



Gary Becker

Presented by
Aina Takahashi

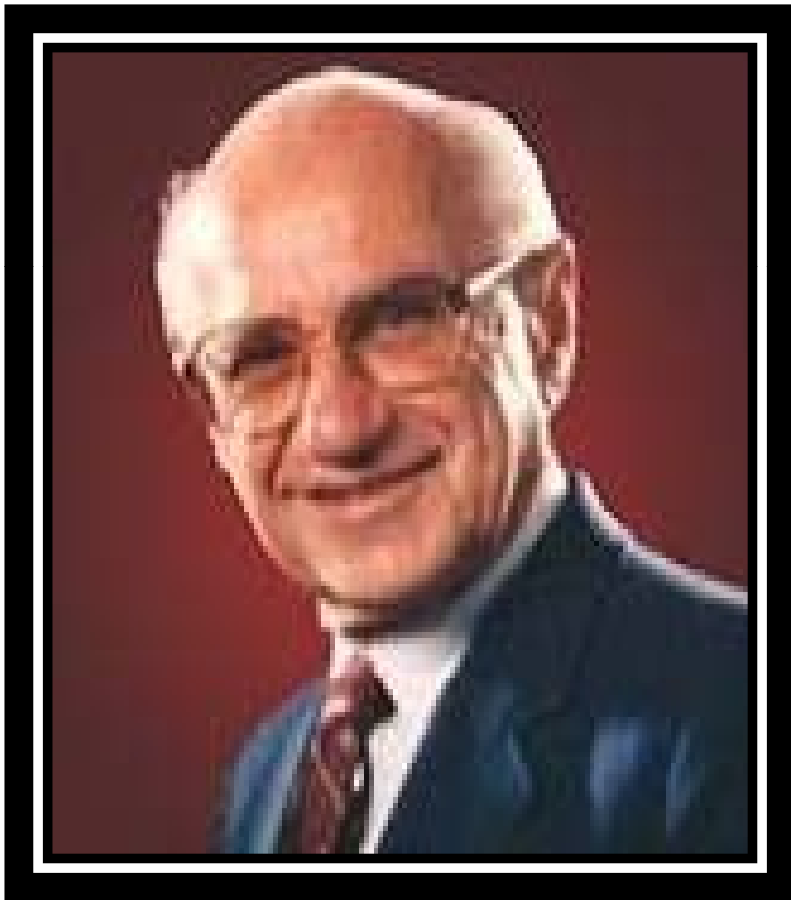
Background

- He is still alive!!!
- Was born in Pottsville, Pennsylvania in 1930.
- Has two sisters and one brother.
- Moved to Brooklyn when he was four or five.
- Earned a BA at Princeton University in 1951 and PhD at University of Chicago in 1955.

Background (cont'd)

- Taught at Columbia University from 1957 to 1968.
- Is teaching at University of Chicago.
- Was awarded John Bates Clark Medal in 1967.
- Won Nobel Prize in Economics in 1992.
“having extended the domain of economic theory to aspects of human behavior which had previously been dealt with—if at all—by other social science disciplines such as sociology, demography and criminology.”

INFLUENCES



INFLUENCES (cont'd)

Milton Friedman:

- Lived 1912- 2006
- Awarded Nobel memorial Prize in Economic Sciences in 1976.
- He supported the idea of a free market and opposed to government regulation on market as a means of creating political and social freedom.
- He explained how the free market works, emphasizing, he believes, that it has been shown to solve social and political problems



INFLUENCE (cont'd)



George Stigler:

- Lived 1911- 1992
- Awarded Nobel Prize in Economics in 1982.
- Best known for developing the Economic Theory of Regulation.
- He also carried out extensive research into the history of economic thought.

Contribution

He contributed these main study:

- Human Capital
- Family Economics
 - Marriage and divorce
 - Division of labor within the family
 - Economic theory of fertility
- Crime and Punishment
- Discrimination
- Rational addiction



HUMAN CAPITAL

- When Becker talks about capital, he means not only **physical** capital but also **human** capital.
- Measured the differences in average earnings between college and high school graduates.

HUMAN CAPITAL (CONT'D)

- Production of output
 - Malthus makes no reference to human capital in regards to growth. Malthus focused on land, population, and technology.

