

# ECON 540

THE ECONOMICS OF LABOR MARKETS

Department of Economics • UIUC

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**Semester offered:** Spring 2006

**Instructor:** Todd Elder

## **Brief Course Description:**

The purpose of this course is to help students to understand some of the fundamental literature and techniques used in labor economics. Topics include labor supply, labor demand, human capital, education, training, unemployment, job search, turnover, mobility, retirement, and compensating wage differentials. There is quite a bit of emphasis on policy applications and empirical techniques.

## **Required Background:**

Economics 501 and 507, or equivalent, and familiarity with graduate econometrics at the level of Greene's *Econometric Analysis*). If you do not have this background but are still interested in the course, please see me.

## **Readings:**

There is no textbook for the course. All required readings will be available either a) online at [www.jstor.org](http://www.jstor.org), or b) in the Labor Library, room 147 of the Institute of Labor and Industrial Relations. If you can't find a required reading in either of these places, please let me know ASAP. Also, additional readings from the most recent issues of journals will be distributed occasionally. Some additional, optional readings:

Ehrenberg and Smith, *Modern Labor Economics: Theory and Policy*.

Killingsworth, *Labor Supply*.

Ashenfelter, Card, and Layard (eds.), *The Handbook of Labor Economics*, Volumes 1-3.

These handbooks are great but very expensive. For contents and full text of some articles see [http://www.elsevier.com/wps/find/S04.cws\\_home/books](http://www.elsevier.com/wps/find/S04.cws_home/books)

Griliches, Intriligator, Engle, McFadden, Heckman, and Leamer (eds.), *The Handbook of Econometrics*, Volumes 1-6 are also up on this site.

## **Course Requirements and Grading:**

### **In-Class Presentations and Preparations:**

Students are expected to participate actively in class and complete readings before the appropriate class. For each class, one or two papers will be the focus of discussion, and I might ask participants to present material (i.e., lead the class) in a discussion of one or two papers.

### **Problem Sets:**

We'll do some problem sets (2 or at most 3) during the course of the semester.

### **Referee Reports:**

Throughout the semester, you'll be assigned 1 or 2 mock referee reports evaluating papers related to material we discuss in class.

### **Paper proposal:**

Participants are also expected to write a high quality research proposal that will hopefully lead to dissertation research and/or a publishable paper. You should arrange to meet with me when you are ready to talk about a topic for your paper, and brief outlines (less than one page) of proposals are due by Monday, March 27 (the first class after Spring Break). Final proposals are due on Friday, May 12.

**Final Exam:**

We will have a final exam at the end of the semester, time and place TBA (university suggests 7:00-10:00 PM, Tuesday, May 9).

## **Outline and Reading List for Economics 540: The Economics of Labor Markets**

Reading marked with an "\*" will be stressed more heavily. This list is in progress.

### **I. Introduction**

Angrist, Joshua, 1990, "Lifetime Earnings and the Vietnam Era Draft Lottery: Evidence from Social Security Administrative Records," *The American Economic Review*, 80(3), June, pp. 313-336.

Angrist, Joshua and Alan Krueger, 1999, "Empirical Strategies in Labor Economics," *The Handbook of Labor Economics*, pp. 1278-1284

Besley, Timothy, and Anne Case, 1994, "Unnatural Experiments? Estimating the Incidence of Endogenous Policies," NBER Working Paper No. 4956, December.

Card, David, 1992, "Using Regional Variation in Wages to Measure the Effects of the Federal Minimum Wage," *Industrial and Labor Relations Review*, 46(1), October, pp. 22-37.

Card, David, 1990, "The Impact of the Mariel Boatlift on the Miami Labor Market," *Industrial and Labor Relations Review*, 43(2), January, pp. 245-57.

\*Card, David and Alan Krueger, 1994, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *American Economic Review*, 84(4), September, pp. 772-793.

Meyer, Bruce, 1995, "Natural and Quasi-Natural Experiments in Economics," *Journal of Business and Economic Statistics*, 13, pp. 151-161.

### **II. Labor Supply**

#### **A. Labor Force Participation and Introduction to Sample Selection**

Killingsworth, Mark, 1983, *Labor Supply*, Cambridge University Press.

Heckman, James, 1974, "Shadow Prices, Market Wages, and Labor Supply," *Econometrica*, 42(4), July, pp. 679-94.

Heckman, James, 1979, "Sample Selection Bias as a Specification Error," *Econometrica*, 47(1), January, pp. 153-162.

\*Heckman, James, 1980, "Sample Selection Bias as a Specification Error with an Application to the Estimation of Labor Supply Functions," in J. Smith (ed.), *Female Labor Supply: Theory and Estimation*, (Princeton University Press, 1980).

