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May 2003 (written) Microeconomics and Macroeconomics

**Dissertation Title:** *Equilibrium Worker and Capital Flows across Local Economies: Theory and Evidence*

### Committee:

Professor Bjoern Bruegemann  
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**Expected Completion Date:** May 2009

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Ph.D., Economics, Yale University, Expected May 2009  
M.Phil., Economics, Yale University, May 2005  
M.A., Economics, Yale University, May 2003  
B.S. (with highest honors), Mathematics, The University of Texas at Austin, May 2002  
B.A. (with highest honors), Economics, The University of Texas at Austin, May 2002

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Yale University Dissertation Fellowship, Fall 2007  
 John F. Enders Research Fellowship, Summer 2007  
 Cowles Foundation Graduate Student Fellowship, Cowles Foundation, 2002-2006  
 Yale University Doctoral Fellowship, 2002-2006  
 National Science Foundation Graduate Research Fellowship Honorable Mention, 2002  
 VIGRE Undergraduate Research Fellowship, The University of Texas at Austin, 2002  
 Unrestricted Endowed Presidential Scholarship, The University of Texas at Austin, 2000-2001  
 National Merit Scholarship, 1998-2002  
 Dean's Scholars Honors Program, The University of Texas at Austin, 1998-2002

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Introductory Microeconomics, Professor Steven Berry, Yale University, Fall 2008  
 Introductory Macroeconomics, Matthew Johnson, Yale University, Summer 2008  
 Graduate Macroeconomics, Professors Eduardo Engel and Giuseppe Moscarini, Yale University, Spring 2008  
 Intermediate Macroeconomics, Professor Bjoern Bruegemann, Yale University, Spring 2007  
 Introductory Microeconomics, Professor Justine Hastings, Yale University, Fall 2006  
 Introductory Macroeconomics, Professors William Nordhaus and Gerald Jaynes, Yale University, Fall 2005  
 Introductory Macroeconomics, Professor Ray Fair, Yale University, Spring 2005  
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Research Assistant, Professor Richard Brooks, Yale University, 2006-2007  
 Research Assistant, Professor Fiona Scott-Morton, Yale University, 2006  
 Research Assistant, Professor William Nordhaus, Yale University, 2003-2004  
 Research Assistant, Professor David Kendrick, The University of Texas at Austin, 2001-2002  
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**Papers:**

“Capital Mobility in the Presence of Worker Movement Frictions: A Structural Empirical Approach,” 2008 [job market paper]  
 “Spatial Regional Evolutions,” 2008, in progress  
 “Diversity and Perceptions of Racial Justice” (with Richard Brooks), 2008  
 “The G-ECON Database on Gridded Output: Methods and Data” (with William Nordhaus, Qazi Azam, David Corderi, Nadejda Makarova Victor, Mukhtar Mohammed, Alexandra Miltner and Jyldyz Weiss), May 2006, Technical documentation accompanying the release of the G-ECON Database on Gridded Output

**References:**

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**Dissertation Abstract**

My dissertation consists of three essays. The first two consider the dynamic adjustment of local labor markets to labor demand shocks in the presence of imperfect capital and labor mobility. The goal is to explore how imperfect mobility affects how rapidly local areas recover from shocks to labor demand, such as those associated with changes in demand for local products and changes in foreign competition. Shocks of this type include capital obsolescence, as occurred in the US steel industry, and foreign competition, for example in textiles and durable goods. In the first essay, I use a structural model of labor market adjustment to describe the manner in which the strengths of capital and labor mobility affect adjustment of employment and wages to shocks to labor demand. I estimate the structural model to assess the relative strengths of labor and capital mobility, and assess the welfare impacts of policies. In the second, I add spatial interactions to a model of local labor market adjustment, to determine the role that geography plays in the migration of capital and labor among labor markets. The purpose of this paper is to assess the legitimacy of modeling local labor market adjustment without considering the role of distance in migration decisions, and to assess the appropriate choice of geographical unit for studying local labor market dynamics. The third paper, not directly related to the first two, considers the effect of students' exposure to diversity on their perceptions of racial justice, by exploiting a school choice lottery.

**Chapter I: Equilibrium Worker and Capital Flows across Local Economies: A Structural Empirical Approach (job market paper)**

Employment growth, wages, and unemployment vary substantially within US states, around long-run state averages and national trends. Unemployment and wages, however, appear to face pressure that returns them to their long-run averages. Existing general equilibrium models of worker flows across local economies only capture a portion of this equilibration process. I use a structural model of worker and capital flows between locations to consider how large a role capital plays. Wages and employment measures are often tracked as indicators of the health of state and local economies, and governments may feel pressure to play a role in speeding the recovery of local areas from low wages and high unemployment rates. This model is estimated for US state data on employment and wages, and estimates are used to determine the impact of policies of this kind in the presence of capital mobility.

