# Discussion of "Neighborhood Dynamics and the Distribution of Opportunity"

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# Purpose of the Paper

- Wilson (1987): Segregation increases human capital of low-ability African-Americans by keeping high-ability blacks in the same neighborhood.

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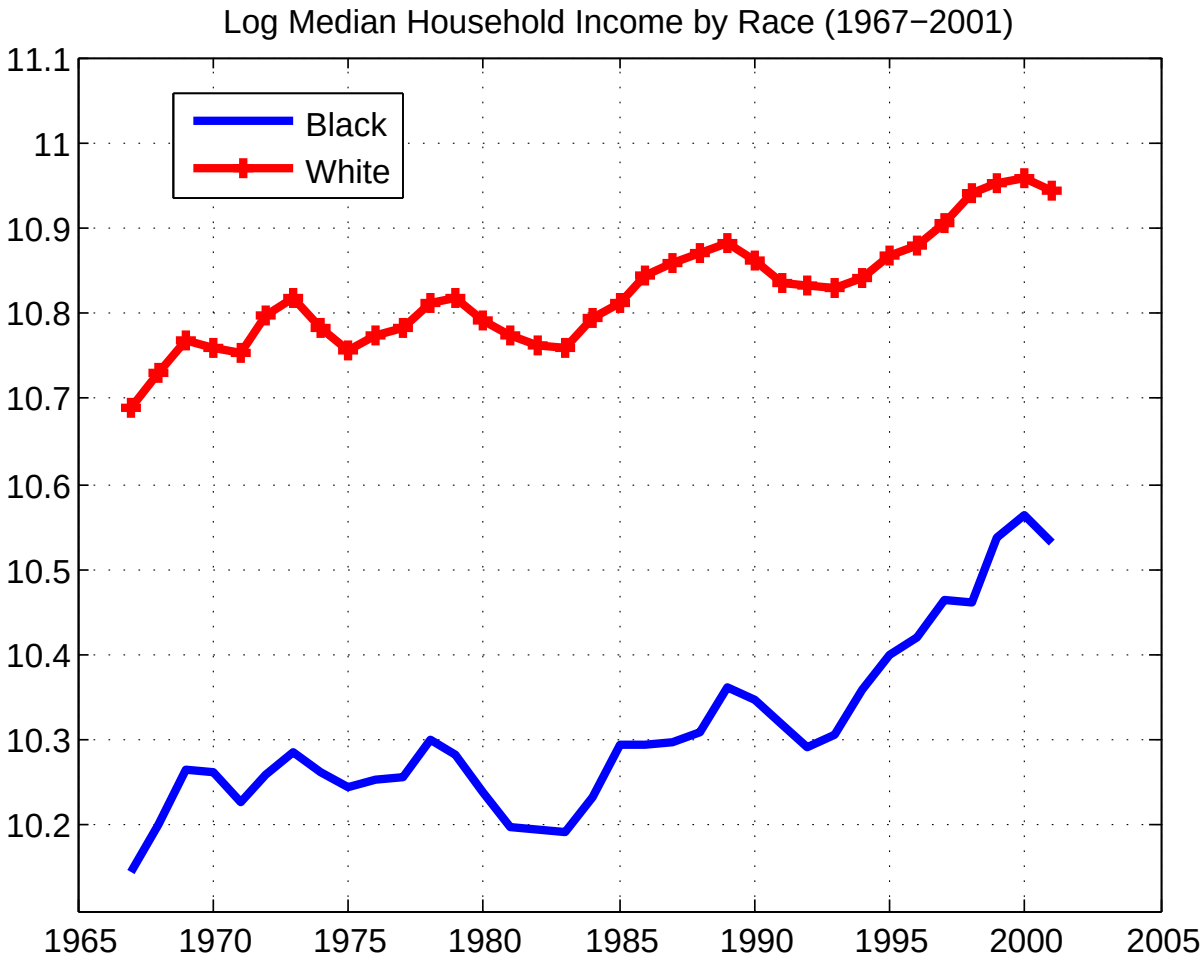
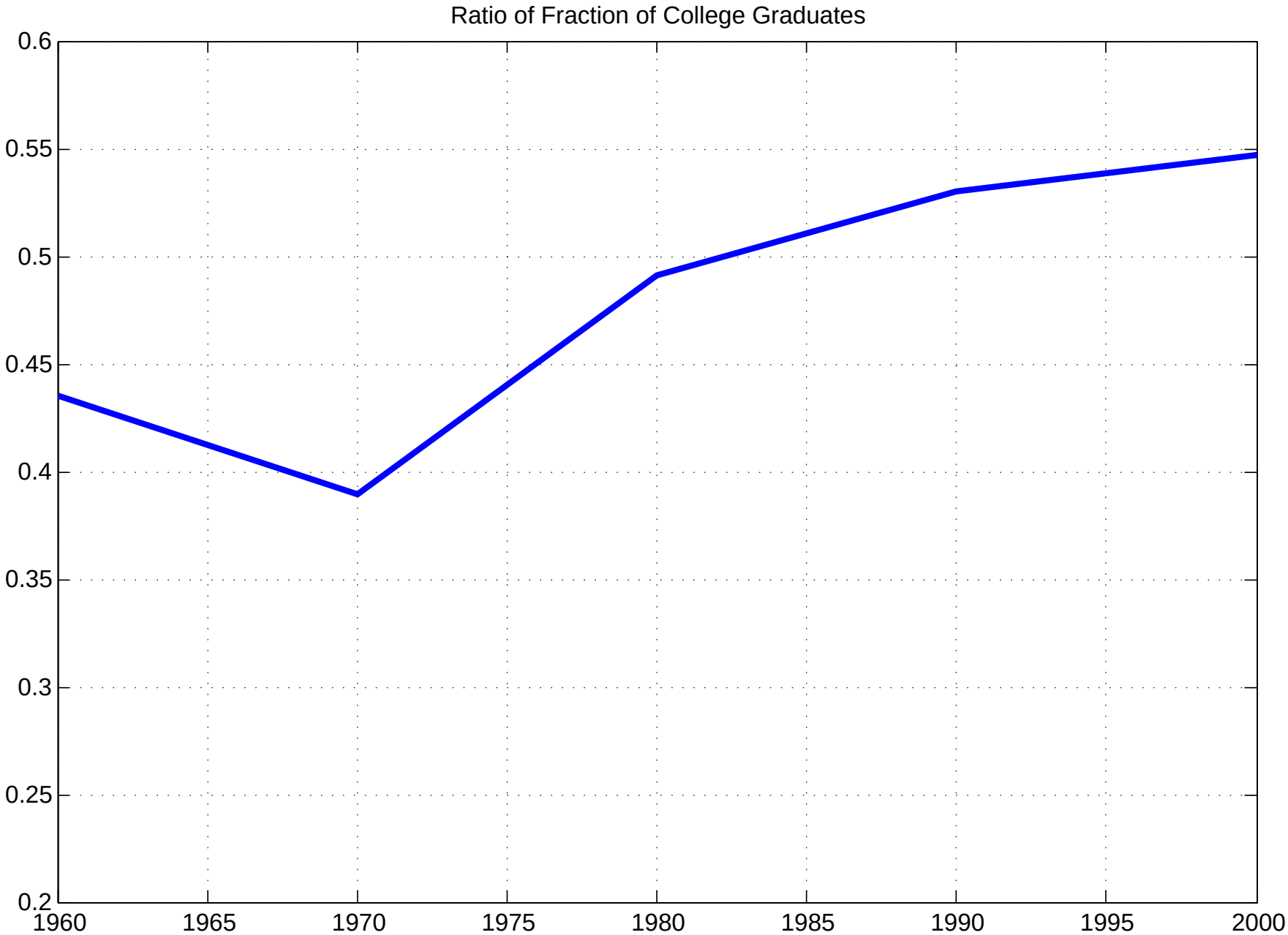
- Wilson (1987): Segregation increases human capital of low-ability African-Americans by keeping high-ability blacks in the same neighborhood.
- This paper examines this hypothesis using:
  - Equilibrium model with sorting across neighborhoods.
  - Human capital externalities (neighborhood effects).
  - Parental human capital investments.
  - Endogenous house prices.
- The quantitative experiment: analyze dynamics from a segregated (no moving) environment into a world with sorting.

