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Methods of Economic Research

Craftsmanship and Credibility in Applied
Microeconomics

 Springer

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To Gordon Stanton: veteran, middle-school teacher, hero. I didn't know it then, but I do now: you turned me into a social scientist. And to everyone who believed in me, all six or eight or ten of you. Thank you.

Preface: Where I Lived, and What I Lived For

In life epiphanies are few. Certainly none were involved in the writing of this book. It was just a gradual working out of many small ideas. As they became clearer, the connections between them began to appear.

So whatever arrogance you find in the pages that follow should be ascribed only to the infirmities of my temper and to my professional isolation. Among economists, I am not a glitterati or even a paparazzi, just someone who sees the pictures in the next morning's paper. This has given my mind so much room in which to wander that it scarcely recognizes where it started from. What was once familiar now seems less so and is greeted more brusquely than before.

This isolation meant that many of my formative experiences occurred outside the confines of our profession. You will hear little of these. Still, I should mention the most formative experience of all: simply residing in Walker County, Texas. At the crossroads of three cultures—Deep South, Midwestern, and Gulf Coast, with a whiff of the West thrown in—it is large enough to spawn a variety of institutions, yet so small and open that you can take in almost the whole of it. If there is anywhere better for a social scientist to experience American life as it is routinely lived, I have not encountered it. The tendrils of politics, sociology, economics, anthropology, geography, history, and criminology extend so far into private and public life that you cannot go a day without recognizing the effects of each. I perceive everything through this lens.

Toward the end of my journey, I wanted to know if anyone else had gotten to my destination before me. It was clear by that point what the journal of their travels would be called. So I looked for it: four words, two titles, neither taken. All right then.

I wrote this book for a reason many of us share—a latent discontent that develops early in our economics training, a queasy feeling that something is just not right. I know that feeling ...

Huntsville, TX, USA
June, 2018

Darren Grant

Acknowledgments

Several people deserve recognition and my heartfelt appreciation for their contributions to this book. First is the team at Springer, including Lorraine, Nick, Kelly, and the rest. They most affected the manuscript itself via a key strategic decision that I dimly perceived was correct long before I understood why.

Several reviewers provided thoughtful, helpful feedback on the manuscript: Mark Anderson, Richard Cox, Craig Depken, John Garen, Daniel Henderson, Barry Hirsch, Venoo Kakar, Katherine Keisler, Daniel Kling, Steve Koch, Jason Lindo, Charlie Sawyer, Rosanna Smart, Tino Sonora, Peter Swann, and Jadrian Wooten. In addition, my de facto copy editor, Jennifer Shirk, cleaned up all manner of sloppiness.

My employer, Sam Houston State University, provided support in two important ways. A faculty development leave in the first half of 2016 disconnected me from the hustle and bustle and let me start writing in earnest. Also, several student assistants helped with figures, supporting material, and other aspects of preproduction: Femi Babalola, Brent Hines, Kevin Southerland, Elizabeth Stokes, Anubhav Thakur, and, especially, Jared Zbranek.

I also mustn't neglect to mention my steadfast partner in this process, the delete key. Oh delete key, I had known of your existence, yet I knew you not. What a boon you have been—what a friend to man!

