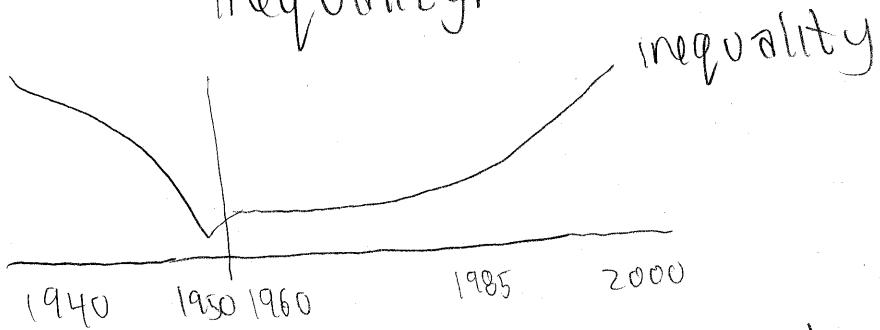


Inequality:Goldin-Katz:

- standard decompositions to determine wage inequality.



$$\log \frac{w(90)}{w(10)}$$

90th %tile
10th %tile

- recent rise in inequality: skill biased technical change.
 - disappearance of unions
 - minimum wage no longer binding
 - international change, immigration
- From the 1940s to the 1960s, inequality decreased.
- Changes in prices, quantities, and residuals of education.
 - How do these affect the entire distribution?

$$\log \text{ weekly wage} = x_{it} \hat{\beta}_E + u_{it}$$

$$\text{error term: } u_{it} = F^{-1}(\psi_{it} | x_{it})$$

- can look at the full distribution
- pick base year, e.g. 1940.

- compute full distribution
 - get summary statistics for 90th and 10th
- change x 's (ie change quantities)
 - get new distribution and summary statistics
- Δ both prices (β 's) and quantities
- total change - (price change) \cdot (quantity change) = residual.

$$y_{p1} = x_{50} \hat{\beta}_{40} + F_{40}^{-1}(\Psi_{50} | x_{50})$$

$$y_{1940} = x_{40} \hat{\beta}_{40} + F_{40}^{-1}(\Psi_{40} | x_{40})$$

◦ change x 's, β 's

$$y_{2p} = x_{50} \hat{\beta}_{50} + F_{40}^{-1}(\Psi_{50} | x_{50})$$

◦ Result: price of skill went down during this time.

Goldin-Margo:

- Demand changes versus supply changes?
- Demand:
 - Hold constant the 1960 value % of labor force by industry with x level of industry.
 - changes only in industry composition looked at here.

- in 1940's, it is not changes in demand
- Must be changes in supply: GI Bill and expansion of high school education
- Iowa, 1915 census: wanted to show that Iowa was well-educated
 - farming (grain-based) was big
 - move towards scientific agriculture
 - want children to be more educated
- Goldin-Margo: Iowa is similar, in terms of returns to high school and college, to the rest of the country.
- There were big changes in labor demand for skilled workers. (Recall: Chandler's paper on the rise of the corporation.)
- Hours worked:

	1890s	1973	1991	hours per day
10%tile	10.99	8.83	8.05	
90%tile	8.95	8.22	8.72	
- If production function requires close coordination need a more uniform distribution of hours worked (Chandlerian period)

The basic U-shaped pattern of inequality is still present when controlling for hours worked.