

University of Guelph
College of Management and Economics
DEPARTMENT OF ECONOMICS

ECON*6600 Labour Economics

Fall Semester 2012

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Office Hours: Monday and Wednesday from 4:00 – 5:00

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COURSE OUTLINE

This course will cover topics in micro and macro labour economics. It is designed for Masters' and PhD students interested in labour or applied microeconomics techniques. The course will teach you state-of-the art tools in applied research and how to apply these tools to investigate relevant labour economic topics. In class we will discuss topics from the list provided below. I will suggest readings from the articles listed here, and we can add new articles depending on interest. You are expected to actively participate in discussions regarding the material presented.

There is one graduate labour textbook, Pierre Cahuc and Andre Zylberberg, *Labor Economics*, MIT Press, 2004. If you are interested in labour economics as a field of specialization, this is an excellent resource to have. I will not make the textbook required reading, but I recommend it.

If you feel you need more basic introduction to labour market topics, a textbook relevant to this course is: Benjamin, Gunderson, Lemieux and Riddell *Labour Market Economics* 7th Edition. McGraw-Hill Ryerson. This is an undergraduate textbook, and is below the level expected in this course. However, it provides a concise introduction to themes of labour market analysis. It is also an excellent resource for literature review.

If you find you need more references for the applied econometrics part, I recommend Cameron and Trivedi, *Microeconometrics: Methods and Applications*, Cambridge University Press 2005. Also, Angrist and Pishke, *Mostly Harmless Econometrics*, 2012.

COURSE REQUIREMENTS

20%: Presentation and in-class participation

Students will be required to do one in-class presentation of a paper we mutually agree upon, worth 10% of the grade. Active in-class participation will be worth another 10%. The presentation schedule will be finalized by the end of the third week of class, as it depends on your specific interests and class size.

45%: Mini-projects

There will be three assignments worth 45% of the grade (15% each). I will give you the questions and data sets you need to complete the assignments every three weeks starting with the third week of class. Depending on complexity, assignments are due back in class two or three weeks after they are given to you.

Each assignment will have a strong empirical emphasis, as well a theoretical component with emphasis on substantive questions from the topics discussed at that point. The first assignment refers to estimating labour supply and wage decompositions, the second to estimating causal impacts using IV, matching, and other bias-correction methods, and the final assignment will be about duration models and equilibrium search models.

15%: Proposal

The proposal needs to contain an original question addressing labour-related issues, the relevant literature review, a detailed description of how you proceed with the analysis, and any data sources you may need to complete the project.

20% Final exam or term paper

There will be an exam reviewing the topics covered in class and in the mini-projects. You can choose to substitute the final exam with a term paper that extends the proposal by including, for instance, some preliminary empirical analysis.

I strongly recommend that you use the statistical package STATA in solving the computer parts of the assignment. STATA is a very friendly yet powerful tool for empirical analysis. Especially for Masters' students, STATA knowledge might be a useful asset when looking for a job as an economist. If you prefer to use another software package, I will accept your output, but I only provide assistance with STATA code. An in-class introduction to STATA will be given to you.

MAIN TOPICS

1. Quality and Quantity of Labour Supply;
2. Empirical Labour Economics; Causality and evaluation;
3. Search and Matching Models.

The following description of topics and their sequence is fairly accurate. There is not enough time, though, to go into detail over a lot of the papers. The frameworks are summarized in the papers and chapters listed as “General readings”. For applications and substantive issues we will focus the discussions around the topics and papers students choose to present in class. The following list of papers is intended more as a bibliography, and it can help with choosing a paper to present, although the presentation can be of a different paper as well.

1. Quantity and Quality of Labour Supply (Weeks 1-4).

1.1. Labour Supply: Quantity.

General readings: Cahuc and Zylberberg, Chapter 1.

1.1.1 Static model

Blundel and MaCurdy 1999. “Labor Supply: a Review of Alternative Approaches”, in *Handbook of Labor Economics, Volume 3A*.

1.1.2 Hours and labour force participation

Autor, D. and M. Duggan 2003. “The Rise in the Disability Rolls and the Decline in Unemployment”. *Quarterly Journal of Economics* 118(1): 157-206

Juhn, C. and K. Murphy 1997. “Wage Inequality and Family Labor Supply”, *Journal of Labor Economics* 15(1): 72-97.

