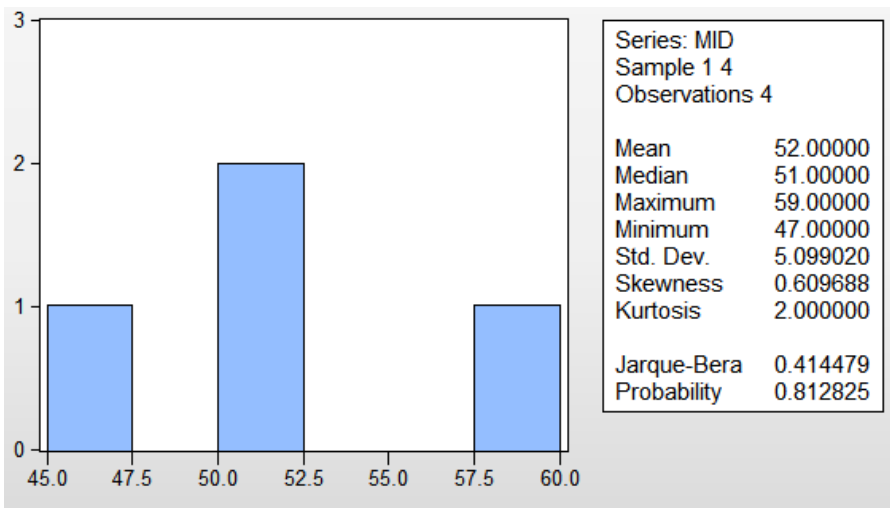


Approximate GRADUATE Student Grades

- A 67-100
- B 57-66
- C 50-56
- F 0-49



Approximate UNDERGRADUATE Student Grades

- A 55-100
- B 45-54
- C 35-44
- D 25-34
- F 0-24

Economics 496/895 Midterm
Prof. Bryan Caplan
Fall 2020

Part 1: All-Level Questions (20 points each for undergrads, 15 points each for graduate students)

Answers should be 4-6 sentences long. Use diagrams if helpful.

1. Suppose the U.S. declared open borders with Africa. How many Africans would come in the first ten years? How would this result differ for the EU? Explain your reasoning, and don't forget diaspora dynamics.

Both the gravity model and diaspora dynamics suggest a relatively small number of immigrants during the initial ten years: gravity because Africa is remote, and diaspora dynamics because there have been so few immigrants from African countries in the last century (probably under 1 M total). Still, about 30% of sub-Saharan Africans (and 19% in MENA) say they want to permanently move to another country, so 2-5M over the course of a decade remains plausible. African immigration into the EU would be much higher, again due to both gravity and diaspora dynamics. 10-20M seems reasonable there.

2. How do the economic effects of immigration parallel the economic effects of rising female labor force participation? Are there any key economic differences?

In terms of ALS-ALD diagrams, the parallel is exact. Both immigrants and women increase ALS. But since they have different skills than the rest of the population, specialization and trade imply higher MPP, so ALD goes up as well. (Several students claimed that native women would have the same skills as native men, but they plainly don't. Men are much more likely to specialize in STEM and manual labor; women are much more likely to specialize in non-STEM and office work). Still, there are important economic differences: Most obviously, native women are often married to native men, so they wind up sharing their extra earnings with their partner. A much smaller share of natives are likely to get to "share the wealth" via marriage to immigrants.

3. How much do employers discriminate against immigrants in the labor market? What does this imply about estimates of the effect of immigration on GWP?

Immigrants are one of the few groups in American society that people still feel fairly comfortable publicly criticizing, which suggests that the *taste* for discrimination against foreigners remains fairly high. Yes, the law punishes the hiring of illegal immigrants, but hardly shows that no employer *desires* to discriminate. Standard Beckerian forces naturally check anti-immigrant discrimination, but it would not be surprising if discrimination against immigrants depressed their earnings by 5-10%, especially in less-cosmopolitan areas of the country. Implication for GWP: Discrimination against immigrants implies that their productivity exceeds their earnings, so the benefits of immigration for GWP are even greater than conventional earnings measures suggest.

4. In modern economies, services make up most of GDP. What does this imply about immigration's economic benefits and distributional effects?

Services are about 80% of the GDP of modern countries, so allowing free trade in goods but not labor leaves a large majority of the potential gains from international trade untapped. Immigration therefore provides enormous additional economic benefits relative to free trade in goods alone. And since services must generally be consumed locally, almost all of the consumption gains go not only to natives, but to natives in the very regions where immigrants congregate. The economic effect of immigrants in agriculture and manufacturing, in contrast, would be distributed to consumers all over the world – not just inhabitants of receiving countries.

5. What exactly is the “infinite contradiction”? What is the best way to resolve it – and what are the implications for immigration?

The “infinite contradiction” is that two of David Card’s papers imply infinitely different estimates of labor demand elasticity for low-skilled labor. His famous paper on the minimum wage in NJ and PA found near-zero effect of the minimum wage on employment, implying close to infinitely inelastic labor demand. His famous paper on the Mariel boatlift, in contrast, found near-zero effect of immigration on wages, implying close to infinitely elastic labor demand. The best way to resolve this contradiction is to turn to the broader literature on labor market regulation, which contra Card finds large disemployment effects – most notably in Europe. Furthermore, while central banks largely control ALD at the national level, immigration can and does substantially raise ALD at the state and local level, so extra labor demand partially offsets the wage effect of extra labor supply for immigration. For the minimum wage, in contrast, the effect on labor demand is negligible if not negative.

Part 2: Graduate Level Question (40 points for graduate students)

Answers should be one page long. Use diagrams if helpful.

1. Accurately summarize and thoughtfully critique Collier’s overall position on “brain drain” as expressed in chapter 9 of *Exodus*.

While *Exodus* is relatively pessimistic about the economic and social effects of immigration, Collier does not see brain drain as a serious problem... for now. In fact, he thinks that “brain gain” is fairly common, although “The poorest countries are already suffering a brain drain.” Collier acknowledges the importance of remittances, and grants Clemens’ point that the enhanced opportunity to migrate often increases the availability of skilled labor in sending countries in the long-run. However, Collier draws a firm distinction between “Immigration is beneficial for sending countries overall” and “*Additional* immigration is beneficial for sending countries overall.” He largely agrees with the former view, but is unconvinced of the latter.

The main problem with Collier’s analysis is that he ignores the obvious remedy for brain gain: deregulate *low-skilled* immigration! As long as countries favor high-skilled immigration, high-skill workers will naturally be much more likely to move. If low-skilled immigrants had the same opportunities, however, they could move too, leaving the skill ratios in sending countries much closer to their closed-border levels. Collier also unfortunately focuses on national welfare rather than focusing on individual welfare. If all Haitians left Haiti, for example, the country would disappear but Haitian individuals would enter a golden age of prosperity.