

## IN THIS ISSUE

- Unemployment Insurance and Disability Insurance in the Great Recession
- Charter Schools, Test Outcomes, and Behavioral Change
- CEO Behavior: Are Family CEOs Different?
- Local Knowledge Matters for Real Estate Investors
- Assortative Mating and Income Inequality
- Medical Malpractice Laws and Health Care Quality

## Unemployment Insurance and Disability Insurance in the Great Recession

At the end of 2012, 8.8 million American adults were receiving Social Security Disability Insurance (SSDI) benefits. The share of the American public receiving SSDI has more than doubled since 1990. This rapid growth has prompted concerns about SSDI's sustainability: recent projections suggest that the SSDI trust fund will be exhausted in 2016.

SSDI recipients tend to remain in the program, and out of the labor market, from the time they are approved for benefits until they reach retirement age. This means that if unemployed individuals turn to disability insurance as a source of benefits when they exhaust their unemployment insurance (UI), the long-term program costs can be substantial. Some have suggested that the savings from avoided SSDI cases could help to finance the cost of extending UI benefits, but little

is known about the interaction between SSDI and UI.

In **Unemployment Insurance and Disability Insurance in the**

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“... SSDI applications do not appear to respond to UI exhaustion.”

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**Great Recession**, (NBER Working Paper No. 19672), **Andreas Mueller, Jesse Rothstein, and Till von Wachter** use data from the last decade to investigate the relationship between UI exhaustion and SSDI applications. They take advantage of the variability of UI benefit durations during the recent economic downturn. The duration of these benefits was as long as 99 weeks in 2009, remained protracted for several years, then was shortened substantially in 2012. The authors focus on the uneven extension of UI benefits during and after the Great Recession to isolate variation in the duration of these benefits that is not con-

founded by variation in economic conditions more broadly.

The authors find very little interaction between UI benefit

eligibility and SSDI applications, and conclude that SSDI applications do not appear to respond to UI exhaustion. While the authors cannot rule out small effects, they conclude that SSDI applications do not respond strongly enough to contribute meaningfully to a cost-benefit analysis of UI extensions or to account for the cyclical behavior of SSDI applications.

The authors suggest that the tendency for the number of SSDI applications to grow when the economy is weak may reflect variation in the potential reemployment wages of displaced workers, or changes in the employment opportunities of the marginally dis-

abled that influence the evaluation of an SSDI applicant's employability. These channels are not linked to the generosity or duration of

UI benefits, and they imply that more stringent functional capacity reviews of SSDI applicants may not reduce recession-induced

SSDI claims if these claims reflect examiners' judgments that the applicants are truly not employable in the existing labor market.

— Les Picker

## Charter Schools, Test Outcomes, and Behavioral Change

A number of recent studies have shown that high-performing charter schools increase test scores for many urban students, but there is relatively little evidence on whether this translates into changes in other dimensions of human capital acquisition such as college enrollment, reduction in the incidence of risky behavior, and improved health.

In **The Medium-Term Impacts of High-Achieving Charter Schools on Non-Test Score Outcomes** (NBER Working Paper No. 19581), authors **Will Dobbie** and **Roland Fryer, Jr.** analyze survey data from hundreds of students who applied to the Promise Academy, a charter middle school in the Harlem Children's Zone in New York City. They find that students who had the opportunity to attend this school not only scored higher on tests but were also more likely to enroll in college. Moreover, Promise Academy students display some evidence of lifestyle changes: a decline in the rate of teen pregnancy for female students and in the rate of incarceration for males. However, for a range of other health-related behaviors there were no apparent changes.

The authors recognize that charter schools are heterogeneous and that many charter

schools are no more effective at improving test scores than traditional public schools. But some

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studies show that higher-quality charter schools—those with extended school days and school years, aggressive recruitment of high-quality teachers, intense data-driven monitoring of student progress, and group tutoring—do achieve higher test scores. Promise Academy is a charter institution with all these attributes and with a lottery process for admission, which allows the authors to compare the academic performance and the other behaviors of admission lottery winners and losers. This provides “treatment” and “control” groups of otherwise comparable students.

