

ECON 168 (Economics of Modern Israel) – Spring 2023 - UCSD

(Last update: March 15th, 2023)

COURSE

Lecture room + schedule: FAH 1450, Tuesday + Thursday 12:30-13:50.

Midterm exam: May. 9th (Tuesday, 12:30, FAH 1450).

Final exam: June 12th (Monday, 11:30, TBD lecture room).

COURSE SITE

<https://sites.google.com/site/yuval26/teaching-ucsd>

The site includes exercises, presentations, and practice exam questions.

LECTURER

Name: Prof. Yuval Heller

E-mail: yuval26@gmail.com or yuval.heller@biu.ac.il or yheller@ucsd.edu

Students are encouraged to write questions/comments/discussions in Piazza forum (in Canvas), so others can also benefit the discussion.

Homepage: <https://sites.google.com/site/yuval26/>

Office hour: Tuesday 11:15-12:15, ECON Building 328 (**please email in advance**)

TA

James Lin - chl029@ucsd.edu

The TA will grade the students' assignments and can help in answering students' questions in office hours. Office hour: Thursday 1:30pm (please email in advance), SH 233/Zoom.

COURSE DESCRIPTION

This course explores economic processes that shape the Israeli economy. Topics include historical background about Israel, the Israeli economic growth, the economic costs of the Israel-Arab conflict, natural resources in Israel, the Israeli high-tech sector, and current challenges in the Israeli economy (such as, discrimination). We will try to take an applied approach and discuss day-to-day economic issues using economic theory. The Israeli economy is interesting as an economic success story, and as great case study to discuss economic issues like economic growth, inequality, labor market and international trade. The course has no calculus, and it has very little math (mostly simple calculations of growth rates, percentages and Gini coefficients). **Course Prerequisites:** ECON 1 and ECON 3.

LECTURES

I will give most of the course's lectures. My lectures will be face to face, and they will be podcasted. It is highly recommended to attend all the lectures (but there is no mandatory attendance to my lectures; only the 3 guests lectures have mandatory attendance).

The remaining lectures will be given by guest lecturers, with special expertise on the Israeli economy: 3 of them live lectures, and 4 recorded lectures from previous quarters.

3 Live Guest lectures:

These 3 lectures have mandatory attendance. Any student who under special circumstances have to miss a lecture (e.g., being sick) should email me with the details, and supporting documents, if applicable.

April 11th (Tues, 12:30): Face-to-face special talk of Prof. [Ron Berman](#) (Wharton) on the Israeli hi-tech. (Face-to-face attendance is highly encouraged. Students who cannot attend face-to-face should email me, and I will allow them Zoom participation.)

The two other talks will be hybrid: Speaker presents over Zoom, and I project it in class. Students can attend either in class or in Zoom.

May 11th (Thursday, 12:30) – Mr. [Omer Fein](#) (head of the Israeli Economic & Trade Mission to the West Coast): Overview on the Israeli Economy, and the US-Israel economic relations.

Lecture 3 (May/June) – TBD

4 recorded lectures:

The students will have to carefully watch 4 recorded talks from previous quarters:

- Prof. [Aamer S. Abu-Qarn](#) (Ben-Gurion University), The economic costs of the Israeli-Arab costs.
- Prof. [Omer Moav](#) (Reichman U. & Warwick U.), Israeli Economic policy
- Prof. [Avi Simhon](#) (the Hebrew University), The Israeli Economy: History and present.
- Prof. [Joseph Zeira](#) (Hebrew University), Israel in 2022: 4 decisions and 2 dilemmas.

Links for the recorded talks will be sent through Canvas. There will be a home assignment question on each recorded talk, and they are part of the material for the final exam.

Due to the extra recorded lectures, **I will cancel 2-3 live lectures' slots** (which will be replaced by the students watching the recorded lectures): April 27th (Thursday), May 2nd, possibly a TBD lecture in late May or early June.

