

Economics of Aging
Professor Julie Zissimopoulos
Winter Quarter 2008

Course Description

The elderly are a growing proportion of the population in developed and in many developing countries and this population aging has created myriad social and economic policy challenges. Some of these challenges include the financing of public pensions, the cost of health care, long-term care arrangements and the adequacy of retirement savings. This course will introduce students to current theoretical and empirical work on a variety of topics on the economics of aging and the burgeoning worldwide data collection efforts on the health, wealth and labor supply of middle and older age individuals. Most but not all of the examples will come from the United States. The class is a seminar thus everyone will be expected to actively participate in the discussion of readings, to ask questions and to volunteer ideas.

An introductory overview will examine the current trend toward an aging population around the world. After consideration of the causes and consequences of population aging, we will turn to labor force participation at older ages and how public and private systems and health affect these decisions. In addition, we will discuss the health of middle-aged and older adults and how it relates to social-economic status, as well as their health insurance choices. Finally, we will then consider social and economic arrangements of the elderly: life-cycle savings and family transfers.

Objectives

1. Achieve a solid understanding of the:
 - Causes of population aging and its consequences for individuals, families, societies.
 - Topics and theories discussed in class.
 - Main research methods discussed in class.
 - Major social policies and programs relevant to an aging population.
2. Acquire knowledge of the data sources available for studying aging issues.
3. Hone skills required for successful writing of research papers and presentation of research ideas.

Prerequisites

The primary prerequisite is a willingness to learn about how economists approach the study of aging issues and how their theories and methods can inform public policies. Also helpful is coursework in econometrics and microeconomic theory.

Course Format

This is graduate seminar for students who are interested in the study of aging issues. In preparation for each class students are expected to have read the assigned material before the class, be prepared to discuss the material and have completed the short assignment.

Participation in class is mandatory as it serves as a learning tool and aids in professional development. The optional readings serve as an extended list of references, are not required materials and will not be discussed directly in class.

Course Requirements (% of total grade)

1. Short assignments (Not graded)

When: Each class

Collaboration: Students may work together.

What: Students write a short summary of each of the assigned articles for that class that answers, at the minimum, the following questions:

- What is the goal of the paper, the research question?
- Why is it important?
- What are the methods? What data do they use?
- What are the key findings?
- What are the strengths and weaknesses (methodological, interpretation etc)?

Grading: Not graded

2. Class participation (30%)

When: Each class

Collaboration: Not relevant

What: Students answer questions posed to them by the professor, ask questions and volunteer insight.

Grading: Based on participation over the entire course.

(Some guidelines: 30=active participation each class, 15= participation most classes, 0=infrequent participation)

3. Class presentation of proposed paper topic (10%)

When: To be assigned – middle of course

Collaboration: None, this assignment is done independently

What: Each student will be charged with presenting their proposed topic for the final paper: at a minimum presenting the research question and why it is important. Power point slides (no more than 5) should be used for organizing your thoughts. Presentation time is approximately 5 minutes with 5 minutes for feedback from students/professor. This is an opportunity to get feedback on your ideas.

Grading: Based on fulfilling the assignment. More details on the presentation will be given in class.

4. Final paper on a topic discussed in class (60%)

When: Due last day of class

Collaboration: None, this assignment is done independently. This may be related to a student's dissertation but may not be taken from a partially or fully completed paper. This is to be a new idea.

What: Approximately 10 pages including: research question; why the question(s) and answer(s) are important; what we know from the related literature and what are the contributions of this paper; hypotheses/theoretical model; data you would use to answer the question(s); methods you would use to answer the question(s). This should be an original idea and should be in the form of a journal article (less the actual data work). I highly advise that the topic be discussed with me before the paper is written.

Each student will make a short presentation on the last day of class on their final paper (approximately 10 minutes).

Grading: Based on originality and quality of paper.

Grades

The grade is based on class participation (30%), class presentation (10%) and final paper (60%).

Readings

A series of required and optional readings are associated with each lecture. Required readings will be available on-line.

1. Introduction and Overview (1 lecture)

REQUIRED

Altman, Stuart H. and David Shactman. "Overview: Issues and Options for an Aging Population," in *Policies for an Aging Society*, Altman, Stuart H., and David I. Shactman (eds.) Baltimore: Johns Hopkins University Press, 2002: 3-33.