# No Convergence in Income



# Some Convergence in Schooling



# Brief Summary of Setup

- Two neighborhoods.
- Continuum of individuals of city-wide mass $= N$.
- Individuals value housing and non-housing consumption.
- Technology: consumption good and houses.
- Competitive labor markets: inequality driven by differences in human capital.
- Human capital accumulation has three components:
  - Parents' invested resources.
  - Neighborhood human capital.
  - Stochastic ability process.

# Human Capital Accumulation

- Current setup:

$$h' = h(1-\delta) + aF_{\bar{k}}(i, H_{\bar{k}}) \tag{1}$$

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- Resources $i$ are parental investments.

# Human Capital Accumulation

- Alternative:

$$h' = aF_{\bar{k}}(hn_e, H_{\bar{k}})$$

$$log(a') = \rho_a log(a) + \epsilon_a$$

- Preferences $u(c_t, s_t, \bar{n} - n - n_e)$
- Flow budget constraint $c + p_{\bar{k}} s \leq whn$

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- Calibrate final steady-state using ATUS (first year is 2003?). Discipline using measures of leisure, hours worked, and time spent on children's education (see also Restuccia and Urrutia (2003)).

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- $H_{\bar{k}}$ is stock of neighborhood human capital.

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- $Z_{\bar{k}} = \tau_p p_{\bar{k}} S_{\bar{k}}$ is publicly-provided schooling resources.
- Locally financed schooling in the US allows to use property tax ($\tau_p$) and evolution of house price $p_k$ and earnings distribution to better pin down parameters of human capital accumulation equation.
- Mechanism similar: High-ability residents leave Neighborhood 1, lowering house values, and draining resources from local public schools. Hope is that tighter link with observables helps calibration.

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- but it also goes too far. Neighborhood 1 essentially disappears.
- Current price elasticity of housing supply is

$$\epsilon_{p_k, Q_k^\alpha} = \frac{\alpha}{1-\alpha} \approx 1.9$$

- This seems quite elastic. Result: workers from Neighborhood 1 flood Neighborhood 2. House prices do not rise enough to stop them.
- Given the nature of the paper, housing technology important (take structure from Kiyotaki, Michaelides, and Nikolov (2011)).

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- Multiple equilibria?
- PSID to help us estimate parameters of abilities process?

# Conclusions

- Good paper!
- Qualitatively matches Wilson's hypothesis.
- Is that the main goal?
- *Quantitive* study to help us understand dynamics of inequality when initial conditions impose segregation.