

Advanced Labor Economics (NEK)

Syllabus - Fall 2016

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The course covers and discusses recent advances in Labor Economics, with an emphasis on empirical applications. The course starts by discussing theories of labor supply and demand, and proceeds covering economic research analyzing human capital accumulation (with a particular focus on education), wage inequality and discrimination. Topics covered include the effect of migration on labor market outcomes, the influence of parental and social background, and the effectiveness of unemployment and labor market programs.

The aim of this course is not only to provide a comprehensive discussion of the status of research in the field of Labor Economics, but also to endow students with the analytic tools necessary to both i) independently analyze and evaluate existing research, and ii) produce knowledge in the form of written essays.

Course prerequisites: 60 ETCS in economics (bachelor). However, attendance and participation to the Applied Microeconometrics (NEKN33) is **strongly recommended**.

Course assessment: Grades are based on an individual essay (60%), group presentation and discussion of an assigned research paper (10%) and a written exam (30%). A minimum standard ($>\approx 30\%$) in each of these activities is required to pass. Furthermore, there will be two required group assignments during the lab sessions (pass/fail).

Material: Slides and research papers covered in the course are available at Live@Lund. “Class readings” will be discussed in class, while “assigned readings” will be presented and discussed in a seminar by the students. Both types of readings are exam material. In the slides more papers than these will be mentioned. These additional papers can be taken as inspirations for the individual essay.

Office hours: On Wednesday, 15:00-16:30

Individual essay: The individual essay should be about 10/12 pages long, including figures

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and tables, excluding references. Eventual cumbersome or marginally relevant tables or figures can be relegated to the appendix, which does not count for the page limit. A few guidelines:

- There should be an introduction and a conclusion. Think twice before having subsections in a 10/12 pages paper
- Format your references consistently, in author-name style
- Tables should be self-contained, figures should be properly labeled
- Avoid the use of passives
 - E.g. substitute “The results are shown in Table 1” with “Table 1 shows the results”, or “The data is collected from” with “I collect the data from”
- Synthesis is appreciated, verbosity not so much.

When in doubt, follow the format and style of the published papers in the syllabus.

Course topics and reading list

1 Introduction to the course & stylized facts \approx 1L

This lecture introduces the course, the learning outcomes and the assessment methods, and explain the process of describing the functioning of a labor market. The lecture gives an overview of labor market stylized facts and trends, both over time and over different countries.

There are no assigned readings for the first lecture, but slides are exam material.

2 Labor supply for agents and households \approx 2L

This lecture starts with an overview of labor supply models (static and dynamic) and characterize elasticities of interest that can be estimated empirically. The lecture continues examining extensions to these models allowing for household production, household decisions and intra-household bargaining, endogenous household formation and fertility choices and effects.

- **Class readings:**

- Fehr, E. and L. Goette (2007). Do Workers Work More if Wages Are High? Evidence from a Randomized Field Experiment. *American Economic Review* 97, no. 1:298–317

- Bertrand, M., E. Kamenica, and J. Pan (2015). Gender Identity and Relative Income within Households. *The Quarterly Journal of Economics* 130, no. 2:571–614

- **Assigned readings:**

- Cesarini, D., E. Lindqvist, M. J. Notowidigdo, and R. Östling (2015). The Effect of Wealth on Individual and Household Labor Supply: Evidence from Swedish Lotteries. Working Paper 21762, National Bureau of Economic Research

- **Recommended readings:**

- Gelber, A. M. and J. W. Mitchell (2012). Taxes and Time Allocation: Evidence from Single Women and Men. *The Review of Economic Studies* 79, no. 3:863–897
- Angrist, J., V. Lavy, and A. Schlosser (2010). Multiple Experiments for the Causal Link between the Quantity and Quality of Children. *Journal of Labor Economics* 28, no. 4:773–824

3 Labor demand and imperfect labor markets \approx 1L

This lecture starts by covering a perfect competition model of labor demand from the firm’s perspective, focusing on the effect of factor price (wages or interest rates) changes on labor demand. We will then introduce imperfections in the market as monopsony, minimum wages and unions, and how these imperfections affect employment and unemployment rates.