#### **B. Labor Supply, Taxes, and Nonlinear Budget Constraints**

\*Angrist, Joshua, and William Evans, 1998, "Children and Their Parents' Labor Supply: Evidence from Exogenous Variation in Family Size," *American Economic Review*, 88(3), June, pp. 450-77.

Ashenfelter, Orley, 1983, "Determining Participation in Income Tested Social Programs," *Journal of the American Statistical Association*, 78(383), September, pp. 517-25.

Ashenfelter, Orley, and James Heckman, 1974, "The Estimation of Income and Substitution Effects in a Model of Family Labor Supply," *Econometrica*, 42(1), January, pp. 73-85.

Ashenfelter, Orley, and Mark Plant, 1990, "Non-Parametric Estimates of the Labor Supply Effects of Negative Income Tax Programs," *Journal of Labor Economics*, January.

Burtless, G., and J. Hausman, 1978. "The Effect of Taxation of Labor Supply: Evaluating the Gary Negative Income Tax Experiment," *Journal of Political Economy*, **86**(6), December, pp. 1103-1130.

Card, David, 1987, "Supply and Demand in the Labor Market," Princeton University Industrial Relations Section Working Paper number 228, November.

Cogan, J., 1981, "Fixed Costs and Labor Supply," *Econometrica*, July, pp. 945-963.

Gronau, Reuban, 1977, "Leisure, Home Production, and Work -- the Theory of the Allocation of Time Revisited," *Journal of Political Economy*, **85**(6), December, pp. 1099-123.

\*Neal, Derek. "The Measured Black-White Wage Gap among Women Is Too Small." *Journal of Political Economy*, 2004, **112**(1), pp. S1-28 (NBER Working Paper #9133).

\*Mroz, Thomas, 1987, "The Sensitivity of an Empirical Model of Married Women's Hours of Work to Economic and Statistical Assumptions," *Econometrica*, **55**(4), July, pp. 765-99.

Newey, W.K., Powell, J.L. and Walker, J.R. (1990), "Semiparametric Estimation of Selection Models: Some Empirical Results," *American Economic Review*, **80**(2), 324-328.

Pencavel, John, 1986, "Labor Supply of Men: A Survey," Chapter 1 of Volume 1, *Handbook of Labor Economics*, Orley Ashenfelter and Richard Layard, editors, pp. 3-102.

Plant, Mark, 1984, "An Empirical Analysis of Welfare Dependence," *American Economic Review*, September.

### **C. Life Cycle Models of Labor Supply and Consumption with Exogenous Wage Rates**

\*Altonji, Joseph, 1986, "Intertemporal Substitution in Labor Supply: Evidence from Micro Data," *Journal of Political Economy*, **94**(3), June, pp. s176-215.

Macurdy, Thomas, 1981, "An Empirical Model of Labor Supply in a Life-Cycle Setting," *Journal of Political Economy*, **89**(6), December, pp. 1059-85.

### **D. Labor Supply, Hours Constraints, and Hours Determination in Intertemporal Models**

Abowd, John and David Card, 1987, "Intertemporal Labor Supply and Long Term Employment Contracts," *American Economic Review*, March.

Altonji, Joseph, and Christina Paxson, 1986, "Job Characteristics and Hours of Work," *Research in Labor Economics*, Vol. 8 pt. A, pp. 1-55.

\*Ham, John, 1986, "Testing Whether Unemployment Represents Intertemporal Labor Supply Behaviour," *Review of Economic Studies*, **LIII**(175), pp. 559-78.

Hurd, Michael, 1996, "The Effect of Labor Market Rigidities on the Labor Force Behavior of Older Workers," *Advances in the Economics of Aging*, David Wise, ed., National Bureau of Economic Research Project Report series, pp. 11-58.

### **E. Retirement Behavior**

Berkovec, J., and S. Stern, 1991, "Job Exit Behavior of Older Men," *Econometrica*, **59**, pp. 189-210.

Blau, David, 1994, "Labor Force Dynamics of Older Men," *Econometrica*, **62**, pp. 117-156.

\*Gruber, Jonathan, and B. Madrian, 1995, "Health-Insurance Availability and the Retirement Decision," *The American Economic Review*, 85(4), pp. 938-948.

Gustman, Alan, and T. Steinmeier, 1986, "A Structural Retirement Model," *Econometrica*, May, pp. 555-584.

Lumsdaine, R., Stock, J., and D. Wise, 1996, "Why are Retirement Rates So High at Age Sixty-Five?" *Advances in the Economics of Aging*, University of Chicago Press, Chicago, pp. 11-58.

