

The purpose of this course is to gain further expertise in working with the literature in labor economics and skills needed to write a dissertation. We will work through some of the papers on the reading list in great detail. But sometimes we will practice the art of skimming, to get the gist of the paper quickly.

The course surveys a wide variety of topics, including labor demand, human capital, minimum wages, information and agency problems, discrimination, program evaluation, unions, bargaining and strikes, and wage contracts.

We will approach each paper on the reading list in one of four ways. The first is to work through it in detail, going through some or all of the derivations. The second is to read it carefully, the third is to skim it, and the fourth is to use it as a reference source. Papers in the first category are marked with a (w). Those in the second are unmarked and those in the third are marked with an (s). The papers that are reference sources are marked with an (r).

Abbreviations: *JOLE*—Journal of Labor Economics  
*HLE*—Handbook of Labor Economics  
*JPE*—Journal of Political Economy  
*QJE*—Quarterly Journal of Economics  
*JEL*—Journal of Economic Literature  
*AER*—American Economic Review

The set of assignments that will be figured into the grade for the course include the following:

1. Thesis-topic-finding exercise—There is no paper required for the class. Instead, we will work through a series of exercises on formulating an original and interesting topic, investigating sources of data, and organizing empirical work.
2. Presentation of articles to the class—These may include articles on the reading list or other articles of general interest.
3. Referee reports—Write a few referee reports on articles that have been submitted to journals.
4. Problem sets—You will have a couple of short problem sets to work on.
5. A final exam.

## Reading List

### I. Habit Formation

*Habit-related behavior has gained increased attention in economic research in recent years, and it has important implications for a wide variety of behavior. This is not a “core” topic in labor economics but it is included at the beginning mostly for pedagogical purposes. We will first explore the idea of habit formation at the “undergraduate” level, concentrating on the intuition of the arguments. Then we will explore the same ideas in the context of a formal model. Finally, we will see how intuition and analytics fit together.*

1. Gary Becker and Kevin Murphy, “A Theory of Rational Addiction.” *JPE*, August 1988.
2. Gary Becker, “Habits, Addictions, and Traditions.” *Kyklos* no. 3 1992.

### II. Labor Demand—Further Topics

*There is probably only about one article on labor demand for every 50 on labor supply. The reason is that early data collection concentrated on households rather than firms. But that’s changing, and recently there have been some data sets available for firms. As a result, some of the early ideas about the theory of labor demand are becoming increasingly valuable for empirical work.*

1. Walter Oi, “Labor as a Quasi-Fixed Factor.” *JPE*, December 1962. (w)
2. Sherwin Rosen. “Short-Run Employment Variation in Class I Railroads in the United States.” *Econometrica*, July/October 1968.
3. Finis Welch, “Education in Production.” *JPE*, January/February 1970. (w)
4. Daniel Hamermesh, “The Demand for Labor in the Long Run.” *HLE*, chap. 8, 1986.

### III. Human Capital the Life-Cycle, and Sectoral Choice

*Human capital is one of the most important ideas in the entire field of labor economics, and these papers are considered classics.*

1. Yoram Ben-Porath, “The Production of Human Capital and the Life-Cycle of Earnings.” *JPE*, August 1967. (w)
2. James Heckman, “A Life-Cycle Model of Earnings, Learning and Consumption.” *JPE*, August 1976. (w)
3. Gary Becker, Kevin Murphy and Robert Tamura. “Human Capital, Fertility and Economic Growth.” *JPE*, October 1990 (Supplement).
4. A. D. Roy, “Some Thoughts on the Distribution of Earnings.” *Oxford Economic Papers*, June 1951.

#### IV. Estimation Issues in the Human Capital Literature

*Human capital is endogenously determined, so estimation problems, like measuring the “rate of return” to schooling, are fraught with difficulty. This problem has occupied a central place in the empirical human capital literature for the past 25 years.*

1. Robert Willis and Sherwin Rosen, “Education and Self-Selection.” *JPE*, October 1979.
2. Robert Willis, “Wage Determinants: A Survey and Reinterpretation of Human Capital Earnings Functions.” *HLE*, 1986.
3. Joshua Angrist and Alan Krueger, “Does Compulsory Schooling Affect Schooling and Earnings?” *QJE*, November 1991.
4. David Card, “The Causal Effect of Education on Earnings.” *HLE*, Chap. 30, 1999.
5. Mark Rosenzweig and Kenneth Wolpin, “Natural ‘Natural Experiments’ in Economics.” *JEL*, December 2000 (pp. 827-853).
6. Joshua Angrist and Alan Krueger, “Empirical Strategies in Labor Economics.” *HLE*, Chap. 23, 1999 (section 2). (r)
7. James Heckman and Guilherme Sedlacek, “Heterogeneity, Aggregation, and Market Wage Functions: An Empirical Model of Self-Selection in the Labor Market.” *JPE*, December 1985, pp. 1077-1090 only.

