

Economics of Aging

Yale University
ECON 466 01 /EP&E 448 01 – Fall 2013

Instructor: Doug McKee
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Class: Wednesdays 1:30-3:20 at WLH 202
Office Hours: By appointment at 28 Hillhouse Ave., Room 308

This course provides an overview of the economics literature in aging, primarily in the United States, but with a some discussion of other countries. The course is organized around major topics in the empirical literature including saving for old age, retirement, the design and viability of social security systems, elder care, and inheritance. We will place special emphasis on the retirement and savings decision and will discuss both classical life cycle models as well as behavioral explanations. The course will teach students how to read technical contemporary economic research in these areas and will include in depth discussion of the primary theories and methods used.

Grades:

Your grade will be composed of five parts.

1. Class participation: (10%)

This is a seminar; you are required to attend each class prepared to discuss the assigned readings. As part of this, you will fill out a worksheet for each of the week's papers noting the paper's contribution, empirical approach, and limitations. These worksheets are required but will not be graded.

2. Co-teach one class: (15%)

Each student (or pair of students, depending on size of class) will prepare a 15–20 minute presentation of one or two of the papers assigned and will lead a discussion of the paper(s). Discussion should center on the contribution of the paper(s), issues with the analysis, relationship with other course readings, and any questions that are left open. Students will meet with me a few days before class to talk about the papers and plan a group activity that will follow the paper discussions. Students will receive a grade for their co-teaching by the following class.

3. Identify a research question (1 page): (10%)

Each student will identify a research question related to the economics of aging. These one page papers will motivate your question's importance and provide some intuition for a possible answer. You should find and discuss two or three related academic papers when making your case. I recommend perusing the entire syllabus for ideas.

Due: September 18 (Week 4), in class

4. Mid-term draft of a proposal of an empirical project (5–7 pp.): (25%)

Each student will turn their research question into the first half of a research proposal. This should contain a literature review that places the project in context, a fleshed out hypothesis, and an economic model that formalizes your intuition. We will discuss my expectations in detail during class.

Due: October 16 (Week 8), in class

5. Final research proposal (15–20 pp.): (40%)

The final paper will incorporate any feedback you receive on your midterm draft and should identify a primary data source and specify a detailed empirical approach. Students are encouraged to do some preliminary data description and analysis, but this is not required.

Due: December 11 (Last day of the reading period)

Readings:

Most of the readings are available online at www.jstor.org, nber.org, the journal's website, or the course website.

PART I: RETIREMENT

Week 1 (8/28): Retirement in the 20th century

Hurd, Michael (1997) "Economics of Individual Aging," in *Handbook of Population and Family Economics*, Chapter 16, pp. 892–919.

Lumsdaine, Robin and Olivia Mitchell (1999) "New Developments in the Economic Analysis of Retirement," in *Handbook of Labor Economics*, Vol. 3C, Chapter 49, pp. 3261–3272.

Costa, Dora (1989) "A House of Her Own: Old Age Assistance and the Living Arrangements of Older Nonmarried Women," *Journal of Public Economics*, vol. 72, pp. 39–59.

McGarry, Kathleen and Robert Schoeni (2000) "Social Security, Economic Growth, and the Rise in Elderly Widows' Independence in the Twentieth Century," *Demography*, vol. 37 (2), pp. 221–236.

Lazear, Edward (1986) "Retirement from the Labor Force," *Handbook of Labor Economics*, Vol. 1, Chapter 5, pp. 305–324.

Week 2 (9/4): Static and simple life-cycle models of labor supply

Burkhauser, Richard (1979) "The Pension Acceptance Decision of Older Workers," *Journal of Human Resources*, vol. 14, pp. 63–75.

Krueger, Alan and Jorn-Steffen Pischke (1992) "The Effect of Social Security on Labor Supply: A Cohort Analysis of the Notch Generation," *Journal of Labor Economics*, vol. 10 (4), pp. 412–437.

Week 3 (9/11): Estimating life cycle models of labor supply

Stock, James and David Wise (1990) "Pensions, the Option Value of Work, and Retirement," *Econometrica*, vol. 58 (5), pp. 1151–1180.

Gustman, Alan and Thomas Steinmeier (1986) "A Structural Retirement Model," *Econometrica*, vol. 54 (3), pp. 555–584.

Rust, John and Christopher Phelan (1997) "How Social Security and Medicare Affect Retirement Behavior in a World of Incomplete Markets," *Econometrica*, vol. 65 (4), pp. 781–831.

Week 4 (9/18): Reforming social security systems

House Ways and Means Committee (2008) *Green Book*, Section 1: Social Security, pp. 1–97.

The World Bank (1994) “Averting the Old Age Crisis: Policies to Protect The Old and Promote Growth,” pp. 1–23.

Congressional Budget Office (1999) “Social Security Privatization: Experiences Abroad,” pp. 1–42, 59–72.