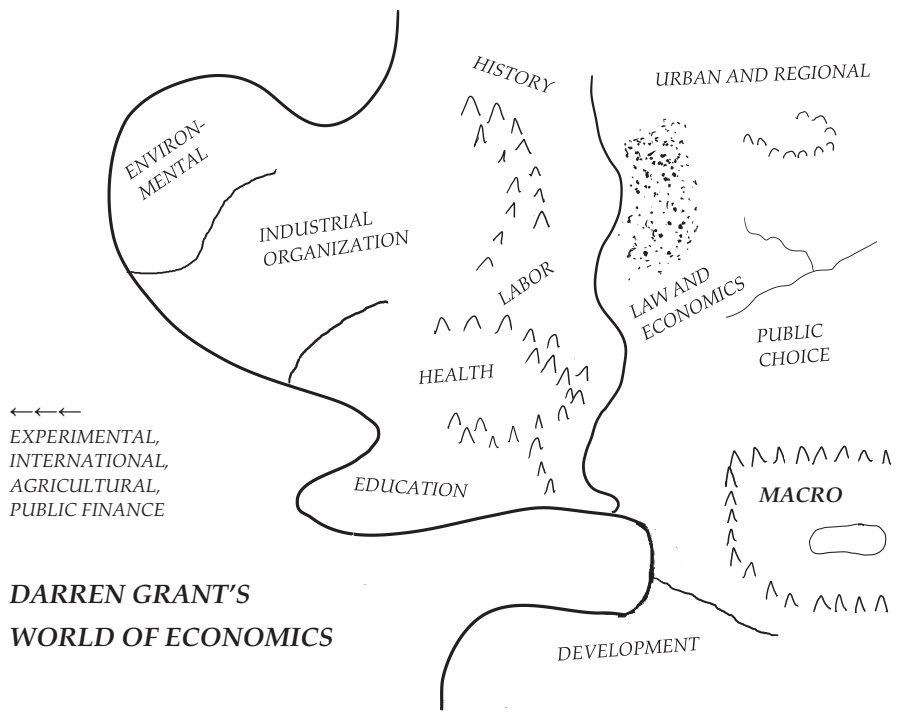
my old friend, delete
what you giveth is also
what you take away

For all the virtues of restraint, however, the most vital element of writing this book, and the hardest for me to come by, was the nerve required to get up yet another day and fight. I wish to credit various artists, musical, visual, and, otherwise, with helping to supply that nerve. I had not before realized that role of art, but I realize it now.

That source of inspiration was surpassed by only one other: my family. My wife, Marsie, is a model of professional dedication. A thousand times I have seen her, papers spread all around, pen in hand. For her grading homework is an act of love.

My son, Sheridan, beams with intellectual passion. He never met a math problem he didn't like. For fearlessness I look to my daughter Tammany, whose first dive off the diving board was a flip, who has the courage of her convictions—both the courage and the convictions. Each of you was a beacon of fortitude impelling me to say what I had to say, not what I ought.

Finally, I must acknowledge my office mates. This book was written mostly in my outdoor workshop, with open air the year round. Each day I had company there. Hummingbirds in the spring at the feeder, and other birds carefully checking the figs, always to eat them the day they were ready to be picked. In the summer a turtle or two, bashfully crunching its way through the leaves outside my window, and spiders setting up shop in the bushes by the door. And, always, a squirrel, who every afternoon would perch on a branch outside and peer down at me, as if to say, "Not finished yet?"—or maybe, now that this book is done: "What's next?"



**DARREN GRANT'S
WORLD OF ECONOMICS**

Introduction: Let's Get Some Things Out of the Way Right Now

Let's get some things out of the way right now.

Every book is defined by what it leaves out as much as by what it puts in, and there's no reason to be coy about either. Topically, this book concerns applied microeconomics: the analysis of real-world data to answer real-world microeconomic questions. Sometimes this term's scope is more limited, referring only to "the economics of people"—health, labor, and the like. My world is bigger than that, as you can see. Still, some things are beyond my range and largely left out, agricultural, international, and experimental economics among them.

In terms of content, this book is about maximizing the credibility of empirical research findings—only. There are other, more practical objectives to which economists could adhere. Where these conflict with mine, you now know how I will choose.

The book does not teach standard graduate-level econometrics and economic theory. This I assume you already know. If you don't, go put together your toolkit and then come see me. I will help you employ these tools and others in pursuit of the objective stated above.

This approach accords with the principle of comparative advantage. Existing texts do a good job laying out common econometric models and the conditions under which they apply, while the well-developed formalizations of pure theory are represented effectively in any number of journal articles. The main omission, a big one, concerns what makes a good model, in the sense that the term is used below, and when to use various modeling strategies. I regret not being able to do this topic full justice in this book, without having somewhere else to refer you.

Another limitation derives from my inability to fully navigate the large literatures surrounding some of the papers dissected below. For each of these suns, I did my darnedest to fully explore the corona, the larger planets, but rarely made it beyond that. I may have missed something relevant, especially if it was published after the first draft of these chapters was written, in 2016, give or take a few months. It is hard enough to hit a still target, much less a moving one, so the number of post-2016 updates to the material is quite limited. A section of the web site identified below is set aside for you to point out any important omissions.

