ABSTRACT OF THE THESIS

This thesis contributes to two completely unrelated debates in the economic literature, similar only in the relatively high degree of controversy characterizing each one. The first part is methodological and macroeconomic in nature, addressing the question of whether the distribution of income across countries is converging (i.e. are the poor catching up to the rich?) or diverging (i.e. are we witnessing the formation of two exclusive clubs, one for poor countries and another one for rich countries?). Applications of the simple Markov model to this question have generated evidence in favor of the divergence hypothesis. In the first chapter, I critically review these results. I use statistical inference to show that the divergence results are not statistically robust, and I explain that this instability of the results comes from the application of a model for discrete data to data that is actually continuous. In the second chapter, I reposition the whole convergence-divergence debate by placing it in the context of Silverman's classic survey of non-parametric density estimation techniques. This allows me to use the basic notions of fuzzy logic to adapt the simple Markov chain model to continuous data. When I apply the newly adapted Markov chain model to the cross-country distribution question, I find evidence against the divergence hypothesis, and this evidence is statistically robust.

The second part of the thesis is empirical and microeconomic in nature. I question whether observed differences between husbands' and wives' participation in labor markets are due to different preferences or to different constraints. My identification strategy is based on the idea that the more power an individual has relative to his/her partner, the more his/her actions will reflect his/her preferences. I use 2001 PSID data on cohabiting couples to estimate a simultaneous equations model of the spousal time allocation decision. My results confirm the stylized fact that specialization and trade does not explain time allocation for couples in which the wife is the primary breadwinner, and suggest that power could provide a more general explanation of the observations. My results show that wives with relatively more power choose to work more on the labor market and less at home, whereas husbands with more power choose to do the opposite. Since women start out from a lower level of labor market
participation than men do, it would seem that spouses' agree that the ideal mix of market work and housework lies somewhere between the husbands' and the wives' current positions.