Lee, Ronald, "The Demographic Transition: Three Centuries of Fundamental Change," *Journal of Economic Perspectives* 17 (4), Fall 2003: 167-190.

OPTIONAL

Federal Interagency Forum on Aging Related Statistics, *Older Americans Update 2006: Key Indicators of Well-Being*, Washington DC: U.S. Government Printing Office, 2006.

Federal Interagency Forum on Aging Related Statistics, *Data Sources on Older Americans 2006*, Washington DC: U.S. Government Printing Office, 2006.

Gruber, Jonathan and David A. Wise, "An International Perspective on Policies for an Aging Society," in *Policies for an Aging Society*, Altman, Stuart H., and David I. Shactman (eds.) Baltimore: Johns Hopkins University Press, 2002: 34-59.

Lee, Ronald, "Long Term Population Projections and the U.S. Social Security System," *Population and Development Review* 26 (1), March 2000: 137-143.

U.S. Bureau of the Census, *Sixty-Five Plus in America, Current Population Reports, Special Studies*, P23-209, Washington, DC: U.S. Government Printing Office, 2005.

2. Labor Force Participation and Retirement (2 lectures)

REQUIRED FOR LECTURE 1 OF 2

Hurd, Michael, "Research on the Elderly: Economic Status, Retirement and Consumption and Savings," *Journal of Economic Literature*, 28, 1990: 589-606.

Quinn, Joseph, "Changing Retirement Trends and Their Impact on Elderly Entitlement Programs," in *Policies for an Aging Society*, Altman, Stuart H., and David I. Shactman (eds.) Baltimore: Johns Hopkins University Press, 2002: 293-315.

REQUIRED FOR LECTURE 2 OF 2

Coile, Courtney and Jonathan Gruber, "Future Social Security Entitlements and the Retirement Decision," *The Review of Economics and Statistics* 89(2) 2007: 234-246.

OPTIONAL

- Asch, E., S. Haider, and J. Zissimopoulos (2005). "Financial Incentives and Retirement: Evidence from Federal Civil Service Workers" *Journal of Public Economics*: 89(3) 427-440.
- Bound, J. "Self-reported and Objective Measures of Health in Retirement Models," *Journal of Human Resources* 26, Summer 1991: 106-138.
- Costa, Dora, *The Evolution of Retirement: An American Economic History: 1880-1990*, Chicago: University of Chicago Press, 1998.
- Hurd, M. and M.J. Boskin, "The Effect of Social Security on Retirement in the Early 1970s," *Quarterly Journal of Economics* 99, November 1984: 767-790.
- Hurd, M.D., James P. Smith and Julie Zissimopoulos (2003). "The Effects of Subjective Survival on Retirement and Social Security Claiming." *Journal of Applied Econometrics*: 18(0).
- Karoly, Lynn and Constantijn Panis, "The 21st Century at Work," *RAND MG-164*, 2004.
- Krueger, Alan B. and Pischke, Jorn-Steffen, "The Effect of Social Security on Labor Supply: A Cohort Analysis of the Notch Generation," *Journal of Labor Economics* 10 (4) 1992: 412-37.
- Lumsdaine, Robin and Olivia Mitchell, "New Developments in the Economic Analysis of Retirement," in *Handbook of Labor Economics*, O. Ashenfelter and D. Card (eds) Volume 3C, New York: Elsevier Science Publishers, 1999: 3261-3308.
- Zissimopoulos, Julie and Lynn Karoly, "Transitions to Self-Employment at Older Ages: The Role of Wealth, Health, Health Insurance and Other Factors" *Labour Economics* (14) 2007: 269-295.

3. Health (2 lectures)

REQUIRED FOR LECTURE 1 OF 2

- McGarry, Kathleen, "Health and Retirement: Do Changes in Health Affect Retirement Expectations?" *Journal of Human Resources* 39(3), Summer 2004: 624-48.
- Weir, David, "Are Baby Boomers Living Well Longer?" in *Redefining Retirement: How Will Boomer Fair?* in Madrian, Mitchell and Soldo eds. Oxford University Press, 2007: 95-111.

REQUIRED FOR LECTURE 2 OF 2

Smith, James P., "Unraveling the SES Health Connection," *Population and Development Review* 30 2004: 108-132.

