

PAPERS AND PROCEEDINGS

OF THE

One Hundred Seventeenth Annual Meeting

OF THE

AMERICAN ECONOMIC ASSOCIATION

Philadelphia, PA, January 7–9, 2005

Program Arranged by Daniel McFadden

Papers and Proceedings Edited by J. David Baldwin and Ronald L. Oaxaca

MAY 2005

THE AMERICAN ECONOMIC ASSOCIATION

Founded in 1885

EXECUTIVE COMMITTEE Elected Officers and Members

President

DANIEL MCFADDEN
University of California at Berkeley

President-elect

GEORGE A. AKERLOF
University of California at Berkeley

Vice-Presidents

ROBERT E. HALL
Stanford University
ROBERT J. SHILLER
Yale University

Members

ELLEN R. MCGRATTAN
Federal Reserve Bank of Minneapolis
MAURICE OBSTFELD
University of California at Berkeley
JANET CURRIE
University of California at Los Angeles
OLIVIA S. MITCHELL
University of Pennsylvania
JUDITH A. CHEVALIER
Yale University
ALAN B. KRUEGER
Princeton University

Ex Officio Members

MARTIN S. FELDSTEIN
Harvard University and NBER
PETER A. DIAMOND
Massachusetts Institute of Technology

Appointed Members

Editor, The American Economic Review

ROBERT A. MOFFITT
Johns Hopkins University

Editor, The Journal of Economic Literature

ROGER H. GORDON
University of California at San Diego

Editor, The Journal of Economic Perspectives

ANDREI SHLEIFER
Harvard University

Secretary-Treasurer

JOHN J. SIEGFRIED
Vanderbilt University

OTHER OFFICERS

Editor, Resources for Economists

WILLIAM GOFFE
State University of New York at Oswego

Managing Director, EconLit

DRUCILLA EKWURZEL
American Economic Association Publications, Pittsburgh

Executive Director

WILLIAM W. DAMON
Vanderbilt University

Counsel

TERRY CALVANI
The Competition Authority, Dublin, Ireland

ADMINISTRATORS

Administrative Director

EDDA R. LEITHNER

Director of Publication Services

DRUCILLA EKWURZEL

Convention Manager

MARLENE HIGHT

• Typeset by CPC DPS-Ephrata Division, Pennsylvania, U.S.A.

• Printed at Banta Company, Menasha, Wisconsin, U.S.A.

• Copyright © 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005 by the American Economic Association. Permission to make digital or hard copies of part or all of American Economic Association publications for personal or classroom use is granted without fee provided that copies are not distributed for profit or direct commercial advantage and that copies show this notice on the first page or initial screen of a display along with the full citation, including the name of the author. Copyrights for components of this work owned by others than AEA must be honored. Abstracting with credit is permitted. The author has the right to republish, post on servers, redistribute to lists and use any component of this work in other works. For others to do so requires prior specific permission and/or a fee. Permissions may be requested from the American Economic Association, 2014 Broadway, Suite 305, Nashville, TN 37203.

• No responsibility for the views expressed by authors in this *Review* is assumed by the editors or the publishers, The American Economic Association.

Correspondence relating to advertising, business matters, permissions to quote, back issues, subscriptions, and changes of address, should be sent to the American Economic Association, 2014 Broadway, Suite 305, Nashville, TN 37203. Change of address notice must be received at least six (6) weeks prior to the publication month. A membership or subscription paid twice is automatically extended for an additional year unless otherwise requested.

THE AMERICAN ECONOMIC REVIEW (ISSN 0002-8282), May 2005, Vol. 95, No. 2. The *AER* is published five times a year (March, May, June, September, December) by the American Economic Association, 2014 Broadway, Suite 305, Nashville, TN 37203. Annual fees for regular membership, of which 30 percent is for a year's subscription to this journal, are: \$64.00, \$77.00, or \$90.00, depending on income. A membership also includes subscriptions to *The Journal of Economic Literature* and *The Journal of Economic Perspectives*. In countries other than the U.S.A., add \$30.00 for extra postage. Information on becoming a member can be found on the last page of this journal. Periodical postage paid at Nashville, TN and at additional mailing offices. POSTMASTER: Send address changes to the *American Economic Review*, 2014 Broadway, Suite 305, Nashville, TN 37203.