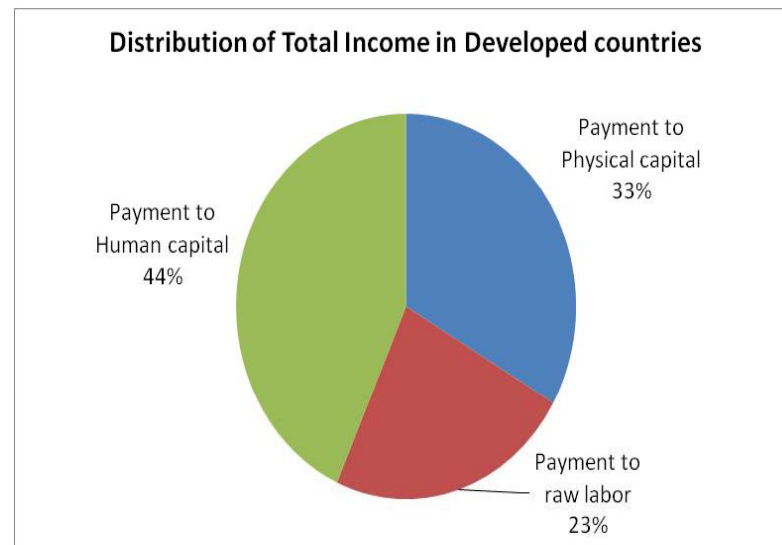
$$Y_t = A_t \Lambda^\theta L_t^{1-\theta}$$

- Becker added human capital into the equation.

$$Y_t = A_t K_t^\theta (h_t L_t)^{1-\theta}$$

HUMAN CAPITAL (CONT'D)

- Human capital:
- Raw labor wage per year = \$20,000
- Doctor wage per year = \$150,000
- Payment to human capital is \$130,000 in this case



HUMAN CAPITAL (CONT'D)

- He says “the growth of a nation is closely related to the nation’s technological and scientific advance and growth in investment in human capital.
- “The continuing growth in per capita incomes of many countries during the nineteenth and twentieth centuries is partly due to the expansion of scientific and technical knowledge that raises the productivity of labor and other inputs in production. And the increasing reliance of industry on sophisticated knowledge greatly enhances the value of education, technical schooling, on-the-job training, and other human capital ”

Marx vs. Becker

- Marx mentioned that workers do not own the means of production, and there is a clear distinction between working class and capitalists.
- Becker pointed out that workers are also capitalists and they accumulate human capital.

FAMILY ECONOMIC

- Family Economics
 - Marriage and divorce
 - Division of labor within the family
 - Economic theory of fertility

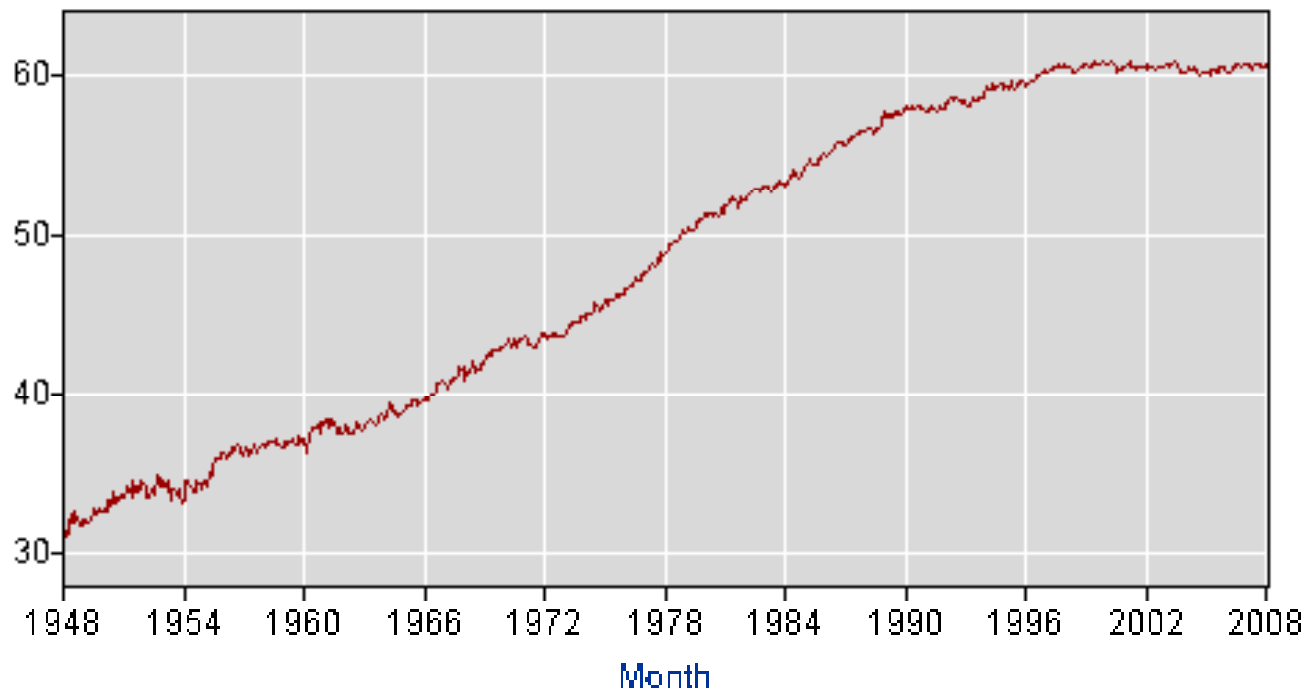
FAMILY ECONOMIC (CONT'D)