- **Class readings:**

- Dube, A., T. W. Lester, and M. Reich (2010). Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties. *Review of Economics and Statistics* 92, no. 4:945–964

- **Assigned readings:**

- DiNardo, J. and D. S. Lee (2004). Economic Impacts of New Unionization on Private Sector Employers: 1984–2001. *The Quarterly Journal of Economics* 119, no. 4:1383–1441

- **Recommended readings:**

- Card, D. and A. B. Krueger (1994). Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania. *The American Economic Review* 84, no. 4:772–793

4 Unemployment, welfare and active labor market programs \approx 1L

This lecture outlines the growing empirical literature on the effectiveness of programs designed to reduce unemployment rates. The programs outlined in the first part of the lecture target labor supply, or the incentive of a worker to participate to the labor market. The second part of the lecture covers active labor market programs, focused on improving individual skills to target labor demand and the abilities required by employers. This lecture does not cover optimal implementations of these programs and their impact on total welfare, focusing instead on the empirical results on employment and job search.

- **Class readings:**

- Card, D., R. Chetty, and A. Weber (2007). The Spike at Benefit Exhaustion: Leaving the Unemployment System or Starting a New Job? *American Economic Review* 97, no. 2:113–118
- Card, D. and D. R. Hyslop (2005). Estimating the Effects of a Time-Limited Earnings Subsidy for Welfare-Leavers. *Econometrica* 73, no. 6:1723–1770: without Section 2

- **Assigned readings:**

- Crépon, B., E. Duflo, M. Gurgand, R. Rathelot, and P. Zamora (2013). Do Labor Market Policies have Displacement Effects? Evidence from a Clustered Randomized Experiment*. *Quarterly Journal of Economics* 128, no. 2:531–580
- IF NEEDED: Black, D. A., J. A. Smith, M. C. Berger, and B. J. Noel (2003). Is the Threat of Reemployment Services More Effective Than the Services Themselves? Evidence from Random Assignment in the UI System. *American Economic Review* 93, no. 4:1313–1327

- **Recommended readings:**

- Section 2 of Card and Hyslop (2005)
- Card, D., J. Kluge, and A. Weber (2010). Active Labour Market Policy Evaluations: A Meta-Analysis. *The Economic Journal* 120, no. 548:F452–F477

5 Human capital \approx 3L

The first part of this lecture defines human capital and examines its relationship with labor market outcomes as wages and unemployment. We will begin with the derivation of the Mincer wage equation and later assess more recent estimates of the economic and non-market

returns to schooling. Given the importance of the returns to schooling literature in Applied Microeconomics, in this part of the lecture we will briefly review some of the estimation techniques used in the literature and their consequences for the interpretation of estimated coefficients.

The second part of the lecture will focus on school inputs and organization. We will look at the empirical research on how school performance is affected by school resources, with a special emphasis on teacher value added measures. We will then focus on the effect of teacher and school incentives on student performance, the role of charter schools and the effects of accountability policies as No Child Left Behind.

- **Class readings:**

- Angrist, J. D., G. W. Imbens, and D. B. Rubin (1996). Identification of Causal Effects Using Instrumental Variables. *Journal of the American Statistical Association* 91, no. 434:444–455
- Meghir, C. and M. Palme (2005). Educational Reform, Ability, and Family Background. *The American Economic Review* 95, no. 1:414–424
- Chetty, R., J. N. Friedman, and J. E. Rockoff (2014b). Measuring the Impacts of Teachers II: Teacher Value-Added and Student Outcomes in Adulthood. *American Economic Review* 104, no. 9:2633–2679

