

# Course Preview: Good Economics for Hard Times

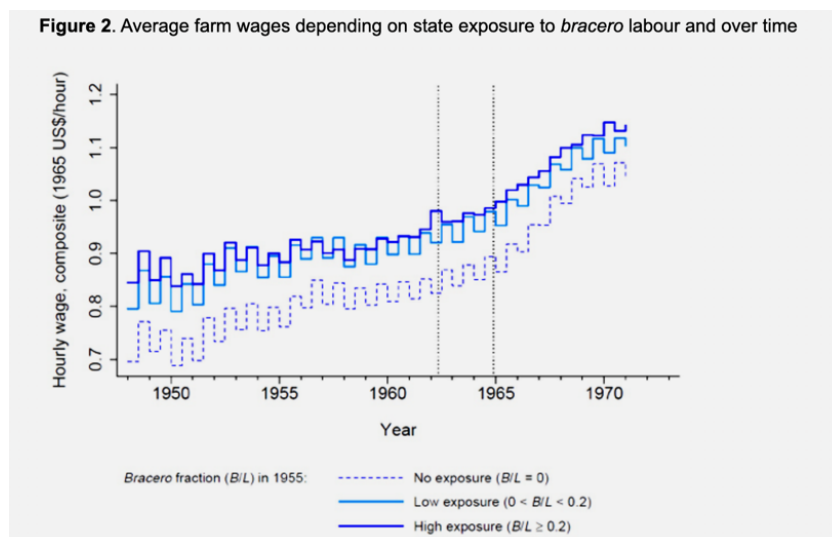
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In this introductory course you learn how current applied economics uses data to tackle some of the toughest problems facing society. Taught by Nobel-prize winning MIT professors Abhijit Banerjee and Esther Duflo and based on their book *Good Economics for Hard Times*, the course specifically addresses today's most pressing issues in the United States and other advanced economies. It is structured as follows:

- Week 1: Introduction
- Week 2: Migration
- Week 3: Trade
- Week 4: Likes, wants and needs
- Week 5: Likes, wants and needs (continued)
- Week 6: Growth
- Week 7: Growth (continued)
- Week 8: Climate change
- Week 9: Inequality
- Week 10: Government
- Week 11: Social policy

Each week contains one or two lectures. To engage the learners, the lectures come in the form of several video clips that are each followed by short quiz questions (3 quiz questions every ten minutes). Each week learners also need to submit problem sets containing similar questions. To give you an idea of these questions we are providing a sample below. Do not worry if you cannot answer the questions right now. They refer directly to materials covered in the corresponding lecture clip. The questions below are not a test of your existing knowledge (there are no prerequisites for this introductory course), but should rather give you an idea on what kind of questions you will be able to answer when you take this course.

## Migration



[True or False?] The graph above from Clemens et al. (2018) shows that wages increased in the areas formerly exposed to Braceros after the migrants disappeared (the dark blue graph after 1965). This shows that the removal of migrants increased wages.

- True
- False

## Trade

[Select all that apply] What have we learnt about the sticky economy and its importance for the effects of trade?

- Labor is sticky.
- Only labor is sticky; capital is naturally very mobile.
- Capital is also sticky.
- Countries are no single markets for labor and capital that rapidly assign all factors to their best use.
- We have to worry about the effects of trade within countries, especially the effect on the poor.

## Likes, wants and needs

[Multiple Choice] Should we study preferences?

- Yes. We already saw that people are not only driven by financial incentives, but we have not discussed yet what it is that they are motivated by. In order to make policies, we need to understand what moves people.
- No. People will follow policies, we simply need to find the best policies, we do not need to know people's preferences.

## Growth

[Fill the Blanks] Based on the theory that the state should make innovations as [BLANK 1] as possible in order to generate growth, politicians in the U.S. (starting with Reagan) have [BLANK 2] taxes for rich capital holders. The idea is that low taxes make it [BLANK 3] attractive for the rich to invest into innovations and thus generate growth for everyone. Empirical evidence shows that in practice lowering taxes for the rich [BLANK 4] increased innovations and [BLANK 5] generated growth.