Mitchell, Olivia S., and Gary S. Fields, 1984, "The Economics of Retirement Behavior," *Journal of Labor Economics*, 2(1), January, pp. 84-105.

Rust, John, 1987, "A Dynamic Programming Model of Retirement Behavior," NBER Working Paper No. 2470.

### **III. Labor Demand**

Brown, Charles, Curtis Gilroy, and Andrew Kohen, 1982, "The Effect of the Minimum Wage on Employment and Unemployment," *Journal of Economic Literature*, XX(2), June, pp. 487-528.

Brown, James, and Orley Ashenfelter, 1986, "Testing the Efficiency of Employment Contracts," *Journal of Political Economy*, 94(3), Part 2, June, pp. s40-87.

Card, David, 1990, "Unexpected Inflation, Real Wages, and Employment Determination in Union Contracts," *American Economic Review*, 80(4), September, pp. 669-88.

Card, David, 1992, "Do Minimum Wages Reduce Employment? A Case Study of California, 1987-89," *Industrial and Labor Relations Review*, 46(1), October, pp. 38-54.

Card, David, and John DiNardo, 2002, "Skill-Based Technological Change and Rising Wage Inequality: Some Problems and Puzzles," *Journal of Labor Economics*, 20(4), October, pp. 733-783.

\*Card, David, and Alan Krueger, 1994, "Do Minimum Wages Reduce Employment? A Case Study of the Fast Food Industry in New Jersey and Pennsylvania," *American Economic Review*, 84(4), September, pp. 772-93.

\*Hamermesh, Daniel, 1989, "Labor Demand and the Structure of Adjustment Costs," *American Economic Review*, 79(4), September, pp. 674-89.

Hamermesh, Daniel, 1986, "The Demand for Labor in the Long Run," Chapter 8, Volume 1 of *The Handbook of Labor Economics*, Orley Ashenfelter and Richard Layard, editors, pp. 430-471.

Johnson, George, 1970, "The Demand for Labor by Educational Category," *Southern Economic Journal*, XXXVII(2), October, pp. 190-204.

Juhn, Chinhui and Dae Il Kim. "The Effect of Rising Female Labor Supply on Male Wages." *Journal of Labor Economics* 17, no. 1 (1999): 23-48.

\*Katz, Lawrence, and Kevin M. Murphy, 1992, "Changes in Relative Wages, 1963-1987: Supply and Demand Factors," *Quarterly Journal of Economics*, CVII(1), February, pp. 35-78.

Macurdy, Thomas, and John Pencavel, 1986, "Testing between Competing Models of Wage and Employment Determination in Unionized Markets," *Journal of Political Economy*, 94(3), Part 2, June, pp. s3-39.

- Oi, Walter, 1962, "Labor as a Quasi-Fixed Factor," *Journal of Political Economy*, **LXX**(6), December, pp. 538-55.
- Rosen, Sherwin, 1968, "Short-Run Employment Variation on Class-I Railroads in the U.S., 1947-1963," *Econometrica*, **36**(3-4), July-October, pp. 511-29.
- Sargent, Thomas J., 1978, "Estimation of Dynamic Labor Demand Schedules under Rational Expectations," *Journal of Political Economy*, **86**(6), December, pp. 1009-44.

