

Economics 886.01
Current Topics in Labor Economics
Spring 2009

S. Seitz
21 Campanella, Room 493
(617) 552-6042
seitzsh@bc.edu

Course Time: The course is scheduled for Mondays and Wednesdays from 12:00pm-1:30pm in Campanella 480P.

Office Hours: By appointment.

Course Content This course is a continuation of EC 885. The principal purpose of the course is to introduce students to contemporary empirical research in labor economics and to further develop the tools needed for completing a dissertation in labor economics. We will focus on four core topics: labor supply, human capital, search and matching, and asymmetric information. Equal attention is focused on the theoretical underpinnings of each subject, the alternative empirical methods for testing the implications of micro-economic models and assessing the evidence that the application of these methods has produced.

Course Format, Requirements and Evaluation

The class format will be $\frac{2}{3}$ lectures, and $\frac{1}{3}$ presentation of papers by students. Active participation is expected by all students during the lectures and student presentations. The following class requirements mirror many aspects of the job of a professor, so this class will give you some idea of what you are signing up for after graduation!

- You will present an article of your choice from the reading list in class. (10%)
- The audience is expected to ask questions and actively participate in both my lectures and the presentations by other students. (5%)
- You will write a referee report during the semester on a paper I have been asked to referee for a journal. (10%)

- You will be **required** to attend all the labor seminars (including those in the dissertation workshop) in the Department seminar series and to read the papers in advance, as we will discuss the papers in class. (5%)
- You are encouraged to participate in the labor lunch, which is every Wednesday after class in the seminar room. The labor lunch provides a great opportunity to interact with upper year students writing dissertations in labor economics and to present and discuss preliminary research ideas.
- You will be required to write the front end of an original research paper covering either a topic covered in class or some other topic related to labor economics (subject to approval). In particular, you will need to develop a well motivated question, write down an appropriate model for answering the question, identify a data source that is suitable for answering your question, and provide some preliminary statistics and a rough plan for estimation. A paper proposal is due on **March 10** and the paper is due on the last day of classes. (30%)
- You will be required to write a final exam (40%)

Readings:

There is no text for this course. All of the readings should be readily available either from JStor, the library, or from me. The reading list contains far more papers than we will be able to cover in the lectures and I will announce in advance which papers will be included in the lectures. The others are good references for those writing papers in the area. The readings that will be covered in the lectures are noted by (*).

Academic Integrity:

Boston College values the academic integrity of its students and faculty. It is your responsibility to familiarize yourself with the university's policy on academic integrity: <http://www.bc.edu/offices/stserv/academic/resources/policy/#integrity>. If you have any questions, always consult your professor.

Violations of academic integrity will be reported to your class dean and judged by the academic integrity committee in your school. If you are found responsible for violating the policy, penalties may include a failing grade as well as possible probation, suspension, or expulsion, depending on the seriousness and circumstances of the violation.

1 Methodology (1 lecture)

*Angrist, J. and A. Krueger (1999) “Empirical Strategies in Labor Economics,” *Handbook of Labor Economics*, Ashenfelter and Card (eds.), Elsevier Science B.V., 1277-1366.

*Keane, M. (2006) “Structural vs. Atheoretical Approaches to Econometrics,” Keynote Address at the Duke Conference on Structural Models in Labor, Aging and Health, September 17-19 2005. (http://www.hecer.fi/RG/labor/Keane_JE_Keynote.6.pdf)

*Rust, J. (2005) “Comments on: “Structural vs. Atheoretic Approaches to Econometrics” by Michael Keane,” (http://gemini.econ.umd.edu/jrust/research/keane_comments.pdf)

2 Introduction and Review of Basic Time Allocation Model (1 lecture)

No readings.

3 Static Labor Supply (2 lectures)

*Blundell, R. and T. MaCurdy (1999). “Chapter 27: Labor Supply: A Review of Alternative Approaches,” in *Handbook of Labor Economics, Volume 3*. O. Ashenfelter and D. Card, Editors.

Deaton, A. and J. Muellbauer. *Economics and Consumer Behavior*. Cambridge: Cambridge University Press, 1980.

*Heckman, James (1974). “Shadow Prices, Market Wages, and Labor Supply.” *Econometrica*, 42(4): 679-694.

*Heckman, James (1979). “Sample Selection Bias as a Specification Error.” *Econometrica*, 47(1): 153-161.

Heckman, James (1993) “What Has Been Learned About Labor Supply in the Past Twenty Years?” *The American Economic Review* 83(2) (May 1993): 116-121.

*Ichimura, H. “Semiparametric Least Squares (SLS) and Weighted SLS Estimation of Single-Index Models,” *Journal of Econometrics* 58 (1993): 71-120.