Geanakoplos, John and Stephen Zeldes (2008) “Reforming Social Security with Progressive Personal Accounts,” NBER Working Paper 13979, pp. 1–55.

Week 5 (9/25): Retirement and health

Blau, David and Donna Gilleskie (2001) “The Effect of Health on Employment Transitions of Older Men,” *Research in Labor Economics*, vol. 20.

Thomas, Duncan and Elizabeth Frankenberg (2000) “The Measurement and Interpretation of Health in Social Surveys,” it RAND Working Paper DRU-2550-NIA.

PART II: SAVING FOR OLD AGE

Week 6 (10/2): Financial Literacy

Lusardi, Annamaria (2008) “Households Saving Behavior: The Role of Literacy, Information and Financial Education Programs,” NBER Working Paper No. 13824.

van Rooij, Lusardi, and Alessie (2012) “Financial Literacy, Retirement Planning, and Household Wealth,” *Economic Journal*, vol 122 pp. 449–478.

Allen, Clark, Maki, and Morrill (2013) “Golden Years or Financial Fears? Decision Making After Retirement Seminars,” NBER Working Paper No. 19231.

Week 7 (10/9): Behavioral models of saving

Benartzi, Shlomo and Richard Thaler (2007) “Heuristics and Biases in Retirement Savings Behavior,” *Journal of Economic Perspectives*, vol. 21 (3), pp. 81–104.

Beshears, Choi, Laibson, and Madrian (2006) “The Importance of ”Default Options for Retirement Savings Outcomes: Evidence from the United States,” NBER Working Paper No. 12009.

Angeleto et al (2001) “The Hyperbolic Consumption Model: Calibration, Simulation, and Empirical Evaluation” in *Journal of Economic Perspectives*,” *Journal of Economic Perspectives*, vol. 15 (3), pp. 47–68.

Week 8 (10/16): Life cycle models of saving

De Nardi, Mariacristina, Eric French, and John B. Jones (2010) “Why Do the Elderly Save? The Role of Medical Expenses,” *Journal of Political Economy*, vol 118 (1) pp. 39–75.

Browning, Martin and Thomas Crossley (2001) “The Life-Cycle Model of Consumption and Saving,” *Journal of Economic Perspectives*, vol. 15 (3), pp. 3–22.

Week 9 (10/30): Are Americans saving “enough?”

Scholz, John Karl, Ananth Seshadri, and Surachai Khitatrakun (2006) “Are Americans Saving “Optimally” for Retirement?”” *Journal of Political Economy*, vol. 114 (4), pp. 607–643.

Aguiar, Mark and Erik Hurst (2005) “Consumption versus Expenditure,” *Journal of Political Economy*, vol. 113 (3), pp. 919–948.

Benartzi, Shlomo and Richard Thaler (2013) “Behavioral Economics and the Retirement Savings Crisis,” *Science*, vol 339, pp 1152–1153.

Week 10 (11/6): Saving in developing countries

Deaton, Angus and Christina Paxson (2000) “Growth and Saving Among Individuals and Households,” *Review of Economics and Statistics*, vol. 82 (2), pp. 212–225.

Rosenzweig, Mark (2001) “Saving Behaviour in Low-Income Countries,” *Oxford Review of Economic Policy*, vol. 17 (1), pp. 40–54.

Dupas, Pascaline and Jonathan Robinson (2011) “Saving Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya,” Working Paper.

PART III: INTERGENERATIONAL TRANSFERS, ELDER CARE AND INHERITANCE

Week 11 (11/13): Transfers Across Generations

Cox, Donald (1987) “Motives for Private Income Transfers,” *The Journal of Political Economy*, vol. 95 (3), pp. 508-546.

Gale, William and John Karl Scholz (1994) “Intergenerational Transfers and the Accumulation of Wealth,” *The Journal of Economic Perspectives*, vol. 8 (4), pp. 145–160.

McGarry, Kathleen (2012) “Dynamic Aspects of Family Transfers,” NBER Working Paper No. 18466.

Week 12 (11/20): Inheritance

Bernheim, B. Douglas, Andrei Shleifer, and Lawrence Summers (1985), “The Strategic Bequest Motive,” *The Journal of Political Economy*, vol. 93 (6), pp. 1045–1076.

McKee, Douglas and Beth Soldo (2012), “Do Good Kids Finish First? Characterizing the Bequest Motive in Mexico,” Working Paper.

Week 13 (12/4): Elder Care

Pezzin, Liliana, Robert Pollak, and Barbara Schone (2008) “Long-term Care of the Disabled Elderly: Do Children Increase Caregiving by Spouses?” NBER Working Paper 14328.

Engers, Maxim and Steven Stern (2002) “Long-term Care and Family Bargaining,” *International Economic Review*, vol. 43 (1), pp. 73–114.