COURSE REQUIREMENTS and GRADING

- 25% - mid-term exam (10-15 multiple-choice questions) on presentations 1-4.
- 50% - final exam (20-30 multiple-choice questions) on the entire material of the course (including presentations 1-4).
- 25%: 5 best out of 7 weekly assignments, as discussed below.

Exams: Multiple-choice questions in closed-book exams will be of a similar type and difficulty level as practice exam questions in the course web site, and as in the previous quarter.

Students should present photo ID for the mid-term and final exams, and they will have to sit in the exams according to a specific seating arrangement.

Each assignment/exam will get a numerical grade between 0 and 100 (which will be the percentage of correct answers in the exams). The final numerical grade is the weighted

average of the above grades. The numerical grade will be transformed for letter grade as follows: 95-100 --> A+, 90-95 --> A, 85-90 --> A-, 80-85 --> B+, 75-80 --> B, 70-75 --> B-, 65-70 --> C+, 60-65 --> C, 55-60 --> C-, Less than 55 --> D

If the distribution of letter grades will be lower than as is typical in elective courses, then the curve will be shifted upward. As a reference, the grade distribution when the course was taught in fall 2022 was:

A+	A	A-	B+	B	B-	C+	C	C-	D	F		P	NP	S	U	I	IP	X	W	Blank
13	8	21	15	17	12	7	3	6	1	0		0	1	0	0	3	0	0	3	

Stay Honest: Even good students can be tempted to cheat. Here are tips to support you <https://academicintegrity.ucsd.edu/take-action/covid-19-students.html>

READING

Main textbook: [The Israeli Economy: A Story of Success and Costs](#), Prof. Joseph Zeira (Princeton, 2021). ebook digital access to all the course's students through UCSD library + one reserved printed copy in Geisel library.

Highly-recommended broad-audience book for Topic 6 (hi-tech sector): The [start-up nation_book](#) (Dan Senor and Saul Singer), ebook digital access through the library when inside UCSD-Protected network.

Additional textbooks:

- [The Israeli Economy, 1995-2017, Light and Shadow in a Market Economy](#), Eds. Avi Ben-Bassat, Reuben Gronau, Asaf Zussman; **ebook access through UCSD library** when inside UCSD-Protected network.
- [The Israeli Economy from the Foundation of the State through the 21st Century](#) / Dr. Paul Rivlin.

Interesting research papers:

Topic 4 – Economic costs of the Israeli-Arab conflict (and measure of human capital loss in armies with lottery-based conscript):

- Bingley, P., Lundborg, P., & Lyk-Jensen, S. V. (2020). *The opportunity costs of mandatory military service: evidence from a draft lottery* ([download link](#)). *Journal of Labor Economics*, 38(1), 39-66.
- Angrist, J. D. (1990). Lifetime earnings and the Vietnam era draft lottery: evidence from social security administrative records ([download link](#)). *The American Economic Review*, 313-336.

Topic 6 – Hi-Tech:

- [The High-Tech Sector in Israel](#) (research paper, Gandal et al., 2019) ebook digital access through the library
- Swed, Ori, and John Sibley Butler. "Military capital in the Israeli hi-tech industry." ([download link](#)) *Armed Forces & Society* 41.1 (2015): 123-141.

Topic 7 – Current challenges:

- [Customer Discrimination: Evidence from Israel \(additional link\)](#), Bar and Zussman, *Journal of Labor Economics*, 2017.
- [The Economic Outcomes of an Ethnic Minority: The Role of Barriers \(additional link\)](#), Kasir & Yashiv, 2020, mimeo.
- Epstein, G. S., Gafni, D., & Siniver, E. (2015). Even education has its limits: closing the wage gap (download [link 1](#), [link 2](#)). *Journal of Economic Studies*.
- Brand, G. (2019). Returns to skills in the Israeli labor market. *State of the Nation: Policy (download link)*, *Economy and Society in Israel*, 197-243.
- [Israel exceptional fertility](#), Alex Weinreb, Dov Chernichovsky, and Aviv Brill, Taub Center, 2018.

