

S130 Economics of Ageing

Lecturer: Prof. Eric French

DESCRIPTION: This course covers areas of active empirical research on the economics of aging. We will cover OLG, adverse selection, and life cycle savings and labor supply models as well as empirical evidence on these models. Specific topics include the role of savings incentives on individual and national savings, the annuities market, and the effects of public pensions and disability insurance programs on labor supply and savings.

Assessment: 2 hour exam, with four questions. Exam content will include both derivations and short essay questions. These will include interpretations of derivations as well as questions relating to key empirical results in the literature.

Problem sets: 3 problem sets. These problem sets will not contribute to your grade, but they will help prepare you for your exam.

Sources of data on ageing populations and pension systems

OECD web site (click on the Ageing Society link):

<http://www.oecd.org/maintopic>

World Bank pensions and pension reform web site:

<http://www.worldbank.org/pensions>

Links to useful UK official data, publications and statistics online

<http://www.ifs.org.uk/weblinks.php?code=stt>

Reading list (* denotes the most important papers)

1. Economic Implications of Population Aging

Bloom, D., and D Luca, "Chapter 1 - The Global Demography of Aging: Facts, Explanations, Future", in *Handbook of the Economics of Population Aging*, Volume 1A, John Piggott Alan Woodland eds., 2016, 3-56.

Diamond, Peter, "A Framework for social security analysis". *Journal of Public Economics*, Vol 8, No 3, pp 275-298, December 1977

2. Some Distributional Aspects of Govt Pensions

Samuelson, P., "An exact consumption-loan model of interest with or without the social contrivance of money", *The Journal of Political Economy*, Vol. 66, No. 6. (Dec., 1958), pp. 467-482.

Diamond, Peter A. "National debt in a neoclassical growth model." *The American Economic Review* 55.5 (1965): 1126-1150.

Attanasio, O., A. Bonfatti, S. Kitao, G. Weber, "Chapter 4 - Global Demographic Trends: Consumption, Saving, and International Capital Flows", in *Handbook of the Economics of Population Aging*, Volume 1A, John Piggott Alan Woodland eds., 2016.

3. The economics of pensions and annuities

Finkelstein, A., Poterba, J., 2002. Selection effects in the market for individual annuities: new evidence from the United Kingdom. *Economic Journal* 112, 28–50.

*Finkelstein, A., Poterba, J., 2004. Adverse selection in insurance markets: policyholder evidence from the U.K. annuity market. *Journal of Political Economy* 112, 183–208.

*Mitchell, Olivia S., J Poterba, J., Warshawsky, P. and Brown, J., "New Evidence on the Money's Worth of Individual Annuities," *American Economic Review*, vol. 89(5), pages 1299-1318, December.

O'Dea, Cormac, and David Sturrock, "Survival Pessimism and the Demand For Annuities", IFS working paper, forthcoming at *Review of Economics and Statistics*.

4. The life-cycle model and saving for retirement: do People Prepare Adequately for Retirement?

Banks, J., R. Blundell, S. Tanner, "Is there a retirement-savings puzzle?" *The American Economic Review*, (1998).

*Bernheim, B. Douglas, Jonathan Skinner and Steven Weinberg, "What Accounts for the Variation in Retirement Wealth Among U.S. Households?" *The American Economic Review*, 91 (2001), 832-857.

Aguiar, Mark and Erik Hurst (2005): "Consumption vs. Expenditure" *Journal of Political Economy*, 113, 919-948.

*Scholz, John Karl, Ananth Seshadri and Surachai Khitatrakun (2006): "Are Americans Saving 'Optimally' for Retirement?" *Journal of Political Economy*, 114, 607-643.

Michael Hurd, Susann Rohwedder, The Retirement-Consumption Puzzle: Anticipated and Actual Declines in Spending at Retirement, manuscript, 2005.

Chetty, R., J. Friedman, S. Leth-Petersen, T. Nielsen, T. Olsen, Active vs. Passive Decisions and Crowdout in Retirement Savings Accounts: Evidence from Denmark, *The Quarterly Journal of Economics*, Volume 129, Issue 3, August 2014, Pages 1141–1219.

O'Dea, C. and R. Crawford, "Household portfolios and financial preparedness for retirement", *Quantitative Economics* 11(2): 637-670 (May 2020)

*Attanasio, OP, S Rohwedder, "Pension wealth and household saving: Evidence from pension reforms in the United Kingdom", *American Economic Review*, 93 (5), 1499-1521, 2003.

Attanasio, OP, S Rohwedder, Social security and households' saving, the *Quarterly Journal of economics* 118 (3), 1075-1119, 2003.

Lachowska, Marta, and Michał Myck. "The effect of public pension wealth on saving and expenditure." *American Economic Journal: Economic Policy* 10.3 (2018): 284-308.

5. Savings Patterns After Retirement

Hurd, M. "Mortality and Bequests," *Econometrica*, 1989, 57(4), 779-813.