#### **IV. An Introduction to the Economics of Education**

- Altonji, Joseph G., Todd E. Elder, and Christopher R. Taber, 2005, "Selection on Observed and Unobserved Variables: Evaluating the Effectiveness of Catholic Schools", *Journal of Political Economy*, volume **113**(1), pp. 151-184 (NBER Working Paper #7831).
- Angrist, Joshua, and Alan Krueger, 1991, "Does Compulsory School Attendance Affect Schooling and Earnings?," *Quarterly Journal of Economics*, **CVI**(4), November, pp. 979-1014.
- \*Angrist, Joshua, and Victor Lavy, 1999, "Using Maimonides' Rule to Estimate the Effect of Class Size on Scholastic Achievement," *Quarterly Journal of Economics*, (NBER Working Paper 5888, January 1997).
- Ashenfelter, Orley, and John Ham, 1979, "Education, Unemployment, and Earnings," *Journal of Political Economy*, **87**(5), October, Part 2, pp. s99-116.
- Ashenfelter, Orley, and Alan Krueger, 1994, "Estimates of the Economic Return to Schooling from a New Sample of Twins," *American Economic Review*, **84**(5), December, pp. 1157-1173.
- Card, David, 1999, "The Causal Effect of Education on Earnings," *Handbook of Labor Economics*, Volume 3A.
- Card, David, 1995 "Earnings, Schooling, and Ability Revisited," *Research in Labor Economics*.
- Card, David, and Alan Krueger, 1992, "Does School Quality Matter? Returns to Education and the Characteristics of Public Schools in the United States," *Journal of Political Economy*, **100**(1), pp. 1-40.
- \*Chay, Kenneth, and David Lee, 2000, "Changes in Relative Wages in the 1980s: Returns to Observed and Unobserved Skills and Black-White Differentials," *Journal of Econometrics*, November, pp. 1-38.
- \*Griliches, Zvi, 1977, "Estimating the Returns to Schooling: Some Econometric Problems," *Econometrica*, **45**(1), January, pp. 1-22.
- Griliches, Zvi, 1979, "Sibling Models and Data in Economics: Beginnings of a Survey" *Journal of Political Economy*, **87**(5), October, pp. S37-64.
- Heckman, James, 1990. "Varieties of Selection Bias," *American Economic Review Papers and Proceedings*, **80**(2), May, pp. 313-318.
- Heckman, James, and Bo Honore, 1990, "The Empirical Content of the Roy Model" *Econometrica*, **58**(5), September, pp. 1121-1149.
- \*Taber, Christopher, 2001, "The Rising College Premium in the Eighties: Return to College or Return to Ability?" *Review of Economic Studies*, **68**(3), July, pp. 665-691.

Willis, Robert, and Sherwin Rosen, 1979, "Education and Self-Selection," *Journal of Political Economy*, **87**(5), October, Part 2, pp. s7-36.

## **V. Training**

Ashenfelter, Orley, "Estimating the Effect of Training Programs on Earnings," *Review of Economic and Statistics*, **LX**(1), February, pp. 47-57.

\*Ashenfelter, Orley, and David Card, 1985, "Using the Longitudinal Structure of Earnings to Estimate the Effect of Training Programs," *Review of Economics and Statistics*, pp. 648-660.

Card, David, and Daniel Sullivan, 1988, "Measuring the Effect of Subsidized Training Programs on Movements In and Out of Employment," *Econometrica*, May, pp. 497-530.

\*Ham, John, and Robert Lalonde, 1996, "The Effect of Sample Selection and Initial Conditions in Duration Models: Evidence from Experimental Data," *Econometrica*, **64**(1), pp. 175-205.

Heckman, James, and Richard Robb, 1985, "Alternative Methods for Evaluating the Impact of Interventions," in *Longitudinal Analysis of Labor Market Data*, James Heckman and Burton Singer, editors, Cambridge University Press, pp. 156-246.

\*Lalonde, Robert, 1986, "Evaluating Econometric Evaluations of Training Programs with Experimental Data," *American Economic Review*, **76**(4), September, pp. 604-20.

Lalonde, R., "The Promise of Public Sector-Sponsored Training Programs," *The Journal of Economic Perspectives* 9 (Spring 1995), 149-168.

Lalonde, Robert, and Rebecca Maynard, 1987, "How Precise are the Evaluations of Employment and Training Programs: Evidence from a Field Experiment," *Evaluation Review*, **11**, August, pp. 428-51.

## **VI. Earnings, Productivity, and Job Mobility over a Career**

Abraham, Katherine, and Henry Farber, 1987, "Job Duration, Seniority, and Earnings," *American Economic Review*, **77**(3), June, pp. 278-97.

\*Altonji, Joseph, and Robert Shakotko, 1987, "Do Wages Rise with Job Seniority?" *Review of Economic Studies*, **LIV** (3), July, pp. 437-59.

Altonji, Joseph, and Nicolas Williams, 1997, "Do Wages Rise with Job Seniority? A Reassessment," NBER Working Paper #6010.

\*Jovanovic, Boyan, 1979, "Job Matching and the Theory of Turnover," *Journal of Political Economy*, **87**(5), Part 1, October, pp. 972-90.

Hall, Robert, and Edward Lazear, 1984, "The Excess Sensitivity of Layoffs and Quits to Demand," *Journal of Labor Economics*, **2**(2), April, pp. 233-57.

McLaughlin, Kenneth J. "A Theory of Quits and Layoffs with Efficient Turnover." *Journal of Political Economy* 99, no. 1 (February 1991): 1-29.

\*Topel, Robert, 1991, "Specific Capital, Mobility, and Wages: Wages Rise with Job Seniority," *Journal of Political Economy*, **99**(1), February, pp. 145-176.

## VII. Unemployment

### A. Search Theory and Estimation

Blau, D., 1991, "Search for Nonwage Job Characteristics: A Test of the Reservation Wage Hypothesis," *Journal of Labor Economics*, 9, pp. 186-205.