*Mroz, Thomas (1987). “The Sensitivity of an Empirical Model of Married Women’s Hours of Work to Economic and Statistical Assumptions.” *Econometrica*, 55(4): 765-799.

4 Family Labor Supply (2 lectures)

Aaberge, R., U. Colombino, and S. Strom. “Labour Supply in Italy: An Empirical Analysis of Joint Household Decisions with Taxes and Quantity Constraints.” *Journal of Applied Econometrics* 14 (July-August 1999): 403-422.

*Browning, Martin, Bourguignon, Francois, Chiappori, Pierre-Andre and Valerie Lechene (1994). “Income and Outcomes: A Structural Model of Intrahousehold Allocation.” *Journal of Political Economy* 102(6): 1067-1098.

Blundell, R., Chiappori, P.A., Magnac, T. and C. Meghir (2007). “Collective Labour Supply: Heterogeneity and Non-Participation,” *Review of Economic Studies*, 74(2), 417-445.

Blundell, R. Chiappori, P.-A., and C. Meghir (2005). “Collective Labor Supply with Children,” *Journal of Political Economy*, 113, 1277-1306.

*Chiappori, Pierre-Andre (1988). “Rational Household Labor Supply.” *Econometrica*, 56(1): 63-90.

*Chiappori, Pierre-Andre (1992). “Collective Labor Supply and Welfare.” *Journal of Political Economy*, 100(3): 437-467.

*Chiappori, Pierre-Andre, Fortin, Bernard and Guy Lacroix (2001). “Marriage Market, Divorce Legislation and Household Labor Supply.” *Journal of Political Economy*, February 2002.

5 Life Cycle and Dynamic Labor Supply (1 lecture)

Altug, S. and R. Miller. “The Effect of Work Experience on Female Wages and Labour Supply.” *Review of Economic Studies* (January 1998): 45-85.

Berkovec, J. and S. Stern. “Job Exit Behavior of Older Men.” *Econometrica* 59(1): 189-210.

*Blundell, R. and T. MaCurdy (1999). "Chapter 27: Labor Supply: A Review of Alternative Approaches," in *Handbook of Labor Economics, Volume 3*. O. Ashenfelter and D. Card, Editors.

Blundell, R. MaCurdy, T., and C. Meghir (2007) "Labor Supply Models: Unobserved Heterogeneity, Nonparticipation and Dynamics," in *Handbook of Econometrics*, ed. by J.J. Heckman and E.E. Leamer, Ch. 69, 4667-4775. Elsevier.

Eckstein, Z. and K. Wolpin (1989) "Dynamic Labour Force Participation of Married Women and Endogenous Work Experience," *The Review of Economic Studies*, 56(3), 375-390.

Hausman, J. "The Effect of Wages, Taxes, and Fixed Costs on Women's Labor Force Participation." *Journal of Public Economics* 14 (October 1980): 161-194.

Heckman, J. and T. MaCurdy. "A Life Cycle Model of Female Labor Supply." *Review of Economic Studies* 47 (Jan 1980): 47-74.

Hotz, V.J., F. Kydland, and G. Sedlacek. "Intertemporal Preferences and Labour Supply." *Econometrica* 56 (March 1988): 335-360.

Hotz, V.J., and R.A. Miller (1988) "An Empirical Analysis of Life Cycle Fertility and Female Labor Supply," *Econometrica*, 56(1), 91-118.

Keane, M. and K. Wolpin. "The Career Decisions of Young Men." *Journal of Political Economy*, (June 1997): 473-522.

MaCurdy, T. "An Empirical Model of Labour Supply in a Life-Cycle Setting." *Journal of Political Economy* 89 (December 1981): 1059-1085.

Rust, J. and C. Phelan (1997) "How Social Security and Medicare Affect Retirement Behavior in a World of Incomplete Markets," *Econometrica*, 65(4), 781-831.

6 Search and Matching

Albrecht, J.W. and B. Axell (1984) "An Equilibrium Model of Search Unemployment," *Journal of Political Economy*, 92(5), 824-840.

Atakan, A.E. (2006) "Assortative Matching with Explicit Search Costs," *Econometrica*, 74(3), 667-680.

Bagger, J. and R. Lentz (2009) "An Equilibrium Model of Wage Dispersion with

Sorting,” unpublished manuscript.

Bontemps, C., Robin, J.-M., and G. van den Berg (1999) “An Empirical Equilibrium Job Search Model with Search on the Job and Heterogenous Workers and Firms,” *International Economic Review*, 40(4), 1039-1074.

Bontemps, C., Robin, J.-M., and G. van den Berg (2000) “Equilibrium Search with Continuous Productivity Dispersion: Theory and Nonparametric Estimation,” *International Economic Review*, 41(2), 305-358.

