

# Dissertation Abstract

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My dissertation is entitled “Three Essays on Social Interactions in Neighborhood Choice, Labor Supply, and Housing Demand.” It is an empirical investigation into the role that status and income inequality play in determining the neighborhoods people choose to live in, how many hours they choose to work, and how much they spend on their house(s). Because the behavioral effects of income inequality manifests itself through social interaction and interpersonal comparison, all three of these behaviors must be understood to be embedded in a simple model of social interaction. Typically, these models posit that individual behavior is not only a function of a given set of variables such as prices, but also a function of the decisions that members of the given individual’s reference group. Where a reference group is simply a group of people that a given individual compares herself to. The three chapters of the dissertation are entitled: “Does the Status of a Neighborhood Impact our Likelihood to Choose that Neighborhood?”, “Income Inequality and the Overworked American”, and “How Come so Many Middle and High Income Borrowers Took Out Non-Traditional Mortgages?.”

## **“Does the Status of a Neighborhood Impact our Likelihood to Choose that Neighborhood?”**

The first chapter of my dissertation investigates the role that neighborhood status plays in where people choose to live. Where status is understood to be the unexplained portion of the mean price of houses in a given census tract relative to all other tracts in a Metropolitan Statistical Area, after controlling for as many observable characteristics of a given census tract that determine housing values as possible. First a simple model of consumption externalities in consumer utility maximization is presented. The data set is derived from the Panel Study of Income Dynamics, which is linked to the Census Summary File 3 using a sensitive set of geographic identifiers made available by the administrators of the PSID. This allows the creation of detailed neighborhood characteristics from the Census, while still analyzing individual behavior in the PSID.

The data set is limited to the years 1997, 1999, 2001, and 2003. I utilize the fact that the PSID allows the identification of households that have moved between two waves to estimate a given household’s preferences over neighborhood characteristics. The estimation strategy is an ordered probit with sample selection, where the dependent variable takes three categories: moves to a less expensive neighborhood, moves to a neighborhood with about the same price level, and moves to a more expensive neighborhood. It is found that a household the relative status of the neighborhood decreases the probability of a household moving from a neighborhood, and increases the probability of choosing a given neighborhood. In other words, a household is less likely to leave a high status neighborhood, all else equal, and more likely to choose a high status neighborhood conditional on having moved.

## **“Income Inequality and the Overworked American”**

This chapter is my job market paper. Over the last 30 years the U.S. economy has experienced a number of important changes. Two of these changes are a significant increase in the share of men who work at least 49 hours per week or less than 35 hours per week, and a significant increase in income inequality. Recent theoretical and experimental research suggests that these two phenomena might be connected. Two hypotheses have been put forward thus far. The first is based on the assertion that the labor

market resembles a tournament. When income inequality increases, the marginal return to promotion also increases. If work hours are a signal of effort, then individuals work longer hours in order to get a promotion. The second hypothesis is that individuals base their consumption on the consumption of those that are wealthier than themselves. An increase in inequality increases reference group consumption relative to individual consumption, this causes the individual to increase consumption. Since consumption, at some point, must be funded, individuals work more.

I use the Panel Study of Income Dynamics linked to the Current Population Survey to test these competing hypotheses. As far as the author knows, this is the first time that this question has been addressed using a micro panel data set which allows disaggregation of inequality into workplace and community inequality. This is crucial for discerning between these two competing theories. It also allows the use of fixed effects to control for endogenous self selection into reference groups, a problem that could make the coefficients on inequality unidentified. Little support is found for either hypothesis. Patterns in the estimated coefficients, in particular between salaried and hourly men, provide some support for both hypotheses. But, in all cases the coefficients on inequality are negative, the opposite of what either hypothesis predicts. The conclusion is that underlying institutional arrangements drive both the degree of wage inequality and dispersion in work hours, in particular among workplace reference groups. This is supported by the fact that, in the cross-section, mean work hours is constant across education levels, but the dispersion of work hours increases with education. Higher education men cover a more dispersed set of occupations, and thus encounter bigger differences in institutional arrangements. Also, occupations work hours show a similar pattern when ordered according to mean education in the occupation.

### **“How Come so Many Middle and High Income Borrowers Took Out Non-Traditional Mortgages?”**

The current mortgage market crisis is a very well studied subject. However, most of the attention has been given to lower income borrowers who took out subprime mortgages. But, many stories in the popular press recount stories of middle and high income borrowers falling prey to the terms of their non-traditional mortgage. Non-traditional mortgages often have the same terms as subprime mortgages—low downpayments, adjustable mortgage rates, interest only payments, and the like—but are given to borrowers who traditionally would have qualified for a standard, fixed rate mortgage. This chapter investigates the prominence of this practice. In particular, I am interested in three things. First, how many households, by historical standards, wound up with non-traditional mortgages because the resulting debt-to-income ratio of the amount they wanted to borrow was too high for a traditional mortgage. Second, among these households, how many have ended up with distressed payments. And third, how many of these households could have purchased a less expensive house in the vicinity of the neighborhood they chose for which they could have received a traditional mortgage.

This paper is written in collaboration with the Center for Responsible Lending. It utilizes a proprietary data set collected by McDash Analytics from 7 of the top 10 lenders in the U.S.. It contains both geographic identifiers as well as very detailed data on the quality of the borrower and payment history on the loan. The results of this paper are too preliminary to report at this time.