International Economic Association

CONTEMPORARY ISSUES IN MACROECONOMICS

Lessons from the Crisis and Beyond

Edited by Joseph E. Stiglitz

CONTEMPORARY ISSUES IN MICROECONOMICS

Edited by Joseph E. Stiglitz

CONTEMPORARY ISSUES IN DEVELOPMENT ECONOMICS

Edited by Timothy Besley

TAMING CAPITAL FLOWS

Capital Account Management in an Era of Globalization

Edited by Joseph E. Stiglitz and Refet Gurkaynak

LIFE AFTER DEBT

The Origins and Resolutions of Debt Crisis

Edited by Joseph E. Stiglitz and Daniel Heymann

INCOME CONTINGENT LOANS

Theory, Practice and Prospects

Edited by Joseph E. Stiglitz, Bruce Chapman and Timothy Higgins

THE INDUSTRIAL POLICY REVOLUTION I

The Role of Government Beyond Ideology

Edited by Joseph E. Stiglitz and Justin Lin Yifu

THE INDUSTRIAL POLICY REVOLUTION II

Africa in the 21st Century

Edited by Joseph E. Stiglitz, Justin Lin Yifu and Ebrahim Patel

THE CHINESE ECONOMY

A New Transition

Edited by Masahiko Aoki and Jinglian Wu

INSTITUTIONS AND COMPARATIVE ECONOMIC DEVELOPMENT

Edited by Franklin Allen, Masahiko Aoki, Nobuhiro Kiyotaki, Roger Gordon, Joseph E. Stiglitz and Jean-Paul Fitoussi

COMPLEXITY AND INSTITUTIONS: MARKETS, NORMS AND CORPORATIONS

Edited by Masahiko Aoki, Kenneth Binmore, Simon Deakin and Herbert Gintis

CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

The Contribution of Economic Theory and Related Disciplines

Edited by Lorenzo Sacconi, Margaret Blair, R. Edward Freeman and Alessandro Vercelli

IS ECONOMIC GROWTH SUSTAINABLE?

Edited by Geoffrey Heal

KEYNE'S GENERAL THEORY AFTER SEVENTY YEARS

Edited by Robert Diman, Robert Mundell and Alessandro Vercelli

CORRUPTION, DEVELOPMENT AND INSTITUTIONAL DESIGN

Edited by János Kornai, László Mátyás and Gérard Roland

MARKET AND SOCIALISM

In the Light of the Experience of China and Vietnam

Edited by János Kornai and Yingyi Quian

INSTITUTIONAL CHANGE AND ECONOMIC BEHAVIOUR

Edited by János Kornai, László Mátyás and Gérard Roland

INTERGENERATIONAL EQUITY AND SUSTAINABILITY

Edited by John E. Roemer and Kotaro Suzumura

PSYCHOLOGY, RATIONALITY AND ECONOMIC BEHAVIOUR

Challenging Standard Assumptions

Edited by Bina Agarwal and Alessandro Vercelli

MULTINATIONALS AND FOREIGN INVESTMENT IN ECONOMIC DEVELOPMENT

Edited by Edward M. Graham

POST-CONFLICT ECONOMIES IN AFRICA

Edited by Paul Collier and Augustin Kwasi Fosu

STRUCTURAL REFORM AND MACROECONOMIC POLICY

Edited by Robert M. Solow

THE PAST, PRESENT AND FUTURE OF THE EUROPEAN UNION

Edited by Alan V. Deardorff

LATIN AMERICAN ECONOMIC CRISES

Trade and Labour

Edited by Enrique Bour, Daniel Heymann and Fernando Navajas

ADVANCES IN MACROECONOMIC THEORY

Edited by Jacques H. Drèze

EXPLAINING GROWTH

A Global Research Project

Edited by Gary McMahon and Lyn Squire

TRADE, INVESTMENT, MIGRATION AND LABOUR MARKET ADJUSTMENT

Edited by David Greenaway, Richard Upward and Katherine Wakelin

INEQUALITY AROUND THE WORLD

Edited by Richard B. Freeman

MONETARY THEORY AND POLICY EXPERIENCE

Edited by Axel Leijonhufvud

MONETARY THEORY AS A BASIS FOR MONETARY POLICY

Edited by Axel Leijonhufvud

ECONOMIC DEVELOPMENT IN SUBSAHARAN AFRICA

Proceedings of the Eleventh World Congress of the International Economic Association, Tunis

Edited by Ibrahim Elbadawi and Beno Ndula

International Economics Association

Series Standing Order ISBN 978-0-3337-1242-9 (Hardback)

978-0-3338-0330-1 (Paperback)

You can receive future titles in this series as they are published by placing a standing order. Please contact your bookseller or, in case of difficulty, write to us at the address below with your name and address, the title of the series and one of the ISBNs quoted above.