THE AMERICAN ECONOMIC REVIEW

VOL. 95 NO. 2

MAY 2005

PAPERS AND PROCEEDINGS

OF THE

One Hundred Seventeenth Annual Meeting

OF THE

AMERICAN ECONOMIC ASSOCIATION

Philadelphia, PA

January 7–9, 2005

Program Arranged by Daniel McFadden

Papers and Proceedings Edited by J. David Baldwin and Ronald L. Oaxaca

CONTENTS

Editors' Introduction	vii
Foreword	viii

PAPERS

Richard T. Ely Lecture	
The Economics of Governance <i>Oliver E. Williamson</i>	1
International Intrafirm Production Decisions	
Complementarities between Outsourcing and Foreign Sourcing	
. <i>Gene M. Grossman, Elhanan Helpman, and Adam Szeidl</i>	19
Property Rights and the International Organization of Production <i>Pol Antràs</i>	25
Foreign Direct Investment and the Domestic Capital Stock	
. <i>Mihir A. Desai, C. Fritz Foley, and James R. Hines, Jr.</i>	33
The Democratic Transition and Economic Growth	
Federalism and the Democratic Transition: Lessons from South Africa	
. <i>Robert P. Inman and Daniel L. Rubinfeld</i>	39
From Education to Democracy?	
. <i>Daron Acemoglu, Simon Johnson, James A. Robinson, and Pierre Yared</i>	44
Do Democratic Transitions Produce Bad Economic Outcomes?	
. <i>Dani Rodrik and Romain Wacziarg</i>	50
Foreign-Born Domestic Supply of Science and Engineering Workforce	
The Labor-Market Impact of High-Skill Immigration <i>George Borjas</i>	56
Fellowship Stipend Support and the Supply of Science and Engineering Students: NSF Graduate Research Fellowships <i>Richard B. Freeman</i>	61
Skill-Sorting, Self-Selectivity, and Immigration Policy Regime Change: Two Surveys of Chinese Graduate Students' Intention to Study Abroad <i>Yiu Por Chen</i>	66
The Increased Frequency and Duration of the Postdoctorate Career Stage	
. <i>Paula E. Stephan and Jennifer Ma</i>	71
Skills, Policy, and Labor-Market Outcomes across Demographic Groups	
Does Monetary Policy Affect Relative Educational Unemployment Rates? <i>Philip N. Jefferson</i>	76
Do Returns to Schooling Differ by Race and Ethnicity? . . . <i>Lisa Barrow and Cecilia Elena Rouse</i>	83
Tax-Transfer Policy and Labor-Market Outcomes <i>Nada Eissa and Austin Nichols</i>	88
New Approaches to Discrimination	
Implicit Discrimination <i>Marianne Bertrand, Dolly Chugh, and Sendhil Mullainathan</i>	94
Tracing the Economic Impact of Cumulative Discrimination <i>Rebecca M. Blank</i>	99
"Dysfunctional Identities" Can Be Rational <i>Hanming Fang and Glenn C. Loury</i>	104
Employer Learning, Statistical Discrimination, and Occupational Attainment . . . <i>Joseph G. Altonji</i>	112
Profiling: Normative, Theoretical, and Empirical Issues	
Learning and Statistical Discrimination <i>Lawrence E. Blume</i>	118
Optimal Search Profiling with Linear Deterrence <i>Charles F. Manski</i>	122
Passenger Profiling, Imperfect Screening, and Airport Security . . . <i>Nicola Persico and Petra E. Todd</i>	127
Racial Profiling as a Public Policy Question: Efficiency, Equity, and Ambiguity	
. <i>Steven N. Durlauf</i>	132

Are Concerns about Relative Income Relevant for Public Policy?

