

UC Berkeley – Department of Economics

ECON 196 – Topics in the Israeli Economy

Syllabus

COURSE AND CONTACT INFORMATION

Q: Fall 2018

Time: Monday, 5:00 – 8:00 PM

Location: DWINELLE 182

INSTRUCTOR

Name: Professor Itai Ater

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Office hours: By appointment

COURSE DESCRIPTION

Anti-globalization sentiments are rising, especially in Europe and in the United States, with the increasingly integrated global economy blamed for domestic economic distress. This course offers a journey to the Israeli economy, and illustrates how the Israeli economy provides a counterexample to this view, showing strong positive economic effects of trade, innovation and immigration.

Despite dire geopolitical conditions, the Israeli economy has grown rapidly since its establishment in 1948, turning into a modern developed economy characterized with a strong labor market (unemployment below 4%) and a strong vibrant innovative hi-tech sector. For instance, Israel has about 100 listed companies in the NASDAQ, more than any other country except US and China. Nevertheless, Israel also faces considerable economic challenges, such as low labor productivity (35% lower than labor productivity in the US) and high poverty rates.

In the first part of the course we will discuss Israel's strengths and challenges, linking economic theories to data from Israel and from other developed western countries. In the second part of the course we will rely on research papers that use Israeli data and discuss how topics, such as discrimination, immigration, fertility and the kibbutzes shape the Israeli economy.

GOALS

After completing this course, the students will:

1. Identify and characterize the strengths and challenges that the Israeli Economy faces in 2018.
2. Compare Israel's economic standings or measures with the US and other western countries.
3. Read, evaluate and criticize a research paper in applied microeconomics.
4. Grapple with the role of globalization in shaping Israel's Economy since the early 1990's.

Prerequisites, class policies, grading and assignments

Prerequisites

The prerequisites for this course are 100A-100B or 101A-101B and one semester of statistics.

Course materials

Canvas will be used as an electronic repository for all the materials related to this class.

Materials that I plan to upload include the syllabus, exams and solutions and class slides.

Late work

Attendance at the exams during the scheduled time is mandatory unless (1) you have a university-approved excuse or (2) you have an email/writing pre-approved reason for missing the exam.

Attendance

Attendance is mandatory. I will post the course slides but these are not a substitute for the lecture. Students are required to attend at least 12 meetings. Attending less than 12 classes, without notifying me before class will result in grade reduction. In each class I will provide a "sign in sheet". Also, this is a laptop-free class. All electronic devices, except those authorized by the DSP, must be turned off before class begins.

Grading

Attendance and participation: 12%

First assignment: 9%

Second assignment 15%

Midterm exam: 24%

Final exam: 40%

Assignments and Exams

Students are required to take a midterm exam and a final exam. The midterm exam (in-class on October 22nd) will refer to the lectures and readings covered up to that point. The midterm will combine multiple-choice questions and short-answer questions. The final exam will also consist of multiple-choice and short-answer questions. In addition to the exams, there will be two assignments discussed below and one extra-credit assignment.

Assignments:

Assignment 1 – oral presentation (mandatory)

- Will be assigned on week 2 and will be due on October 1st.
- You will need to choose 3 social or economic criteria and use them to 1) compare Israel and other countries in the OECD, and 2) track how these measures changed over time compared to other countries. Relevant data for this assignment and social and economic criteria can be found at: <http://idc.digitalst.co.il/> and in the World Bank and OECD databases.
- You will be required to prepare a short oral presentation (no less than 6 minutes and no more than 10 minutes) describing the main differences and similarities between Israel and the other countries, and how these differences evolve over time. Indicate at least one measure that you were surprised to learn about Israel's relative positive or negative ranking compared to the US.
- Grading details are in the rubric below:

Criteria	Points Possible	Points
Presentation: clear and within the time limit	3	
Content: Data collection: using the right data	3	
The analysis is clear and uses well visuals explanations (mainly graphs)	4	
Comparison with Israel	3	
Overall impression	2	
Total	15	

Assignment 2 – oral presentation of a research paper (mandatory)

- Will be assigned on week 9 and will be performed in one of the classes in the second part of the course (classes 10-12).
- The assignment will be performed in pairs. Each pair will discuss (two) research papers that are included in the syllabus for weeks 9-12 (see p.10-11 of syllabus for the list of potential research papers)

