

**Proposed Research**  
2008-2011 Persistent Poverty and Upward Mobility Theme Project  
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1. Using Natural Experiments to Identify Structural Labor Market Models

The project is about studying the impact of government interventions, particularly those with a redistributionist aim, on employers and employees. While simple program evaluations, such as studies of the effect of higher minimum wages on wages and employment are of some interest, they are limited, in part because of their focus on average employment changes or the distribution of wages at a single point in time. Moreover, they are ill-suited to provide information on government interventions apart from the minimum wage itself, and they are generally can provide very limited information on the heterogeneity of impacts.

As Keane (2008) has argued “... progress can only be made if one attempts to interpret the DD estimates of these authors in light of standard theories of labor market equilibrium, such as the search and matching model of Burdett and Mortensen (1989), as well as bringing more data to bear to help resolve some of the ambiguities of the original studies.”

In this project, I attempt to do so by bringing more data, an explicit economic model of labor market equilibrium, and structural estimation methods to the dynamic response of firms reacting to large changes in the economic environment induced by government interventions.

2. The Returns to High School Completion and Historical Trends in Graduation Rates

Recent research on graduation rates (Heckman and LaFontaine, 2007) has revealed a puzzle: despite steeply increasing returns to education over the last several decades, high school graduation rates have stagnated. In this project I will explore the extent to which the trend in the returns to high school completion have mirrored the trends in the broader returns to education. There is reason to be suspicious: simple tabulations of data in the Current Population Survey show little growth in the gap between high school graduate’s wages relative to high school dropouts. Rather, the returns to education seem concentrated among those who complete college. I will examine whether this inference is robust to using a research design better suited to measuring the causal effect of education on wages.