Reductions in wages and employment below state-specific historical standards are often attributable to declines in the productivity of certain industries which make up large shares of the output of these states. Examples include manufacturing declines in the northern Midwest and the Northeast. Declines in specific state industries cause workers in these states to face lower real wages and employment rates locally, particularly if the property and equipment used in the declining industries are not suitable for use in other local industries. The two forces that act to bring wages and unemployment toward long-run averages are workers searching for employment in other states and capital inflows from other industries unaffected directly by these events. Previous reduced form work has suggested that worker movement is the more important of these two forces by a wide margin.

I consider a general equilibrium model based on Lucas and Prescott's (1974) island model of worker flows between locations. I introduce capital mobility by allowing capital to exit its location at a cost, seeking better returns elsewhere. The industry-specific productivity shocks that drive fluctuations in wages and employment have the feature that they do not make locations unattractive *per se* to both workers and capital, as would a factor-neutral productivity shock. To introduce a shock with this feature in a tractable way, I use capital-embodied technology shocks. These shocks may reduce the available efficiency units of capital in a particular location, which in the model will cause a net inflow of capital and a net outflow of workers. The magnitude of capital inflows relative to labor outflows will determine the degree to which a state's employment level recovers after a shock. The model allows me to recover the responses of employment to local conditions, so I may identify the relative mobility of capital and workers when estimating the model. This is done using maximum likelihood.

Results demonstrate that capital mobility may be higher than had previously been shown, although capital faces movement costs above those of workers. I then estimate a restricted version of the model without capital mobility. The effects of policies that affect worker movement costs differ substantially when these two models are compared, suggesting an important role for capital mobility in the study of worker flows across locations.

## **Chapter II: Spatial Regional Evolutions**

Macroeconomic models of labor market dynamics such as the one above usually abstract from the concept of distance between markets, assuming that the economy consists of either one large market, or a continuum of smaller markets the distances between pairs of which are always equal. Nevertheless, micro data demonstrate that distance plays some role in migration between locations, and thus may play a substantial role in the adjustment of labor markets in response to an unexpected local shock. I ask whether considering the effects of distance in the adjustment of local labor markets to adverse shocks to labor demand makes a substantial difference in the conclusions that one might draw from such a study. In addition, I ask what the appropriate choice of the geographical unit of analysis is in empirical research of local labor market dynamics. I answer these questions empirically by estimating a spatial vector autoregression of wages and employment, using an identification strategy similar to that of Blanchard and Katz (1992). The reason for this approach is that this functional form is sufficiently flexible to fit a wide range of impulse responses to adverse labor demand shocks, and Blanchard and Katz's results are an appropriate benchmark. However, instead of states (which are too large to be considered individual labor markets), counties are used as the geographical units. I find that although the spatial model is statistically distinguishable from the non-spatial model, the magnitude of the spatial effects is so small that conclusions are unchanged. These results suggest that migration distance matters for labor market dynamics only at a geographic resolution finer than the county level, and that models of local labor market dynamics that abstract from geography well approximate spatial models.

### **Chapter III: Diversity and Perceptions of Racial Justice (with Richard Brooks)**

On June 28, 2007, the US Supreme Court sharply curtailed the means by which school districts are allowed to effect desegregation, arguing that the districts involved in the case were unable to demonstrate a compelling government interest to justify their explicit consideration of race in school assignments. In the backdrop of the Court's opinion were lingering questions about the benefits of racial diversity on student outcomes and perceptions. In this chapter, we analyze whether and how school-level diversity affects students' perceptions of racial justice. There are a number of competing theories about the effects of racial diversity on individual perceptions. At one extreme, the so-called "contact hypothesis" posits that interracial contact under certain specified conditions will improve perceptions—at the other extreme, the "conflict hypothesis" predicts just the opposite. Between these extreme positions, some recent work suggests that minority students attending schools with large numbers of non-minorities will be required to integrate socially with non-minorities, improving academic performance and encouraging positive perceptions of racial justice; others suggest that exposure to non-minorities will make the differences between the opportunities of minorities and non-minorities more perceptible, having the opposite effect.

These theories are explored using a quasi-experiment in which the Chicago public school system initiated a lottery for students in the district who wished to attend a school not in his or her area. Students who participated in this program were asked a series of questions measuring perceptions of racial justice, and the effect of the proportion of minorities at the school attended on these measures is ascertained. Findings suggest that black students winning lotteries to attend schools with moderate proportions of non-minorities experience more negative views of racial justice; black students winning lotteries to attend schools with high proportions of non-minorities experience more positive views of racial justice. From this, we get a clearer picture about the levels of integration required to positively affect black students' racial attitudes.