Bell, L. and R. Freeman 2001. “The Incentive for Working Hard: Explaining Hours Worked Differences in the U.S. and Germany” *Labour Economics* 8(2): 181-202.

1.1.3 Lifecycle

Erosa, Fuster, and Kambourov 2011. “The Heterogeneity and Dynamics of Individual Labor Supply over the Life-Cycle: Facts and Theory,” University of Toronto Working paper 443.

French, E. 2005. The Effects of Health, Wealth, and Wages on Labour Supply and Retirement Behaviour. *The Review of Economic Studies*, 72 (2): 395-427.

1.2. Labour Supply: Quality.

General readings: Cahuc and Zylberbeg, Chapter 2.

1.2.1 Returns to human capital

- Card, D 1999. "The causal effect of education on earnings" in Orley Ashenfelter and David Card, eds. *Handbook of Labor Economics, Volume 3A*.
- Tobias, J. 2003. "Are Returns to Schooling Concentrated Among the Most Able? A Semiparametric Analysis of the Ability–earnings Relationships". *Oxford Bulletin of Economics and Statistics* 65(1): 1 – 29.
- Mulligan, C, Rubinstein, Y. 2008. "Selection, Investment, and Women's Relative Wages Over Time" *QJE* 123 (3): 1061-1110.
- Costas Meghir, Steven Rivkin. 2011. "Econometric Methods for Research in Education" *Handbook of the Economics of Education vol. 3 ch.1*

1.2.2 Job training

- Barron, Berger, Black. 1997. "On-the-Job Training", W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan.
- Albrecht, James, Gerard van den Berg and Susan Vroman. 2008. "The Knowledge Lift: The Swedish Adult Education Program That Aimed to Eliminate Low Worker Skill Levels." *Review of Economic Dynamics*
- King, Ian and Arthur Sweetman. 2002. Procyclical Skill Retooling and Equilibrium Search *Review of Economic Dynamics* 5(3) pp.704-717.
- Vincenzo Caponi, Cevat Burc Kayahan, and Miana Plesca. 2010. "The Impact of Aggregate and Sectoral Fluctuations on Training Decisions." *The B.E. Journal of Macroeconomics, Advances*, vol.10(1).

1.3. Wage Differentials.

General readings:

- Nicole Fortin, Thomas Lemieux, Sergio Firpo. 2011. "Decomposition Methods in Economics" *Handbook of Labor Economics* vol. 4
- Juhn C. K. Murphy, and B. Pierce 1993. "Wage Inequality and the Rise in Returns to Skill." *Journal of Political Economy* 101: 410-442.
- Gottschalk, Peter 1997. "Inequality, Income Growth, and Mobility: The Basic Facts." *Journal of Economic Perspectives*, Volume 11 Number 2, pp. 21-40.
- Audra Bowlus and Jean-Marc Robin 2004. "Twenty Years of Rising Inequality in US Lifetime Labor Values," *Review of Economic Studies*
- Altonji J. G. and R. Blank 1999. "Race and Gender in the Labor Market" in in O. Ashenfelter and D. Card, *Handbook of Labor Economics*, Vol. 3, North Holland.
- Heckman.1998. "Detecting Discrimination" *Journal of Economic Perspectives* 12,101-16.

2. Empirical Labour Economics; Causality and Econometric Evaluation (Weeks 5-8).

General readings:

- Heckman, James, Robert LaLonde and Jeffrey Smith [HLS] 1999. "The Economics and Econometrics of Active Labor Market Programs." In *Handbook of Labor Economics, Volume 3A*.
- Angrist, Joshua and Alan Krueger [AK] 1999. "Empirical Strategies in Labor Economics," in *Handbook of Labor Economics, Volume 3A*.
- Eric French, Christopher Taber. 2011. "Identification of Models of the Labor Market" in *Handbook of Labor Economics, Volume 4A*.

