

## Hand-out week 3 and 4

- 3rd + 4th week:**      2. Migration
- 2.1. History and Facts
  - 2.4. Political Economy Approaches
  - 2.2. Models of Migration
  - 2.3. Impact on Welfare State
  - (2.5. Migration Debate in Germany)

- Readings:**      Trends in International Migration, OECD (see class website)
- Jess Benhabib, "On the political economy of immigration", *European Economic Review*, Vol. 40, 1996, pp. 1737-1743.
- Assaf Razin and Efraim Sadka, "Migration and pension with international capital mobility", *Journal of Public Economics*, Vol. 74, 1999, pp. 141-150.
- Ulrich Scholten and Marcel Thum, "Public pensions and immigration policy in a democracy", *Public Choice*, Vol. 87, 1996, pp. 347-361.

### Practice Problems:

1. Take a look at the OECD's "Trends in International Migration". Find out as much as possible about immigration into and emigration leaving your home country. Who comes and goes, where do they go/come from, how have things evolved over time?
2. Explain intuitively why residents prefer immigration by owners of complementary factors. Try to use a simple model to make this point. Why does the political process (say of the median voter type) lead to extreme immigration policies. Is there empirical evidence for such extreme policies?
3. Given that immigration countries typically have extensive welfare systems, do you think immigrants will be net contributors or beneficiaries of the welfare state? With respect to a pay-as-you-go pension system, can migration be welfare improving for domestic residents, even if immigrants are net beneficiaries of the system? Explain the intuition behind this result.
4. What effect can immigration have on wages? What does this do to pensions if they are linked to wages? How do preferences with regards to immigration change as age increases? In particular, contrast the immigration policy preferred by a young worker to the view of the middle aged median voter. Which of the two policies is socially optimal?