OPTIONAL

Goldman, Dana, Baoping Shang, Jayanta Bhattacharya, Alan Garber, Michael Hurd, Geoffrey Joyce, Darius Lakdawalla, Constantijn Pani, Paul Shekelle, "Consequences of Health Trends and Medical Innovation for the Future Elderly," *Health Affairs Web Exclusive* 2005: W5-R5.

Hurd, Michael, D. and Arie Kapteyn, "Health, Wealth and The Role of Institutions," *Journal of Human Resources* 38 (2), Spring 2003: 386-415.

Freedman, Vicki and Linda Martin and Robert Schoeni, "Recent Trends in Disability and Functioning Among Older Adults in the United States," *Journal of the American Medical Association* 288 (24), December 25, 2002: 3137-46.

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

4. Wealth and Savings (2 lectures)

REQUIRED FOR LECTURE 1 OF 2

Hurd, Michael, "Research on the Elderly: Economic Status, Retirement and Consumption and Savings," *Journal of Economic Literature*, 28, 1990: pp 606-623.

REQUIRED FOR LECTURE 2 OF 2

Haider, Steven and Melvin Steven Jr., "Is There a Retirement-Consumption Puzzle? Evidence Using Subjective Retirement Expectations," *The Review of Economics and Statistics* 89(2) 2007: 247-264.

Hurd, Michael and Susann Rohwedder, "Some Answers to the Retirement-Consumption Puzzle," NBER Working Paper 12057, February 2006.

OPTIONAL

Browning, Martin and Annamaria Lusardi, "Household Saving: Micro Theories and Micro Facts," *Journal of Economic Literature*, XXXIV, 1996: 1797-1855.

Hurd, Michael, "Wealth Depletion and Life-Cycle Consumption of the Elderly," in *Topics in the Economics of Aging*, David Wise (ed.) Chicago: University of Chicago Press, 1992: 135-162.

Hubbard, R. Glenn, Jonathan Skinner and Stephen D. Zeldes, 1995, "Precautionary Saving and Social Insurance," *Journal of Political Economy*, 103 (2), pp. 360-399.

Poterba, James, Steven Venti and David Wise, "The Transition to Personal Accounts and Increasing Retirement Wealth," in *Perspectives on the Economics of Aging* ed. David Wise, University of Chicago Press, 2004: 17-19.

5. Intergenerational Transfers (2 lectures)

REQUIRED FOR LECTURE 1 OF 2

Schoeni, R. 1997. "Private Interhousehold Transfers of Money and Time: New Empirical Evidence." *Review of Income and Wealth* 43(4): 483-504.

Hurd, Michael, James P. Smith and Julie Zissimopoulos, "Inter-vivos Giving Over the Lifecycle," *RAND WR-524*, 2006.

REQUIRED FOR LECTURE 2 OF 2

Light, Audrey and Kathleen McGarry, "Why Parents Play Favorites: Explanations for Unequal Bequests," *American Economic Review* 94(5), Dec. 2004: 1669-81.

Silverstein, Merrill, Daphna Gans and Frances M. Yang, "Intergenerational Support to Aging Parents: The Role of Norms and Needs," *Journal of Family Issues* 27(8): 1068-1084.

OPTIONAL

Altonji, J., F Hayashi and L. Kotlikoff, "Parental Altruism and Inter Vivos Transfers: Theory and Evidence." *Journal of Political Economy* 105(6) 1997: 1121-1161.

Behrman, Jere and Mark Rosenzweig, "Parental Wealth and Adult Children's Welfare in Marriage," *The Review of Economics and Statistics*, August 2006 88(3) 2006: 496-509.

Couch, K, M. Daly and D. Wolf. "Time? Money? Both? The Allocation of Resources to Older Parents." *Demography* 36(2) 1999:219-232.

Cox, D.1987. "Motives for Private Income Transfers." *Journal of Political Economy* 95(3):509-546.

Dostie, Benoit and Pierre Leger, "The Living Arrangement Dynamics of Sick, Elderly Individuals," *Journal of Human Resources* 40(4), Fall 2005: 989-1014.

Hurd, Michael and James P. Smith, "Anticipated and Actual Bequests," in David A. Wise (ed.) *Themes in the Economics of Aging*, Chicago: University of Chicago Press for the NBER, 2001: 357-392.