2.1: Evaluation and Social Experiments

- Heckman, James and Jeffrey Smith 1995. "Assessing the Case for Social Experiments." *Journal of Economic Perspectives*. 92.: 85-100.
- Heckman, James, Jeffrey Smith and Nancy Clements 1997. "Making the Most Out of Programme Evaluations and Social Experiments: Accounting for Heterogeneity in Programme Impacts." *Review of Economic Studies*. 644.: 487-535.
- Heckman, James, Neil Hohmann, Jeffrey Smith and Michael Khoo 2000. "Substitution and Drop Out Bias in Social Experiments: A Study of an Influential Social Experiment." *Quarterly Journal of Economics*. 1152.: 651-694.

2.2: Quantile Treatment Effects

- Abadie, Alberto, Joshua Angrist and Guido Imbens 2002.. "Instrumental Variables Estimation of Quantile Treatment Effects." *Econometrica*. 701.: 91-117.
- Bitler, Marianne, Jonah Gelbach and Hilary Hoynes. 2005.. "What Mean Impacts Miss: Distributional Effects of Welfare Reform Experiments." *American Economic Review* 964.: 988-1012.

2.3: Matching Estimators

- Smith, Jeffrey and Petra Todd 2004. "Does Matching Overcome LaLonde's Critique of Nonexperimental Estimators?" *Journal of Econometrics*.
- Smith, Jeffrey 2000. "A Critical Survey of Empirical Methods for Evaluating Active Labor Market Policies." *Swiss Journal for Economics and Statistics*. 1363.: 1-22.
- Hirano, Keisuke, Guido Imbens, and Geert Ridder 2003. "Efficient Estimation of Average Treatment Effects Using the Estimated Propensity Score." *Econometrica*, 71(4): 1161-1189.
- Heckman, James, Hidehiko Ichimura and Petra Todd 1997. "Matching as an Econometric Evaluation Estimator: Evidence from Evaluating a Job Training Program." *The Review of Economic Studies*. 64: 605-654.
- Li, Q, Racine, J, Wooldridge, J. 2008. "Estimating Average Treatment Effects with Continuous and Discrete Covariates: The Case of Swan-Ganz Catheterization". *American Economic Review: Papers & Proceedings* 98(2): 357-362.

2. 4: Instrumental Variables and Related Methods

- Rosenzweig, M and Wolpin, K. 2000. "Natural "Natural Experiments" in Economics, *Journal of Economic Literature*, 38(4): 827-874.
- Angrist, Joshua, Guido Imbens and Donald Rubin. 1996. "Identification of Causal Effects Using Instrumental Variables [with discussion]." *Journal of the American Statistical Association*. 91434.. 444-472.
- Heckman, James 1997. "Instrumental Variables: A Study of Implicit Behavioral Assumptions Used in Making Program Evaluations." *Journal of Human Resources*. 323.. 441-452.
- Heckman, James and Edward Vytlacil 2001. "Policy-Relevant Treatment Effects." *American Economic Review*. 912. 107-111.

2. 5 Longitudinal Methods

- Heckman, James, Hidehiko Ichimura, Jeffrey Smith, and Petra Todd. "Characterizing Selection Bias Using Experimental Data," *Econometrica*, 665. 1998: 1017-1098.
- Moffitt, Robert 1991. "Program Evaluation with Nonexperimental Data." *Evaluation Review*. 153: 291-314.
- Meyer, Bruce 1995. "Natural and Quasi-Experiments in Economics." *Journal of Business and Economic Statistics*. 13: 151-161.
- Bertrand, Duflo, Mullainathan. 2004. "How Much Should We Trust Differences-in-Differences Estimates?" *QJE* 119(1): 249-275.

2. 6 Comparing Alternative Estimators

- LaLonde, Robert 1986. "Evaluating the Econometric Evaluations of Training Programs with Experimental Data." *American Economic Review*. 764.: 604-620.
- Heckman, James and V. Joseph Hotz 1989. "Choosing Among Alternative Nonexperimental Methods for Estimating the Impact of Social Programs: The Case of Manpower Training." *Journal of the American Statistical Association*. 84408.: 862-874 includes comments by Holland and Moffitt..
- Glazerman, Steven, Dan Levy and David Meyers 2002. "Nonexperimental Replications of Social Experiments: A Systematic Review." *Mathematica Policy Research Working Paper No. 8813-300*.

