# LECTURE NOTES ECO 54 UDAYAN ROY

# [Gary Stanley Becker](http://en.wikipedia.org/wiki/Gary_Becker) (1930 - 2014)

Sources:

<http://www.econlib.org/library/Enc/bios/Becker.html>

*Human Capital* by Gary S. Becker at <http://www.econlib.org/library/Enc/HumanCapital.html>

*New Ideas from Dead Economists* by Todd Buchholz, Chapter VIII (pages 197-9)

*The Ordinary Business of Life* by Roger Backhouse, Chapter 14, pages 311-312

<http://en.wikipedia.org/wiki/Rotten_kid_theorem>

# Economics and Sociology

Becker repeatedly applies the tools of rational choice—the bread and butter of economic analysis—to analyze sociological issues that were traditionally regarded as outside economics. This has at times led to charges of [economics imperialism](http://en.wikipedia.org/wiki/Economic_imperialism_%28economics%29).

**Investments in human capital** Becker formalized the theory of investment in education and on-the-job training and showed the underlying links to the traditional theory of investment in physical capital by businesses. This has improved our understanding of wage differences among people and growth-rate differences among countries. For example, apart from other reasons for salary differences, jobs that require years and years of costly education will necessarily be better paid.

Similar ideas were explored earlier by [Theodore Schultz](http://en.wikipedia.org/wiki/Theodore_Schultz) (1902 – 1998). [A. Michael Spence](http://en.wikipedia.org/wiki/Michael_Spence)’s signaling theory of education is a contrary view.

**Behavior of the family (or household), including distribution of work and allocation of time in the family** The family is seen by Becker as a factory that produces goods and services needed by the family with goods purchased in the market and the family’s spare time. As real wages rise, the opportunity cost of time spent on household work rises. As a result, family activities are ‘outsourced’. The importance of having a family diminishes, and divorce rates rise. Also, as real wages rise, the number of children in a family decreases and the size of parental investment in children increases in accordance with economic logic.

Becker’s **Rotten Kid Theorem** says that family members, even if they are selfish, will act to help one another if their financial incentives are properly linked. The theorem suggests that parents should delay gifts of money to their children until they (the parents) are older, or possibly until after they (the parents) die. If parents plan to will their children money in accordance with the children’s needs, each child will have an incentive to help his/her siblings maximize their income, because higher earnings by the other siblings will mean that more of the money will be given to the rotten sibling.

**Crime and punishment** Even criminals follow incentives, argued Becker. The type of crime a criminal commits typically depends on the criminal’s education. Educated people will indulge in crime where the rewards are high and the chances of getting caught are low. This is not necessarily because they are more moral people. It’s just that they earn a good living and have a lot to lose from getting caught.

**Discrimination on the markets for labor and goods** Discrimination by employers against certain job applicants can hurt both the applicant and the employer. Free market competition punishes discrimination. Suppose society discriminates against blonde people despite the fact that blondes and brunettes are equally productive. The low demand for blondes as workers would keep their wages low. If an employer hires only brunettes, he/she is passing up the chance to earn higher profits; after all, he/she could have hired equally-productive blonde workers at lower wages. Moreover, a fair-minded competitor who hires blonde workers would have an advantage and might even be able to drive out of business a firm that discriminates against blondes.

Therefore, Becker argued, discrimination by employers is unlikely to happen in a competitive free market. Discrimination may occur only when customers practice discrimination by avoiding businesses that hire people they (the customers) do not like.