The authors find that six years after being admitted to Promise Academy, the lottery-winning students scored 0.28 standard deviations higher on national math achievement tests compared to lottery-losing students, and 0.12 standard deviations higher on reading exams. These students were also more than twice as likely to take and pass advanced exams in chem-

istry, geography, and other subjects. They were 14.1 percentage points more likely to enroll in college and

21.3 percentage points more likely to enroll in a four-year college, a 102 percent increase from the control mean.

The authors find mixed results with regard to “risky behaviors.” Female lottery winners were 12.1 percent less likely to report getting pregnant during their teen years, a 71 percent drop from the control group mean. Male students were 4.3 percent less likely to be incarcerated. But Promise Academy lottery winners reported similar drug and alcohol use and criminal behavior as students who were not selected in the admissions lottery. On health-related issues, going to Promise Academy appears to have little impact on the incidence of asthma, obesity, and mental health problems, though lottery winners were more likely to report eating more nutritious foods.

The authors stress that their conclusions are limited to medium-term outcomes of Promise Academy students, and that longer-term consequences cannot

yet be evaluated because of the relatively short time span of the research project. The authors conclude that “the cross-sectional cor-

relation between test scores and adult outcomes may understate the true impact of a high quality school, suggesting that high qual-

ity schools change more than cognitive ability.”

—Jay Fitzgerald

## CEO Behavior: Are Family CEOs Different?

Young firms with substantial family ownership often wrestle with the choice between having a member of the family serve as CEO and recruiting an outsider, a professional manager, as the CEO. Are there differences in behavior between the two groups? In **Managing the Family Firm: Evidence from CEOs at Work** (NBER Working Paper No. 19722), **Oriana Bandiera, Andrea Prat, and Raffaella Sadun** suggest that on average, professional managers generate greater growth, productivity, and profits for the firm.

The authors study the work habits of 356 CEOs in the Indian manufacturing sector, where family ownership is common and productivity among firms varies markedly. They find that family CEOs devote 8 percent fewer hours than professional managers to their corporate responsibilities. Moreover, the researchers find that longer hours are associated with more successful firms and with higher levels of CEO pay.

To measure time use, the researchers reconstruct the CEOs’ time diary via daily phone interviews with their personal assistants over the course of one week. They ask respondents to use their diaries to list sequentially all activities longer than 15 minutes, such

as meetings, phone calls, and other tasks, the type and number of people involved, the location, and

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“... family CEOs devote 8 percent fewer hours than professional managers to their corporate responsibilities.”

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the duration of the activity. This allows the researchers to estimate how much time CEOs allocate to their duties and how they divide their time among different tasks. To gauge whether the findings are specific to the Indian context, they apply the same methodology to collect time use data in a range of other countries, including the United States, and they find similar differences between family CEOs and professional managers.

The study reveals that the average CEO in the sample spends 9 hours per day at work, with CEOs in the bottom quartile working an average of 6.9 hours per day and those in the top quartile working on average 10.7 hours per day. There is a strong positive correlation between the number of hours worked by the CEO, firm performance, and CEO remuneration.

To understand why some CEOs spend more hours at work than others do, the researchers develop measures of the “marginal cost of effort” using instances of extreme monsoon rainfall and the broadcasting of popular sporting events,

in particular international Premier League cricket games, across days of the sample week. They find that

the difference in hours worked between family CEOs and professional managers is significantly larger on days when torrential rains or cricket matches—which generate traffic and slow commuting times—increase the marginal cost of reaching the office and make the prospect of staying at home more attractive. The authors note that on average, family CEOs are wealthier and have more job security than their professional manager counterparts; this may explain their greater propensity to stay home on days with challenging commutes.

