always be brought to class. On occasion, student Overview Notebooks will be collected for examination. This requirement of the course is aimed at ensuring lively and insightful discussion during meetings of the seminar.

## **PROBLEM AND POLICY PAPER**

Seminar participants are required to produce a “*Problem and Policy Paper*” over the course of the term. Students must start by identifying a socio-economic problem and obtaining approval for the topic from the instructor by Monday February 2<sup>nd</sup> (the beginning of the 5<sup>th</sup> week of the course). Students are expected to read a few professional (i.e., journal) articles on their topic as well as material available in the media or off the web. Given this background students are to prepare a 5-8 page *Problem and Policy Paper* that must follow the following structure:

### **I. Introduction**

This section must identify the problem to be examined and must make the case for why this is a problem.

### **II. Literature Review**

This section describes what is known about this problem in the professional literature and through journalistic (i.e., news media and web) sources. Evidence on the questions you are examining and related questions should be cited along with a brief description of the data used in these studies and the type of analysis conducted.

### **III. Theoretical Model**

Set forth (in blue or black ink) a graphical model that you will use to generate insights about the socio-economic problem your paper addresses.

### **IV. Analysis of the Model**

This section must contain a discussion of the impact of one or more *ceteris paribus* violations (drawn in red or green) to obtain insights about the cause and consequences of the socio-economic problem you have chosen to examine. You should draw some conclusions based on your inquiry.

### **V. Policy Recommendation(s)**

This section should set out one or more policy recommendations to address (i.e., reduce and possibly eliminate) the socio-economic problem examined in the paper.

The *Problem and Policy Paper* is due at 5:00 p.m. Friday March 26<sup>th</sup>, 2004. Students are expected to provide the instructor with an update on the status of their paper on Friday February 13, 2004 (the last day of class prior to the mid-semester break. Seminar participants are expected to schedule a formal meeting with the course instructor between Monday February 23<sup>rd</sup> and Monday March 8<sup>th</sup> to show the instructor the model they are working with in their paper and the *ceteris paribus* analysis they are conducting (of course students are welcome to discuss their work with the instructor during normal office hours as often as they like). Failure to complete this part of the paper project in a timely fashion is deemed a serious offense! The paper is due by the end of the working day on March 26<sup>th</sup>, 2004--no exceptions!!

## **GRADING**

Final grades are based on a weighted average of midterm exam (25%), final exam (25%), research paper (25%), and class participation-preparation (25%).

## **COURSE SCHEDULE**

Class #1: Monday January 5, 2004  
No Class

### *How We Learn and How Economists Think*

Class #2: Wednesday January 7, 2004

#### **Reading**

Leamnsion, Robert, 2002. "*Learning: Your First Job*" Working Paper Dartmouth College.

#### **Class Discussion**

Course Overview  
Scientific Method  
Examples of Questions  
Leamnsion paper

Class #3: Friday January 9, 2004

#### **Class Discussion**

Review of Fundamental Economic Models  
Supply and Demand  
Production Possibility Curve; Production Function  
Marginal Benefit--Marginal Cost  
Equal-Marginal rule  
Indifference Curve Analysis  
*Ceteris Paribus* Violation (the only game in town)

### *Empirical Evaluation: Skills and Issues*

Class #4: Monday January 12, 2004

**Reading**

Sjoquist, David, L., Larry Schroeder, and Paula Stephan, 1974. "Interpreting Linear Regression Analysis: A Heuristic Approach," *General Learning Press* (for University Programs Modular Studies--Economics), pp. 1-42.

**Class Discussion**

First half of Sjoquist, Schroeder, and Stephan.

Class #5: Wednesday January 14, 2004

**Class Discussion**

Second half of Sjoquist, Schroeder, and Stephan.

*Economic Well-Being: A Domestic Overview*

Class #6: Friday January 16, 2004

**Reading**

Blank, Rebecca M., 2000. "Distinguished Lecture on Economics in Government-Fighting Poverty: Lessons from Recent U.S. History." *Journal of Economic Perspectives*, 14(2), pp. 3-19.

**Class Discussion**

First 2/3 of Blank paper.

Class #7: Monday January 19, 2004 (Martin Luther King Holiday)

**Reading**

Darity, William, Jr., 2002. "Will *the Poor Always Be With Us?*" (Opening Presentation, American Economic Association Meetings, January 2003, Washington D.C.), pp. 1-9.

**Class Discussion**

Last 1/3 of Blank paper, and Darity paper.

*Economic Well-Being: An International Overview*

Class #8: Wednesday January 21, 2004

**Reading**

Besley, Timothy, and Robin Burgess, 2003. "Halving Global Poverty," *Journal of Economic Perspectives*, 17(3), pp. 3-22.

**Class Discussion**

Besley and Burgess paper.

