

**ECON 13191/Honors Seminar 28222**  
**From Sumo Wrestling to Global Warming:**  
**Explaining How Economists Think about the World**

*Department of Economics and Econometrics*  
*University of Notre Dame*

Spring 2008  
Section 01 2:00pm – 3:15pm  
105 Pasquerilla Center

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**Class web page:** [http://www.nd.edu/~wevans1/fresh\\_honors\\_seminar.html](http://www.nd.edu/~wevans1/fresh_honors_seminar.html)

**Readings:** There is no textbook for the class but we will be reading a number of chapters from the following book:

Steven Levitt and Stephen Dubner, *Freakonomics*, William Morrow: New York, 2005

Along with this book, I will assign mandatory readings of academic articles. The readings are available for download in PDF format. The web page is password protected and I will provide the information via email.

**Office Hours:** Mondays, 2:00pm – 3:30pm, Tuesdays, 10:00am – 12:00pm, Wednesdays, 2:00pm – 3:30pm, and by appointment.

I am never far from email. If you have a question, please feel free to contact me at wevans1@nd.edu.

**Course Rationale and Theme:**

The primary lesson of economics is that incentives matter: economic agents alter their behavior in predictable ways when faced with changing costs and benefits. Over the past 30 years, the power of economics as a predictive social science has been demonstrated time and time again as scholars have shown that seemingly uneconomic decisions can be modeled from an economic perspective. In this seminar, we will use academic readings and popular books such as *Freakonomics* to indicate the breadth and scope of questions that can be analyzed from an economic perspective. A sample of topics that will be covered include why obesity is on the rise, whether students should boycott manufacturers that use child labor, how to efficiently combat global warming, the theory behind nuclear deterrence strategies, and why there is cheating in sumo wrestling.

**Course Objective:**

The power of economics as a predictive discipline comes through the ability to use theory to model behavior and verify model implications with data. Through the class readings, I hope to demonstrate that people respond in predictable ways to changing costs and benefits. More

importantly, I hope to generate in students an appreciation for the tools that economists use to test particular theories. What makes economics and other social sciences so interesting is that demonstrating behavioral relationships is very difficult. Medical and physical sciences use tightly-controlled experiments for this purpose but for many economic questions, controlled experiments are not available. For example, social scientists are interested in the long term consequences of teenage pregnancy but one cannot randomly assign children to teenage girls to examine the consequences!!! As a result, economists must use field data and clever methods to identify causal mechanisms. Part of the success of popular books like *Freakonomics* and blogs like [www.marginalrevolution.com](http://www.marginalrevolution.com) and <http://gregmankiw.blogspot.com/> is that these outlets demonstrate intuitive and appealing economic research methodologies. In this class, we will analyze some of these empirical strategies through the class readings and discussion.

**Prerequisites:** In order to fully understand the subtleties of the articles assigned in class requires a level of understanding of economics and statistics that is well beyond the typical freshman. While we will not be dissecting the articles as we would in a more advanced class, I hope generate some broad brushstrokes about economic theories and research methodology. Therefore, any prior knowledge of economics and statistics is not necessary.

**Expectations:** Students are expected to attend class, to read the reading prior to class, to NOT be late to class, to participate in classroom discussions, to hand in assignments when due, and to NOT engage in academic dishonesty.

**Evaluations:** Grades for the course will be based on attendance (10 percent), participation (10 percent), and four short (5 page) papers, each worth 20 percent of the course grade.

**Attendance:** It is often said that 90 percent of life is just showing up, which is close to the truth, but in this class, just showing up only gets 10 percent. This is a seminar class so attendance is mandatory. Everyone starts with an A for attendance and the grade falls by a 1/3 of a letter grade for every missed class after the first. So with 2 missed classes, the grade falls to an A-, 3 missed classes, your attendance grade would be a B+, etc.

**Class Participation:** This class is going to be a drag if people do not add their two cents every now and then. Since economists believe incentives matter, quality participation will be rewarded. The grade will obviously be subjective but the grade will not be capricious or arbitrary. The grade will be based on the quality of the content.

**Papers:** There will be four five to seven page papers due during the semester. The papers will be due (roughly) around the 15<sup>th</sup> of the month from February through April and the last paper will be due on the day of the final for this class. The topics will be fairly narrow and will require some outside reading on your part. The first assignment will be distributed in about a week.

