

## 1231. – Topics in the Israeli Economy

### Course Section Details

Day	Hour	Classroom	Lecturer	Email	Office
	2.5 hours		Itai Ater	<a href="mailto:ater@post.tau.ac.il">ater@post.tau.ac.il</a>	

Office Hours: By appointment. The course will be given in English.

### Course Units

Course Units: 1+1 [4 ECTS (European Credit Transfer and Accumulation System) = 1 course unit]

By making higher education comparable across Europe, ECTS makes teaching and learning in higher education more transparent and facilitates the recognition of all studies.

The course will be structured so students could take the course for either 7 weeks (=1 Unit) during the 1<sup>st</sup> of the semester or for 14 weeks (=2 Units) for the entire semester.

### Course Description

This course introduces contemporary economic policy debates focusing on the Israeli economy. In the first part of the class we will discuss the main policy challenges facing the Israeli Economy in 2019, including the labor productivity, the start-up nation and economic growth. We will go over the economic history of Israel, starting with its foundation in 1948, the economic crisis in 1985 and later the impact of globalization, immigration and the hi-tech industry. In the second part of the course we will focus on microeconomic and social challenges facing the Israeli economy, such as fertility, immigration, discrimination, kibbutzes and market competition. The lectures will make use of both economic theory and empirical findings to better understand these policy debates.

### Course Objectives

After completing this course, the student will:

1. Identify and characterize the strengths and challenges that the Israeli Economy faces.
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.

## Assessment and Grade Distribution

### Grading (for first half of the course)

Attendance and participation: 10%

Case study: 20%

Exam: 70%

### Grading (for the second half of the course)

Assignment: 30%

Attendance and Participation: 10%

Final exam: 60%

\*According to University regulations, a student must be present in every lesson (Article 5).

\* The lecturer reserves the right to have a student removed from a course if the student is absent from a class with mandatory participation or did not actively participate in class. (The student will remain financially responsible for the course irrespective of his/her removal from the course)

## Grading Policy

As of the 2008/9 academic year the Faculty has implemented a grading policy for all graduate level courses. This policy applies to all graduate courses in the Faculty, and will be reflected in the final course grade. Accordingly, the final average of the class for this course (which is a core course) will fall between 78-82%.

Additional information regarding this policy can be found on the Faculty website.

### Exam at the end of the first half

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 6.

### Exam at the end of the second half

The final exam will consist of few open-questions and multiple-choice questions.

## Course Assignments

### Assignment:

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

- Will be performed in one of the classes in the second part of the course (classes 9-12, 2-4 papers in each class).
- The assignment will be performed in pairs or individually. Each pair will discuss a research paper (see p. 8-11 for the list of potential research papers, denoted by \*).
- Each presenter/s should choose the preferred 4 papers before week 4. Email me about your preferred choices and I will try to assign you one of these papers.



- The presentation will last no less than 25 minutes and no more than 32 minutes. You should also email me the presentation before the day you are presenting.
- A 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 broader context of the paper or its relevance to Israel society/history/economy?
  - c. What is the research question? Why is it important (to Israel, to the economic discipline and to policy in general)?
  - d. Explain the research design (empirical methodology and data) that the researchers use to tackle to the research question of the study.
  - e. 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 (2 slides)
  - Relevant background, including elaborating on Israeli context of the paper (2-5 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	4	
Content: Clearly and accurately summarizes and explains the motivation for the study and its importance to Israel and in general	4	
Explaining well the research design and the way alternative explanations are addressed. Analysis is insightful, clear and well-articulated.	4	
Your own suggestion - how would you improve or execute this study elsewhere	4	
Relation of the paper to a broader Israeli	4	



context		
Overall impression	4	
Total	24	

As part of the attendance requirement – during the 2<sup>nd</sup> part of the course (weeks 9-12) and in weeks that a student is not undertaking assignment 1, he/she is required to hand-in a one-page double-sided summary of 2 of the papers that are presented in those weeks. Overall, 6 summaries are required from each student.

The summaries are due at the beginning of the relevant meeting. A summary should include the following parts: 1. What is the research question addressed in the paper 2. a summary of the findings and the research design. 3. Answer to the following questions: did you find the findings compelling and why?

### Evaluation of the Course by Student

Following completion of the course students will participate in a teaching survey in order to evaluate the instructor and the course for the benefit of the students and the university.

### Course Site (Moodle)

The course site will be the primary tool used to communicate messages and material to students. It is, therefore recommended to periodically check the course site. Course slides will be available on the course site. Please note that topics which are not covered in the slides, but are discussed in class are considered an integral part of the course material and may be tested in examinations.

### Course readings – general

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
- Abramitzky, R. The Mystery of the Kibbutz: Egalitarian Principles in a Capitalist World (Vol. 73). Princeton University Press, 2018.



## COURSE TOPICS AND CALENDER

### Week 1 ():

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

##### 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 and students' introduction
- Overview of the syllabus and course requirements
- Lecture on:
  - o Introduction – Israel's profile
  - o The Israeli Economy in 2018: some indices, strengths and challenges

##### Readings:

- OECD Economic Surveys – Israel 2018, March 2018.  
<http://www.oecd.org/eco/surveys/economic-survey-israel.htm>
- IMF Country Report No. 18/111, ISRAEL

### Weeks 2-3 (): Historical background on the Israeli Economy

##### Goals for this unit:

- 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. 1948 – 1985.
- 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:

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

### Week 4 (): 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 of the 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.
    - Why is Israel still behind several western countries?

**Week 5: () Labor productivity, the labor market and inequality**

**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
- Understand how income inequality & poverty rates in Israel changed over time.