Customer Services Department, Macmillan Distribution Ltd, Houndmills, Basingstoke, Hampshire RG21 6XS, England

Contemporary Issues in Microeconomics

Edited by

Joseph E. Stiglitz

University Professor, Columbia University, USA

and

Martin Guzman

*Postdoctoral Research Fellow, Columbia University Business School, USA, and
Associate Professor, University of Buenos Aires, Argentina*

palgrave
macmillan

Selection, introduction and editorial matter © Joseph E. Stiglitz
and Martin Guzman 2016

Individual chapters ©Contributors 2016

Softcover reprint of the hardcover 1st edition 2016 978-1-137-52970-1

All rights reserved. No reproduction, copy or transmission of this
publication may be made without written permission.

No portion of this publication may be reproduced, copied or transmitted
save with written permission or in accordance with the provisions of the
Copyright, Designs and Patents Act 1988, or under the terms of any licence
permitting limited copying issued by the Copyright Licensing Agency,
Saffron House, 6–10 Kirby Street, London EC1N 8TS.

Any person who does any unauthorized act in relation to this publication
may be liable to criminal prosecution and civil claims for damages.

The authors have asserted their rights to be identified as the authors of this work
in accordance with the Copyright, Designs and Patents Act 1988.

First published 2016 by
PALGRAVE MACMILLAN

Palgrave Macmillan in the UK is an imprint of Macmillan Publishers Limited,
registered in England, company number 785998, of Houndmills, Basingstoke,
Hampshire RG21 6XS.

Palgrave Macmillan in the US is a division of St Martin's, Press LLC,
175 Fifth Avenue, New York, NY 10010.

Palgrave Macmillan is the global academic imprint of the above companies
and has companies and representatives throughout the world.

Palgrave® and Macmillan® are registered trademarks in the United States,
the United Kingdom, Europe and other countries

ISBN 978-1-137-57937-9 ISBN 978-1-137-52971-8 (eBook)

DOI 10.1057/9781137529718

This book is printed on paper suitable for recycling and made from fully
managed and sustained forest sources. Logging, pulping and manufacturing
processes are expected to conform to the environmental regulations of the
country of origin.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data

Names: Stiglitz, Joseph E., editor. | Guzman, Martin, 1982– editor.

Title: Contemporary issues in microeconomics / edited by Joseph E. Stiglitz,
Martin Guzman.

Description: New York : Palgrave Macmillan, 2015. | Series: International
economic association | Includes index.

Identifiers: LCCN 2015043549 |

Subjects: LCSH: Microeconomics. | BISAC: BUSINESS & ECONOMICS /
Economics / Microeconomics. | BUSINESS & ECONOMICS / Economics /
General. | BUSINESS & ECONOMICS / International / Economics.

Classification: LCC HB172 .C57296 2015 | DDC 338.5–dc23

LC record available at <http://lcn.loc.gov/2015043549>

Contents

<i>List of Figures</i>	vii
<i>List of Tables</i>	ix
<i>Foreword</i>	x
<i>Notes on Contributors</i>	xi
Introduction	1
Part I Inequality, Poverty, and Security	5
1 The UTIP Global Inequality Data Sets, 1963–2008: Updates, Revisions and Quality Checks	7
<i>James K. Galbraith, Béatrice Halbach, Aleksandra Malinowska, Amin Shams and Wenjie Zhang</i>	
2 Multidimensional Poverty Measurement: The Mexican Wave	40
<i>Gonzalo Hernández Licona</i>	
3 Inequality, Economic Growth and Natural Resources Rent: Evidence from the Middle East and North Africa	50
<i>Hamid E. Ali and Sara M. Sami</i>	
4 Inequality Impacts of Oil Dependence in the MENA	77
<i>Sevil Acar</i>	
5 Housing and Saving in Retirement Across Countries	88
<i>Makoto Nakajima and Irina A. Telyukova</i>	
Part II Income Contingent and Student Loans	127
6 Income-Contingent Loans: Some General Theoretical Considerations, with Applications	129
<i>Joseph E. Stiglitz</i>	
7 Income Contingent Loans as a General Risk Management Instrument	137
<i>Bruce Chapman</i>	
8 Utilizing the Transactional Efficiencies of Contingent Loans – A General Framework for Policy Application	145
<i>Richard Denniss and Tom Swann</i>	