Positional Externalities Cause Large and Preventable Welfare Losses	<i>Robert H. Frank</i>	137
Value of a Statistical Life: Relative Position vs. Relative Age	<i>Thomas J. Kniesner and W. Kip Viscusi</i>	142
Are Positional Concerns Stronger in Some Domains than in Others?	<i>Sara J. Solnick and David Hemenway</i>	147

Understanding Teacher Quality

Do Faculty Serve as Role Models? The Impact of Instructor Gender on Female Students	<i>Eric P. Bettinger and Bridget Terry Long</i>	152
A Teacher Like Me: Does Race, Ethnicity, or Gender Matter?	<i>Thomas S. Dee</i>	158
Explaining the Short Careers of High-Achieving Teachers in Schools with Low-Performing Students	<i>Donald Boyd, Hamilton Lankford, Susanna Loeb, and James Wyckoff</i>	166

Perspectives on Research and Teaching in Economics

Does Teaching Enhance Research in Economics?	<i>William E. Becker and Peter E. Kennedy</i>	172
Views of Teaching and Research in Economics and Other Disciplines	<i>William B. Walstad and Sam Allgood</i>	177
Involving Undergraduates in Research To Encourage Them To Undertake Ph.D. Study in Economics	<i>Ronald G. Ehrenberg</i>	184

Education and Health of Women and Children

Vanishing Children: From High Unemployment to Low Fertility in Developed Countries	<i>Alicia Adsera</i>	189
Parental Child Care in Single-Parent, Cohabiting, and Married-Couple Families: Time-Diary Evidence from the United Kingdom	<i>Charlene M. Kalenkoski, David C. Ribar, and Leslie S. Stratton</i>	194
Resource and Peer Impacts on Girls' Academic Achievement: Evidence from a Randomized Experiment	<i>Diane Whitmore</i>	199
Infertility Insurance Mandates and Fertility	<i>Lucie Schmidt</i>	204

Insurance Markets and Health Care

Charity Care, Risk Pooling, and the Decline in Private Health Insurance	<i>Michael Chernew, David Cutler, and Patricia Seliger Keenan</i>	209
The Consequences of the Growth of Health Insurance Premiums	<i>Katherine Baicker and Amitabh Chandra</i>	214
Effects of Insurance Coverage on Use of Care and Health Outcomes for Nonpoor Young Women	<i>Mark V. Pauly</i>	219
Dynamic Inefficiencies in Insurance Markets: Evidence from Long-Term Care Insurance	<i>Amy Finkelstein, Kathleen McGarry, and Amir Sufi</i>	224

SES Gradients in Health

Health and Wealth among the Poor: India and South Africa Compared	<i>Anne Case and Angus Deaton</i>	229
Socioeconomic Differences in the Adoption of New Medical Technologies	<i>Dana Goldman and James P. Smith</i>	234
What Explains Differences in Smoking, Drinking, and Other Health-Related Behaviors?	<i>David M. Cutler and Edward Glaeser</i>	238

Recent Developments in Health Economics

The Volume–Outcome Effect, Scale Economies, and Learning-by-Doing	<i>Martin Gaynor, Harald Seider, and William B. Vogt</i>	243
Access to Care, Provider Choice, and the Infant Health Gradient	<i>Anna Aizer, Adriana Lleras-Muney, and Mark Stabile</i>	248