- His basic idea of family or household is that family can be regarded as “small factory” (**home production**) that produce basic goods including meals, entertainment, children, etc., using time and inputs that they purchase in the market.
- He believes that changes in home production also can explain the increasing fraction of women in the labor force and women’s divorce rate.

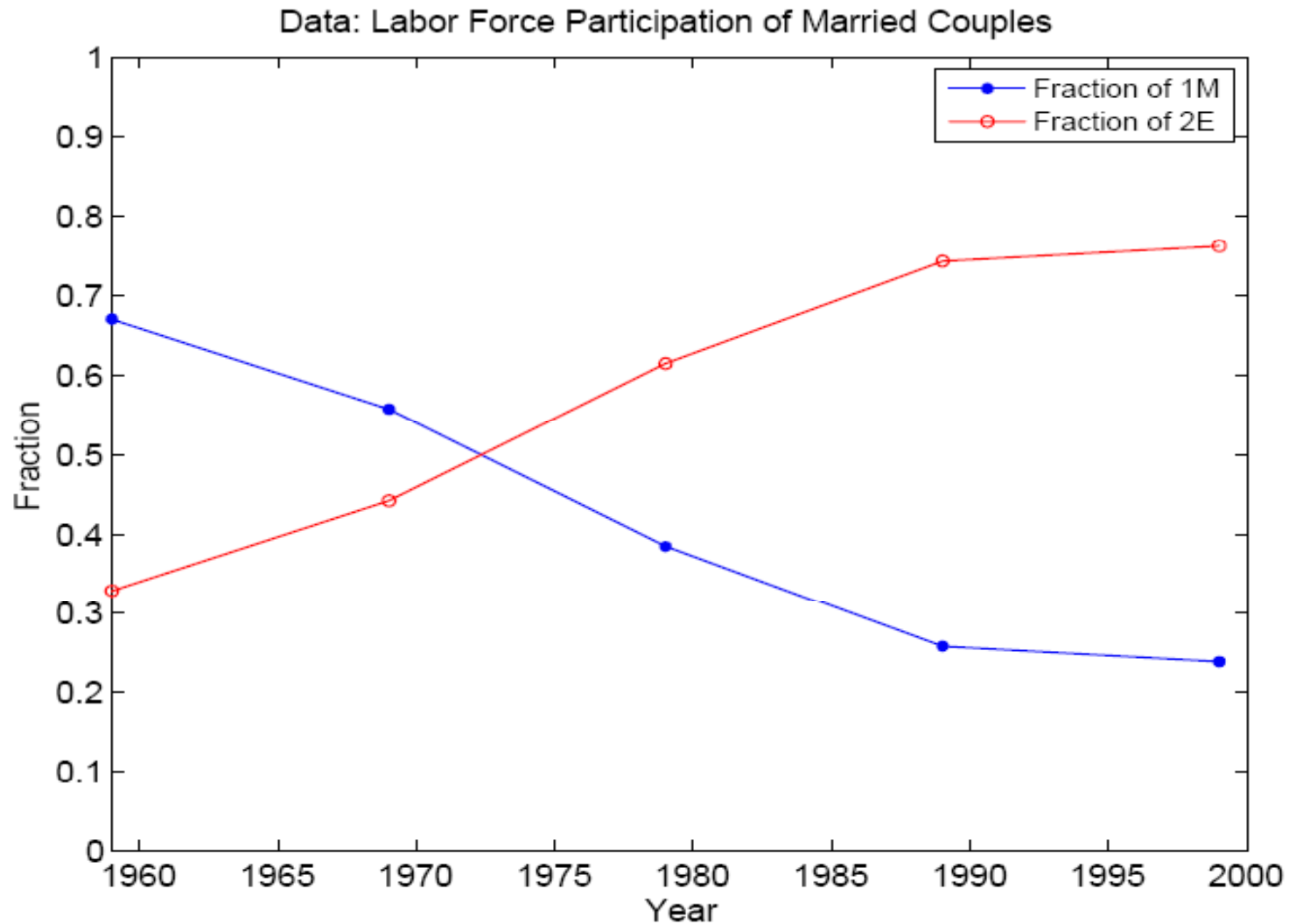
FAMILY ECONOMIC (CONT'D)

