

University of Notre Dame
Department of Economics and Econometrics

Econ 70602: Graduate Labor Economics II
Prof. Abigail Wozniak

Labor Economics II

This graduate course examines a combination of fundamental and cutting-edge research topics in labor economics—including unemployment, barriers to labor market equilibrium, labor market adjustment, major policies impacting the labor market and other advanced topics. Students are expected to master the theoretical underpinnings and empirical applications presented in highlighted readings. Microeconomic theory and introductory econometrics, both graduate level, are required prerequisites except by permission of the instructor. Some knowledge of macroeconomic theory is also expected.

Graded Assignments

Grades are based on the following assignments:

Midterm (25%)

Final (25%)

Research Paper Prospectus (50%)

Class participation is not an explicit part of your grade, but participation will affect both your grade and later outcomes. Although I use graded exams as a means to infer your ability and effort in the class, the quality and frequency of your participation contribute to this inference. Also, my willingness to serve as a dissertation advisor or committee member will depend directly on your participation in this class. You will be expected to periodically give short presentations of non-required readings; these are an important participation channel.

Major Dates

See the detailed calendar on a later page.

Class Preparation

An outline of course topics and lecture dates follows. Starred papers will be discussed in class. You are expected to have carefully read the starred papers prior to class. You should prepare a comment or question about each starred paper in advance of class. Guidance will be given in class as to which required papers will be covered on each date.

Students are also expected to familiarize themselves with the general approach and findings of additional papers. Access to the readings will be discussed at the first class meeting.

Format for Student Discussion Days

Four meetings over the semester are allocated as Student Discussion Days. These days are intended to serve two purposes. First, because the field electives are non-chronological, these provide a chance for students to “catch up” with the covered material by delving deeper into the topic or by exploring more fundamental referenced papers. Second, these meetings will help you develop the skill of talking and thinking in terms of a *literature*, not just a paper.

For these meetings, students are expected to prepare by carefully reading a non-required paper of their choice from the syllabus or a referenced paper from the required readings. Students are also expected to contribute to discussion by outlining the key points about their selected paper (described in more detail in a handout). It is important to note that these are not called “Student Presentation Days.” The point is to learn to have a conversation in which people nevertheless have different levels of knowledge.

Student Discussion Days do not contribute to your grade beyond their role in participation. This is a venue in which you can and should venture your ideas without concern that they are fully correct.

Spring 2017 Meeting Dates for Labor Economics II

Scheduled meeting time: T/R 2-3:15 in Flanner 323

1/17, 1/19	T / R	Course Orientation / Unemployment
1/24, 1/26	T / R	Discrimination
1/31, 2/2	T / R	Search and Matching
2/7, 2/9	T / R	Contracting Models
2/14, 2/16	T / R	Labor Market Adjustment and Wage Structure Change
2/21, 2/23	T / R	GUEST: Bertanha / Labor Market Adjustment
2/28, 3/2	T / R	Migration / <i>Student Discussion Day</i>
3/3**	Fri	Midterm exam (2 hours)
3/7, 3/9	T / R	Midterm debriefing and paper prospectus discussion
3/10-3/17		Spring Break
3/21, 3/23	T / R	Major Labor Market Policies and Hard to Quantify Skills
3/28, 3/30	T / R	Major Labor Market Policies and Hard to Quantify Skills
4/4, 4/6	T / R	Networks, Spillovers, and Externalities
4/11, 4/13	T / R	GUEST: Buckles / <i>Student Discussion Day</i>
4/18, 4/20	T / R	Intergenerational Transmission of Human Capital
4/25, 4/27	T / R	Identity and Behavioral Models in the Labor Market
5/2	T	<i>Student Discussion Day</i>
TBD**	--	Final exam (2 hours)
5/10	W	Paper prospectus due at 4 pm

** Denotes non-standard meeting time.

Lecture Topics

I. Unemployment, Barriers to Equilibrium, and Labor Market Adjustment

Unemployment (1 meeting)

Sullivan, D. and von Wachter, T. "Job Displacement and Mortality: An Analysis using Administrative Data." *QJE* (August 2009).