**Special Joint Class Meeting:** Thursday January 22, 2004  
(7:00-8:30, Williams School, Room 327)

Craig Richardson, Professor of Economics (Salem College, NC)

**Reading**

Richardson, Craig, 2003. "Somber Lessons for the Rest of the World."  
*Zimbabwe: A Country Unraveled*, Forthcoming: Edwin Mellen Press.

Krueger, Alan, B., (January 9) 2003. "Squatters and Land Titles in Peru," Essay-  
-New York Times.

**Class Discussion**

Richardson paper  
Krueger essay

*The Economics of Education*

Class #9: Friday January 23, 2004

**Reading**

Card, David, and Alan B. Krueger, 1996. "School Resources and Student  
Outcomes: An Overview of the Literature and New Evidence from North and  
South Carolina," *Journal of Economic Perspectives*, 10(4), pp. 31-50.

**Class Discussion**

Card and Krueger paper.

Class #10: Monday January 26, 2004

**Reading**

Krueger, Alan B., 1999. "Experimental Estimates of Education production  
Functions," *Quarterly Journal of Economics*, 114(2), pp. 497-532.

Glazer, Nathan, (October 13-20) 2003. "Will Anything Work?"--Review of *No  
Excuses: Closing the Racial Gap in Learning* by Abigail Thernstrom and Stephan  
Thernstrom (Simon and Schuster), New Republic, pp. 44-50.

**Class Discussion**

Krueger paper  
Glazer paper--time permitting

Class #11: Wednesday January 28, 2004

**Reading**

Currie, Janet, 2001. "Early Childhood Education Programs," *Journal of  
Economic Perspectives*, 15(2), pp. 213-38.

**Class Discussion**

Glazer paper  
Currie paper

**Paper Alert**

*Policy Paper* topic must be approved by Monday February 2<sup>nd</sup>

Class #12: Friday January 30, 2004

No Class--Mock Convention

Class #13: Monday February 2, 2004

**Reading**

Neal, Derek, 1998. "What Have We Learned about the Benefits of Private Schooling?," Federal Reserve Bank of New York--Economic Policy Review, pp. 79-84.

Stern, Sol, July 17, 1996. "Why the Catholic School Model is Taboo," Wall Street Journal--Editorial.

**Class Discussion**

Neal paper

Class #14: Wednesday February 4, 2004

**Reading**

Ladd, Helen, F., 2002. "School Vouchers: A Critical View," *Journal of Economic Perspectives*, 16(4), pp. 3-24.

Neal, Derek, 2002. "How Vouchers Could Change the Market for Education" *Journal of Economic Perspectives*, 16(4), pp. 25-44.

**Class Discussion**

Ladd and Neal papers

Class #15: Friday February 6, 2004

**Special Joint Class Meeting:** 1:30-3:00, Northen Auditorium

Diane M. Whitmore, Harris Graduate School of Public Policy Studies, University of Chicago; and Robert Wood Johnson Fellow, School of Public Health, University of California at Berkeley.

"Would Smaller Classes Help Close the Black-White Achievement Gap?"

*Labor Market Outcomes: Race, Ethnicity, and Gender*

Class #16: Monday February 9, 2004

**Reading**

Darity, William Jr., and Patrick L. Mason, 1998. Evidence on Discrimination in Employment: Codes of Color, Codes of Gender," *Journal of Economic Perspectives*, 12(2), pp. 63-90.

**Class Discussion**

Darity paper

Class #17: Wednesday February 11, 2004

**Reading**

Heckman, James J., 1998. "Detecting Discrimination," *Journal of Economic Perspectives*, 12(2), pp. 101-116.

**Class Discussion**

Heckman paper

**Paper Alert**

*Policy Paper* progress report due on Friday February 13, 2004.

Class #18: Friday February 13, 2004

**Reading**

Krueger, Alan, B., (December 12) 2002. "What's in a Name? Perhaps Plenty if You're a Job Seeker," Essay--New York Times.

Loury, Glenn C., "The Hard Questions: Comparative Disadvantage," The New Republic, pp. 29.

Loury, Glenn C., "The Hard Questions: Exclusionary Rule," The New Republic, pp. 13-14.

Loury, Glenn C., (November 30) 1997. "Cast Out By the Right," The New York Times OP-ED section--editorial.

**Class Discussion**

Krueger essay

Loury essays

**Mid-Semester Break (Saturday February 14-Sunday February 22, 2004)**

Class #19: Monday February 23, 2004

**Reading**

Goldsmith, Arthur H., Darrick Hamilton, and William Darity Jr., 2003. "From Dark to Light: Phenotypical Variation and Wages Among African-Americans," Working Paper.

**Class Discussion**

Goldsmith, Hamilton, and Darity paper

Class #20: Wednesday February 25, 2004

**Reading**

Blau, Francine, D., and Lawrence M. Kahn, 2000. "Gender Differences in Pay," *Journal of Economic Perspectives*, 14(4), pp. 75-99.