The authors conclude that it is difficult to draw any causal inference from the positive correlation between CEO hours and firm performance. However, they note that the correlation between these two variables translates into a 5.8 percent productivity difference between family and professional CEOs. They write that the evidence further “highlights the importance of how corporate leaders allocate their limited managerial attention... Attention is a scarce resource and particularly so

at the top of the organization. The allocation of time reflects the allo-

cation of attention, which in turn depends on the strategic priorities

of the CEO.”

— Matt Nesvisky

## Local Knowledge Matters for Real Estate Investors

Out-of-towners may have the cash to buy second homes, but they may not be as savvy as investors who focus their attention locally, according to **Alex Chinco** and **Christopher Mayer** in **Misinformed Speculators and Mispricing in the Housing Market** (NBER Working Paper No. 19817). Local residents who bought second homes earned more from their properties, and tended to sell them in stronger markets, than out-of-town investors.

Despite their arguably poorer information, out-of-town speculators can have a substantial impact on local housing values in boom cities. The study finds that a 10 percentage point rise in a city’s fraction of sales to out-of-town second house buyers was associated with a 6 percentage point increase in house prices and a 9 percentage point boost in the implied-to-actual rent ratio (IAR) over the next year. The authors conclude that increases in nonresident second-home-buyer interest appear to drive markets upward, not the other way around.

Using the property address as well as the tax bill mailing address for every single family house purchase in 21 cities from January 2000 through December 2007, the authors find that in key markets

such as Las Vegas, Phoenix, Miami, and Tampa, out-of-town buyers earned lower capital gains on their second homes compared with local

properties in metropolitan statistical areas (MSAs) with very similar price dynamics.

Chinco and Mayer address

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“Local residents who bought second homes earned more from their properties ... than out-of-town investors.”

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second home investors. Out-of-town buyers who purchased homes in Las Vegas in March 2004, for example, earned an average 8 percent per year capital gain on their investment before they sold their property. Local second house buyers purchasing in the same month earned a 17 percent per year capital gain on average. Out-of-town second home buyers were notably less successful than local buyers in timing their exit from the market in Las Vegas and other “boom” markets.

From the information they can glean about out-of-town buyers, the researchers conclude that they are not drawn from the ranks of the ultra rich. The median value of their primary homes was lower than the median sale price in many of the cities into which they bought. They also find that the out-of-town buyers did not obtain much diversification with their purchases. At the peak of the boom, the typical second home buyer in places like Los Angeles and Jacksonville already owned two investment

the difficult question of causality: were out-of-towners driving fundamental changes in local real estate markets, or were fundamental changes in these markets driving price increases and luring out-of-towners to invest? They conclude in favor of the former explanation. “If changes to fundamentals were driving both price dynamics as well as out-of-town second house buyer demand, we would expect to see large jumps in house price and IAR appreciation rates preceded by increases in out-of-town second house buyer demand from across the country,” they write. “The data do not display this...”

The authors find that the effect of out-of-town buyers on local markets depended in part on where these long distance investors are from. For example, an increase in nonresident purchases of homes in Phoenix by residents of Los Angeles was associated with a larger run-up in subsequent prices than an increase in purchases by Milwaukee residents. The research-

ers point out that where the buyers are from should not matter if these buyers are all reacting to the same underlying market information. They conclude that something else, for example a favorable review of the Phoenix market in a local newspaper in another city,

or the airing of a television program about real estate investing in Phoenix in a few media markets, must explain the behavior of these nonresident buyers and affect the strength of their demand. “Our econometric approach allows us to identify price movements that

can’t be solely explained by shocks to fundamentals,” the authors write. “It completely sidesteps the thorny problem of instrumenting for misinformed speculator demand across assets.”

—Laurent Belsie

## Assortative Mating and Income Inequality

Assortative mating is the process by which people of similar backgrounds, such as educational attainment or financial means, select a partner. Over the past half-century, there has been an increase in positive assortative mating within the marriage market. In **Marry Your Like: Assortative Mating and Income Inequality** (NBER Working Paper No. 19829), authors **Jeremy Greenwood, Nezih Guner, Georgi Kocharkov, and Cezar Santos** document this pattern and consider how it has affected income inequality across households.

