

Economics 250a Course Outline and Reading List

This is the first course in the graduate labor economics sequence, and will focus on labor supply, labor demand, simple search models, and human capital. The emphasis of the course is on linking basic theoretical insights with empirical patterns in the labor market, using a combination of methodologies. Students are expected to have completed first year micro, macro, and econometrics courses. There will be a number of problem sets throughout the term, which all students must hand in (though working in groups is strongly encouraged). Students are expected to have familiarity with programs like Stata and Matlab.

I will be adjusting the content of the course and adding some additional readings. I will also hand out my lecture notes. I recommend reading the starred paper(s) in each section *before* the lecture, and as many of the other papers as possible.

Lecture 1: Review of basic consumer theory; functional form, aggregation, discrete choice

Mas-Colell, Whintoe and Green, chapters 3 and 4.

Angus Deaton and John Muellbauer, *Economics and Consumer Behavior*, Cambridge Press, 1980

Geoffrey Jehle and Philip Reny, *Advanced Microeconomic Theory* (2nd ed), Addison Wesley, 2001

John Chipman, "Aggregation and Estimation in the Theory of Demand" *History of Political Economy* 38 (annual supplement), pp. 106-125.

Kenneth Train. *Discrete Choice Methods with Simulation*, Cambridge Press 2003.

Kenneth A. Small and Harvey A. Rosen "Applied Welfare Economics with Discrete Choice Models." *Econometrica*, 49 (January 1981), pp. 105-130.

Lectures 2-4: Static Labor Supply

**You should review the Handbook of Labor Economics chapters by Pencavel (volume 1) and Blundell and MaCurdy (volume 3a). An updated version of the latter is:

Richard Blundell, Thomas MaCurdy and Costas Meghir. "Labor Supply Models: Unobserved Heterogeneity, Nonparticipation, and Dynamics" *Handbook of Econometrics* volume 6, 2007. This is not easy to read but covers a lot of material.

Other readings we will cover in class:

Nicolas Stern. "On the Specification of Labour Supply Functions." In Richard Blundell and Ian Walker, editors, *Unemployment Search and Labour Supply*. Cambridge: Cambridge University Press, 1986.

Jerry Hausman, "Exact Consumer's Surplus and Deadweight Loss" *Am Econ Review* 71 (Sept 1981), 662-676

James Heckman. "Shadow Prices, Market Wages and Labor Supply." *Econometrica* 42 (July 1974), pp. 679-694.

Orley Ashenfelter. "Determining Participation in Income-Tested Social programs." *Journal of the American Statistical Association*, Vol. 78, No. 383, September 1983.

John Abowd and Orley Ashenfelter. "Anticipated Unemployment, Temporary Layoffs, and Compensating Wage Differentials"..In Sherwin Rosen, editor, *Studies in Labor Markets*. Chicago: University of Chicago Press (for NBER), 1981.

**Orley Ashenfelter, Kirk Doran and Bruce Schaller. "A Shred of Credible Evidence on the Long Run Elasticity of Labor Supply". available at <http://www.princeton.edu/~ceps/workingpapers/199ashenfelter>

**Guido W. Imbens, Donald B. Rubin, Bruce I. Sacerdote. "Estimating the Effect of Unearned Income on Labor Earnings, Savings, and Consumption: Evidence from a Survey of Lottery Players." *Review of Econ Stats* n91 (Sept 2001): 778-794.

Jerry Hausman. "The Econometrics of Nonlinear Budget Sets" *Econometrica* 53 (Nov 1985): 1255-1282.

Arthur van Soest "Structural models of family labor supply: A discrete choice." *Journal of Human Resources* 30 (Winter 1995).

Arthur van Soest, Marcel Das and Xiaodong Gong, "A Structural Labour Supply Model with Flexible Preferences". *Journal of Econometrics* 107 (2002), pp. 345-374.

As part of problem set #3 you will also try to update the analysis in:

Thomas A. Mroz. "The Sensitivity of an Empirical Model of Married Women's Hours of Work to Economic and Statistical Assumptions." *Econometrica*, 55 (4) (July, 1987), pp. 765-799.

Lectures 5-6: Dynamic Labor Supply

**David Card. "Intertemporal Labor Supply: An Assessment". In Christopher Sims, editor, *Advances in Econometrics, Sixth World Congress* (volume 2). Cambridge University Press, 1994 (nber version available on my web site).

Luigi Pistaferri. "Anticipated and Unanticipated Wage Changes, Wage Risk, and Intertemporal Labor Supply." *JOLE* 21 (3), 2003. pp. 729-754.

Thomas MaCurdy. "An Empirical Model of Labor Supply in a Life Cycle Setting" *JPE* 89 (6) 1981, pp.1059-1085.

Joseph Altonji. "Intertemporal Substitution in Labor Supply: Evidence from Micro Data". *JPE* 94 (3, part 2) 1986, pp. S176-S215.

Raj Chetty: "A New Method of Estimating Risk Aversion", *AER* December 2006.

