**Economics of Income Distribution**

Burak Ünveren

**Syllabus**

**Course description:** This course is an overview of the contemporary research on income inequality with a special emphasis on the roles of technology and institutions. The motivation of this course is the recent empirical trends such as the declining labor shares and the increasing wealth gap observed in most developed economies. The objective of the course is to explore the causes and the consequences of rising income inequality, and to explain the relevant policy tools.

The first part of the course explains the role of technology in income inequality: labor-saving innovations, R&D investments that create monopoly profits, and skill-biased technical change that causes wage inequality. In the second part of the course, the role of institutions are discussed: deunionization, deregulation, lobbying, and family background. After analyzing the causes of rising inequality (i.e. technology and institutions), we discuss its consequences, such as financial instability, lower growth rates, and lack of social mobility. The course concludes with a discussion on policy tools such as redistribution of income and compensating early disadvantages with a certain emphasis on distributive justice.

**Course objective:** The primary objective of this course is to develop the necessary tools to explain how income distribution and institutions interact in the real world, evaluate the empirical trends from an ethical perspective, and make well-reasoned policy suggestions on the subject.

**Course outline:** Each subject is discussed based on an in-depth analysis of a classic text (or a recent significant contribution) in the field and the complementary reading assignments with minimum technical requirements. The necessary tools, such as basic microeconomics and fundamental statistical concepts, are explained in the class.

|  |  |
| --- | --- |
|  | **Topics** |
| 1 | Introduction and basic concepts |
| 2 | Economic inequality: reality vs. perception. |
| 3 | Declining labor share of income I: Technology |
| 4 | Declining labor share of income II: Monopolization. |
| 5 | Wages and skills: Inequality among 99%. |
| 6 | Distributive justice |
| 7 | Intergenerational mobility |
| 8 | Inequality and financial markets. |
| 9 | Inequality and Growth |
| 10 | Inequality and redistribution |

**Reading list**

**Week 1: Introduction and basic concepts.**

* Lecture notes (Gini coefficient, Lorentz curve, percentiles, etc.)

Supplementary reading:

* Chapters 19 in The Core Team. *The Economy: Economics for a changing world*. CORE Project, 2017.

**Week 2: Economic inequality: reality vs. perception.**

* Fitz, Nicholas. "Economic inequality: It’s far worse than you think." *Scientific American* 31 (2015).
* Norton, Michael I., and Dan Ariely. "Building a better America—One wealth quintile at a time." *Perspectives on psychological science* 6.1 (2011): 9-12.
* Piketty, Thomas, Emmanuel Saez, and Gabriel Zucman. "Simplified Distributional National Accounts." *AEA Papers and Proceedings*. Vol. 109. 2019.

Supplementary reading:

* The Economist. “Egalitarianism: Inequality could be lower than you think”, Nov. 28 (2019)
* The Economist. “Measuring the 1%: Economists are rethinking the numbers on inequality”, Nov. 28 (2019)

**Week 3: Declining labor share in income I: Technology.**

* Karabarbounis, Loukas, and Brent Neiman. "The global decline of the labor share." *The Quarterly journal of economics* 129.1 (2014): 61-103.
* Lawrence, Robert Z. *Recent declines in labor's share in US income: A preliminary neoclassical account*. No. w21296. National Bureau of Economic Research, 2015.

**Week 4: Declining labor share in income II: Monopolization.**

* Barkai, Simcha. "Declining labor and capital shares." *Journal of Finance, Forthcoming* (2019).
* De Loecker, Jan, Jan Eeckhout, and Gabriel Unger. "The rise of market power and the macroeconomic implications." *The Quarterly Journal of Economics* (2020).
* Dorn, David, et al. "Concentrating on the Fall of the Labor Share." *American Economic Review* 107.5 (2017): 180-85.

**Week 5: Wages and skills: Inequality among 99%.**

* Acemoglu, Daron. "Technical change, inequality, and the labor market." *Journal of economic literature* 40.1 (2002): 7-72.
* David, H. "Skills, education, and the rise of earnings inequality among the “other 99 percent”." *Science* 344.6186 (2014): 843-851.

Supplementary reading:

* Goldin, Claudia Dale, and Lawrence F. Katz. *The race between education and technology*. Harvard University Press, 2009

**Week 6: Distributive justice.**

* Chapter 9 in Pinker, Steven. *Enlightenment now: The case for reason, science, humanism, and progress*. Penguin, 2018.
* Chapter 4 in Stiglitz, Joseph E. *The price of inequality: How today's divided society endangers our future*. WW Norton & Company, 2012.

**Week 7: Fake Exam**

**Week 8: Midterm Exam**

**Week 9: Intergenerational mobility.**

* Corak, Miles. "Income inequality, equality of opportunity, and intergenerational mobility." *Journal of Economic Perspectives* 27.3 (2013): 79-102.
* Roemer, John E., and Alain Trannoy. "Equality of opportunity: Theory and measurement." *Journal of Economic Literature* 54.4 (2016): 1288-1332.

**Week 10: Inequality and financial markets.**

* Stiglitz, Joseph E. "A rigged economy." *Scientific American* 319.5 (2018): 56-61.
* Stiglitz, Joseph E. "Fed policy, inequality, and equality of opportunity." (2016): 77-94.

**Week 11: Inequality and economic growth.**

* Dabla-Norris, Era, et al. *Causes and consequences of income inequality: A global perspective*. International Monetary Fund, 2015.
* Ostry, Jonathan David, Andrew Berg, and Charalambos G. Tsangarides. *Redistribution, inequality, and growth*. International Monetary Fund, 2014.

**Week 12: Midterm Exam**

**Week 13: Inequality and redistribution**

* Borck, Rainald. "Voting, inequality and redistribution." *Journal of economic surveys* 21.1 (2007): 90-109.
* Harms, Philipp, and Stefan Zink. "Limits to redistribution in a democracy: a survey." *European Journal of Political Economy* 19.4 (2003): 651-668.

Supplementary reading:

* Acemoglu, Daron, et al. "Democracy, redistribution, and inequality." *Handbook of income distribution*. Vol. 2. Elsevier, 2015. 1885-1966.
* Benabou, Roland, and Efe A. Ok. "Social mobility and the demand for redistribution: the POUM hypothesis." *The Quarterly Journal of Economics* 116.2 (2001): 447-487.
* Roemer, John E. "Why the poor do not expropriate the rich: an old argument in new garb." *Journal of Public Economics* 70.3 (1998): 399-424.