

IECO/ECON 401, Assignment #3

Literature review and model

The aim of this 3-5 page paper is to state the theory that you intend to test and to explain how it relates to the existing literature.

We will meet in small groups to discuss this paper. A schedule and sign-up sheet will be posted on your mentor's door.

Some advice regarding the literature review:

- i. Do not just list papers related to your topic. The lit review should be analytical. Group the papers into themes. Discuss differences of approach, assumptions, findings, etc. Is there one seminal paper? Two competing schools of thought? A standard approach? Does the empirical evidence support or reject the theory? You get the idea.
- ii. The goal should be to analyze the literature in the context of what you are proposing. Examples include
 - a. Previous studies predate the 2001 recession, which was very different than past recessions. My results incorporate this new time period.
 - b. Prior papers involve laboratory experiments in artificial settings; I am going to study a real-life application.
 - c. The seminal paper in this literature uses state laws as equilibrium outputs, whereas I am going to use realized results.
 - d. Prior papers used cross-sections of data and failed to account for simultaneity. I use a panel of data and two-stage least squares.

Some advice regarding the model:

- i. Simpler is better, *ceteris paribus*. I.e. if you don't need multiple agents, use a representative agent. If you don't need multiple countries, use a two-country model.
- ii. Pictures are good. Can you draw a graph that summarizes your model? Read "Ten Commandments for Figures": <http://pacific.commerce.ubc.ca/keith/figcoms.htm> but ignore commandments #9 and #10 (you may use Excel and put your figures at the end of the paper).
- iii. Explain the role of the model. Most likely it is to demonstrate the theoretical result you are testing. Repeat customers tip better. Tariffs increase exports. The minimum wage increases wages for middle-income workers.

Note: by 10 AM the day *before* the meeting you must:

- (a) Give a hard copy of the paper to your mentor.
- (b) Send electronic copies of your paper to your mentor and each person in your small group.