9	Income Contingent Loans for Social Policy: the Case of Paid Parental Leave <i>Timothy Higgins</i>	159
10	Illustrating the Trade-Off Between Interest Rates and Aggregate Loan Recovery of the Student Loans Fund in Thailand <i>Kiatanantha Lounkaew</i>	169
11	The Financial Capacity of German University Graduates to Repay Student Loans <i>Mathias G. Sinning</i>	184
	<i>Index</i>	194

List of Figures

A1.1	Income inequality in Brazil, 1960–2012	14
A1.2	Income inequality in Canada, 1960–2011	15
A1.3	Income and consumption inequality in China, 1952–2013	16
A1.4	Income inequality in Colombia, 1962–2012	17
A1.5	Income inequality in Czechoslovakia and the Czech Republic, 1958–2013	18
A1.6	Income inequality in France, 1962–2012	19
A1.7	Income inequality in Germany, 1960–2012	20
A1.8	Income inequality in Hungary, 1955–2013	21
A1.9	Income and consumption inequality in India, 1951–2009	22
A1.10	Income inequality in Mexico, 1963–2012	23
A1.11	Income inequality in Poland, 1956–2013	24
A1.12	Income inequality in Russia, 1981–2011	25
A1.13	Income inequality in South Africa, 1960–2012	26
A1.14	Income inequality in the United Kingdom, 1961–2013	27
A1.15	Income inequality in the United States, 1960–2012	28
2.1	Population living in multidimensional poverty	44
3.1	Inequality and oil rent in high income economies in the MENA region	60
3.2	Inequality and oil rent in upper middle economies in the MENA region	61
3.3	Inequality and oil rent in lower middle income economies	63
5.1	Median net worth (thousands PPP-Adj. 2000 US\$)	92
5.2	Median net worth normalized by age-65 income (thousands PPP-Adj. 2000 US\$)	94
5.3	Median unconditional housing assets (thousands PPP-Adj. 2000 US\$)	95
5.4	Median housing assets, conditional on ownership (thousands PPP-Adj. 2000 US\$)	97
5.5	Homeownership rates	98
5.6	Median financial assets (thousands PPP-Adj. 2000 US\$)	99
5.7	Age profiles of secured debt rates (percent)	101
5.8	Age profiles of unsecured debt rates (percent)	102
5.9	Mean and median net worth	104
5.10	Mean and median conditional housing wealth	106
5.11	Mean and median financial wealth	108

5.12	Ratio of median net worth at age 86–90 to age 65–69, by country	111
5.13	Components of net worth change, age 65 to 85	112
5.14	Expected mean medical expenses by health, median-income singles	116
5.15	Expected mean medical expenses by income, good health singles	118
10.1	SLF Repayments for the debt of 200,000 Baht	171
10.2	Cohort default rates	171
10.3	Illustrating proportion of borrowers defaulting on student loans	174
10.4.1	Marginal revenue	175
10.4.2	Marginal cost curve	175
10.4.3	Steepness of cumulative density function	176
10.5	Trade-off between interest rate subsidies and expected loan recovery	177
10.6	Expected loan recovery	178
10.7	Proportion of graduate non-wage earners	180
11.1	Conventional 15-year loan repayment by level of debt (in real terms)	187
11.2	Conventional 20-year loan repayment by level of debt (in real terms)	188

List of Tables

1.1	Revised coefficient estimates relating UTIP-UNIDO to Deininger-Squire	8
3.1	Inequality and economic growth relationship	54
3.2	Income level of the MENA countries	58
3.3	Sample of the panel data	59
3.4	Gini Coefficient	65
3.5	Description of variables and data unit	67
3.6	Fixed effect model dependent variable Theil Index	68
3.7	GMM model dependent variable Δ Theil	69
4.1	Income distribution in the MENA region	80
4.2	Oil production in the sample countries (1980–2008 period averages)	81
4.3	Theil deterioration in the sample countries	82
4.4	Panel fixed effects estimation with robust (HAC) standard errors	84
5.1	Median conditional secured and unsecured debt at age 65	100
10.1	Indicators for excessive indebtedness of student loans (age 25–39)	172
10.2	Recovery-maximizing interest rate and expected loan recovery	179
11.1	Repayment burdens in the first year of the repayment period by level of debt (in per cent)	189
11.2	Repayment durations of an income contingent loan (in years)	190
11.3	Debt ratio by level of debt (in percentages)	191

Foreword

These essays were presented at the 17th World Congress of the International Economic Association held in Jordan, June 6–10, 2014. It was organized in partnership with the Columbia Global Centres – Middle East (Amman) and with generous support from a range of sponsors. The five-day program included five plenary sessions, 24 invited sessions, 15 policy sessions and over 90 contributed sessions, with over 600 people in attendance. The selection of papers in this volume gives a flavour of the range of issues that were discussed in the congress sessions which brought together a group of established and younger scholars from all over the world. The IEA is a fine example of international cooperation in the discipline of economics. The success of the congress owed much to the energy and commitment of the IEA President at the time, Joseph Stiglitz.