There critiques of all types are welcomed, to which I will respond when merited. But I will say something now to anyone affronted by my lack of propriety. Perhaps you feel I have omitted something I was supposed to say, or placed a well-received paper in too harsh of light, or otherwise said something altogether unexpected. Fine. Just remember, this book isn't about you. If you're unhappy, write your own book. You can call it *I Only Do What Everyone Says to Do, and Right Now You're Making Me Incredibly Nervous*—if that title isn't already taken.

This book excerpts from a wide variety of source material, as you will see. For alacrity and space, these excerpts have often been reworked, with text removed, reordered, or rephrased, but—I hope—the original meaning retained. If the passage is in quotes, it is verbatim. If it is set off from the main text instead, indented without quotes, it is almost always adapted from the original. If a phrase is borrowed from literature (not *the* literature) or film, with nothing to identify it as such, neither quotes nor offset, it is an allusion, like the one in the previous paragraph. I am not trying to sneak it by you and pass it off as my own.

Finally, this book is supplemented by a glossary and a web site. I know firsthand how hard it can be to follow colloquial expressions or unusual words in a nonnative language—and sometimes even in a native one! None of this need remain inscrutable. Thus the glossary.

The web site, www.worldofeconomics.com, is intended to make this book a “living document.” It contains ancillary materials, corrections, links of interest, and discussion boards for the “Food for Thought” questions and for key topics broached in this book. I will participate in the discussions on this web site, and I hope you will too. We both still have much to learn.

Contents

1	Craftsmanship and Credibility in Economic Research	1
1.1	Economic Research and the Scientific Method	2
1.2	Taking Inventory	4
1.3	Economic Research and Craftsmanship	5
1.4	Plan of the Book	6
	References	7
 Part I Ways of Thinking		
2	Systems	11
2.1	Thinking in Terms of Systems	12
2.2	Identifying Systems	13
2.3	Uses of Systems Thinking	14
	2.3.1 Labor Supply in Europe	15
	2.3.2 Worker Motivation in the Steel Industry	16
	2.3.3 Children's Rights in Nigeria	18
	Food for Thought	20
	References	23
3	Scale	25
3.1	The Nature of Scale	26
3.2	Scale Analysis in Economics	27
3.3	Heuristics	30
3.4	Non-reductive Uses of Scale	32
3.5	Conclusion	33
	Food for Thought	34
	References	36