**Class Discussion**

Blau paper

*Technological Change*

Class #21: Friday, February 27, 2004

**Reading**

Freeman, Richard, B., 1995. "Are Your Wages Set in Beijing?," *Journal of Economic Perspectives*, 9(3), pp. 15-32.

**Class**

Discussion of Freeman paper

*Immigration: Economic Consequences*

Class #22: Monday, March 1, 2004

**Reading**

Friedberg, Rachel, M., and Jennifer Hunt, 1995. "The Impact of Immigrants on Host Country Wages, Employment and Growth," *Journal of Economic Perspectives*, 9(2), pp. 23-44.

Gaston, Noel, and Douglas Nelson, 2000. "Immigration and Labour-Market Outcomes in the United States: A Political-Economy Puzzle," *Oxford Review of Economic Policy*, 16(3), pp. 104-114.

**Class Discussion**

Discussion of Friedberg and Hunt, and Gaston and Nelson papers

**Paper Alert**

*Policy Paper* meeting to discuss *ceteris paribus* analysis must be completed by Monday March 8<sup>th</sup>.

*Crime: Causes and Consequences*

Class #23: Wednesday, March 3, 2004

**Reading**

Freeman, Richard, B., 1996. "Why Do So Many Young American Men Commit Crimes and What Might We Do About It?," *Journal of Economic Perspectives*, 10(1), pp. 25-42.

**Class Discussion**

Freeman paper

Class #24: Friday, March 5, 2004

**Reading**

DiIulio, John J. Jr., 1996. "Help Wanted: Economists, Crime and Public Policy?," *Journal of Economic Perspectives*, 10(1), pp. 3-24.

**Class Discussion**

Discussion of DiIulio paper

*Health: Status, Provision, Challenges*

Class #25: Monday, March 8, 2004

**Reading**

McClellan, Mark, 2000. "Medicare Reform: Fundamental Problems, Incremental Steps." *Journal of Economic Perspectives*, 14(2), pp. 21-44.

Cutler, David M., 2000. "Walking the Tightrope on Medicare Reform." *Journal of Economic Perspectives*, 14(2), pp. 45-56.

**Class Discussion**

Discussion of McClellan and Cutler papers

Class #26: Wednesday March 10, 2004

**Reading**

Case, Anne, Darren Lubotsky, and Christina Paxson, 2002. "Economic Status and Health in Childhood: The Origins of the Gradient," *American Economic Review*, 92(5), pp.1308-1334.

**Class Discussion**

Discussion of Case, Lubotsky, and Paxson paper

Class #27: Friday March 12, 2004

**Reading**

Ernest R. Berndt, 2002. "Pharmaceuticals in U.S. Health Care: Determinants of Quantity and Price." *Journal of Economic Perspectives*, 16(4), pp. 45-66.

**Class Discussion**

Discussion of Berndt paper

Class #28: Monday March 15, 2004

**No Class Meeting**

Class #29: Wednesday March 17, 2004

**Reading**

Michael Kremer, 2002. "Pharmaceuticals and the Developing World." *Journal of Economic Perspectives*, 16(4), pp. 67-90.

**Class Discussion**

Discussion of Kremer paper

*Fiscal Policy: Issues and Outcomes*

Class #30: Friday March 19, 2004

**Reading**

Cogan, John F., and Olivia S. Mitchell, 2003. "Perspectives from the President's Commission on Social Security Reform," *Journal of Economic Perspectives*, 17(2), pp. 149-72.

**Class Discussion**

Discussion of Cogan and Mitchell paper

**Paper Alert**

*Policy Paper* due no later than Friday March 26<sup>th</sup>

Class #31: Monday March 22, 2004

**No Class Meeting**

Class #32: Wednesday March 24, 2004

**Reading**

Solow, Robert, M., 2000. "Should we Pay the Debt?," *The New York Review of Books*, pp. 7-9.

Krugman, Paul, (September 14) 2003. "The Tax-Cut Con," *New York Times Magazine*, pp. 54-62.

**Class Discussion**

Discussion of Solow and Krugman essays

*Corporate Performance and Governance*

Class #33: Friday March 26, 2004

**Reading**

Lev, Baruch, 2003. "Corporate Earnings: Facts and Fiction," *Journal of Economic Perspectives*, 17(2), pp. 27-50.

**Class Discussion**

Discussion of Lev paper

Class #34: Monday March 29, 2004

**Reading**

Demski, Joel S., 2003. "Corporate Conflicts of Interest," *Journal of Economic Perspectives*, 17(2), pp. 51-72.

**Class Discussion**

Discussion of Demski paper

*The Economics of Sanctions*

Class #35: Wednesday March 31, 2004

**Reading**

Davis, Lance, and Stanley Engerman, 2003. "Sanctions: Neither War nor Peace," *Journal of Economic Perspectives*, 17(2), pp. 187-197.

**Class Discussion**

Discussion of Davis and Engerman paper

Class #36: Friday April 2, 2004

**Class Discussion**

Course Review and Recommendations for Revision