* Jacobson, L.; Lalonde, R. and Sullivan, D. "Earnings Losses of Displaced Workers." *American Economic Review* 83(1993):685-709.

* Card, D. and Levine, P. "Extended benefits and the duration of unemployment spells: evidence from the New Jersey extended benefit program." *Journal of Public Economics* 78(2000)107-138.

* Card, D.; Chetty, R. and Weber, A. "The spike at benefit exhaustion: Leaving the unemployment system or finding a new job?" *American Economic Review Papers and Proceedings* (2007).

Jacobson, L.; Lalonde, R. and Sullivan, D. "The Impact of Community College Retraining on Older Displaced Workers: Should We Teach Old Dogs New Tricks?" *Industrial and Labor Relations Review* 58(2005): 398-415.

"Equilibrium Unemployment as a Worker Discipline Device." C. Shapiro and J. Stiglitz. 1984. *American Economic Review* 74(3): 433-444. Also read reply.

Discrimination (2 meetings)

* "The theory of discrimination." K. Arrow. In *Discrimination in Labor Markets*. O. Ashenfelter and A. Rees, eds. Princeton U. Press (1973): 3-33.

* "Racial Discrimination in the Labor Market: Theory and Empirics." K. Lang and J. Lehmann. *Journal of Economic Literature* 50(4): 959-1006. 2012.

"Race and gender in the labor market." J. Altonji and R. Blank. *HOLE* 3C(1999) pp. 3143-3259.

* "Statistical theories of discrimination." G. Cain and D. Aigner. *ILRR* (1977).

* "Racial Bias in Motor Vehicle Searches: Theory and Evidence." J. Knowles; N. Persico; and P. Todd. *The Journal of Political Economy*, Vol. 109, No. 1. (Feb., 2001), pp. 203-229.

"Orchestrating impartiality: The effect of 'blind' auditions on female musicians." C. Goldin and C. Rouse. *AER* 2000.

“Wages, Productivity, and Worker Characteristics: Evidence from Plant-Level Production Functions and Wage Equations.” J. Hellerstein, D. Neumark and K. Troske *Journal of Labor Economics*, Vol. 17, No. 3. (Jul., 1999), pp. 409-446.

“Studying Discrimination: Fundamental Challenges and Recent Progress.” K. Charles and J. Guryan. *NBER WP #17156*. Published in *Annual Review of Economics*, vol. 3, 2011.

“A categorical model of cognition and biased decision-making.” R. Fryer and M. Jackson. B.E. *Journal of Theoretical Economics* (2008).

Institutions (No meeting – for reference only)

“The economic theory of trade unions: An introductory survey.” A. Oswald. *Scandinavian Journal of Economics*. 87 (1985): 160-193.

“The analysis of union behavior.” H. Farber. 1986. *HOLE* vol. 2. 1040-1089.

What do unions do? R. Freeman and J. Medoff. Basic Books (1984).

“Estimating the Effects of Unions on Wage Inequality in a Panel Data Model with Comparative Advantage and Nonrandom Selection.” T. Lemieux. *Journal of Labor Economics*, 16 (Apr., 1998), pp. 261-291.

“Contraction and Expansion: The Divergence of Private Sector and Public Sector Unionism in the United States.” R. Freeman. *The Journal of Economic Perspectives*, Vol. 2 (1988), pp. 63-88.

“Getting together and breaking apart: The decline of centralized collective bargaining.” R. Freeman and R. Gibbons. NBERWP 4464 (1993). Published in *Differences and Changes in Wage Structures*, ed. L. Katz and R. Freeman, University of Chicago Press, 1995.

“Job Queues and the Union Status of Workers.” J. Abowd and H. Farber. *Industrial and Labor Relations Review*. 35(3): 354-367.

Anything by David Card on Unions.

