

# **Families, Firms and the Dynamics of Income Inequality**

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## **1. Overview**

Wage and income distribution have been widening worldwide in the past 30 years, prompting a vast academic literature and spurring a hot policy debate on the necessity of remedies for levelling the economic playing field. Inequalities are all the more troublesome when they are transmitted across the generations, creating a polarized society in the long-run. The increasing availability of population based administrative data on income has allowed paramount progress in the econometric analysis of inequality, its dynamic aspects and its connections with individuals' socio-economic networks.

The module covers current applied econometrics research on inequality along two specific dimensions. The first will be on family background and intergenerational mobility. The second will be firm-driven wage inequality. The focus will be on the substantive contents and on the related applied econometric issues. Students will be exposed to recent papers from the literature and to ongoing research projects within the Università Cattolica Strategic Grant *Unpacking Inequalities: Mechanisms and Policies* (UNEQUAL).

## **2. Contents**

### ***Lecture 1: Inequality and Families***

- 1.a Measurement issues in intergenerational mobility and sibling studies
- 1.b Nature or Nurture? Lessons from research on twins and adoptees
- 1.c The effects of neighborhoods on intergenerational mobility

### ***Lecture 2: Inequality and Firms***

- 2.a Measurement issues: two-way FE models
- 2.b Rent sharing, firm heterogeneity and firm-driven wage inequality
- 2.c Firm driven inequality in the life-cycle

## **3. Structure and evaluation method**

Lectures 1 and 2 will provide students with an overview of state-of-the-art research on the two topics. (5 hours). These will be followed by a first workshop in which students will present papers (not necessarily published) from the literature covered in Lecture 1, and a second workshop on the topics of Lecture 2 (10 hours in total).

Afterwards, each student will write a referee report on an unpublished paper not covered in lectures or workshops.

Final evaluation will be based on workshop presentation (66%) and referee reports (34%).

#### 4. Reading list

- Adermon, A., M. Lindahl and M. Palme (2021). Dynastic Human Capital, Inequality, and Intergenerational Mobility. *American Economic Review*, 111 (5), 1523-48.
- Abowd, John, Francis Kramarz, and David Margolis. 1999. "High Wage Workers and High Wage Firms." *Econometrica*, 57(2): 411-45.
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- Bingley, Paul and Lorenzo Cappellari (2019) "Correlation of Brothers' Earnings and Intergenerational Transmission", *Review of Economics and Statistics*, 101(2), 370-383.
- Bingley, Paul and Lorenzo Cappellari (2022) "Earnings Dynamics, Inequality and Firm Heterogeneity", LISER WP 2022-07.
- Bingley, P., L. Cappellari and K. Tatsiramos (2021). Family, Community, and Long-Term Socio-Economic Inequality: Evidence from Siblings and Youth Peers. *Economic Journal*, 131(636), 1515–1554.
- Bingley, P., L. Cappellari and K. Tatsiramos (2023). "On the Origins of Socioeconomic Inequalities: Evidence from Twin Families", IZA DP 16520.
- Björklund, A., M. Lindahl and E. Plug (2006). The Origins of Intergenerational Associations: Lessons from Swedish Adoption Data. *The Quarterly Journal of Economics*, 121(3), 999-1028.
- Black, S.E., P.J. Devereux, P. Lundborg, and K. Majlesi (2020). Poor Little Rich Kids? The Role of Nature versus Nurture in Wealth and Other Economic Outcomes and Behaviours. *Review of Economic Studies*, 87(4), 1683–1725.
- Bonhomme Stephane, Kerstin Holzheu, Thibaut Lamadon, Elena Manresa, Magne Mogstad, and Bradley Setzler. 2023. "How Much Should We Trust Estimates of Firm Effects and Worker Sorting?" *Journal of Labor Economics*, 41(2): 291-322
- Card, David, Ana Rute Cardoso, Joerg Heining, and Patrick Kline (2018) "Firms and Labor Market Inequality: Evidence and Some Theory." *Journal of Labor Economics* 36:S1, S13-S70.
- Card, David, Joerg Heining, and Patrick Kline. 2013. "Workplace Heterogeneity and the Rise of West German Wage Inequality", *Quarterly Journal of Economics*, 128: 967-1015.
- Cesarini, D., M. Johannesson, P. Lichtenstein and B. Wallace (2009). Heritability of Overconfidence. *Journal of the European Economic Association*, 7(2-3), 617-627.
- Chetty Raj, Nathan Hendren: The Impacts of Neighborhoods on Intergenerational Mobility I: Childhood Exposure Effects *Quarterly Journal of Economics* 113 (3), 2018
- Collado, M.D., I. Ortuño-Ortín and J. Stuhler (2023). Estimating Intergenerational and Assortative Processes in Extended Family Data. *Review of Economic Studies*, 90(3), 1195-1227.
- Corak, Miles and Patrizio Piraino (2011) "The intergenerational transmission of employers" *Journal of Labor Economics*, 29:1, 37–68.

- Dobbin Caue, Tom Zohar (2023) Quantifying the Role of Firms in Intergenerational Mobility CESifo Working Paper No. 10758
- Eika, L., M. Mogstad and B. Zafar (2019). Educational Assortative Mating and Household Income Inequality. *Journal of Political Economy*, 127(6), 2795-2835.
- Fagereng, A., M. Mogstad and M. Rønning (2022). Why Do Wealthy Parents Have Wealthy Children? *Journal of Political Economy*.
- Güell, M, J.V. Rodríguez Mora and C.I. Telmer (2015). The Informational Content of Surnames, the Evolution of Intergenerational Mobility, and Assortative Mating. *Review of Economic Studies*, 82(2), 693–735.
- Kline, Patrick, Raffaele Saggio, and Mikkel Sølvsten. 2020. “Leave-out Estimation of Variance Components.” *Econometrica*, 88(5): 1859-98.
- Lundborg, P., E. Plug and A.W. Rasmussen (2024). On the Family Origins of Human Capital Formation: Evidence from Donor Children. *Review of Economic Studies*
- Sacerdote, B. (2007). How Large Are the Effects of Changes in Family Environment? A Study of Korean American Adoptees. *Quarterly Journal of Economics*, 122(1), 119-157.
- Song, J., Price, D. J., Guvenen, F., Bloom, N. and Von Wachter, T. (2019), ‘Firming up inequality’, *The Quarterly Journal of Economics* 134(1), 1–50.
- Staiger Matthew (2024). The Intergenerational Transmission of Employers and the Earnings of Young Workers, unpublished manuscript Harvard University