PRESENTATIONS:

Students may consider printing the slides in advance and bringing them to the lectures.

Presentation 1: [Introduction](#)

Presentation 2: [Historical Background](#)

Required reading: Chapter 1 in Zeira (the main textbook).

Presentation 3: [Growth of the Israeli Economy](#)

Required reading: Chapters 2-4 in Zeira.

Presentation 4: [The Israeli-Arab conflict and its economic costs](#)

Required reading: Chapters 5-6 in Zeira

Presentation 5: [Natural resources in Israel](#)

Presentation 6: [The Israeli Hi-Tech](#)

Required Reading: The [start-up nation](#) book, [The High-Tech Sector in Israel](#),

Presentation 7: [Current challenges in the Israeli Economy](#)

Required reading: Chapters 11-13+ conclusion

Weekly Assignments

- The course will have 7 weekly assignments, submitted on Mondays on weeks 2-5 and 7-9 of the course. **Each student must submit at-least 5 of these assignments.** The 5 of the student's assignments with the highest grade will be part of the final grade of the course (each such assignment will get a weight of 5%, total weight of 25% to all assignments).
- Each assignment have 3 questions; each student should write a paragraph (at most 150 words) on each question. The assignment should be typed (i.e., not handwritten; the only exception is the few quantitative questions with calculations/figures for which it is written explicitly that scanned hand-written solution for these questions is allowed) and its maximal total length should be 1.5 pages.

- Because the course attracts many students (while there is only 1 TA), in each assignment only 1-2 of the 3 questions (chosen at random, the same for all the students) will be graded (due to constraints on the TA's grading time).

The first two assignments have later deadlines due to students enrolling to the course after the first week.

Assignment 1 (Submission deadline Monday April 17th, 11:59pm PST, it is recommend to submit it till April 10th):

- I) Which of the facts you learnt about Israel has surprised you the most (if any) and why?
- II) Read Chapter 1. Choose one historical fact presented in the historical background of Israel, which is unique to Israel, and has important impact on the Israeli Economy. Discuss the economic implications of this historical fact.
- III) Gini coefficient: Consider a hypothetical country in which the bottom one third of the population have zero income, and the upper 2/3 of the population have the same positive level of income (i.e., all the income in this country is equally distributed among the upper 2/3 of the population). What is the Gini coefficient of income inequality in this country?
[it is allowed to scan hand-written solution for this question.]

Assignment 2 (Submission deadline Friday April 21st, 11:59pm PST, it is recommended to submit till April 17th):

- I) What is the main reason, in your opinion, which allowed Israel to have a long period of rapid growth till 1972?
- II) What is the main reason in your opinion, which has slowed Israel's growth after 1972, and prevented Israel from being as rich (per capita) as the USA?
- III) Assume that country A has:
 - (I) Nominal GDP that is 18 times higher than Country B,
 - (II) Population that is 3 times larger than country B, and
 - (III) Prices of goods and services that are 3 times higher than country B.
 Then, the real GDP per capita (PPP) in country A is (approximately):
 - a. Half of the real GDP per capita (PPP) in country B
 - b. Twice the real GDP per capita (PPP) in country B
 - c. 3 times the real GDP per capita (PPP) in country B
 - d. 8 times the real GDP per capita (PPP) in country B
 - e. 18 times the real GDP per capita (PPP) in country B
 [you must provide a detailed solution; a scanned hand-written solution is allowed.]

Assignment 3 (Submission deadline Monday April 24th, 11:59pm PST):

- I) Propose and discuss a policy change that can help Israel achieving a faster growth rate, and catch up with the US in the coming decade.
- II) Oil is very common in the middle-east, but no oil was found in Israel. Some think it is very unlucky. Others think that if Israel had found oil when it was a poor country, it might be hit by the so-called "oil curse" (<https://www.vox.com/2014/4/10/5601062/oil-curse-explained>). How do you think

the Israeli state and the Israeli economy would have been today if large oil field were found in Israel in 1950 (say, allowing yearly production of 1,000,000 barrels per day)?