“The Dual Labor Market: Theory and Implications.” M. Piore. In David M. Gordon (ed) *Problems in Political Economy: An Urban Perspective*. Lexington, MA: DC Heath and Company (1972). Reprinted in Michael Reich (ed), *Segmented Labor Markets and Labor Mobility, Vol. 1* (2009).

“Labor Market Segmentation Theory: Reconsidering the Evidence.” 1993. K. Lang and W. Dickens. In William Darity, Jr. (Ed.) *Labor Economics: Problems in Analyzing Labor Markets*. Boston: Kluwer Academic.

“Neoclassical and Sociological Perspectives on Segmented Labor Markets.” 1987. K. Lang and W. Dickens. *NBER Working Paper #2127*. Published in *Industries, Firms and Jobs: Sociological and Economic Approaches*. (ed) G. Farkas and P. England. New York: Plenum Press, 1988.

Search and Matching (2 meetings)

* “Job Matching and the Theory of Turnover.” B. Jovanovic. *The Journal of Political Economy*, Vol. 87, No. 5, Part 1. (Oct., 1979), pp. 972-990.

* “Layoffs and Lemons.” R. Gibbons and L. Katz. *Journal of Labor Economics*, Vol. 9, No. 4. (Oct., 1991), pp. 351-380.

* “Search theoretic models of the labor market: A survey.” R. Rogerson, R. Shimer and R. Wright. *JEL* 43 (2005): 959-988.

“Work, Rest, and Search: Unemployment, Turnover, and the Cycle.” B. Jovanovic. *Journal of Labor Economics*, Vol. 5, No. 2. (Apr., 1987), pp. 131-148.

“Specific Capital, Mobility, and Wages: Wages Rise with Job Seniority.” R. Topel. *The Journal of Political Economy*, Vol. 99, No. 1. (Feb., 1991), pp. 145-176.

Wolthoff, R. “It’s about Time: Implications of the Period Length in an Equilibrium Search Model.” *IZA Discussion Paper #6002* (October 2011).

Dahl, G. “Mobility and the Return to Education: Testing a Roy Model with Multiple Markets.” *Econometrica* 70(2002): 2367-2420.

Contracting Models and Luck in the Labor Market (2 meetings)

Beaudry, P. and Dinardo, J. “Is the Behavior of Hours Worked Consistent with Implicit Contract Theory?” *Quarterly Journal of Economics* 110(1995):743-768.

* Beaudry, P. and Dinardo, J. “The Effect of Implicit Contracts on the Movement of Wages over the Business Cycle: Evidence from Microdata.” *Journal of Political Economy* 99(1991): 665-668.

Harris, M. and Holmstrom, B. “A Theory of Wage Dynamics.” *Review of Economic Studies* 49(1982): 315-333.

Schmieder, J. and von Wachter, T. “Does Wage Persistence Matter for Employment Fluctuations? Evidence from Displaced Workers.” 2010. *American Economic Journal: Applied* 2(3):1-21.

* von Wachter, T. “In the Right Place at the Wrong Time: The Role of Firms and Luck in Young Workers’ Careers.” *American Economic Review* 96(2006): 1679-1705.

* Wozniak, A. “Are College Graduates More Responsive to Distant Labor Market Opportunities?” *Journal of Human Resources* 45(2010): 944-970.

Labor Market Adjustment and Wage Structure Change (3 meetings)

* “Firming Up Inequality.” 2015. J. Song, D. Price, F. Guvenen, N. Bloom, and T. von Wachter. *NBER Working Paper #21199*.

Acemoglu, D. and D. Autor. “Skills, Tasks and Technologies: Implications for Employment and Earnings.” Ch. 12. *Handbook of Labor Economics*, vol 4b. Elsevier v.b.: 2011.

* “Wage Inequality and the Rise in Returns to Skill.” C. Juhn; K. Murphy; B. Pierce. *The Journal of Political Economy*, Vol. 101, No. 3. (Jun., 1993), pp. 410-442.

* “Trends in US wage inequality: Revising the revisionists.” D. Autor, L. Katz, and M. Kearney. 2008. *Review of Economics and Statistics*. 90(2): 300-323.