*DeNardi, M., E. French and J. Jones, "Why do the Elderly Save? The Role of Medical Expenses", *Journal of Political Economy*, February 2010, 118(1): 37-75.

Lockwood, Lee, "Incidental Bequests", *American Economic Review*, 108 (9), 2513-50, 2018.

Ameriks, John, J. Briggs, Andrew Caplin, Matthew D Shapiro, Christopher Tonetti, "Long-Term Care Utility and Late in Life Saving", *Journal of Political Economy*, 2020.

6. Labor Force Participation and Retirement

Blundell, Richard, Eric French and Gemma Tetlow, "Retirement Incentives and Labour Supply" *Handbook of the Economics of Population Aging*, Piggott and Woodland, eds, 2016, 458-556.

*French, Eric, "The Effects of Health, Wealth and Wages on Labor Supply and Retirement Behavior," *Review of Economic Studies*, 2005, 72(2), 395-427.

Rust, John and Christopher Phelan, "How Social Security and Medicare affect Retirement Behavior in a World of Incomplete Markets," *Econometrica*, 65 (4), July 1997, 781-831.

French, Eric and John Bailey Jones, "The Effects of Health Insurance and Self-Insurance on Retirement Behavior", *Econometrica*, Vol. 79, No. 3 (May, 2011), 693-732.

"Nonparametric Evidence on the Effects of Financial Incentives on Retirement Decisions", Dayanand Manoli and Andrea Weber, *AEJ: Policy*, 2016.

Cribb, J., C. Emmerson, and G. Tetlow, "Signals matter? Large retirement responses to limited financial incentives", *Labour Economics*, 2016.

Richard Rogerson and Johanna Wallenius, "Nonconvexities, Retirement and the Elasticity of Labor Supply", *AER*, 2013.

*French, Eric, Attila Lindner, Cormac O'Dea, Tom Zawisza, "Labor Supply and the Pension Contribution-Benefit Link".

Kolsrud, Jonas, Camille Landais, Daniel Reck and Johannes Spinnewijn, "Retirement Consumption and Pension Design".

7. The link between Health and Economic Position at older ages

Blundell, Richard Jack Britton, Monica Costa Dias, Eric French, "The impact of health on labor supply near retirement", *Journal of Human Resources*, 2020.

Smith, James P. "Healthy Bodies and Thick Wallets: The Dual Relation Between Health and Economic Status," *Journal of Economic Perspectives* 13 (2), Spring 1999: 145-166.

Case, Anne and Angus Deaton, Rising morbidity and mortality in midlife among white non-Hispanic Americans in the 21st century, *PNAS* December 8, 2015 112 (49) 15078-15083.

*Raj Chetty, Michael Stepner, Sarah Abraham, Shelby Lin, Benjamin Scuderi, Nicholas Turner, Augustin Bergeron, David Cutler, The association between income and life expectancy in the United States, 2001-2014, *Journal of the American Medical Association*, 2016.

8. Disability Insurance: Impacts on Labor Supply, Retirement, Consumption

Bound, J. and R. V. Burkhauser (1999), "Economic analysis of transfer programs targeted on people with disabilities", in: Orley Ashenfelter and David Card, eds., *Handbook of Labor Economics* 3C (Elsevier Science B.V., Amsterdam) 3417-3525.

Autor, David H and Mark G. Duggan (2003): "The Rise in the Disability Rolls and the Decline in Unemployment," *Quarterly Journal of Economics*, 118(1), February, 157-206.

Black, Dan A, K. Daniel and S. Sanders (2002): "The Impact of Economic Conditions on Participation in Disability Programs: Evidence from the Coal Boom and Bust," *American Economic Review*, 92, 27-50.

Bound, John (1989): "The Health and Earnings of Rejected Disability Insurance Applicants," *American Economic Review*, 79, 482-503.

Meyer, Bruce D., and Wallace K. C. Mok: "Disability, Earnings, Income and Consumption" Working Paper, University of Chicago. *Journal of Public Economics*, 2019.

*French, Eric and Jae Song, "The Effect of Disability Insurance Receipt on Labor Supply", *American Economic Journal: Policy*, 2014.

Maestas, Nicole, Kathleen J. Mullen, Alexander Strand, "Does Disability Insurance Receipt Discourage Work? Using Examiner Assignment to Estimate Causal Effects of SSDI Receipt," *AMERICAN ECONOMIC REVIEW*, VOL. 103, NO. 5, AUGUST 2013, pp. 1797-1829.

*A. Kostol, G. Dahl, and M. Mogstad, "Family Welfare Cultures", Working Paper, *Quarterly Journal of Economics* 129 (4), 1711-1752, 2014.

Low, H., and L. Pistaferri, "Disability Insurance and the Dynamics of the Incentive Insurance Trade-Off", *The American Economic Review* 105 (10), 2986-3029.