Economics 113: Fall 2005: Problem Set 4

Due in lecture April 26, 2005

1. Social Mobility

Suppose we have a transition matrix for lifetime income and status from parents to children in America that divides the population into quartiles and looks like this:

<table>
<thead>
<tr>
<th>Parents’ Income and Status</th>
<th>Top</th>
<th>2nd</th>
<th>3rd</th>
<th>Bottom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chance</td>
<td>Top</td>
<td>60%</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>That</td>
<td>2nd</td>
<td>25%</td>
<td>40%</td>
<td>25%</td>
</tr>
<tr>
<td>Child’s</td>
<td>3rd</td>
<td>10%</td>
<td>25%</td>
<td>40%</td>
</tr>
<tr>
<td>Income and Status</td>
<td>Bottom</td>
<td>5%</td>
<td>10%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Suppose further that generations are 30 years long, and that all—100%--of African-Americans born in 1870 are in the bottom quartile.

a. Consider African-Americans three generations later—those born in 1960, and so 45 years old today. If the “normal” income and status dynamics of America had been operating for the African-American population, what would you expect the income and status distribution of this three-generations-later African-American population to look like today?

b. Consider three generations from now—the African-American population to be born in 2050. What would you expect its income and status distribution to look like if it were to follow America’s “normal” income and status dynamics?

c. What does this exercise make you think about the question, “When should the time for affirmative action for African-Americans be over?”?

2. Discrimination

At his confirmation hearing for the Federal Reserve in 1987, Alan Greenspan caused a brief political firestorm by saying that her preferred to hire women and minorities for his private-sector economic consulting firm, Townsend-Greenspan. Because they were discriminated against in the broader labor market, he found that he could get a better
worker for the salaries he was willing to pay if he took a special, close look at the women and minorities who applied for the jobs.

a. Was Alan Greenspan taking advantage of other employers’ discrimination against women and minorities and exploiting them?

b. Was Alan Greenspan playing a constructive role in the situation by boosting demand for women and minorities in the financial sector?

c. Explain why economists often argue that the fact that some employers discriminate does not in general have (very) bad consequences for the people they discriminate against if there are enough employers who do not discriminate in the labor market.

d. What potential holes can you think of in the argument you constructed in part c?