



Department of Economics and Finance

ECON*4790
Topics in Labour Market Theory
Winter 2014



Instructor: L. Grogan
Office Hours: 2 pm Mondays

It is your responsibility as a student to be aware of and to abide by the University's policies regarding academic misconduct, e-mail communication, maintaining copies of out-of class assignments, what to do when you cannot meet a course requirement and the drop date for this semester. To better understand these policies, visit:

https://dev.web.uoguelph.ca/economics_d7/important-notice-about-students-responsibilities-and-university-policies

You will be asked to complete an in class evaluation of this course at some time during the last two weeks of the semester. **The course evaluation for this course will be done in class.** The Department of Economics and Finance policy regarding the conduct and use of these evaluations will be found at:

<http://www.uoguelph.ca/economics/course-evaluation>

Course Description:

The purpose of this course is to familiarise senior undergraduate students with empirical techniques, statistical packages, new data sets and theoretical ideas which are currently widely used in applied microeconomics. To this end, we will discuss the main theoretical and empirical tools employed by labour economists, public economists, development economists and business economists interested in the labour market.

There is no textbook for the course. Readings are described below. These generally consist of articles from academic journals. Students should be able to read the Abstract, Introduction and Conclusion to these articles, and to understand the basic points made. Key topics to be discussed include: Explanations for trends in earnings inequality in industrialised and developing countries, evaluating returns to education, and the effects of economic crises on wellbeing. We will learn to use the STATA statistical package to work with income data from Canada and other countries.

TOPICS TO BE COVERED:

Weeks 1 and 2: Introduction to labour supply issues

Gronau, Reuben (1977) "Leisure, Home Production and Work - The Theory of the Allocation of Time Revisited," *Journal of Political Economy*, Vol. 85, No. 6, pp. 1099-1124

David Autor (2010) "The Polarisation of Job Opportunities in the US Labor Market" The Hamilton Project.

Weeks 3 and 4: Signalling theory of education and human capital models

Michael Spence (1973) Job Market Signaling. *Quarterly Journal of Economics* vol. 87 Issue 3. pp. 355-374.

Lemieux, Thomas (2000) "The Mincer Equation" Thirty Years after Schooling Experience and Earnings, Ch. 11 in *Handbook of Labour Economics*

Introduction to STATA and simple programming in STATA for examining determinants of wages using Mincerian regression.

Weeks 5 and 6: Earnings inequality.

STATA commands for measuring changes in inequality over time within a country.

Atkinson, T. Income Inequality and the Welfare State in a Global Era. Douglas Gibson Lecture, Queen's School of Policy Studies, 2002

F. Ferreira, J. Messina, J. Rigolini, L. Lopez-Calva, M. Lugo, and R. Vakis (2012). Mobility within generations. Ch. 3 of World Bank Report "*Economic Mobility and the Rise of the Latin American Middle Class*".

O. Ashenfelter and S. Jurajda (2001) *Cross-country comparisons of Wage Rates: The Big Mac Index*

Group Presentation Session #1, (STATA results for Mincerian regressions and inequality trends).

Weeks 7 and 8: Models of worker training

Jorn-Steffen Pischke "Labor Market Institutions, Wages and Investment: Review and Implications" *CES Info Economic Studies*, Vol. 51, 47-75.

Daron Acemoglu and Jorn-Steffen Pischke (1999) "Beyond Becker: Training in Imperfect Labour Markets". *Economic Journal* vol. 109 (Feb.) F112-F142.

Weeks 9 and 10. Health and Inequality.

Deaton, A. (2001) Health, Inequality and Economic Development, NBER Working Paper no. 8318.

Deaton, A. And David Cutler and Ariana Lleras-Muney (2006) "The Determinants of Mortality", NBER Working Paper no. 11963.

Daron Acemoglu and S. Johnson (2006) "Disease and Development: The Effect of Life Expectancy on Economic Growth" NBER working paper no. 12269.

Week 11: Economic Shocks and Wellbeing

Grogan, L. (2013) and Katerina Koka "Economic Crises and Wellbeing: Social norms and home production" *Journal of Economic Behavior and Organization*. [Volume 92](#), August, Pages 241–258.

Paola Giuliano and Antonio Spilimbergo (2013) "Growing up in a Recession" *Review of Economic Studies* (forthcoming)

Group Presentation Session #2, (Assigned reading).

Week 12: Review.

Please note, no classes: Jan 22nd 2014 and Feb. 12th 2014.

Midterm 1: 15 % Feb. 9th 2014

Midterm 2: 15 % March 12th 2014

Project Due March 19th 2014 worth 30%

Two group work presentations 5% each.

Final Exam 30%.

Skills:

- 1) **Written Communication:** There is a project worth 30% which will give students the opportunity to enhance their written scientific communications skills.
- 2) **Numerical Problem Solving:** Short answer problems on the two midterms and final will test basic computation skills, as well as understanding of statistical techniques.
- 3) **Analytical Problem Solving:** Much of the course uses graphical and statistical analysis to **demonstrate, estimate** and **interpret** various microeconomic models of behaviour. Students will learn to write simple do-files in STATA to test the economic theories we discuss, and to use statistical techniques for examining earnings inequality trends.
- 4) **Problem solving in a Real World Context:** Students will **apply** the content of the course to current questions in labour economics when they write their projects and in exams. The midterm and final exam questions will be applicable to current labour market and applied econometrics problems, and marking will reward normative arguments with theoretical substantiation. Students will work twice in small groups of 3 to 5 people. In these groups they will prepare 1 short presentation (10-15 minutes) of their results using STATA, and one short presentation of an assigned reading.
- 5) **Professional and ethical awareness and conduct.** Students will complete the project work themselves. Any external references should be properly cited and bibliographically referenced.

Knowledge:

- 1) **Microeconomic Modeling:** As this is the most advanced undergraduate course in labour economics, the student must learn to apply standard microeconomic analysis to labour supply, income inequality and strategic training questions.
- 2) **Understanding of Specific Markets:** Students will understand how to measure returns to skill, inequality, and time use.
- 3) **Historical and Global context:** The project, midterm, and final exam will require students to interpret **research** papers read during the course. The two midterms and final exam will ask students to **construct** an argument about a labour economics question from economic theory and to **formulate** potential solutions to incentive problems. Economic explanations for trends in income inequality over time within the US and across countries should be understood.
- 4) **Economic Policy and Regulation:** The role of government is significant in the labour market, perhaps more so than in any other market. Students must **understand** how changes in labour market regulations influence the incentives and constraints of both employers and workers, and influence economic inequality.