**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)
- Momi Dahan, "Income inequality in Israel: A distinctive Evolution" [http://www.cesifo-group.de/DocDL/cesifo1\\_wp6542.pdf](http://www.cesifo-group.de/DocDL/cesifo1_wp6542.pdf)
- Jones, C. I., & Klenow, P. J. (2016). Beyond GDP? Welfare across countries and time. *American Economic Review*, 106(9), 2426-57.

**In class:**

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

**Week 6 (): The hi-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
- 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>  
00:10:00, 14:30-26:00, 32:50-36:20, 39:52-46:45, 56:38-1.18:20
- Solving a case on the Israeli hi-tech: Ofek, Elie, and Margot Eiran. "[From Start-Up to Grown-Up Nation: The Future of the Israeli Innovation Ecosystem.](#)" Harvard Business School Case 517-066, December 2016. (Revised 12/2018.) <https://www.hbs.edu/faculty/Pages/item.aspx?num=51991>
- 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 7: () Midterm exam**

(March 25) No class (Spring break)

**Week 8: () Introduction to empirical analysis**

**Goals of this week:**

- Distinguish between correlation and causation in applied work
- Preparation for Assignment 1 and review of midterm

**In class:**

- Lecture on:
  - o How economists use data to move from correlation to causation
  - o Apply these concepts on examples from Israel
  - o Discuss the requirements for assignment 1

**Week 9: (): Immigration, fertility + discrimination. Assignment 1.**

**Week 10: (), Topics: Kibbutzes. Assignment 1.**

**Week 11: (), Topics: Terror + education. Assignment 1.**

**Week 12: (), Topics: Markets. Assignment 1.**

**List of research papers (by topic)**

**Discrimination**

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

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

\*Bar, R. and Zussman, A., 2018, Identity and Bias: Insights from Driving Tests. Working paper

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

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

### **Immigration and fertility**

\*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.

\*Lavy, V., Schlosser, A., & Shany, A. (2016). Out of Africa: Human capital consequences of in utero conditions (No. w21894). National Bureau of Economic Research.

\*Cohen, Alma, Rajeev Dehejia, and Dmitri Romanov. Financial incentives and fertility. *Review of Economics and Statistics* 95, no. 1 (2013): 1-20.

\*Gershoni, Naomi, and Corinne Low. "The Impact of Extended Reproductive Time Horizons: Evidence from Israel's Expansion of Access to IVF." (2017).

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. *Review of Economic Studies*, 78(3), pp.938-973.

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.

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

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

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

### **Education**

\*Lavy, V., 2009. Performance pay and teachers' effort, productivity, and grading ethics. *American Economic Review*, 99(5), pp.1979-2011.

\*Abramitzky, Ran, Lavy, Victor, How responsive is investment in schooling to changes in redistributive policies and in returns? *Econometrica*, 82 (2014), p. 1241-1272.

\*Lavy, Victor, Edith Sand, and Moses Shayo. Charity begins at home (and at school): Effects of religion-based discrimination in education. No. w24922. NBER, 2018.

\*Lavy, Victor, and Edith Sand. On the origins of gender gaps in human capital: Short-and long-term consequences of teachers' biases. *Journal of Public Economics* 167 (2018): 263-279.

Angrist, J. and Lavy, V., 2009. The effects of high stakes high school achievement awards: Evidence from a randomized trial. *American economic review*, 99(4), pp.1384-1414.

### **Terror**

\*Berrebi, Claude, and Esteban F. Klor. Are voters sensitive to terrorism? Direct evidence from the Israeli electorate. *American Political Science Review* 102.3 (2008): 279-301.

\*Elster, Yael, Asaf Zussman, and Noam Zussman. Rockets: The housing market effects of a credible terrorist threat. *Journal of Urban Economics* 99 (2017): 136-147.

\*Shayo, Moses, and Asaf Zussman. Judicial ingroup bias in the shadow of terrorism. *Quarterly Journal of Economics* 126.3 (2011): 1447-1484.

### **Markets**

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

\*Ater, Itai, Rigbi Oren., 2018. Informative advertising and consumer search: Evidence from a price transparency regulation in supermarkets, working paper

\*Romem, Issi, and Ity Shurtz. "The accident externality of driving: Evidence from observance of the Jewish Sabbath in Israel." *Journal of Urban Economics* 96 (2016): 36-54.

\*Abramitzky, R., Einav, L. and Rigbi, O., 2010. Is Hanukkah responsive to Christmas? *The Economic Journal*, 120(545), pp.612-630.

Ater, I., 2015. Vertical Foreclosure Using Exclusivity Clauses: Evidence from Shopping Malls. *Journal of Economics & Management Strategy*, 24(3), pp.620-642.

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

Cohen, A., 2005. Asymmetric information and learning: Evidence from the automobile

Hamdani, Assaf, et al. Incentive fees and competition in pension funds: Evidence from a regulatory experiment. *Journal of Law, Finance, and Accounting* 2.1 (2017): 49-86.

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

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

### **Economics of crime**

Ater, I., Givati, Y. and Rigbi, O., 2017. The economics of rights: Does the right to counsel increase crime? *American Economic Journal: Economic Policy*, 9(2), pp.1-27.

Ater, I., Givati, Y. and Rigbi, O., 2014. Organizational structure, police activity and crime. *Journal of Public Economics*, 115, pp.62-71.

Gould, E.D. and Stecklov, G., 2009. Terror and the Costs of Crime. *Journal of Public Economics*, 93(11-12), pp.1175-1188.