#### V. Program Evaluation

*The public sector frequently intervenes in markets for labor, schooling and health. Measuring program impact poses formidable methodological problems, particularly in the case in which program participation is voluntary. But even carefully designed evaluation schemes can be problematic.*

James Heckman, Robert LaLonde, and Jeffrey Smith, “The Economics and Econometrics of Active Labor Market Programs.” *HLE*, Chap. 31, 1999.

#### VI. Intertemporal Labor Supply

*Whether labor supply is viewed in a static versus a dynamic context matters a lot for many of the model’s predictions and interpretations of empirical results.*

1. Angus Deaton and John Muellbauer, Economics and Consumer Behavior, pp. 309-323.
2. Thomas MaCurdy, “An Empirical Model of Labor Supply in a Life-Cycle Setting.” *JPE*, December 1981.
3. N. Gregory Mankiw, Julio Rotemberg and Lawrence Summers, “Intertemporal Substitution in Macroeconomics.” *QJE*, February 1985.

## VII. Information and Agency Problems

*It is often difficult for employers to observe a worker's productivity or loyalty. It is also hard for employers to monitor employees directly. The papers in this section explore the implications of these problems.*

1. Michael Spence, "Job Market Signaling." *QJE*, August 1973. (w)
2. Steven Salop and Joanne Salop, "Self-Selection and Turnover in the Labor Market." *QJE*, May 1976. (w)
3. Edward Lazear, "Why is There Mandatory Retirement?" *JPE*, December 1979.
4. Jeremy Bulow and Lawrence Summers, "A Theory of Dual Labor Markets with Applications to Industrial Policy, Discrimination, and Keynesian Unemployment." *JOLE*, July 1986.
5. Claudia Goldin, "Monitoring Costs and Occupational Segregation by Sex." *JOLE*, July 1986.
6. Bengt Holmstrom, "Moral Hazard and Observability." *Bell Journal of Economics*, no. 1 1979. (w)

## VIII. Allocation of Talent

*Not a standard topic in labor economics, but interesting work that explores the relationship between human capital, institutions and economic growth.*

1. William Baumol, "Entrepreneurship: Productive, Unproductive, and Destructive." *JPE*, October 1990.
2. Kevin Murphy, Andre Shleifer and Robert Vishny, "The Allocation of Talent: Implications for Growth." *QJE*, May 1991. (s)

## IX. Labor Market Institutions

*There are some seemingly strange practices in the labor market—like academic tenure, for instance! These papers rationalize some institutions and practices that seem to defy traditional explanation.*

1. H. Lorne Carmichael, "Incentives in Academics: Why Is There Tenure?" *JPE*, June 1988. (s)
2. Edward Lazear, "Pay Equality and Industrial Politics." *JPE*, June 1989. (s)
3. Edward Kandel and Edward Lazear, "Peer Pressure and Partnerships." *JPE*, August 1992. (s)
4. Edward Lazear, "Labor Economics and the Psychology of Organizations," *Journal of Economic Perspectives*, Spring 1991.

## X. Relative Status and Pay

*Employers, consumers and workers all have reason to care about the ordinal ranking of workers. These papers examine the causes and consequences of caring about rank order.*

1. Edward Lazear and Sherwin Rosen, "Rank-Order Tournaments as Optimum Labor Contracts." *JPE*, October 1981.
2. Sherwin Rosen, "Prizes and Incentives in Elimination Tournaments." *AER*, September 1986. (s)
3. Sherwin Rosen, "The Economics of Superstars." *AER*, December 1981. (s)
4. Robert Frank and Philip Cook, The Winner-Take-All Society, 1995. (s)
5. Ronald Ehrenberg and Michael Bognanno. "Do Tournaments Have Incentive Effects?" *JPE*, December, 1990.

## XI. Unions, Bargaining and Strikes

*Old-style labor economics was almost exclusively about union behavior. Unions are on the decline, but union behavior poses difficult problems that cross over to other areas of economics. For example, strikes are not Pareto optimal, so they should never happen in a world governed by strictly economic principles. Labor economists have cut their teeth on this tough problem for many years. The problem is generic in the sense that, in several contexts, market participants sometimes fail to consummate Pareto-improving transactions.*

1. Ronald Ehrenberg and Robert Smith, Modern Labor Economics, Seventh Edition, Chapter 13.
2. John Kennan, "The Economics of Strikes." *HLE*, Chap. 19.

## XII. Unemployment and Wage Contracts

*Though the labor market has become closer to a spot market in recent years, it is still true that many workers enjoy de facto tenure. Many of the ideas in this section lead back to our earlier analysis of labor demand.*

1. Costas Azariadis, "Implicit Contracts and Underemployment Equilibria." *JPE*, December 1975.
2. Sherwin Rosen, "Implicit Contracts." *JEL*, September 1985. (r)
3. Paul Baudry and John DiNardo. "The Effect of Implicit Contracts on the Movement of Wages over the Business Cycle: Evidence from Micro Data." *JPE*, August 1991.