- BLANK 1: attractive, unattractive
- BLANK 2: increased, cut
- BLANK 3: more, less
- BLANK 4: has, has not
- BLANK 5: has, has not

## Climate change

The 10-50 rule captures that the [BLANK 1]% of world citizens who emit the most are responsible for around [BLANK 2]% of global emissions and the [BLANK 3]% of world citizens that emit the least are responsible for around [BLANK 4]% of global emissions.

- BLANK 1: 10, 50
- BLANK 2: 10, 50
- BLANK 3: 10, 50
- BLANK 4: 10, 50

## Inequality

[Multiple Choice] What is the key insight from all the empirical evidence discussed this week?

- Inequality is a political choice, not an inevitability.
- Inequality is in no way determined by politics, it comes and goes over time.

## Government

[Select all that apply] What are reasons for low trust in governments?

- Ideology of the right claiming fundamental incompetence of the government.
- Incomplete transparency.
- The government turn-over in democracies facilitating the implementation of very long-term policies.
- Corruption and red tape.
- Capture.

## Social policy

[Fill the Blanks] An experiment showed that people were [BLANK 1] likely to apply for a food assistance program when it was presented as a card to help working families get more out of their grocery money, rather than “food stamps”. This indicates that stigma [BLANK 2] matter.

- BLANK 1: more, equally, less
- BLANK 2: does, does not

## Solutions

Migration: False. Explanation: A simple comparison of wages before and after is not enough. The figure shows that the wages increase in areas formerly exposed to migrants after 1965, but in the same way as they do in areas with low or no exposure. There is no difference between the areas and thus no impact of the removal of migrants on wages.

Migration: halved, 9.3%, 20%. Explanation: The graph on the slides displaying the share of the U.S. population that changed residence during a given year shows that people are reluctant to move. Moreover, three fifths of moves included in the 9.3% of the U.S. population that changed residence in 2019 happen very locally within counties.

Trade: Labor is sticky. Capital is also sticky. Countries are no single markets for labor and capital that rapidly assign all factors to their best use. We have to worry about the effects of trade within countries, especially the effect on the poor. Explanation: Trade has caused many positive developments in many economies, including former developing countries. The purpose of this discussion was to show that there are negative effects, too, and that it is especially important to pay close attention to what effects of trade accrue to who. The losers need to be compensated.

Likes, wants and needs: Yes. Explanation: Preferences reflect what we want, whether we prefer cake or cookies, the beach or the mountains, Brown people or white. They are an important determinant of our actions. It is thus impossible to think about the policy choices we confront in this course without getting a handle on what peoples' preferences represent and where they come from.

Growth: attractive, cut, more, has not, has not. Explanation: The empirical evidence discussed in the course shows that tax cuts for the wealthy do not produce economic growth.

Climate change: 10, 50, 50, 10. Explanation: Most of the top 10% emitters are in the U.S. and Europe, while most of the bottom 50% emitters are in developing economies. The 10-50 rule illustrates the huge inequality in the distribution of global emissions.

Inequality: Inequality is a political choice, not an inevitability. Explanation: Political choices have contributed to large increases in inequality. Let's see in the last question what politics can do today to combat inequality.

Government: Ideology of the right claiming fundamental incompetence of the government. Incomplete transparency. Corruption and red tape. Capture. Explanation: The government turn-over in democracies makes it harder for governments to commit long-term policies, exacerbating the commitment problem described above. All the other answers are reasons for low trust in governments that are investigated in detail in the course.

Social Policy: more, does. Explanation: The SNAP cards reduce stigma through the framing of the program (it is not framed as welfare) as well as its operation (using the card is less visible than presenting food stamps at the counter).