Labor force participation rate of women

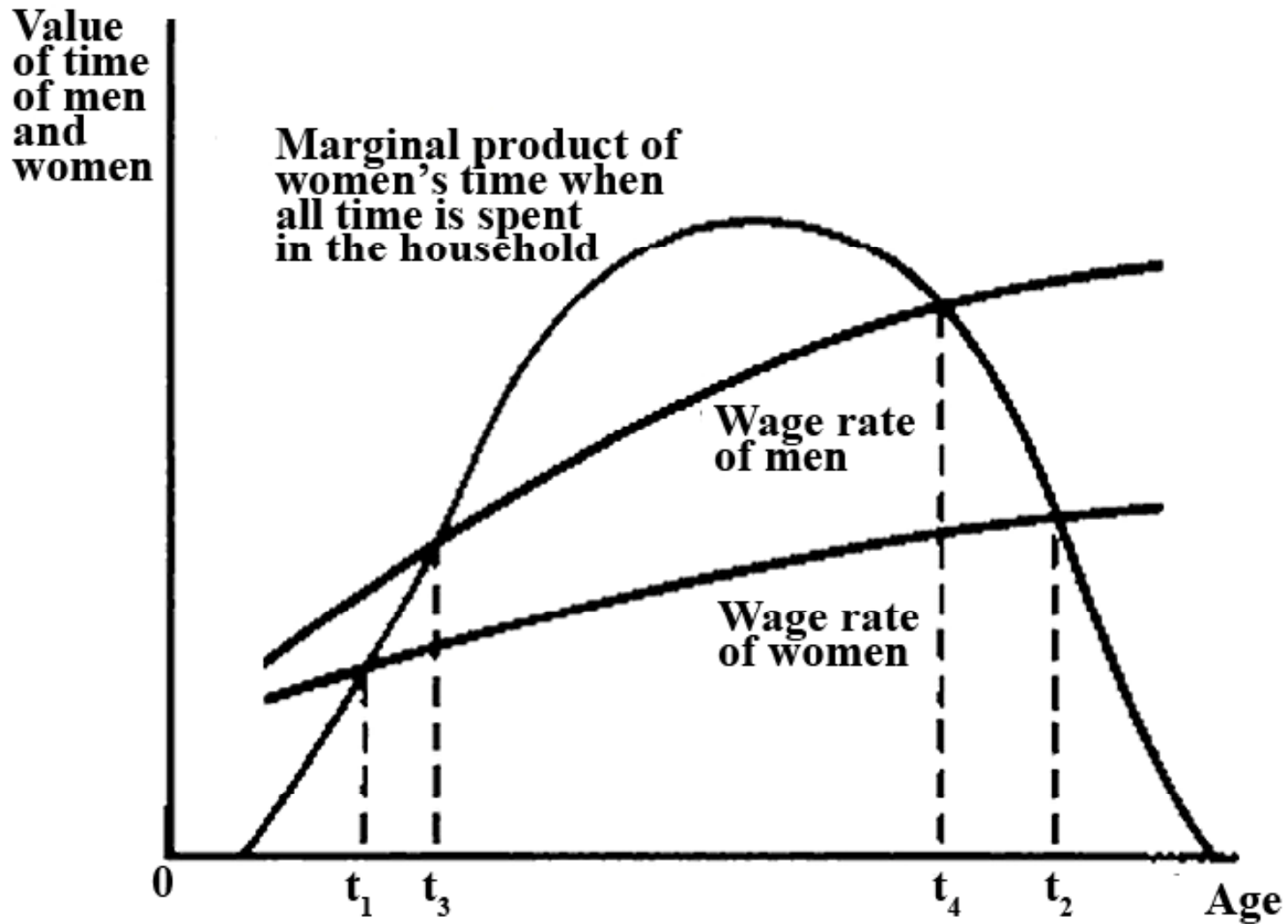
Age: 20 years and over
Sex: Women



FAMILY ECONOMIC (CONT'D)



“A Theory of the Allocation of Time” 1965



FAMILY ECONOMIC (CONT'D)

- Becker researched deeply into to analysis of fertility.
- He pointed out that continuing decline in fertility in industrialized countries can be explained by his theory.
- Parents have preferences regarding both the number (**quantity**) and educational level (**quality**) of their children.
- Why in some countries women give birth to 7 children, and in developed countries much less?
- According to Becker, in developed countries, parents have choice between few children with high quality and many children with low quality.
- The prices and wages are such that quality is preferred to quantity.

