

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:

		Parents' Income and Status			
		<u>Top</u>	<u>2nd</u>	<u>3rd</u>	<u>Bottom</u>
Chance That Child's Income and Status Is...	Top	60%	25%	10%	5%
	2 nd	25%	40%	25%	10%
	3 rd	10%	25%	40%	25%
	Bottom	5%	10%	25%	60%

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

- 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?
- 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?
- 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 he 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?