“Skill-Biased Technological Change and Rising Wage Inequality: Some Problems and Puzzles.” D. Card and J. DiNardo *Journal of Labor Economics* 20 (Oct., 2002), pp. 733-783.

“Regional evolutions.” O. Blanchard and L. Katz. (Comments by R. Hall and B. Eichengreen.) *Brookings Papers on Economic Activity*, Vol. 1992, No. 1. (1992), pp. 1-75.

“Who benefits from local job growth: Migrants or the original residents?” T. Bartik. *Regional Studies*. 27(1993): 297-311.

* “Wage Inequality in the United States during the 1980s: Rising Dispersion or Falling Minimum Wage?” D. S. Lee. *The Quarterly Journal of Economics*, Vol. 114, No. 3. (Aug., 1999), pp. 977-1023.

“The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence.” O. Blanchard and J. Wolfers. *The Economic Journal*, Vol. 110, No. 462, Conference Papers. (Mar., 2000), pp. C1-C33.

“Diverging Male Wage Inequality in the United States and Canada, 1981-1988: Do Institutions Explain the Difference?” J. DiNardo and T. Lemieux. *Industrial and Labor Relations Review*, 50(Jul., 1997), pp. 629-651.

“Rising Wage Inequality in the United States: Causes and Consequences: Changing Wage Structure and Black-White Wage Differentials.” D. Card and T. Lemieux. *The American Economic Review*, Vol. 84 (May, 1994), pp. 29-33.

“Increasing Residual Wage Inequality: Composition Effects, Noisy Data, or Rising Demand for Skill?” T. Lemieux. *The American Economic Review*, 2006, pp. 1- 64.

“Higher-Education Policies and the College Wage Premium: Cross-State Evidence from the 1990s.” N. Fortin. *AER* 96(2006).4

Migration (1 meeting)

* “Understanding Declining Fluidity in the U.S. Labor Market.” R. Molloy, C. Smith, R. Trezzi, and A. Wozniak. 2016. *Brookings Papers on Economic Activity*.

* “The Effect of Expected Incomes on Individual Migration Decisions.” 2011. J. Kennan and J. Walker. *Econometrica*. 79(1): 211-251.

“Internal Migration in the US: Updated Facts and Recent Trends.” 2011. R. Molloy, C. Smith, and A. Wozniak. *Journal of Economic Perspectives*.

II. Why is Improving Labor Market Outcomes so Hard?

Major Labor Market Policies and Hard to Quantify Skills (4 meetings)

* J. Heckman’s research overview: <http://jenni.uchicago.edu/human-inequality/>

* “The economics and econometrics of active labor market programs.” Heckman, LaLonde and Smith. HOLE 3A (1999) SELECTIONS ONLY = Sections 1 -3 and 4-6, 10.

“Why has black-white skill convergence stopped?” D. Neal. NBERWP 11090 (2005). Forthcoming *Handbook* chapter.

“The American high school graduation rate: Trends and levels.” J. Heckman and P. LaFontaine. NBERWP 13670 (2007).

* “Do Labor Market Policies Have Displacement Effects? Evidence from a Randomized Clustered Experiment.” B. Crepon, E. Duflo, M. Gurgand, R. Rathelot, and P. Zamora. 2013. QJE.

“Classroom behavior.” C. Segal. *Journal of Human Resources*. 43(2008): 783-814.

“Short- and Long-Term Career Effects of Graduating in a Recession: Hysteresis and Heterogeneity in the Market for College Graduates.” P. Oreopolous, T. von Wachter, and A. Heisz. Manuscript (2007).

* “The Determinants of Participation in a Social Program: Evidence from a Prototypical Job Training Program.” J. Heckman and J. Smith. *Journal of Labor Economics*, Vol. 22, No. 2. (Apr., 2004), pp. 243-298.

Kambourov, G., I. Manovskii, and M. Plesca. “Occupational Mobility and the Returns to Training.” *Manuscript*, University of Toronto (2010).