Burdett, Kenneth, 1978, "A Theory of Employee Job Search and Quit Rates," *American Economic Review*, 68(1), March, pp. 212-20.

Devine, T., and N. Kiefer, 1993, "The Empirical Status of Job Search Theory," *Labour Economics*, June, pp. 4-24.

Kiefer, Nicholas, and George Neumann, 1979, "An Empirical Job-Search Model, with a Test of the Constant Reservation Wage Hypothesis," *Journal of Political Economy*, 87(1), February, pp. 89-107.

Lancaster, Tony, 1979, "Econometric Methods for the Duration of Unemployment," *Econometrica*, 47(4), July, pp. 939-56.

Mortensen, Dale, 1970, "Job Search, the Duration of Unemployment, and the Phillips Curve," *American Economic Review*, LX(5), December, pp. 847-62.

\*Mortensen, Dale, 1986, "Job Search and Labor Market Analysis", in *Handbook of Labor Economics* Vol. 2, O. Ashenfelter and R. Layard, eds., pp: 849-920.

\*Nickell, Stephen, 1979, "Estimating the Probability of Leaving Unemployment," *Econometrica*, 47, September, pp. 1249-1266.

Van den Berg, G., 1990, "Search Behaviour, Transition to Non-Participation and the Duration of Unemployment," *The Economic Journal*, 100, pp. 842-865.

Wolpin, Ken, 1987, "Estimating a Structural Search Model: The Transition from School to Work," *Econometrica*, 55, pp. 801-817.

### B. Unemployment Insurance

Ashenfelter, Orley, 1980, "Unemployment as Disequilibrium in a Model of Aggregate Labor Supply," *Econometrica*, 48(3), April, pp. 547-64.

Ehrenberg, Ronald, and Ronald Oaxaca, 1976, "Unemployment Insurance, Duration of Unemployment, and Subsequent Wage Gain," *American Economic Review*, 66(5), December, pp. 754-66.

Meyer, Bruce, 1990, "Unemployment Insurance and Unemployment Spells," *Econometrica*, 58(4), July, pp. 757-82.

\*Meyer, Bruce, and Lawrence Katz, 1990, "Unemployment Insurance, Recall Expectations and Unemployment Outcomes," *Quarterly Journal of Economics*, November, pp. 973-1002.

Mortensen, Dale, 1977, "Unemployment Insurance and Job Search Decisions," *Industrial and Labor Relations Review*, 30(4), July, pp. 505-17.

Shapiro, Carl, and Joseph Stiglitz, 1984, "Equilibrium Unemployment as a Worker Discipline Device," *American Economic Review*, 74(3), June, pp. 433-44.

\*Solon, Gary, 1985, "Work Incentive Effects of Taxing Unemployment Benefits," *Econometrica*, 53(2), March, pp. 295-306.



Topel, Robert H., 1983, "On Layoffs and Unemployment Insurance," *American Economic Review*, **73**(4), September, pp. 541-59.

\*Topel, Robert H., 1993, "What Have We Learned from Empirical Studies of Unemployment and Turnover," *American Economic Review*, **83**(2), May, pp. 110-115.

### **C. Job Displacement and its Effects**

Fallick, Bruce, 1996, "A Review of the Recent Empirical Literature on Displaced Workers," *Industrial and Labor Relations Review*, **50**(1), October, pp. 5-16.

\*Heckman, James, 1991. "Identifying the Hand of the Past: Distinguishing State Dependence from Heterogeneity," *American Economic Review Papers and Proceedings*, **81**(2), May, pp. 75-79.

\*Jacobson, L., LaLonde R., and D. Sullivan, 1993, "Earnings Losses of Displaced Workers," *American Economic Review*, **83**(4), September, pp. 685-709.

McCall, Brian, 1997, "The Determinants of Full-Time Versus Part-Time Reemployment Following Job Displacement," *Journal of Labor Economics*, **15**(4), October, pp. 714-734.

\*Neal, Derek. "Industry-Specific Human Capital: Evidence from Displaced Workers." *Journal of Labor Economics* 13, no. 4 (October 1995): 653-77.

Ramsey V., and M. Shapiro, 2001, "Displaced Capital: A Study of Aerospace Plant Closings," *Journal of Political Economy*, **109**(5), October, pp. 958-992.

\*Ruhm, C., 1991, "Are Workers Permanently Scarred by Job Displacement?" *American Economic Review*, **81**(1), March, pp. 319-324.

Stevens, Anne Huff, 1997, "Persistent Effects of Job Displacement: The Importance of Multiple Job Losses," *Journal of Labor Economics*, **15**(1), January, pp. 165-188.