Please familiarize yourself with the Undergraduate Academic Code of Honor:  
<http://www.nd.edu/~hnr/code/docs/handbook.htm>.

**Reading List**  
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**I. The problem of inferring causal relationships from observational data – two examples**

Please read the introduction to *Freakonomics*

Hotz, V. Joseph, “Teenage Childbearing and Its Life Cycle Consequences: Exploiting a Natural Experiment,” *Journal of Human Resources*, 40(3), 2005, 683-715. *Please read the first two pages and look at Table 1*

Levitt, Steven, “Using Election Cycles in Police Hiring to Estimate the Effect of Police on Crime,” *American Economic Review*, 87(3), 1997, 270-290. *Please read the introduction*

**II. Methods for identifying causal relationships in economics**

**A. Experiments**

Bertrand, Marianne and Sendhil Mullainathan, “Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination,” *American Economic Review*, 94(4), 2004, 991-1013.

Also, read Chapter 6 of *Freakonomics*

Fisman, Raymond, et al., “Gender Differences in Mate Selection: Evidence from a Speed Dating Experiment,” *Quarterly Journal of Economics*, 121(2), 673-697.

Niederle, Muriel and Lise Vesterlund, “Do Women Shy Away from Competition? Do Men Compete Too Much?” *Quarterly Journal of Economics*, 122(3), 2007, 1067-1101.

Ausubel, Lawrence, “Adverse Selection in the Credit Card Market,” Working Paper, Department of Economics, University of Maryland, 1999.

**B. Natural experiments and quasi experimental variation**

Angrist, J.D., and W.N. Evans, “Children and Their Parents’ Labor Supply: Evidence from Exogenous Variation in Family Size,” *American Economic Review*, 88(3), 1998, 450-477.

Hotz, V. Joseph, “Teenage Childbearing and Its Life Cycle Consequences: Exploiting a Natural Experiment,” *Journal of Human Resources*, 40(3), 2005, 683-715.

Sacerdote, Bruce, “How Large Are the Effects from Changes in Family Environment? A Study of Korean American Adoptees,” *Quarterly Journal of Economics*, 121(1), 2007, 119-157.

Also, please read Chapter 5 of *Freakonomics*

**C. Using States and Cities as Laboratories**

Ayres, Ian and Steven Levitt, “Measuring Positive Externalities from Unobserved Victim

Precaution: An Empirical Analysis of Lojak,” *Quarterly Journal of Economics*, 115(3), 2000, 755-789.

Card, David, “The Impact of the Mariel Boatlift on the Miami Labor Market,” *Industrial Labor Relations Review*, 43(2), 1990, 245-257.

Acemoglu, D., J. Angrist, “Consequences of Employment Protection? The Case of the American with Disabilities Act,” *Journal of Political Economy*, 109(5), 2001.

Card, D., and A.B. Krueger, "Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania," *American Economic Review*, September 1994, 722-794.

### **III. Using these tools to identify some important behavioral relationships**

#### **A. Detecting Corruption and Identifying its Causes**

Duggan, M., and Steven Levitt, “Winning Isn’t Everything: Corruption in Sumo Wrestling,” *American Economic Review*, 92(5), 2002, 1594-1605.

Please read Chapter 1 of *Freakonomics*

Fisman, Ray and Edward Miguel, “Corruption, Norms and Legal Enforcement: Evidence from Diplomatic Parking Tickets,” September 2007, *Journal of Political Economy*, forthcoming.

#### **B. Why have crime rates dropped and some interesting results about crime**

Please read Chapter 4 of *Freakonomics*

Levitt, Steven, “Understanding Why Crime Fell in the 1990s: Four Factors that Explain the Decline and Six That Do Not,” *Journal of Economic Perspectives*, 18(1), 2004, 163-190.

Levitt, Steven, “Using Election Cycles in Police Hiring to Estimate the Effect of Police on Crime,” *American Economic Review*, 87(3), 1997, 270-290.

Knowles, John, Nicola Persico and Petra Todd, “Racial Bias in Motor Vehicle Searches: Theory and Evidence,” *Journal of Political Economy*, 109(1), 2001, 203-229.

#### **C. The Abortion/Crime Debate**

Donohue, John, and Steven Levitt, “The Impact of Legalized Abortion on Crime,” *Quarterly Journal of Economics*, 116(2), 2001, 379-420.