Timothy Besley, London, May 2015

Notes on Contributors

Sevil Acar is Assistant Professor of Economics at Istanbul Kemerburgaz University. Her research is on environmental and resource economics, particularly natural capital accounting, sustainability indicators, and the resource curse. She holds a Master's from Istanbul Technical University (2007) and a PhD from Marmara University (2011). Awarded with a Swedish Institute scholarship, she conducted research at the Centre for Environmental and Resource Economics (CERE) during her PhD studies. She took part in several projects including the estimation of historical accounts for Swedish sustainable development and analysis of carbon convergence across countries.

Hamid E. Ali is Associate Professor and Chair of the Department of Public Policy and Administration at the American University in Cairo (AUC), and one of the founders of public policy program and former Director of Master of Global Affairs at AUC. Ali taught at Southern Methodist University and Texas State University. He was a researcher at US Government Accountability Office (GAO), where he was a major contributor on various reports to congressional committees. Ali obtained his Ph.D. in Economics and Public Policy from the University of Texas at Austin in 2004. He is the author of *Darfur Political Economy: A Quest for Development* (2014).

Timothy Besley is School Professor of Economics and Political Science and W. Arthur Lewis Professor of Development Economics at the London School of Economics. He served on the Bank of England's Monetary Policy Committee from September 2006 to August 2009. He is a member of the Institutions, Organizations and Growth Program of the Canadian Institute for Advanced Research and his research interests are focused on aspects of economic policy formation. He is a Fellow of the British Academy and the Econometric Society and is a foreign honorary member of the American Economic Association and the American Academy of Arts and Sciences. He is also a past co-editor of the *American Economic Review* and has served on the board of numerous academic journals. In 2010 he served as president of the European Economic Association and from 2014 to 2017, he is serving as the President of the International Economic Association. In 2005, he won the Yrjö Jahnsson Award for European economics.

Bruce Chapman is Professor of Economics at the Crawford School of Public Policy, Australia National University. He is an applied education and labor economist with a PhD from Yale University and over 200 published papers and several books. He has been actively engaged in research and public policy debates

concerning income contingent loans for over 25 years with respect to and in around 25 countries.

Richard Denniss is an economist, Executive Director of The Australia Institute, and Adjunct Associate Professor at the Crawford School of Economics and Government at the Australian National University. Prior to taking up his current position he was the Strategy Adviser to the Leader of the Australian Greens, Senator Bob Brown, and Chief of Staff to the then Leader of the Australian Democrats, Senator Natasha Stott Despoja. Richard has published extensively in academic journals, and was the co-author of *Minority Policy: Rethinking governance when parliament matters* (with Brenton Prosser), *Affluenza* (with Clive Hamilton) and *An Introduction to Australian Public Policy: Theory and Practice* (with Sarah Maddison).

James K. Galbraith holds the Lloyd M. Bentsen Jr. Chair of Government/Business Relations at the Lyndon B. Johnson School of Public Affairs, the University of Texas at Austin. His most recent book is *The End of Normal*. The next, *What Everyone Needs to Know About Inequality*, is forthcoming. Galbraith is chair of Economists for Peace and Security and Senior Scholar at the Levy Economics Institute. In 2010 he was elected to the Accademia Nazionale dei Lincei. In 2012, he was President of the Association for Evolutionary Economics. He is the 2014 co-winner of the Leontief Prize.

Martin Guzman is a postdoctoral research fellow at the Department of Economics and Finance, Columbia University Business School and an associate professor at the University of Buenos Aires. He is also a member of the INET Taskforce on Macroeconomic Externalities and Instabilities.

Béatrice Halbach studied Economics and Asian Studies at the University of Texas at Austin. Her main interest is in the role of emerging economies in global economic development. She studies economic inequality as a Graduate Research Assistant for the University of Texas Inequality Project, and is currently a Masters student at the Lyndon. B. Johnson School of Public Affairs.