To study this question, the researchers employ a large dataset of hundreds of thousands of households from the U.S. Census Bureau for the period 1960 to 2005. They find that more formally educated people are increasingly likely to marry those with similar educational attainment. Those with less formal education are also increasingly likely to marry those with lower education levels. Since household income is strongly correlated with the

partners’ level of formal education, the tendency for increased stratification has contributed to

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“...the tendency for increased stratification has contributed to greater inequality...”

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greater inequality over the study period. This pattern has been compounded by growing disparities in the earnings of those with high and low levels of education.

The authors illustrate this with some examples. In 1960, if a woman with a less-than-high-school education married a similarly educated man, their family income, based on the average of individual incomes for those with their education levels, would have been 77 percent of the national mean household income. This number dropped to 41 percent in 2005, a fall of 36 percentage points. Likewise, the income for a married couple consisting of two individuals with a high school education, relative to national mean household income, fell by 20 percentage points from 1960 to 2005, from 103 to 83 percent. At the opposite end of the spec-

trum, the relative income of a couple consisting of two college graduates rose by 7 percentage points,

from 153 to 160 percent, over this period. The income of a married couple in which both partners had post-college education moved up from 176 percent of mean income to 219 percent.

In summary, the authors attribute the growth of household inequality to three interacting forces. The first is rising returns to education. Earnings across educational classes have become more polarized. The second factor is increased positive assortative mating. People with similar socioeconomic backgrounds tend increasingly to marry each other, exacerbating income inequality. Third, the increase in married female labor force participation has heightened inequality, and has also made women’s earnings an increasingly important determinant of household income inequality.

—Les Picker

## Medical Malpractice Laws and Health Care Quality

Medical malpractice laws are often promoted as deterrents to poor patient care. In **Does Medical Malpractice Law Improve Health Care Quality?** (NBER Working Paper No. 19841), **Michael Frakes** and **Anupam Jena** explore the relationship between caps on awards of non-economic damages in malpractice lawsuits and a variety of health care quality indicators. They find that although caps on damages do not seem to affect observable health care quality, shifting state malpractice liability standards from the customary practices of physicians in local areas to national standards of care is associated with higher scores on several quality metrics.

The researchers use data from the National Hospital Discharge Survey (NHDS) from 1979 to 2005 along with information from the Behavioral Risk Factor Surveillance System from 1987 to 2008 to create quality measures for health care delivery. Their indicators parallel metrics developed by the U.S. Agency for Healthcare Research and Quality. They construct a composite inpatient mor-

tality rate measure for each state in each year; this variable averages 8 percent per year. They also develop

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“... caps on damages do not seem to affect observable health care quality...”

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a measure of avoidable hospitalizations; there appear to be about 1,000 of these per state per year in the NHDS records. They create a proxy variable for the quality of outpatient care based on the prevalence of cancer screening, which varies from 40 to 73 percent across states in their sample. They also construct an indicator for patient safety using a composite obstetric trauma indicator.

To explore how these quality measures respond to the malpractice policy environment, the authors first study how health care quality changes when states adopt caps on malpractice damage awards. They find no substantial effects, a result that is inconsistent with claims that uncapped awards affect physician practice. However, when they investigate how their quality measures respond to changes in state stan-

dards for clinical malpractice, in particular the adoption of rules holding physicians to national standards

of care, they find important effects. On average, the quality measures in a state converge toward average national rates after that state adopts national standard rules. Eleven states adopted national standards between 1980 and 1988; three states did so between 1992 and 1998. In states where the measured quality of care was high before adopting these standards, the adoption of national standard laws did not appear to be associated with a change in observable quality. However, in initially low-quality states, adopting a national standard of care was associated with an improvement in all of the quality measures. The authors conclude that structural reforms in the way in which malpractice law evaluates physicians may substantially alter health care delivery practices and improve quality.

—Linda Gorman

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