Welfare-Enhancing Technological Change and the Growth of Obesity	<i>Darius Lakdawalla, Tomas Philipson, and Jay Bhattacharya</i>	253
The 1918 Influenza Pandemic and Subsequent Health Outcomes: An Analysis of SIPP Data	<i>Douglas Almond and Bhashkar Mazumder</i>	258
Alcohol Taxation and Control		
An Investigation of the Effects of Alcohol Consumption and Alcohol Policies on Youth Risky Sexual Behaviors	<i>Sara Markowitz, Robert Kaestner, and Michael Grossman</i>	263
Heavy Alcohol Use and the Commission of Nuisance Crime: Evidence from Underage Drunk Driving Laws	<i>Christopher S. Carpenter</i>	267
Are Alcohol Tax Hikes Fully Passed Through to Prices? Evidence from Alaska . . .	<i>Donald S. Kenkel</i>	273
The Net Effect of an Alcohol Tax Increases on Death Rates in Middle Age	<i>Philip J. Cook, Jan Ostermann, and Frank A. Sloan</i>	278
Cars, Gas, and Pollution Policies		
Distributional and Efficiency Impacts of Gasoline Taxes: An Econometrically Based Multi-market Study	<i>Antonio M. Bento, Lawrence H. Goulder, Emeric Henry, Mark R. Jacobsen, and Roger H. von Haefen</i>	282
Is Pay-as-You-Drive Insurance a Better Way to Reduce Gasoline than Gasoline Taxes?	<i>Ian W. H. Parry</i>	288
The Cost of Reducing Gasoline Consumption	<i>Sarah E. West and Robertson C. Williams III</i>	294
Cost-Effective Policies to Reduce Vehicle Emissions	<i>Don Fullerton and Li Gan</i>	300
Technology, Trade, and Investment		
Moore's Law, Competition, and Intel's Productivity in the Mid-1990s	<i>Ana Aizcorbe</i>	305
The Influence of Technology on Foreign Direct Investment	<i>Jane Ihrig</i>	309
Returning to the Returns to Computer Use	<i>Sabrina Wulff Pabilonia and Cindy Zoghi</i>	314
Implications of Intellectual Property Rights for Dynamic Gains from Trade	<i>Michelle Connolly and Diego Valderrama</i>	318
Regulation and the High Cost of Housing		
Regulation and the High Cost of Housing in California	<i>John M. Quigley and Steven Raphael</i>	323
Why Have Housing Prices Gone Up?	<i>Edward Glaeser, Joseph Gyourko, and Raven E. Saks</i>	329
Metropolitan-Specific Estimates of the Price Elasticity of Supply of Housing and Their Sources	<i>Richard K. Green, Stephen Malpezzi, and Stephen K. Mayo</i>	334
Neuroscientific Foundations of Economic Decision-Making		
The Neuroeconomics of Mind Reading and Empathy	<i>Tania Singer and Ernst Fehr</i>	340
Neuroeconomic Foundations of Trust and Social Preferences: Initial Evidence	<i>Ernst Fehr, Urs Fischbacher, and Michael Kosfeld</i>	346
Cognitive Neuroscientific Foundations of Economic Behavior		
Fear and Greed in Financial Markets: A Clinical Study of Day-Traders	<i>Andrew W. Lo, Dmitry V. Repin, and Brett N. Steenbarger</i>	352
The Neuroeconomics of Distrust: Sex Differences in Behavior and Physiology	<i>Paul J. Zak, Karla Borja, William T. Matzner, and Robert Kurzban</i>	360
Practical Market Design: Four Matches		
The New York City High School Match	<i>Atila Abdulkadiroğlu, Parag A. Pathak, and Alvin E. Roth</i>	364
The Boston Public School Match	<i>Atila Abdulkadiroğlu, Parag A. Pathak, Alvin E. Roth, and Tayfun Sönmez</i>	368
The Gastroenterology Fellowship Market: Should There Be a Match?	<i>Muriel Niederle and Alvin E. Roth</i>	372