Card, D., J. Kluge, and A. Weber. “Active Labour Market Policy Evaluations: A Meta-Analysis.” *The Economic Journal*. 120(2010): F452-F477.

Networks, Spillovers and Externalities in the Labor Market (2 meetings)

“Workings of a City: Location, Education, and Production.” R. Benabou. *The Quarterly Journal of Economics*, Vol. 108, No. 3. (Aug., 1993), pp. 619-652.

* “Human Capital Externalities in Cities.” E. Moretti. *Handbook of Regional and Urban Economics*, North Holland-Elsevier, 2004.

“Estimating the Social Return to Higher Education: Evidence from Longitudinal and Repeated Cross-Sectional Data.” E. Moretti. *Journal of Econometrics* 121(1-2), 2004.

“Cities and Skills.” E. Glaeser and D. Maré. *Journal of Labor Economics*, Vol. 19, No. 2. (Apr., 2001), pp. 316-342.

* “Workplace segregation in the United States: Race, ethnicity and skill.” J. Hellerstein and D. Neumark. 2008. *Review of Economics and Statistics*. 90(3): 459-477.

“Spatial mismatch or racial mismatch?” J. Hellerstein, D. Neumark and M. McInerney. 2008. *Journal of Urban Economics*. 64(2): 464-479.

“Place of work and place of residence: Informal hiring networks and labor market outcomes.” P. Bayer, S. Ross, G. Topa. 2008. *Journal of Political Economy*. 116(6): 1150-1196.

* “Are ghettos good or bad?” D. Cutler and E. Glaeser. *QJE* Vol. 112 (1997): 827-872.

Moving to Opportunity experiments: See websites for Lawrence Katz (Dept. of Economics, Harvard University) and Jeffrey Kling (Brookings Institution).

Intergenerational Transmission of Human Capital, Earnings, Etc. (2 meetings)

* “Why the Apple Doesn’t Fall Far: Understanding the Intergenerational Transmission of Education.” S. Black, P. Devereux and K. Salvanes. *American Economic Review* (2005).

* “Intergenerational mobility in the labor market.” G. Solon. *HOLE* vol. 3A, pp. 1761-1800.

“Intergenerational economic mobility in the US: 1940 to 2000.” D. Aaronson and B. Mazumder. 2008. *Journal of Human Resources*. 43(1): 139-172.

* “Galton versus the Human Capital Approach to Inheritance.” C. Mulligan. *The Journal of Political Economy*, Vol. 107 (Dec., 1999), pp. S184-S224.

“Intergenerational effects of job displacement.” Oreopoulos, P.; Page, M. and Stevens, A.H. *Journal of Labor Economics* 26(2008): 455-483.

“The Effect of Education Policy on Crime: An Intergenerational Perspective.” C. Meghir, M. Palme, and M. Schnabel. 2011. *IZA Discussion Paper #6142*.

* “Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States.” 2014. R. Chetty, N. Hendren, P. Kline and E. Saez. QJE.

III. More Advanced Topics in Labor Economics

Technology of Skill Formation – Moving beyond “Types” and the Classic Schooling Decision Model (No meeting – reference only)

“The technology of skill formation.” F. Cunha and J. Heckman. *AER Papers and Proceedings* (2007).

“Towards a unified approach for modeling the production function for cognitive achievement.” P. Todd and K. Wolpin. *EJ* 2003.

“Who Goes to College? Differential College Enrollment by Race and Family Background.” S. Black and A. Sufi. NBER Working Paper 9310, November 2002.

“The Production of Cognitive Achievement in Children: Home, School and Racial Test Score Gaps.” P. Todd and K. Wolpin. 2007. *Journal of Human Capital*. 1(1): 91-136.

Behavioral and Experimental Approaches in Labor Economics (2 meetings)

“A Theory of Social Custom, of Which Unemployment May be One Consequence.” G. Akerlof. *The Quarterly Journal of Economics*, Vol. 94, No. 4. (Jun., 1980), pp. 749-775.

