

PAPERS AND PROCEEDINGS

OF THE

One Hundred Eighteenth Annual Meeting

OF THE

AMERICAN ECONOMIC ASSOCIATION

Boston, MA, January 6–8, 2006

Program Arranged by George A. Akerlof

Papers and Proceedings Edited by Michelle DeBlasi and Ronald L. Oaxaca

Managing Editor, Jane Emily Voros

MAY 2006

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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.

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Editors' Introduction

This volume contains the *Papers and Proceedings* of the one hundred and eighteenth annual meeting of the American Economic Association. The *Proceedings* record the business activities of the Association in 2005, the annual membership meeting, and the April (2005) and January (2006) 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 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.

Acknowledgments. The extremely tight production schedule for this issue requires a great deal of coordination and teamwork. We would like to thank a number of people for making production of this issue possible. We thank Jane Voros, managing editor of the *American Economic Review*, and *AER* editorial assistants Kirk Knutson, Steve Stelling, and Russell Salminen for taking on additional duties during the production period of the *Papers and Proceedings*. We want to thank Liz Braunstein, production editor of *EconLit*, for helping us develop a new electronic system that allowed us to track papers easily throughout the editorial process. We also want to thank the staff of CPC-Ephrata, our typesetters. We are especially grateful to Sandy Snyder for overseeing the typesetting and keeping us on track. Finally, we thank Kathy Holewinski and the Banta Company for their dependable work in printing and distributing this issue.

MICHELLE DEBLASI
RONALD L. OAXACA

Foreword

It is the role of the President-elect of the American Economic Association to arrange the program for the annual meetings. In organizing the meetings, my special goal was for the sessions to reflect the concerns of the people of the world and the nation, since they count on us economists for solutions to their most important economic and social needs. This resulted in special attention being paid to areas of the world such as China, India, Africa, Europe, and Latin America. Special attention was also paid to topics of world importance such as global warming, national security, and international monetary arrangements. I pursued these goals by delegating the choice of sessions and of papers to members of the Program Committee, who were, in all cases, more expert than myself. I am very thankful to all of them for the enormous amount of work they put into the selection of submitted papers and sessions, and also in their creation of new and exciting sessions for the meetings.

The members of the Program Committee were: Daron Acemoglu, Olivier Blanchard, Guillermo Calvo, Padma Desai, Barry Eichengreen, Ernst Fehr, Austan Goolsbee, Avner Greif, Lawrence Katz, Michael Kremer, Steven Levitt, Glenn Loury, Enrique Mendoza, Stephen Morris, William Nordhaus, Yingyi Qian, Christina Romer, David Romer, and Joel Slemrod.

A very large number of papers and sessions were submitted by members of the Association. The quality of these submissions was extraordinary, and I am extremely regretful that it was not possible for more of these submissions to be presented at the meetings or to be published in this volume.

Claudia Goldin delivered the Ely Lecture. She is notable for choosing the biggest and the most important issues and for approaching them with great originality, usually with a slant indicative of the respect she thinks we should all pay to economic history. Her past interests have included the costs of war (e.g., the U.S. Civil

War), the history of education, income distribution, and the role of women. Professor Goldin's lecture lived up to its promise. She showed how economic tools can be used to quantify the changing role of women in the United States labor market, and that the women's movement quickened the pace of change. It was accompanied by revolutionary, not just evolutionary, change.

There were also three special invited lectures: Ernst Fehr on "Reputation, Reciprocity, and Market Performance," Alan Krueger on "The New, New Things in Labor Economics," and Andrei Shleifer on "Not the Whole Truth: The Economics of Persuasion." Each of these lectures gave broad perspectives on important topics and on new and important research.

Jane Turbiner did a superlative job of putting together the program at the Berkeley end. She organized the papers into the initial framework for the meeting. Marlene Hight, Gwyn Loftis, Violet Sikes, and Diane Fawkes, working in Nashville, did the careful work of arranging the meetings and putting together the program. Because of their dedication, a most exacting task—to put together an errorless program with literally thousands of participants—took place seamlessly. John Siegfried continued to oversee the operation of the meetings and of the Association with his remarkable judiciousness and wisdom. He was always there to give the right advice just when it was most needed. As I write, Michelle DeBlasi and Ronald Oaxaca are doing an excellent job of editing this volume and checking for errors, while keeping to a very tight schedule. Jane Voros is overseeing the editing and production as Managing Editor. I wish to thank all of them.

In sum, I am extremely grateful to the dedicated members of this large team who have made the success of the annual meeting in particular, and of the American Economic Association more generally, possible.

GEORGE A. AKERLOF