A Kidney Exchange Clearinghouse in New England	<i>Alvin E. Roth, Tayfun Sönmez, and M. Utku Ünver</i>	376
New Perspectives on Reputation and Debt		
Sudden Stops and Output Drops	<i>V. V. Chari, Patrick J. Kehoe, and Ellen R. McGrattan</i>	381
Coordinating Creditors	<i>Mark L. J. Wright</i>	388
Grants versus Loans for Development Banks	<i>Jeremy Bulow and Kenneth Rogoff</i>	393
Financial Economics, Macroeconomics, and Econometrics: The Interface		
A Framework for Exploring the Macroeconomic Determinants of Systematic Risk	<i>Torben G. Andersen, Tim Bollerslev, Francis X. Diebold, and Jin (Ginger) Wu</i>	398
Meese-Rogoff Redux: Micro-Based Exchange-Rate Forecasting	<i>Martin D. D. Evans and Richard K. Lyons</i>	405
Modeling Bond Yields in Finance and Macroeconomics	<i>Francis X. Diebold, Monika Piazzesi, and Glenn D. Rudebusch</i>	415
Dynamic Scoring		
Dynamic Scoring: An Introduction to the Issues	<i>Alan J. Auerbach</i>	421
What Does the Taxable Income Elasticity Say About Dynamic Responses to Tax Changes?	<i>Robert Carroll and Warren Hrng</i>	426
The Role of Dynamic Scoring in the Federal Budget Process: Closing the Gap between Theory and Practice . . .	<i>Rosanne Altshuler, Nicholas Bull, John Diamond, Tim Dowd, and Pamela Moomau</i>	432
CBO's Analysis of the Macroeconomic Effects of the President's Budget	<i>Benjamin R. Page</i>	437
Competition Policy for Journals		
The Bundling of Academic Journals	<i>Aaron S. Edlin and Daniel L. Rubinfeld</i>	441
Academic Journal Pricing and the Demand of Libraries	<i>Aviv Nevo, Daniel L. Rubinfeld, and Mark McCabe</i>	447
Open Access and Academic Journal Quality	<i>Mark J. McCabe and Christopher M. Snyder</i>	453

PROCEEDINGS

Information on the Association	460
Minutes of the Annual Meeting	461
Minutes of the Executive Committee Meetings	463
Reports	
Secretary	475
Treasurer	479
Finance Committee	483
Editor, <i>American Economic Review</i>	485
Editor, <i>Journal of Economic Literature</i>	497
Editor, <i>Journal of Economic Perspectives</i>	501
Director, <i>Job Openings for Economists</i>	503
Committee on Economic Education	506
Committee on the Status of Women in the Economics Profession	509
Search Committee for an Editor of the <i>AER</i>	520
Representative to the International Economic Association	519
Universal Academic Questionnaire Summary Statistics	521

THE purpose of the American Economic Association, according to its charter, is the encouragement of economic research, the issue of publications on economic subjects, and the encouragement of perfect freedom of economic discussion. The Association as such takes no partisan attitude, nor does it commit its members to any position on practical economic questions. It is the organ of no party, sect, or institution. People of all shades of economic opinion are found among its members, and widely different issues are given a hearing in its annual meetings and through its publications. The Association, therefore, assumes no responsibility for the opinions expressed by those who participate in its meetings. Moreover, the papers presented are the personal opinions of the authors and do not commit the organizations or institutions with which they are associated.

Editors' Introduction

This volume contains the *Papers and Proceedings* of the one hundred and seventeenth annual meeting of the American Economic Association. The *Proceedings* record the business activities of the Association in 2004, the annual membership meetings, and the April (2004) and January (2005) meetings of the Association's officers and committees. The *Papers* constitute the greater part of the volume. They comprise contributions that fill roughly the same number of pages as one and a half regular issues of *The American Economic Review*. We will take this opportunity to answer a number of commonly asked questions about the *Papers*.

Who chooses the authors? About a year in advance, the Association's President-elect, acting as program chairman, decides on the topics for which sessions will be organized. This is done after consultation and comment, both volunteered and solicited, from a wide range of individuals. (A *Call for Papers* appears in the Summer and Fall issues of *The Journal of Economic Perspectives*.)

The President-elect invites some sessions but with the help of a Program Committee selects most of the sessions from the proposals received. Each session organizer in turn invites several persons (usually three or four) to give papers on the theme of the session and asks others to give comments on the papers. The program chairman decides at the time of organization which sessions will be included in this volume. Space limitations restrict the number of printed sessions. This year we are printing 25 sessions, although a total of 138 sessions were sponsored, either solely by the American Economic Association or jointly with other allied societies.

Are discussants' comments published? Comments and discussions usually are not published. For all sessions, names and affiliations of commentators are printed at the start of each session, permitting readers especially interested in particular comments to write to the commentator for a copy of the discussion.