- III)** Listen carefully to the recorded special lecture of Prof. Aamer Abu Qarn (link will be provided in Canvas). Choose an interesting new fact that you have learnt from the lecture, and present a 1-paragraph discussion of this fact.

Assignment 4 (Submission deadline Monday May 1st, 11:59pm PST):

- I)** It is expected that the natural gas resources in Israel off-shore facilities will give an annual tax income of 1-2 billion dollar per year for the next 30 years (0.25-0.5% of Israel current GDP). What do you suggest Israel should do with this future tax income?
- II)** What is your personal opinion about how much natural gas Israel should export in each year? Explain your reasons (in a single paragraph).
- III)** Choose one of the components in the calculation in the indirect costs of conflict that you think that one should have taken a different value for it. Explain why, and show what will be the effect on the total indirect cost of conflict in Israel.
- Or:** Try to quantify and calculate one the two difficult-to-quantify components discussed in the end of slide 20 (higher interest for loans or smaller number of tourists)

Assignment 5 (Submission deadline Monday May 15th, 11:59pm PST):

Read the book the “Start-Up Nation” ([ebook available through UCSD library service](#)).

- I)** Which special characteristic of Israelis is most helpful to its hi-tech industry in your opinion? Do you think that other countries should try adopt this characteristic?
- II)** While Israel is very successful in terms of founding start-up companies and selling them to multinational companies, some argue that it is less successful in developing Israeli-based large multi-national hi-tech companies such as Nokia (Finland) or Samsung (South Korea). Discuss.
- III)** Listen carefully to the recorded talk of Prof. [Avi Simhon](#) (The Israeli Economy: History and present, link will be provided in Canvas). Choose an interesting new fact/claim that you have learnt from the lecture, and present a 1-paragraph discussion of this fact/claim, and whether you agree with Prof. Simhon’s argument.

Assignment 6 (Submission deadline Monday May 22th, 11:59pm PST)

Listen carefully to the two recorded lectures of Prof. Omer Moav and Prof. Joseph Zeira (links will be provided in Canvas). The distinguished experts present opposing views about the Israeli economy and what should be its policy in the coming decade. Choose one dilemma or issue in debate related to the economic policy in Israel today.

- I)** Write in brief what would you think the 3 experts would suggest that Israel should do (0.5-1 paragraph for each experts mentioned above).
- II)** Write 1 paragraph with your personal opinion of what Israel should do with respect to this dilemma.

Total length: up to 1.5 pages.

Assignment 7 (Submission deadline Monday May 29th, 11:59pm PST)

I) Choose a country that you are interested in, which is not Israel. Choose one thing you learnt during the course about the Israeli economy, which could help in thinking on the economic policy of your chosen country. Discuss.

II) Write a paragraph about one idea you would change in Israel economic policy.

III) Choose one view/idea/argument/analysis that you have learnt in the course, that you don't agree with. Present the original view, and then explain what is your personal opinion about it.

Administrative Issues:

- Students requesting accommodations for this course due to a disability must provide a current Authorization for Accommodation (AFA) letter (paper or electronic) issued by the Office for Students with Disabilities (<https://osd.ucsd.edu/students/>) Students are required to discuss accommodation arrangements with instructors and OSD liaisons in the department in advance of any exams or assignments. Any student who violates UCSD's academic integrity policy will earn a failing grade for Econ 1. In addition, the Council of Deans of Student Affairs will impose a disciplinary penalty.

Additional UCSD Support Services:

- Basic Needs: [The Hub](#)
- Technical Support: [IT Service Desk](#)
- Mental Health and Wellbeing: [CAPS](#)
- Vice-Chancellor of Student Affairs: [student success resources](#)
- Teaching + Learning Commons: [services for students](#)
- UC San Diego Libraries: [services and resources](#)
- [TritonLink](#): find student services and support