CRIME AND PUNISHMENT

- Criminals were considered “**irrational**”.
- Becker argued that the decision to commit a crime is a **rational choice** – the criminal compares costs vs. benefits when deciding to commit a crime.
- He studied which is a better deterrent: (i) longer sentences or (ii) higher chances of being caught.
- It turned out that higher chances of being caught is more effective deterrent.

CRIME AND PUNISHMENT (CONT'D)

- Becker's theory acknowledged that a society could not eradicate crime beneath a certain level
- For example, a shop can employ security workers to reduce shoplifting. At some low level of shop lifting, it doesn't pay off to hire more security.

DISCRIMINATION

- Becker wrote his doctoral dissertation at the University of Chicago on the economics of discrimination in 1955.
- He successfully challenged the Marxist view that discrimination hurts the **discriminated** and helps the **discriminator**.
- Becker pointed out that if an employer refuses to hire a productive worker simply because of skin color, that employer loses out on a valuable opportunity.

DISCRIMINATION (CONT'D)

- Becker showed that discrimination will be less pervasive in more competitive industries because companies that discriminate will lose market share to companies that do not.
- He also presented evidence that discrimination is more pervasive in more-regulated, and therefore less-competitive, industries.
- **Good news!** “Invisible Hand” works against discrimination 😊

DISCRIMINATION (CONT'D)

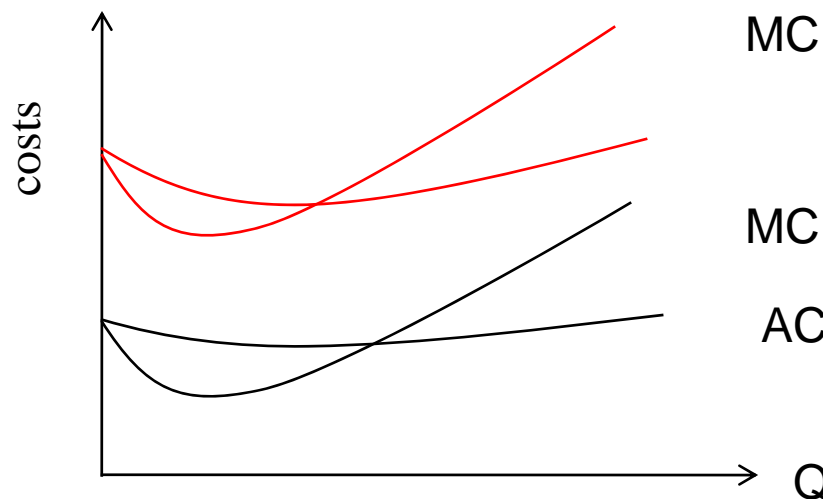
- Illustration.

Without Discrimination

$$MC = \frac{w}{MP_L} \quad 25 = \frac{100}{4}$$

With Discrimination

$$50 = \frac{100}{2}$$



RATIONAL ADDICTION

- Theoretical model was developed in which utility maximizing consumers may become “addicted”.
- He analyzed the demand for cigarette.
- He pointed out that your present consumption is influenced both by how attractive the addictive good is today, and partly by its use as "investment" in changing your body and mind for future consumption.
- According to his theory, if cigarette taxes are credibly announced to double in one year's time, cigarette smokers will cut their smoking today.

ADDITIONAL INFORMATION

- Becker and his student also contributed to study in Health Economic.
- We have Health Economics class in our department and Professor Chaudhuri is teaching.
- Health Economic class will be offered in spring semester.

CRITIQUE

- In the beginning, some people did not accept his theories as part of economics.
- Today economy, the fields of labor economics, health economics, family economics and gender economics, are all considered as mainstream economics.

QUESTIONS

- Marx argued that workers do not possess factors of production. Which factor of production does Marx neglect, and Becker points out?
- What does Becker's theory of human capital imply about the conflict between workers and capitalists?
- Who is hurt by discrimination, the discriminated or the discriminator?