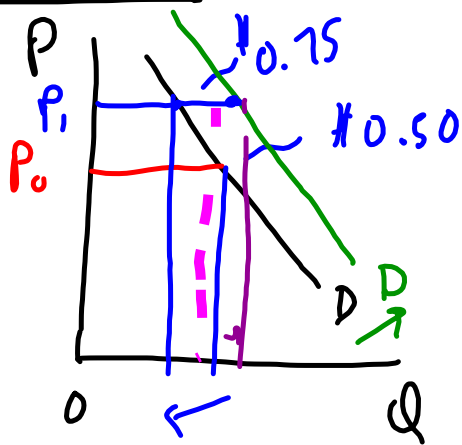


Methods - Chapter 2

Positive - are or will be

Theory - predictions



If $P \uparrow$ $Q \downarrow$
 Law of Demand.
 - effect cut in
 Personal Income Tax
 Rate on charity
 contributions

- giving to charity is normal good
 Income \uparrow Charity \uparrow Price \uparrow

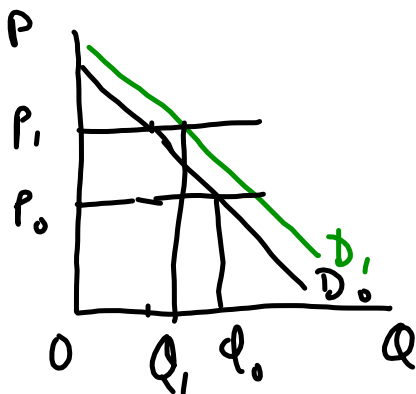
Empirical.

Tax rate cut
 1986 - Tax Reform Act TRA86
 cut top marginal rate

Price of charity \uparrow
 Disposable income \uparrow

Charles Clotfelter 1993

Charitable \downarrow - price effect
 larger than income effect



$Q : (D_1 - D_0) ?$
 income effect

Empirical work

- experiment - control variable

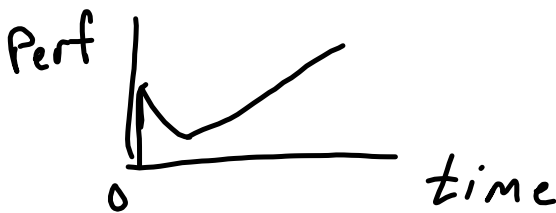
↙
quasi-experiment - natural jurisdictions

- collect data - primary - econometrics
- secondary -

↳
pseudo-control.
orthogonal.

- Charter schools

↳ initial perf ↓ - control for new school effect



1960s - social experiments

Income support - welfare:
tax rate 100%

Denver } - #1 in earnings } Hours ↑
Gary IN } welfare ↓ < #1 }

Education Performance Contracting

Pay teachers grade gain Math
English

Low ↓ — Middle ↑
High ↓

Causation vs Correlation

- Theory -

Granger Causality Test

Cross section → behavior point in time
Time series - Forecasting.

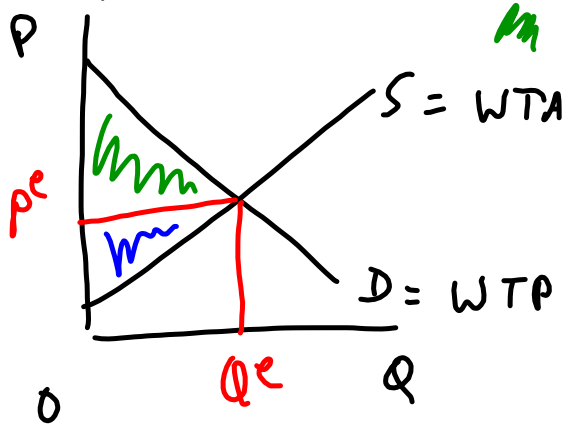
Tools
- elasticity

$$\eta = \frac{\% \Delta Q}{\% \Delta P} \quad \text{price elasticity}$$

$$\epsilon = \frac{\% \Delta Q}{\% \Delta I}$$

$$\eta_{xy} = \frac{\% \Delta Q_x}{\% \Delta P_y}$$

- Surplus (economic)



Cons. surplus

prod surplus

Social Experiments

Reform Welfare → TANF

Temporary Assistance Needy Families

- limit 60 months over lifetime
- encourage work
- issues → transportation
→ phone

Tenn. - 3K grant to buy a car
- phones

Empirics - data to test theory

- Lab experiments - created market good & induced value - exchange rate
- introduce change (treatment)
 - service program - 30-40%
- compliance ↑
 - withholding.

Cig taxes - evade tax

discarded cig packages	- pop city
city vs county	- est % smoke
10.50 8.30	- packages
	evasion + import
	cigs