Gonzalo Hernández Licona is the Executive Secretary of the Mexican National Council for the Evaluation of Social Development Policy (CONEVAL). He directs and coordinates the council's activities, whose objective is to evaluate social development policy and programs as well as to carry out the official measurement of poverty in the country. He holds a PhD in Economics from the University of Oxford, a Master's in Economics from the University of Essex, and a BSc in Economics from the Instituto Tecnológico Autónomo de México (ITAM). He lectures on Development Economics at ITAM.

Timothy Higgins is Senior Lecturer and Researcher in Actuarial Studies at the Australian National University. Prior to academia he was in the Australian Department of the Treasury, where he was involved in the design and costing

of public policy, including the Australian income contingent loan scheme. He is a Fellow of the Institute of Actuaries of Australia and has consulted to the Australian Government on social policy. He has written extensively on the design, application and costing of income contingent loans.

Kiatanantha Lounkaew is an Australian Research Council's Linkage Research Fellow at Crawford School of Public Policy, Australian National University. He is also the assistant to the vice president for research, Dhurkij Pundit University, Thailand. He completed his PhD in economics from Crawford School of Public Policy, Australian National University in 2011. His research focuses on education and labor market outcomes, student loans, education reform and school quality (SMEs). He has published in *Economics of Education Review*, *Journal of Population Research*, *Economic Papers* and *Australian Journal of Labour Economics*. Dr Lounkaew contributes regularly to local newspapers, magazines, radio and TV programs in Thailand on issues related to public policy.

Aleksandra Malinowska is a doctoral student in Education Policy and Planning in the Department of Educational Administration at the University of Texas Austin. Her research interests include social and educational inequality, migrant education, and immigrant education policy. She is a graduate student trainee at the Population Research Center at the University of Texas Austin.

Makoto Nakajima is a senior economist in the Research Department of the Federal Reserve Bank of Philadelphia. His current research focuses on the role of home equity in retirees' savings decisions, the interaction between capital income taxation and housing taxation, macroeconomic implications of consumer credit and bankruptcy, and labor market dynamics over the business cycle. He holds a PhD in Economics from the University of Pennsylvania. Before joining the Philadelphia Fed, he was an assistant professor of economics at the University of Illinois, Urbana-Champaign.

Sara Sami is an assistant vice president in Abu Dhabi Islamic Bank, where she handles the foreign financial institutions investing in the Egyptian capital market. Sara started her career as a Management Associate in Citibank and worked in Frankfurt and London. She holds a Master's in Public Policy from the American University in Cairo.

Amin Shams is a PhD student in finance at the McCombs School of Business at the University of Texas at Austin. His research has been primarily focused on derivative market, corporate finance, and the financial crisis. He has also contributed to several research projects on income inequality. He has a Master's in Global Policy from the LBJ School of Public Affairs and an MBA from Sharif University of Technology.

Mathias Sinning is a senior lecturer at the Crawford School of Public Policy of the Australian National University. He studied economics at the University of Heidelberg and received his PhD in economics from the University of Bochum in 2008. He has previously held academic appointments at the ANU and the University of Queensland and has been a Visiting Fellow at Princeton University. He is interested in the empirical analysis of issues related to economic inequality and human capital investments. He is a Research Fellow of RWI Essen, IZA Bonn and the CReAM Centre at the University College London.

Joseph E. Stiglitz is University Professor at Columbia University, USA. In 2001 he was awarded the Nobel Prize in Economics for his analyses of markets with asymmetric information. He was the President of the International Economic Association from 2011 to 2014.

Tom Swann is a researcher at The Australia Institute where he works on government loans, higher education, renewable energy and fossil fuel divestment. With Richard Denniss and Bruce Chapman, he is researching existing government loan schemes and the scope for their expansion. He holds a BA in Philosophy from the Australian National University where he is studying towards a Master's of Climate Change. He has been prominently involved in the fossil fuel divestment movement.

Irina A. Telyukova is Assistant Professor of Economics at University of California, San Diego. She holds or has held visiting scholar positions at the International Monetary Fund, Institute for Fiscal Studies, and several Federal Reserve Banks. Her research focus is on household debt and saving, including credit card and mortgage debt over the life cycle. In recent years, Irina's research has been primarily on housing and retirement, as well as implications of macroeconomic policies on household inequality, in the US and other countries.

Wenjie Zhang is a visiting junior scholar at the Luxembourg Income Study Center. Previously, she was a researcher at the Lyndon B. Johnson School of Public Affairs at The University of Texas at Austin. Her research primarily focuses on the measurement and assessment of China's pay inequality and its political and social impacts on Chinese society during the transitional period.