John Abowd and David Card (1989). "On the Covariance Structure of Earnings and Hours Changes". *Econometrica* 57 (2): 411-445.

Altonji, Joseph G & Segal, Lewis (1996). "Small-Sample Bias in GMM Estimation of Covariance Structures," *Journal of Business & Economic Statistics*, 14(3): 353-66. We can only touch on this topic: for a lot more, see Econ 244

John Ham. and Kevin Reilly. (2002) "Testing Intertemporal Substitution, Implicit Contracts, and Hours Restriction Models of the Labor Market Using Micro Data" *American Economic Review*, 92 (No 4): 905-927,

Lecture 7: Structural Modeling of Intertemporal Choice (introduction)

**Michael Keane and Kenneth Wolpin. "The Solution and Estimation of Discrete Choice Dynamic Programming Models by Simulation and Interpolation: Monte Carlo Evidence." *Review of Economics and Statistics* 76 (November 1994): 648-672.

Michael Keane, Petra Todd and Kenneth Wolpin. "The Structural Estimation of Behavioral Models: Discrete Choice Dynamic Programming Methods and Applications. Chapter 4 in *Handbook of Labor Economics* Volume 4a.

Eric French. "The Effects of Health, Wealth and Wages on Labor Supply and Retirement Behavior." *Review of Economic Studies* 73: 395-427

Pierre Olivier Gourinchas and Jonathan Parker. (2002) "Consumption Over the Life Cycle" *Econometrica* 70 (No. 1):47-89.

Lecture 8-9: Labor Demand

Lawrence Katz and Kevin Murphy. "Changes in Relative Wages, 1963-1987: Supply and Demand Factors," *QJE* 107 (1992): 35-78.

David Card and Thomas Lemieux. "Can Falling Supply Explain the Rising Returns to College for Young Men? A Cohort-Based Analysis." *QJE* 116 (2001): 705-746

**Gianmarco Ottaviano and Giovanni Peri "Rethinking the Effects of Immigration on Wages". *Journal of the European Economic Association*, forthcoming 2011. available at <http://www.econ.ucdavis.edu/faculty/gperi/Publications.htm>

Peter Kuhn and Ian Wooten. "Immigration, International Trade, and the Wages of Native Workers. In John Abowd and Richard Freeman, editors. *Immigration Trade and Labor*. University of Chicago Press for NBER, 1991.

Richard Anderson and John Moroney. "Substitution and Complementarity in CES Models". *Southern Economic Journal* 60 (April 1994): 886-895.

George Johnson and Frank Stafford. "The Labor Market Implications of International Trade". In Ashenfelter and Card, *Handbook of Labor Economics* volume 3. (available online).

Lecture 10-11: Search Models (an Introduction)

**Dale Mortensen (1977). "Unemployment Insurance and Job Search Decisions" *Industrial and Labor Relations Review* 30, pp. 505-517

Dale Mortensen and Christopher Pissarides (1999). "New Developments in Models of Search in the Labor Market." In Ashenfelter and Card (eds) *Handbook of Labor Economics*. Amsterdam: Elsevier, volume 3B.

Kenneth Burdett and Dale Mortensen (1998) " Wage Differentials Employer Size and Unemployment" *International Econ Review* 39, pp. 257-273.

Alan Manning (2003). *Monopsony in Motion*. Princeton: PU Press.

Other papers we'll mention:

David Card and Dean Hyslop (2005). "Estimating the Effects of a Time-Limited Earnings Subsidy for Welfare-Leavers" *Econometrica*, 73, pp. 723-1770.

N. Kiefer and G. Neumann (1979) "An Empirical Job Search Model with a Test of the Constant Reservation Wage Hypothesis". *JPE* 87, pp. 89-107.

David Card, Raj Chetty and Andrea Weber (2007). "Cash-On-Hand and Competing Models of Intertemporal Behavior: New Evidence from the Labor Market" *Quarterly Journal of Economics* 122, pp. 1511-1560.

Lecture 12-13: Education and Human Capital

J.R. Walsh (1935) "Capital Concept Applied to Man" *QJE* 49 pp. 255-285.

Jacob Mincer (1974) *Schooling Experience and Earnings* NY: NBER (Columbia U Press).

Yoram Ben Porath (1967) "The Production of Human Capital and the Life Cycle of Earnings" *JPE* 75 (1967), pp. 352-365.

**D. Card (1999) "The Causal Effect of Education on Earnings" in *Handbook of Labor Economics* Volume 3a.

D. Card (2008) "The Return to Schooling" In the *New Palgrave* (2nd edition).

Orley Ashenfelter and Cecilia Rouse (1998) "Income, Schooling and Ability: Evidence from a New Sample of Twins" *QJE* 113 (Feb 1998), 253-284

Kevin Lang and Michael Manove. "Education and Labor Market Discrimination" NBER #12257, May 2006

Kevin Stange. "An Empirical Investigation of the Option Value of College Enrollment", Unpublished paper, December 2009.