- **Assigned readings:**

- Oreopoulos, P. (2006). Estimating Average and Local Average Treatment Effects of Education when Compulsory Schooling Laws Really Matter. *American Economic Review* 96, no. 1:152–175
- IF NEEDED: Devereux, P. J. and R. A. Hart (2010). Forced to Be Rich? Returns to Compulsory Schooling in Britain. *The Economic Journal* 120, no. 549:1345–1364
- Dobbie, W. and R. G. Fryer (2015). The Medium-Term Impacts of High-Achieving Charter Schools. *Journal of Political Economy* 123, no. 5:985–1037
- IF NEEDED: Fryer, R. G. (2014). Injecting Charter School Best Practices into Traditional Public Schools: Evidence from Field Experiments. *The Quarterly Journal of Economics* 129, no. 3:1355–1407

- **Recommended readings:**

- Oreopoulos, P. and K. G. Salvanes (2011). Priceless: The Nonpecuniary Benefits of Schooling. *The Journal of Economic Perspectives* 25, no. 1:159–184

- Card, D. (2001). Estimating the Return to Schooling: Progress on Some Persistent Econometric Problems. *Econometrica* 69, no. 5:1127–1160
- Chetty, R., J. N. Friedman, and J. E. Rockoff (2014a). Measuring the Impacts of Teachers I: Evaluating Bias in Teacher Value-Added Estimates. *American Economic Review* 104, no. 9:2593–2632
- Neal, D. and D. W. Schanzenbach (2010). Left Behind by Design: Proficiency Counts and Test-Based Accountability. *Review of Economics and Statistics* 92, no. 2:263–283

6 Discrimination ≈ 1L

In this lecture we will study the causes and consequences of discrimination in the labor market. In particular, we will focus on gender and racial discrimination. We will review taste-based and statistical discrimination models and the consequences they have for policy making and the functioning of labor markets. The second part of the lecture will cover how the presence of discrimination can be tested in the data, the existing evidence backing the leading theories of discrimination and the effects of discrimination policies

- **Class readings:**

- Bertrand, M. and S. Mullainathan (2004). Are Emily and Greg More Employable Than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination. *American Economic Review* 94, no. 4:991–1013
- Altonji, J. G. and C. R. Pierret (2001). Employer Learning and Statistical Discrimination. *The Quarterly Journal of Economics* 116, no. 1:313–350

- **Assigned readings:**

- Goldin, C. and C. Rouse (2000). Orchestrating Impartiality: The Impact of “Blind” Auditions on Female Musicians. *American Economic Review* 90, no. 4:715–741

- **Recommended readings:**

- Pager, D., B. Western, and B. Bonikowski (2009). Discrimination in a Low-Wage Labor Market A Field Experiment. *American Sociological Review* 74, no. 5:777–799
- Doleac, J. L. and B. Hansen (2016). Does “Ban the Box” Help or Hurt Low-Skilled Workers? Statistical Discrimination and Employment Outcomes When Criminal Histories are Hidden. Working Paper 22469, National Bureau of Economic Research
- Ahern, K. R. and A. K. Dittmar (2012). The Changing of the Boards: The Impact on Firm Valuation of Mandated Female Board Representation. *The Quarterly Journal of Economics* 127, no. 1:137–197

- Bagues, M. F. and B. Esteve-Volart (2010). Can Gender Parity Break the Glass Ceiling? Evidence from a Repeated Randomized Experiment. *The Review of Economic Studies* 77, no. 4:1301–1328

7 Migration ≈ 1L

One of the most controversial topics in the current public debate is immigration. In this lecture we will primarily focus on the impact of immigration on the labor market outcomes of natives. Starting from a simple model of competition between natives and immigrants, we will then turn on the mixed empirical evidence on the subject, distinguishing between impacts on local labor markets and general equilibrium. We will then discuss some evidence on other aspects of immigrations, such as the formation of economic ties across borders, and the ongoing research on the topic.

