

## Natural Experiments

### Chapter 3 – Insights into the Labour Market, Education and Poverty

What can we learn from natural experiments?

So far, scientists have come to remarkable findings as they pursued and researched unintended experiments in daily life. In connection with minimum wages, immigration and education, economic sciences laureate David Card discovered data reflecting natural experiments. This allowed him to refute prevailing central assumptions of economic theory.

In the early 1990s, it was assumed that wage development and unemployment were directly linked: If wages increase, the number of unemployed also rises. As the number of workers increases – e.g. through immigration – wages decrease at the same time. However, contrary to previous assumptions, the unemployment rate rises since job opportunities do not increase simultaneously.

Alexandra Heimisch-Röcker, Lindau Alumna from 2017, explains the far-reaching impact of David Card's findings:

“David Card has received his prize for demonstrating very convincingly, that these assumptions are incorrect, at least in this generalization. And in doing so, he has turned our prevailing knowledge of labour markets on its head.”

Using natural experiments, Card also showed that the quality of school education has far greater impact on labour market success than previously assumed.

Joshua D. Angrist and Guido Imbens showed that an additional year of schooling increases subsequent income by 9 %. Using the so-called local average treatment effect, they were able to estimate the impact and extent of additional education.

Given today's knowledge of the potential of natural experiments in labour economics and education, previously unimaginable research opportunities emerge.

Let's take the coronavirus pandemic as an example: The available data could potentially be used to study the impact of homeschooling on later career success.