

Topic 1: The return to education

Article: "Wealth by degrees," *The Economist* 6/28/14

This article from *The Economist* attempts to address the question of whether a university education offers adequate return on investment. The inherently individualized nature of this question forces the author to focus on general trends in the value of a college degree. Despite giving a simplistic supply-and-demand explanation for these trends, the article effectively describes a recurrent pattern: university education is generally a good investment, but high variability means there is no guarantee for high returns.

After introducing the dilemma that potential college students face – justifying a college education despite rising costs – the article provides several statistics about the value of higher education. The most important measure is the "college wage premium," defined as the gap between average pay for college graduates and high school graduates. Evidence shows that this premium tends to grow over time throughout the world, suggesting that a college degree is becoming increasingly more valuable. However, the author notes some exceptions (e.g. post-war America) where the premium remained constant or even decreased. These fluctuations are explained by changes in supply of college graduates, citing phenomena such as market saturation. Here I think the article would benefit from addressing how demand for skilled workers also influenced the college wage premium throughout different decades in American history. But overall, the author adequately explains that university education is becoming more valuable with time.

On the other hand, many factors determine the value of a degree, resulting in uncertainty and risk in deciding whether to pursue higher education. The article lists institution name and degree subject as two such factors. I believe that noting the unpredictability of job markets would strengthen the argument that a college education is risky. But on the whole, these factors show why the value of an education varies immensely between students. Hence, the author cannot provide a simple answer to the decision of pursuing a degree. But I feel that this article gives its most valuable advice when it implores readers to evaluate their particular situation and act with discernment.

maybe add a few numbers from the article
e.g. for men, the net PV of a college degree
is on average \$590k

well written

- in terms
of market
economics

but think
I have a
realise feel
in this

Europe vs
U.S.

Topic 2

The article by Paul Krugman is review of the book, *Capital in the Twenty-First Century*, by Thomas Piketty. The book and article discuss how capital ownership plays a role in inequality and how inequality has changed throughout time.

In order to see the level of income inequality in an economy it has to be measured first. Usually this is done by the Census or the Federal Reserve using surveys. This is good for comparing most income levels, but surveys make it hard to get data about the very rich. Instead Piketty uses tax records to find data on inequality. These allow him to look over a larger time span as well. ^{at the very top}

Using this data it is argued that the main cause of inequality is from unequal ownership of capital. There are comparisons of capital ratios and inequality from today to that of the "Belle Epoque," which took place over a hundred years ago. The article mentions that the capital ratio and capital share of income fell for four decades after the "Belle Epoque" and makes it sound like a good thing, even though that time period included WW1, the great depression and WWII. Although capital ownership is not the only thing that drives inequality. Another cause is the increased earnings of "superstars." It is argued that decreased transportation costs have created markets that allow for top performers to reach a global market and increase their incomes.

There seems to be a problem with inequality when the rate of return to capital is greater than the growth rate, because it leads to more inequality through inherited wealth. There is a chart that shows the relationship of g and r from 0 AD to 100 years in the future. I am curious on how they estimated g and r for any time pre-industrial revolution, because it is not mentioned in the Krugman article (but likely is in the paper.) ^{r > g means rising share of capital in national income}

The article is focused on inequality within Western countries, and talks a lot about the "1%." However I think if there is a focus on inequality it should be between the rich and poor of the world and not just looking at relatively rich countries. Although it might be more important to look at reducing poverty than reducing inequality in general.

Krugman claims this is a more important driver of income inequality at the top, at least in the U.S.

Both are sorely important topics.

interest rates have a long historical record; "g" is more guesswork, but we know how well people lived and that they wanted much progress until industrial revolution