Part II Ways of Seeing

4 Vernacular Knowledge 39

4.1 The Role of Vernacular Knowledge in Economic Research 40

4.2 Vernacular Knowledge as Context 41

4.3 Vernacular Knowledge in Action 45

4.3.1 Point Shaving in College Basketball 45

4.3.2 The Incentive Effects of Grades 46

4.3.3 Turnout in Union Certification Elections 47

4.4 Acquiring Vernacular Knowledge 48

4.5 Conclusion 49

Food for Thought 50

References 52

5 Data 53

5.1 How to Think About the Economic Analysis of Data 53

5.1.1 Measurement and Legitimacy 55

5.1.2 Patents 55

5.1.3 School Accountability 56

5.2 Validity 58

5.3 Getting to Know Your Data 60

5.3.1 Data Precision 60

5.3.2 Data Accuracy 61

5.3.3 Data Span 61

5.4 Consequences of Data Problems 62

Food for Thought 64

References 66

Part III Ways of Doing

6 Theory and Models 71

6.1 The Nature of a Model 72

6.2 The Central Conundrum of Economic Modeling 75

6.2.1 Exactitude 76

6.2.2 Abstraction 78

6.2.3 Causal Depth 81

6.3 Setting Up Estimation and Testing 83

6.3.1 Taking a Model Seriously 83

6.3.2 Causal Predictions 85

6.3.3 Competing Theories 87

6.4 Conclusion 88

Food for Thought 88

References 90

- 7 Description** 93
 - 7.1 Principles of Effective Description 95
 - 7.1.1 Self-Determination 95
 - 7.1.2 Transparency and Redundancy 95
 - 7.1.3 Honoring Scale 96
 - 7.1.4 Beer Prices and the Bundesliga 97
 - 7.2 Techniques of Effective Description 98
 - 7.2.1 Embed the Micropicture in the Macropicture 99
 - 7.2.2 Unlock Kinetic Potential 101
 - 7.2.3 Maximize Information Transfer 102
 - 7.3 Shaping the Container 103
 - 7.3.1 Continuity 104
 - 7.3.2 Depicting and Defending the Assumptions 105
 - 7.4 Conclusion 105
- Food for Thought 106
- References 107
- 8 Econometric Modeling** 109
 - 8.1 The Experimental Content of Econometric Analyses 110
 - 8.1.1 The Experimental Unit 111
 - 8.1.2 The Structure of X 115
 - 8.1.3 The Structure of ϵ 116
 - 8.2 Building Econometric Models 119
 - 8.2.1 Describing Outcome and Process 119
 - 8.2.2 The Reach-Grasp Problem 121
 - 8.2.3 Building the Container 122
 - 8.2.4 One Principle to Rule Them All 123
 - 8.3 The Econometrics of Orchestra Auditions 123
 - 8.4 Conclusion 127
- Food for Thought 128
- References 131

Part IV Ways of Knowing

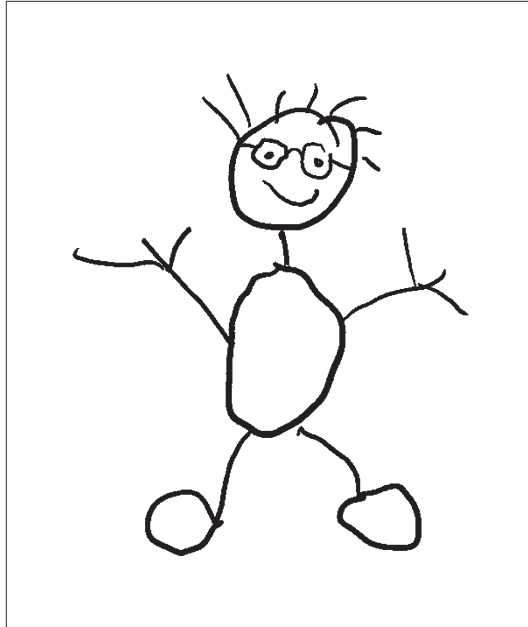
- 9 Testing** 135
 - 9.1 The Nature of Hypothesis Testing in Economics 135
 - 9.2 Three Ways to Enhance Testing 140
 - 9.2.1 Refine the Null 140
 - 9.2.2 Amplify the Alternatives 144
 - 9.2.3 Expand the Predictions 146
 - 9.3 Check Yourself 149
- Food for Thought 151
- References 152

- 10 The Ends of Your Means** 155
 - 10.1 Results, Not Methods 155
 - 10.2 Coherence 158
 - 10.3 Connecting Your Results to the Literature 160
 - 10.3.1 Describing the Literature 162
 - 10.3.2 Explaining the Literature 164
 - 10.3.3 Coherence—Again 166
 - Food for Thought 167
 - References 168

- 11 The Narrative in the Numbers** 171
 - 11.1 Closing the Loop 171
 - 11.1.1 Team Incentives in HMOs 173
 - 11.1.2 The Housing Crash 174
 - 11.1.3 Development in the Tropics 175
 - 11.2 Organic Knowledge 176
 - 11.2.1 Seeing the Problem on Its Terms 178
 - 11.2.2 Organizing Principles 180
 - 11.3 Teenage Fatherhood and the Pursuit of Happiness 181
 - 11.4 Conclusion 183
 - Food for Thought 184
 - References 185

- Conclusion** 187
- Glossary** 193
- Index** 199

About the Author



Darren Grant, *Self Portrait*. Reprinted by permission of the Museum of Modern Art, New York.

Darren Grant is currently an economics professor at Sam Houston State University in Texas. He has previously served as a Navy contractor, a health management program director, and a high school teacher and coach, in various towns and cities across the South. He has published applied research in leading field journals in policy analysis, health economics, the economics of education, industrial organization, public choice, behavioral economics, and labor economics, including the *Journal of Human Resources*, the *Journal of Health Economics*, the *Journal of Policy Analysis and Management*, and the *Journal of Economic Behavior and Organization*. The empirical models used in this research run the gamut of those found in the profession: parametric and nonparametric, linear and nonlinear, reduced form and structural, and everything in between. Much of what he has learned about doing economic research he has learned the hard way.