* “Gift Exchange and Efficiency-Wage Theory: Four Views.” G. Akerlof. *The American Economic Review*, Vol. 74, (May, 1984), pp. 79-83.

“Fairness and freight handlers: Local labor-market conditions and wage-fairness perceptions in a trucking firm.” E. Verhoogen, S. Burks, and J. Carpenter. *ILRR* 60(2007).

* “Identity and Schooling: Some Lessons for the Economics of Education.” G. Akerlof and R. Kranton. *Journal of Economic Literature*, Vol. 40, No. 4. (Dec., 2002), pp. 1167-1201.

“Identity and the Economics of Organizations.” G. Akerlof and R. Kranton. *The Journal of Economic Perspectives*, Vol. 19, No. 1. (Winter, 2005), pp. 9-32.

“Individual behavior and group membership.” G. Charness, L. Rigotti and A. Rustichini. *AER*, 97(2007): 1340-1352.

* “Strikes, Scabs, and Tread Separations: Labor Strife and the Production of Defective Bridgestone/Firestone Tires.” A. Krueger and A. Mas. *JPE*. Vol. 112, No. 2 (Apr., 2004), pp. 253-289.

“Man’s search for meaning: The case of Legos.” D. Ariely, E. Kamenica, and D. Prelec. *Journal of Economic Behavior and Organization*. 67(2008): 671-677.

“Agents with and without Principals.” M. Bertrand and S. Mullainathan. *The American Economic Review*, Vol. 90 (May, 2000), pp. 203-208.

* “Prospect Theory: An Analysis of Decision under Risk.” D. Kahneman and A. Tversky. *Econometrica*, Vol. 47, No. 2. (Mar., 1979), pp. 263-292.

“The economics and psychology of personality and motivation.” 2008. L. Borghans, A. Duckworth, J. Heckman and B. ter Weel. *JHR* 43(4): 972-1059.

The Presentation of the Self in Everyday Life. Erving Goffman. New York: Anchor Books, Doubleday (1953).

* “Do Women Shy Away from Competition? Do Men Compete Too Much?” 2007. M. Niederle and L. Vesterlund. *Quarterly Journal of Economics*.

Flory, J., A. Leibbrandt, and J. List. “Do Competitive Workplaces Deter Female Workers? A Large-Scale Natural Field Experiment on Gender Differences in Job-Entry Decisions.” *NBER Working Paper #16546* (Nov. 2010).

* “Motivation, test scores and economic success.” C. Segal. *Management Science* (forthcoming).

Additional Useful Papers

“Selection on Observed and Unobserved Variables: Assessing the Effectiveness of Catholic Schools.” J. Altonji, C. Taber and T. Elder. 2005. *Journal of Political Economy*.

“Unobservable Selection and Coefficient Stability: Theory and Evidence.” E. Oster. Forthcoming. *Journal of Business Economics and Statistics*.

“Inference with ‘Difference in Differences’ with a Small Number of Policy Changes.” T. Conley and C. Taber. 2011. *Review of Economics and Statistics*.

“Synthetic Control Methods for Comparative Case Studies: Estimating the Effect of California’s Tobacco Control Program.” 2010. A. Abadie, A. Diamond, and J. Hainmuller. *Journal of Business Economics and Statistics*.

“The Craft of Labormetrics.” 2000. D. Hamermesh. *Industrial and Labor Relations Review*.

“Labor Market Institutions and the Distribution of Wages, 1973-1992: A Semi-Parametric Approach.” 1996. J. Dinardo, N. Fortin, and T. Lemieux. *Econometrica*. 64(5): 1001-1044. NOTE: This paper develops what is sometimes called DFL-reweighting. There is also a *Journal of Economic Perspectives* paper that summarizes this *Econometrica* paper.

“How Much Should We Trust Difference-in-Differences Estimates?” 2004. M. Bertrand, E. Duflo, and S. Mullainathan. *Quarterly Journal of Economics*. NOTE: This paper is sometimes called “BDM.”