- The presentation will last no less than 24 minutes and no more than 30 minutes.
- The presentation should include:
 - a. A description of the motivation of the study you chose. What is known on the research topic and what are the open questions? What does theory tell us about the subject? What were the empirical findings prior to this study?
 - b. What is the research question? Why is it important (to Israel, to the economic discipline and to policy in general)?
 - c. Explain the research design (empirical methodology and data) that the researchers use to tackle to the research question of the study.
 - d. Explain what you like in the paper and what you dislike. Do you believe the results? Would the results hold in a different setting, such as in the US?
- A standard structure for the presentation of the research paper is as follows:
 - Title (1 slide)
 - Research question and motivation for the study (1 slide)
 - Relevant background (1-2 slides)
 - Empirical strategy (2-3 slides)
 - Data (1-2 slides)
 - Empirical analysis and findings (6-10 slides)
 - Summary and conclusions (1-2 slides)

- Grading details are in the rubric below:

Criteria	Points Possible	Points
Presentation: Clear, free of grammatical errors and completes on time	6	
Content: Clearly and accurately summarizes and explains the motivation for the study and its importance to Israel and in general	3	
Explaining well the research design and the way alternative explanations are addressed. Analysis is insightful, clear and well-articulated.	5	
Your own suggestion - how would you improve or execute this study elsewhere	3	
Overall impression	3	
Total	20	

Assignment 3 (optional, for extra credit)

During each week in the second part of the course, submit a one-page summary of a paper assigned for that week. Each summary is worth 2.5 points (10 points in total).

- Grading details are in the rubric below:

Criteria	Points Possible	Points
Content: What is the research question?	0.5	
Provide a summary of the findings and the research design.	1	
Did you find the findings compelling?	1	
Total	2.5	

Midterm exam

The midterm will consist of 5 short open-questions (4 points each) and 4 multiple-choice questions (1 point each) and will cover material discussed in week 1 – week 7. The midterm will be held in class on 22nd in October.

Final exam

The final exam will consist of 4 open-questions (5 points each) and 40 multiple-choice questions (0.5 point each) and will cover all the course topics, with an emphasis on the second part of the course.

Course readings – general

Readings will be accessible through the course website.

Required readings are marked with “*”. Everything else is optional

Recommended textbooks:

- The Israeli Economy, 1985-1998: From Government Intervention to Market Economics, Avi Ben Bassat (Editor) MIT PRESS, 2002.
- The Israeli Economy: Maturing through Crisis. Yoram Ben Porath (Editor). Harvard University Press, 1986.
- Israel and the World Economy, The Power of Globalization, by Assaf Razin, MIT PRESS, 2018.
- Rivlin, Paul. The Israeli Economy from the Foundation of the State to the 21st Century, Cambridge University Press, 2010. ISBN 978-0521150200
- List of research papers on Israel, needed for student presentations during the second part of the course (classes 10 -12). See p.10-11 of the syllabus.

COURSE TOPICS AND CALENDER

Week 1 (August 27th):

Getting to Know You, Syllabus & Introduction to the Israeli Economy in 2018

Goals for this week:

- Getting a sense of what the course is about
- Understanding the course requirements
- Getting to know each other (instructor and students)
- Have a basic knowledge about the state of Israel
- Articulate the main strengths and challenges of the Israeli economy in 2018

In class:

- Instructor introduction
- Students introduce themselves
- Overview of the syllabus and the course requirements
- Lecture on:
 - o Introduction – Israel's profile
 - o The Israeli Economy in 2018, strengths and challenges
 - o Hitech scene short movie. CCTV (4.5 mins) <https://www.youtube.com/watch?v=o9tTqwSkhaw>

Readings:

- The Macro Picture of Israel's Economy in 2017, 2018 (Taub Center)
- Israel and the World Economy, The Power of Globalization, by Assaf Razin, MIT PRESS, 2018.

Week 2 (September 10th): Historical Background on the Israeli Economy (1948-2018)

Goals for this week:

- Understand the main factors underlying the Israeli economy: Jewish immigration, the Israeli-Arab conflict and globalization.
- Explore the links between Israel's unique characteristics and its economic progress since its establishment in 1948.