Pop Eleches, Cristian, “The Impact of Changes in Abortion Regime on Socio-Economic Outcomes of Children: Evidence from Romania,” *Journal of Political Economy*, 114(4).  
Joyce, Ted, “Did Abortion Lower Crime?” *Journal of Human Resources*, 44(1), 2004, 1-28.

Donohue, John and Steven Levitt, “Further Evidence that Abortion Lowered Crime: A

Response to Joyce,” *Journal of Human Resources*, 44(1), 29-49.

**D. Explaining the Rise in Obesity**

Cutler, David, Edward Glaeser and Jesse Shapiro, “Why Have Americans Become More Obese?” *Journal of Economic Perspective*, 2003.

Schanzenbach, D.W., "Do School Lunches Contribute to Childhood Obesity," University of Chicago, Harris School Working Paper, 05.13.  
[http://harrisschool.uchicago.edu/About/publications/working-papers/pdf/wp\\_05\\_13.pdf](http://harrisschool.uchicago.edu/About/publications/working-papers/pdf/wp_05_13.pdf)

**E. Is Outsourcing Good or Bad?**

Mankiw, Greg and Philip Swagel, “The Politics and Economics of Offshore Outsourcing,” *Journal of Monetary Economics*, 53, 2006, 1027-1056.

Bhagwati, Jagdish, Arvind Panagariya and T.N. Srinivasan, “The Muddles Over Outsourcing,” *Journal of Economic Perspectives*, 18(4), 2004, 93-114.

**F. Students should boycott manufacturers that use child labor, right?**

Edmunds, Eric, “The Economics of Consumer Actions Against Products with Child Labor Content,” *Child Labor World Atlas*, 2007

Edmonds, Eric, and Nina Pavcnik, “Child Labor in a Global Context,” *Journal of Economic Perspectives*, 19(1), 2005, 199-220.

**G. Game theory, the prisoner’s dilemma and nuclear strategy**

I will distribute some notes describing game theory, Nash equilibriums and the prisoner’s dilemma

Axelrod, Robert, “Effective Choice in the Prisoner’s Dilemma,” *Journal of Conflict Resolution*, 24(1), 1980, 3-25.

Lave, Lester, “An Empirical Approach to the Prisoner’s Dilemma Game,” *Quarterly Journal of Economics*, 76(3), 1962, 424-436.

**H. Global Warming**

Portney, Paul, “Market-Based Approaches to Environmental Policy,” *Resources*,

Schelling, Thomas, “Some Economics of Global Warming,” *American Economic Review*, 82(1), 1992, 1-14.

“The Pigou Club Manifesto,” Greg Mankiw’s Blog,  
<http://gregmankiw.blogspot.com/2006/10/pigou-club-manifesto.html>

**I. Should Smokers Pay Higher Taxes?**

Gruber, J, "Tobacco at the Crossroads: The Past and Future of Smoking Regulation in the

United States" *Journal of Economic Perspectives*, 15, 2001, 193-212.

Manning, WB, EB Keeler, JP Newhouse, EM Sloss, J Wasserman. The taxes of sin. Do smokers and drinkers pay their way? *JAMA* 1989 Mar 17, 261(11):1604-1609

Viscusi, W. Kip, *Smoking: Making the Risky Decision*, 1992, pages 3-15, 61-70.

**J. A Short Primer on Health Care Reform. Why are Individual Mandates so Popular and the Importance of Adverse Selection.**

You should spend some time looking over the health care reform proposals of Obama, Clinton, Edwards, plus examine the Massachusetts reform adopted when Romney was governor.

Akerlof, George A., "The Market for Lemons: Quality Uncertainty and the Market Mechanism," *Quarterly Journal of Economics*, 84(3), 1970, 488-500.

Simon, Kosali, "Adverse Selection in Health Insurance Markets? Evidence from State Small-Group Health Insurance Reforms," *Journal of Public Economics*, 89, 2005, 1865-1877.

**K. Pricing the Priceless: the Value of a Statistical Life and its use in Policy**

Viscusi, W. Kip, "The Value of Life in Legal Contexts: Survey and Critique," *American Law and Economics Review*, 2(1), 2000, 195-222.

Viscusi, W. Kip, "Regulating the Regulators," *The University of Chicago Law Review*, 63(4), 1996, 1423-1461.