What standards must the papers meet? The *American Economic Review's* policy regarding availability of data also applies to the *Papers and Proceedings*: papers are published only if the data

used in the analysis are clearly and precisely documented and are readily available to any researcher for purposes of replication. Otherwise, the guidelines under which papers are published in the *Papers and Proceedings* differ considerably from those governing regular issues of the *Review*. First, the length of papers is strictly controlled. They must be no more than 12 typescript pages in three-paper sessions, and 10 typescript pages in four-paper sessions. Second, papers are not subjected to a formal refereeing process. However, a paper can be rejected if, after reading it, we conclude that it is utterly without merit. Third, the content and range of subject matter reflect the wishes of the President-elect to investigate and expose the current state of economic research and thinking. In most cases, therefore, the papers are exploratory and discursive, rather than formal presentations of original research.

In order to produce this volume on schedule, strict deadlines must be met, and there is no time for communication with every author about editing changes made in order to improve content and style and to satisfy space restrictions. Every effort is made to notify an author prior to the deadline if the paper is too long or does not satisfy other specifications.

This year, the issue fell badly off schedule, and production was seriously delayed. We deeply regret the late publication date, and JDB in particular apologizes to the authors and readers for the delay.

Acknowledgments. As in the past, we are indebted to a group of highly talented individuals for their help in bringing this project to fruition: Liane O'Brien served as proofreader, stepping into a key role on very short notice. The staff of CPC-Ephrata, our typesetters, did a superb job, and we are especially grateful to Sandy Snyder for overseeing the typesetting with diligence and good humor. Finally, as in past years, we thank Kathy Holewinski and the Banta Company for their dependable work in printing and distributing this issue.

J. DAVID BALDWIN
RONALD L. OAXACA

Foreword

Organizing the program for the annual meetings is by far the most important job of the President-elect. The job is like that of a journal editor, in that the actual content of the program comes from submissions by members, but the importance given to various research and policy areas by program committee members and their reviews of submissions are critical. In addition to organizing the usual program of oral sessions and selecting sessions for inclusion in this volume, committee members assisted me in setting up a series of tutorials on research and policy topics that gave the AEA membership overviews of subjects outside their specialties, and poster sessions that gave more economists opportunities to present their research and meet peers working on similar problems. My program committee was broadly representative of the profession; its members were Alan Auerbach (UC Berkeley, public finance), Rebecca Blank (Michigan, labor and family), Philip Cook (Duke, public policy), Francis Diebold (Pennsylvania, macro), Henry Farber (Princeton, labor), Robert Frank (Cornell, consumer behavior), Don Fullerton (Texas, environment), Robert Hall (Stanford, macro), Andrew Lo (MIT, finance), Charles Manski (Northwestern, public policy), John Quigley (UC Berkeley, public policy and housing), Robert Porter (Northwestern, industrial organization), Kenneth Rogoff (Harvard, trade), Alvin Roth (Harvard, experimental economics), Daniel Rubinfeld (UC Berkeley, law and economics), Bernard Saffran (Swarthmore, teaching of economics), Jonathan Skinner (Dartmouth, health econom-

ics), and David Wise (Harvard, health economics). I think the program committee did an exemplary job, and I want to thank them for their careful reviews, good advice, and timeliness. I wish to particularly commemorate Bernie Saffran, who died in December, 2004; he was a major contributor to the Association, through his column in the *Journal of Economic Perspectives* as well as his work on this committee.

Also included in this volume is the Ely Lecture, delivered by Oliver Williamson, whose contributions to the study of internal control in organizations have broken down the treatment of firms as “black boxes,” and shown that the problems of information, incentives, and mechanism design in markets have analogs in command and control structures.

The process of organizing the meetings is complex and extensive, and progressed smoothly because of the talent and experience of Violet Sikes, Gwyn Loftis, and Marlene Hight of the AEA office in Nashville. Also critical to the process was the handling of correspondence by Rowilma Balza, who showed characteristic care, intelligence, and efficiency. My thanks to John Rust, who provided computer programs that we used to organize and track submissions. All of the tasks of the President-elect (and of the President) are greatly eased by the efficiency and good sense of John Siegfried, to whom the Association is indebted. This volume was edited, under difficult circumstances, by David Baldwin and Ronald Oaxaca.

DANIEL L. McFADDEN