In class:

- Lecture on:
 - o Historical background of the Israeli Economy
 - o Assess the sources of the economic recessions since 1948
- Watch a movie on the Israeli Economy (Tekuma, part 5: The economic revolution, mins: 0:00-7:30,8:46-12:10,21:10-26:30,29:00-38:10,38:11-46:50)

Reading:

- Melnik, Rafi. Chapter 1, unpublished manuscript.
- Rivlin, Paul. The Israeli Economy from the Foundation of the State to the 21st Century, Cambridge University Press, 2010. ISBN 978-0521150200
- Zeira, Joseph, ``The Israeli Economy`` Chapter 1 of the Book (2018)

Week 3 (September 17th): Economic Growth – The Israeli case

Goals for this week:

- Apply economic growth models on Israel's macroeconomic data.
- Identify Israel's economic growth engines, today and in the past. What has changed over the years?
- Reason what Israel can do to close the GDP gap relative to comparable western Economies.
- Use the World Bank online dataset to compare Israel's growth with other western Economies.

Reading:

- Zeira, Joseph, ``The Israeli Economy`` Chapter 2 of the Book (2018)
- Helpman, Elhanan. ``Israel's Economic Growth: an international comparison.`` *Israel Economic Review* 1.1 (2003).

In class:

- Lecture on:
 - o Review on Solo growth model.
 - o Analyzing the economic growth of Israel:
 - The rapid economic growth in Israel between 1948 and 1973.
 - The growth engines in Israel in the globalization era
 - A comparison of economic growth between Israel other Western countries.
- Practice in class on working with the online world bank dataset
 - o How to find and use the data to generate graphs and tables

Week 4: (September 24th) Labor productivity and the labor market

Goals for this week:

- Learn about and apply growth accounting methods to learn about Israel's productivity gap vis-à-vis other western countries.
- Evaluate the success of recent policies in Israel's labor market
- Compare Israel's labor market indices with other western countries.

Reading:

- Zeira, Joseph, ``The Israeli Economy`` Chapter 2 of the Book (2018)
- Moshe Hazan and Shai Tzur, ``Economic Growth and Labor Productivity in Israel 1995 – 2014`` chapter in the book on the Israeli economy (forthcoming)

In class:

- Lecture on:
 - o Growth accounting techniques and the labor productivity gap
 - o Changes and government policies in the Israeli labor market since the early 1990's

Week 5: (October 1st) Inequality and redistribution policy in Israel.

Goals for this week:

- Learn how to measure inequality, poverty and cost of living
- Understand how income inequality & poverty rates in Israel changed over time.
- Evaluate how government interventions reduce poverty rates?

In class:

- Lecture on:
 - o The GINI index and the Lorenz curve
 - o How to measure inequality, poverty and cost of living
 - o Inequality, poverty and cost of living in Israel
- Watch two shorts videos that demonstrate the cost of living in Israel
- Assignment no. 1 – students' presentations

Reading:

- Zeira, Joseph, ``The Israeli Economy`` Chapter 5 of the Book (2018)
- Momi Dahan, ``Income inequality in Israel: A unique development`` chapter in the book on the Israeli economy (forthcoming)

Week 6: (October 8th) The public sector in Israel + class presentations of assignment 1

Goals for this week:

- Evaluate the roles of the public sector in a modern Economy
- Compare the role of the public sector in Israel's relative to other western countries.
- Identify and characterize the unique circumstances of the Israeli situation and how it evolved over time.

In class:

- Lecture on:
 - o The role of the government in shaping the Israeli Economy
 - o Did the Israeli government promote capitalist or socialist point of view
- Assignment 1 (cont'd): Student presentations

Week 7 (October 15th): The High-Tech Sector in the Israeli Economy

Goals for this week:

- Obtain basic knowledge on the development of the high-tech sector in Israel
- Understand the success story of the high-tech sector in Israel
- Evaluate what can other countries learn from the Israeli success story

In class:

- Lecture on:
 - o Investment in research and development in Israel
 - o The Israeli ecosystem
 - o Government support and incentives

- Watch a movie on the Israeli hi-tech story, WIRED: “Holy Land: Start Up Nations” (2017, 1.5 hrs) <https://www.youtube.com/watch?v=I5h8GfxIWVY>
- Solving a case on the Israeli hi-tech: From Start-Up to Grown-Up Nation: The Future of the Israeli Innovation Ecosystem: hbr.org/product/from-start-up-to-grown-up-nation-the-future-of-the-israeli-innovation-ecosystem/517066-PDF-ENG

Reading:

- Dan Senor and Saul Singer (2009), Start-up Nation: The Story of Israel's Economic Miracle. Hachette Book Group, NY. PP.1-41, 225-237
- Made in Israel: The High Tech Story. 51 minutes. <https://www.youtube.com/watch?v=M2OsI5DD0LE>

Week 8: (October 22) Mid-term

Week 9: (October 29) Introduction to empirical analysis

Goals of this week:

- Distinguish between correlation and causation in applied work
- Understand the cons and pros of alternative empirical methods

In class:

- Lecture on:
 - o The distinction between correlation and causation
 - o How economists use data to move from correlation to causation
 - o Apply these concepts on examples from Israel

Weeks 10-12: Student presentations (Assignment 3).