Bowlus, A. Kiefer, N. and G. Neumann (2001) “Equilibrium Search Models and the Transition from School to Work,” *International Economic Review*, 42(2), 317-343.

Burdett, K. and D. Mortensen (1998) “Wage Differentials, Employer Size and Unemployment,” *International Economic Review*, 39(2), 257-273.

Cahuc, P. Postel-Vinay, F. and J.-M. Robin (2006) “Wage Bargaining with On-the-Job Search: Theory and Evidence,” *Econometrica*, 74, 323-364.

Danforth, J. (1979) “On the Role of Consumption and Decreasing Absolute Risk Aversion in the Theory of Job Search,” in *Studies in the Economics of Search* ed by S.A. Lippman and J.J. McCall, Vol. 123 of *Contributions to Economic Analysis* Ch.6, 109-131. North-Holland.

Diamond, P.A. (1971) “A Model of Price Adjustment,” *Journal of Economic Theory*, 3, 156-168.

Eckstein, Z., and G. van den Berg (2007) “Empirical Labor Search Models: A Survey,” *Journal of Econometrics*, 127(2), 531-564.

Eckstein, Z. and K. Wolpin (1990) “Estimating a Market Equilibrium Search model from Panel Data on Individuals,” *Econometrica*, 58(4), 783-808.

Flinn, C. and J.J. Heckman (1983) “Are Unemployment and Out of the Labor Force Behaviorally Distinct Labor Force States?” *Journal of Labor Economics*, 1(1), 28-42.

Hornstein, A. Krussell, P. and G. Violante (2006) “Frictional Wage Dispersion in Search Models: A Quantitative Approach,” CEPR Discussion Paper 5935.

Jovanovic, B. (1979) “Job Matching and the Theory of Turnover,” *The Journal of Political Economy*, 87(5), 972-990.

- Keane, M. and K. Wolpin (1997) "The Career Decisions of Young Men," *Journal of Political Economy*, 105(3), 473-522.
- Lancaster, T. and A. Chesher (1983) "An Econometric Analysis of Reservation Wages," *Econometrica*. 51(6), 1661-1676.
- Lentz, R (2009) "Optimal Unemployment Insurance in an Estimated Job Search Model with Savings," *Review of Economic Dynamics*, 12, 37-57.
- Lise, J. (2007) "On-the-Job Search and Precautionary Savings: Theory and Empirics of Earnings and Wealth Inequality," unpublished manuscript.
- Melo, R.L. (2009) "Sorting in the Labor Market: Theory and Measurement," unpublished manuscript.
- Mortensen, D. (1986) "Job Search and Labor Market Analysis," in *Handbook of Labor Economics*, ed. by O. Ashenfelter and R. Layard, Vol. 2, Ch. 15, 849-919. Elsevier.
- Mortensen, D. (2000) "Equilibrium Unemployment with Wage Posting: Burdett-Mortensen Meet Pissarides," in *Panel Data and Structural Labour Market Models*, ed. by H. Bunzel et al. Vol. 243 of *Contributions to Economic Analysis*, 281-292. North-Holland.
- Mortensen, D. and C. Pissarides (1999) "New Developments in Models of Search in the Labor Market," in *Handbook of Labor Economics*, ed. by O. Ashenfelter and D. Card, Vol. 3. Ch. 39, 2567-2627. Elsevier.
- Papp, T.K. (2009) "Explaining Frictional Wage Dispersion," unpublished manuscript.
- Postel-Vinay, F. and J.-M. Robin (2002a) "The Distribution of Earnings in an Equilibrium Search Model with State-Dependent Offers and Counteroffers," *International Economic Review*, 43(4), 989-1016.
- Postel-Vinay, F., and J.-M. Robin (2002b) "Equilibrium Wage Dispersion with Worker and Employer Heterogeneity," *Econometrica*, 70, 2295-2350.
- Rendon, S (2006) "Job Search and Asset Accumulation Under Borrowing Constraints," *International Economic Review*, 47(91), 233-263.
- Rogerson, R. Shimer, R. and R. Wright (2005) "Search-Theoretic Models of the Labor Market: A Survey," *Journal of Economic Literature*, 43(4), 959-988.

Shephard, A. (2009) "Equilibrium Search and Tax Credit Reform," mimeo, UCL/IFS.

Shimer, R. and L. Smith (2000) "Assortative Matching and Search," *Econometrica*, 68(2), 343-369.

van den Berg, G. (1990) "Nonstationarity in Job Search Theory," *The Review of Economic Studies*, 57(2), 255-277.

van den Berg, G. and G. Ridder (1998) "An Empirical Equilibrium Search Model of the Labor Market," *Econometrica*, 66(5), 1183-1221.

Wolpin, K. (1987) "Estimating a Structural Search Model: The Transition from School to Work," *Econometrica*, 55(4), 801-817.