- **Class readings:**

- Borjas, G. J. (2003). The Labor Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market. *The Quarterly Journal of Economics* 118, no. 4:1335–1374
- Burchardi, K. B. and T. A. Hassan (2013). The Economic Impact of Social Ties: Evidence from German Reunification. *The Quarterly Journal of Economics* 128, no. 3:1219–1271

- **Assigned readings:**

- Foged, M. and G. Peri (2016). Immigrants' Effect on Native Workers: New Analysis on Longitudinal Data. *American Economic Journal: Applied Economics* 8, no. 2:1–34

- **Recommended readings:**

- Card, D. (1990). The impact of the Mariel boatlift on the Miami labor market. *Industrial & Labor Relations Review* 43, no. 2:245–257
- Borjas, G. J. (2015). The Wage Impact of the Marielitos: A Reappraisal. Working Paper 21588, National Bureau of Economic Research

8 Social environment ≈ 2L

The first part of this lecture studies the extent of intergenerational correlations in income and wealth and its implication for inequalities. We will distinguish between the relative impacts of

nature and nurture in the formation of these correlations. In the second part of the lecture we will study peer effects, their importance and the empirical challenges associated with their estimation, with a specific application to the estimation of peer effects in prison.

- **Class readings:**

- Björklund, A., M. Lindahl, and E. Plug (2006). The Origins of Intergenerational Associations: Lessons from Swedish Adoption Data. *The Quarterly Journal of Economics* 121, no. 3:999–1028
- Sacerdote, B. (2007). How large are the effects from changes in family environment? A study of Korean American adoptees. *The Quarterly Journal of Economics*:119–157
- Bayer, P., R. Hjalmarsson, and D. Pozen (2009). Building Criminal Capital behind Bars: Peer Effects in Juvenile Corrections. *The Quarterly Journal of Economics* 124, no. 1:105–147

- **Assigned readings:**

- None

- **Recommended readings:**

- Chetty, R., N. Hendren, P. Kline, and E. Saez (2014). Where is the land of Opportunity? The Geography of Intergenerational Mobility in the United States. *The Quarterly Journal of Economics* 129, no. 4:1553–1623
- Lavy, V., O. Silva, and F. Weinhardt (2012). The good, the bad, and the average: evidence on ability peer effects in schools. *Journal of Labor Economics* 30, no. 2:367–414
- Calvo-Armengol, A. and M. O. Jackson (2004). The effects of social networks on employment and inequality. *American Economic Review*:426–454
- Lavy, V., M. D. Paserman, and A. Schlosser (2012). Inside the Black Box of Ability Peer Effects: Evidence from Variation in the Proportion of Low Achievers in the Classroom*. *The Economic Journal* 122, no. 559:208–237

9 Skills and technology ≈ 1L

In this lecture we will study how skill premia and skill supply have changed in recent decades and the role of technology and technological changes in explaining these developments. We will then focus on how technology (and the substitution of labor with capital) affects different occupations and tasks assigned in a labor market, and how task models can explain recent labor market polarization in the service and manufacturing sector.

- **Class readings:**

- Autor, D. H. and D. Dorn (2013). The Growth of Low-Skill Service Jobs and the Polarization of the US Labor Market. *American Economic Review* 103, no. 5:1553–1597
- Autor, D. H., F. Levy, and R. J. Murnane (2002). Upstairs, Downstairs: Computers and Skills on Two Floors of a Large Bank. *Industrial & Labor Relations Review* 55, no. 3:432–447
- Goos, M. and A. Manning (2007). Lousy and Lovely Jobs: The Rising Polarization of Work in Britain. *The Review of Economics and Statistics* 89, no. 1:118–133

- **Assigned readings:**

- None

- **Recommended readings:**

- Katz, L. F. and K. M. Murphy (1992). Changes in Relative Wages, 1963–1987: Supply and Demand Factors. *The Quarterly Journal of Economics* 107, no. 1:35–78
- Autor, D. H., F. Levy, and R. J. Murnane (2003). The Skill Content of Recent Technological Change: An Empirical Exploration. *The Quarterly Journal of Economics* 118, no. 4:1279–1333