Week 10: (November 5), Topics for research papers: Immigration and discrimination

(November 12) No class (Veterans' day)

Week 11: (November 19), Topic for research papers: Kibbutzes

Week 12: (November 26), Topic for research papers: Markets and cost of living in Israel

Week 13: (December 3) Final exam

List of research papers (by topic)

Discrimination

*Rubinstein, Y. and Brenner, D., 2013. Pride and Prejudice: Using Ethnic-Sounding Names and Inter-ethnic Marriages to Identify Labor Market Discrimination. *Review of Economic Studies*, 81(1), pp.389-425.

*Bar, R. and Zussman, A., 2017. Customer Discrimination: Evidence from Israel. *Journal of Labor Economics*, 35(4), pp.1031-1059

Fershtman, C. and Gneezy, U., 2001. Discrimination in a segmented society: An experimental approach. *The Quarterly Journal of Economics*, 116(1), pp.351-377.

Zussman, A., 2013. Ethnic discrimination: Lessons from the Israeli online market for used cars. *The Economic Journal*, 123(572).

Immigration

*Friedberg, R.M., 2001. The Impact of Mass Migration on the Israeli Labor market. *Quarterly Journal of Economics*, 116(4), pp.1373-1408.

*Gould, E.D., Lavy, V. and Paserman, M.D., 2004. Immigrating to Opportunity: Estimating the Effect of School Quality using a Natural Experiment on Ethiopians in Israel. *Quarterly Journal of Economics*, 119(2), pp.489-526.

Gould, E.D., Lavy, V. and Paserman, M.D., 2011. Sixty Years after the Magic Carpet Ride: The Long-run Effect of the Early Childhood Environment on Social and Economic Outcomes. *The Review of Economic Studies*, 78(3), pp.938-973.

Lach, S., 2007. Immigration and Prices. *Journal of Political Economy*, 115(4), pp.548-587.

Gould, E.D. and Moav, O., 2007. Israel's brain drain.

Additional material: Movie - <https://archive.org/details/Salah.Shabati.Israeli>

Kibbutzes

*Abramitzky, R., 2008. The limits of equality: Insights from the Israeli kibbutz. *Quarterly Journal of Economics*, 123(3), pp.1111-1159.

*Abramitzky, Ran, Lavy, Victor, ``How Responsive is Investment in Schooling to Changes in Redistributive Policies and in Returns?`` *Econometrica*, 82 (2014), p. 1241-1272.

Abramitzky, Ran. Lessons from the kibbutz on the equality-incentives trade-off. *Journal of Economic Perspectives* 25, no. 1 (2011): 185-208.

Ebenstein, A., Hazan, M. and Simhon, A., 2016. Changing the Cost of Children and Fertility: Evidence from the Israeli Kibbutz. *The Economic Journal*, 126(597), pp.2038-2063.

Additional material: Movie: Sweet mud, <http://oskicat.berkeley.edu/record=b20521507~S1>

Markets

*Hendel, I., Lach, S. and Spiegel, Y., 2017. Consumers' activism: the cottage cheese boycott. *The RAND Journal of Economics*, 48(4), pp.972-1003.

*Ater, I, Rigbi O., 2018. The effects of online mandatory disclosure of supermarket prices. Working paper

Etkes, H. and Zimring, A., 2015. When trade stops: Lessons from the Gaza blockade 2007–2010. *Journal of International Economics*, 95(1), pp.16-27.

Fershtman, C. and Gandal, N., 1998. The effect of the Arab boycott on Israel: The automobile market. *The RAND Journal of Economics*, pp.193-214.

Cohen, A., 2005. Asymmetric information and learning: Evidence from the automobile insurance market. *Review of Economics and statistics*, 87(2), pp.197-207.

Additional material: Movie on the social protests in Israel: "Before my feet touch the ground" (2017)