7 Human Capital

7.1 Human Capital Investment Problems (3 lectures)

Becker, G. *Human Capital*, University of Chicago Press, 1975.

*Belzil, C. and J. Hansen (2002) "Unobserved Ability and the Return to Schooling," *Econometrica*, 70(5), 2075-2091.

*Heckman, J., Lochner, L., and P. Todd (2003) "Fifty Years of Mincer Earnings Regressions," (<http://athena.sas.upenn.edu/petra/papers/llmincer.pdf>).

Imai, S. and M. Keane. "Intertemporal Labor Supply and Human Capital Accumulation." *International Economic Review*, April 2004.

*Mincer, J. *Schooling, Experience, and Earnings*, Columbia University Press, 1974.

Siow, A. "Occupational Choice Under Uncertainty." *Econometrica*, 1984: 631-645.

Todd, P., and K. Wolpin. "The Production of Cognitive Achievement in Children: Home, School, and Racial Test Score Gaps," manuscript (<http://athena.sas.upenn.edu/petra/papers/revpaper.pdf>).

Willis, R. and S. Rosen. "Education and Self-Selection." *Journal of Political Economy* (October 1979): S1-S36.

7.2 Equilibrium Models of Human Capital Investment (2 lectures)

*Heckman, J. Lochner, L., and C. Taber. “Explaining Rising Wage Inequality: Explorations with a Dynamic General Equilibrium Model of Labor Earnings with Heterogeneous Agents.” *Review of Economic Dynamics* 1: 1-58.

*Lee, D. “An Estimable Dynamic General Equilibrium Model of Work, School, and Occupational Choice,” *International Economic Review* (Feb 2005).

Lee, D. and Wolpin, K. “Intersectoral Labor Mobility and the Growth of Service Sector,” *Econometrica*, 47, January, 2006, 1-46.

8 Asymmetric Information in the Labor Market

8.1 Signalling Models (2 lectures)

Cho, I.-K., and D. Kreps (1987) “Signaling Games and Stable Equilibria,” *Quarterly Journal of Economics*, 102, 179-221.

Greenwald, B. “Adverse Selection in the Labor Market.” *Review of Economic Studies* 53 (1986): 325-347.

*Lang, K. and Kropp, D. (1986) “Human Capital Versus Sorting: The Effects of Compulsory Attendance Laws,” *The Quarterly Journal of Economics*, 101(3), 609-624.

*Murnane, R., Willett, J. and J. Tyler (2000). “Who Benefits from Obtaining a GED? Evidence from High School and beyond,” *The Review of Economics and Statistics*, 82(1), 23-37.

*Shapiro, C. and Stiglitz, J. (1984) “Equilibrium Unemployment as a Worker Discipline Device,” *The American Economic Review*, 74(3), 433-444.

*Spence, M. “Job Market Signalling.” *Quarterly Journal of Economics* 87 (1973): 355-374.

Waldman, M. “Job Assignments, Signalling, and Efficiency.” *Rand Journal of Economics* 15 (1984): 255-270.

8.2 Principal-Agent Problems (1 lecture)

Foster, J. and H. Wan. "Involuntary Underemployment as a Principal-Agent Equilibrium." *American Economic Review* 74 (1984): 486-484.

MacLeod, B. and J. Malcomson. "Implicit Contracts, Incentive Compatibility, and Involuntary Unemployment." *Econometrica* 57 (March 1989): 447-480.

Malcomson, J. "Work Incentives, Hierarchy, and Internal Labor Markets." *Journal of Political Economy* 92 (June 1984): 486-507.

*Shapiro, C. and J. Stiglitz. "Equilibrium Unemployment as a Worker Discipline Device." *American Economic Review* 74 (1984): 433-444.

8.3 Moral Hazard (2 lectures)

Flinn, C. "Equilibrium Wage and Dismissal Processes." *Journal of Business and Economic Statistics* 15 (April 1997): 221-236.

*Holmstrom, B. (1979). "Moral Hazard and Observability," *The Bell Journal of Economics*, 10(1), pp. 74-91.

*Lazear, E. "Performance Pay and Productivity," *The American Economic Review*, 90(5), 1346-1361.

*Milgrom, P. (1981). "Good News and Bad News: Representation Theorems and Applications," *The Bell Journal of Economics*, 12(2), pp. 380-391.

Paarsch, H. and B. Shearer. "The Response of Worker Effort to Piece Rates: Evidence from the British Columbia Tree-Planting Industry." *Journal of Human Resources* 34 (1999): 643-667.

*Shearer, B. "Piece Rates, Fixed Wages, and Incentives: Evidence from a Payroll Experiment." *Review of Economic Studies*, 71 (2004): 513-534.