2.7 Partial Equilibrium Structural Evaluation

- Todd and Wolpin. 2006. "Assessing the Impact of a School Subsidy Program in Mexico: Using a Social Experiment to Validate a Dynamic Behavioral Model of Child Schooling and Fertility." *American Economic Review* 96(5):1384-1417.
- Cohen-Goldner and Eckstein. 2008. "Labor Mobility of Immigrants: Training, Experience, Language and Opportunities." *International Economic Review*.

2. 8 General Equilibrium Effects

- Heckman, Lochner, Taber. 1998. "General Equilibrium Treatment Effects: a study of a tuition policy", *American Economic Review*
- Gilles St. Paul. 2000. "The Political Economy of Employment Protection", *Journal of Public Economics*

- Blundell et al. 2003. "Evaluating the employment impact of a mandatory job search program", Mimeo, UCL
- Davidson and Woodbury. 1993. "The Displacement Effect of Reemployment Bonus Programs", *Journal of Labour Economics* 114. 575,605.
- Indirect Effects of an Aid Program: The Case of Progres and Consumption
- Angelucci, M, De Giorgi, G. 2008. "Indirect effects of an aid program: how do cash injections affect ineligibles' consumption," *American Economic Review*.

3. Search and Matching Models (weeks 9-12).

General readings:

- Cristopher Pissarides. 2000. "Equilibrium Unemployment Theory", 2nd Edition, MIT Press.
- Richard Rogerson, Robert Shimer. 2011. "Search in Macroeconomic Models of the Labor Market" in *Handbook of Labor Economics* vol. 4A

Optional:

- Dale Mortensen and Christopher Pissarides. 1999. "New Developments in Models of Search in the Labour Market", Ch. 39 in Orley Ashenfelter and David Card, eds. *Handbook of Labor Economics, Volume 3A*. Amsterdam: North-Holland.
- Lars Ljungqvist and Thomas Sargent. 2000. "Recursive Macroeconomic Theory", MIT Press, Chapters 5 and 19.
- Rogerson, Shimer, Wright. 2005. Search-theoretic models of the labor market: a survey," *Journal of Economic Literature*

3.1 Equilibrium Search and Wage Posting Models

- Cahuc and Zylberberg, Chapter 3.
- Burdett and Mortensen. 1998. "Wage Differentials, employer size and unemployment", *International Economic Review*
- Eckstein and Wolpin. 1990. "Estimating a market equilibrium search model from panel data on individuals", *Econometrica*
- Van den Berg and Ridder. 1998. "An empirical equilibrium search model of the labor market", *Econometrica*.
- Eckstein and Van den Berg. 2007. "Empirical Labour Search" *Journal of Econometrics* 1362. 531-564
- Audra Bowlus and Zvi Eckstein 2002. "Discrimination and Skill Differences in an Equilibrium Search Model," *International Economic Review* 434,1309-1345

3.2 Matching Models

- Cahuc and Zylberberg, Chapter 3.
- Pissarides book especially Ch. 1 and 2.

Mortensen and Pissarides Handbook chapters

Petrongolo and Pissarides 2002. "Looking into the black box: a survey of the matching function", *Journal of Economic Literature*.

Albrecht and Vroman 2002. "A matching model with endogenous skill requirements" *International Economic Review*

Cole and Rogerson 1999. "Can the Mortensen-Pissarides matching model match the business cycle facts?" *International Economic Review*, 404. 933-59.

3.3 Wage Distributions and Cyclical Fluctuations

Acemoglu and Shimer 2000. "Wage and Technology Dispersion" *Review of Economic Studies*, 674. 585-607.

Moscarini. 2005. "Job Matching and the Wage Distribution" *Econometrica* 732. 481-516.

Barlevy, Gadi. 2002. "The Sullying Effects of Recession" *Review of Economic Studies* 69(1), pp.65-96.

Shimer, R. 2005. "The Cyclical Behavior of Equilibrium Unemployment and Vacancies". *American Economic Review* 95(1): 25-49

Extra material

We can also look at other papers or topics, depending on your expressed interest. Labour topics may include: Labour markets and crime; Unions; Immigration; Contracts; Personnel economics; Early childhood, etc. I can accommodate papers from related fields as long as they have a strong empirical component that fits within the empirical methods discussed in class.