

# EC423 Labour Economics, 2007-2008

**Dr Barbara Petrongolo (MT) and Prof Steve Pischke (LT)**

The aim of this course is to acquaint students with current theoretical and empirical topics of labour economics and to encourage the development of independent research interests. The course will address a number of aspects of the wage distribution and unemployment, with emphasis on the role of institutions and policy. The course has a strong applied focus. For each major topic covered we will derive testable implications, provide insights into the research methodology, discuss the advantages and limitations of existing empirical work, and draw policy conclusions.

## Course details

The course website is at <http://econ.lse.ac.uk/courses/ec423/>.

Lectures will be on Mondays during Michaelmas and Lent terms, 11:00-13:00. Interested students are also welcome to the weekly meetings of the Labour Economics Seminar on Fridays, 11:30-13:00 (EC531), and to Labour Economics Workshop on Tuesdays, 12:45-14:00.

Assessment will be based on a three-hour written examination in Summer Term. Additionally, students taking MSc Economics or MSc Econometrics and Mathematical Economics will be required to submit an extended essay at the beginning of the Summer Term; for such students the written examination and the extended essay will each count for half of the marks.

There is no set text for the course but the following books are a useful reference for most of the topics covered:

- O. Ashenfelter and R. Layard, *The Handbook of Labor Economics*, Volumes I, II, North-Holland, 1986. (CC 4802-H23)
- O. Ashenfelter and D. Card, *The Handbook of Labor Economics*, Volumes IIIA, B, C, North-Holland, 1999. (CC 4802-H23)
- G. Borjas, *Labor Economics*, 2nd Edition, Mc Graw Hill, 2005. (CC 4901-B73)
- P. Cahuc and A. Zylberberg, *Labor Economics*, MIT Press, 2004. (HD 3901-C13)
- R. Ehrenberg and J. Smith, *Modern Labor Economics*, 8th Edition, Addison Wesley, 2003. (CC 4901-E31)
- A. Manning, *Monopsony in Motion*, Princeton University Press, 2003. (CC 5701.6-M28)

Readings marked with (\*) are required and will be covered in detail in lectures. Lecture notes/slides will be provided at the start of the course. All material is available online on Moodle.

## References - Michaelmas Term (Barbara Petrongolo)

### 1. Overview of modern labor markets: frameworks and facts

- J. Angrist and A. Krueger, “Empirical Strategies in Labor Economics,” In O. Ashenfelter and D. Card (eds) *Handbook of Labor Economics*, Volume 3A.
- D. Autor and L. Katz. “Changes in the Wage Structure and Earnings Inequality.” In O. Ashenfelter and D. Card (eds) *Handbook of Labor Economics*, Volume 3A.
- D. Autor, L. Katz. and M. Kearney. “Trends in U.S. Wage Inequality: Re-Assessing the Revisionists.” Working Paper, MIT, Aug 2004.
- L. Katz and K. Murphy. “Changes in Relative Wages, 1963-1987: Supply and Demand Factors.” *Quarterly Journal of Economics*, 107: 35-78, 1992.
- \*O. Blanchard and J. Wolfers. “The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence.” *Economic Journal* 110: 1-33, 2000
- O. Blanchard and L. Katz. “What we Know and Do not Know about the Natural Rate of Unemployment”. *Journal of Economic Perspectives* 11: 51-72, 1997.
- S. Davis and J. Haltiwanger. “Gross Job Flows.” In O. Ashenfelter and D. Card (eds) *Handbook of Labor Economics*, Volume 3C: 2711-2805.
- S. Nickell and R. Layard. “Labor Market Institutions and Economic Performance.” In O. Ashenfelter and D. Card (eds) *Handbook of Labor Economics*, Volume 3C: 3029-3084.
- F. Blau and L. Kahn. “Institutions and Laws in the Labor Market.” In O. Ashenfelter and D. Card (eds) *Handbook of Labor Economics*, Volume 3A: 1399-1461.
- S. Machin and A. Manning. “The Causes and Consequences of Long-Term Unemployment in Europe.” In O. Ashenfelter and D. Card (eds) *Handbook of Labor Economics*, Volume 3C: 3085-3139, 1999.
- S. Nickell “Unemployment and Labor Market Rigidities: Europe versus North America.” *Journal of Economic Perspectives*, 11: 55-74, 1997.
- R. Shimer “Why Is the U.S. Unemployment Rate So Much Lower?” *Macroeconomics Annual*, 1998.

### 2. Unions and wage setting

- \*A. Booth. *The Economics of the Trade Union*. Cambridge University Press, 1995, chapter 5. (HD6664 B72)
- P. Cahuc and A. Zylberberg (2004), chapter 7.
- M. Stewart. “Union Wage Differentials, Product Market Influences and the Division of Rents.” *Economic Journal* 100: 1122-1137, 1990.
- \*R. Freeman “Longitudinal Analyses of the Effects of Trade Unions.” *Journal of Labor Economics* 2: 1-26, 1984.

- J. Jakubson. “Estimation and Testing of the Union Wage Effect Using Panel Data.” *Review of Economic Studies* 58: 971-991, 1991.
- D. Card. “The Effect of Unions on the Structure of Wages: A Longitudinal Analysis.” *Econometrica* 64: 957-979.
- \*J. DiNardo and D. Lee. “Economic Impacts of Unionization on Private Sector Employers: 1984-2001.” *Quarterly Journal of Economics* 119: 1383-1442, 2004.

### 3. Efficiency wages and economic incentives

- G. Akerlof. “Labor Contracts as a Partial Gift Exchange.” *Quarterly Journal of Economics* 97: 543-569, 1982.
- \*C. Shapiro and J. E. Stiglitz. “Equilibrium Unemployment as a Worker Discipline Device.” *American Economic Review* 74: 433-44, 1984.
- \*A. Krueger. “Ownership, Agency and Wages: An Examination of Franchising in the Fast Food Industry” *Quarterly Journal of Economics* 106: 75-101, 1991.
- \*P. Cappelli and K. Chauvin. “An Interplant Test of the Efficiency Wage Hypothesis.” *Quarterly Journal of Economics* 106: 769-787, 1991.
- H. Holzer, L. Katz, and A. Krueger. “Job Queues and Wages”, *Quarterly Journal of Economics*, 106: 739-768, 1991.
- \*D. Raff and L. Summers. “Did Henry Ford Pay Efficiency Wages?” *Journal of Labor Economics* 5: 557-586, 1987.
- C.M. Campbell III, and K. S. Kamlani. “The Reasons for Wage Rigidity: Evidence from a Survey of Firms.” *Quarterly Journal of Economics* 112: 759-789, 1997
- D. Neal. “Supervision and Wages Across Industries.” *Review of Economics and Statistics* 75: 409-17, 1993.
- E. Fehr and S. Gächter. “Fairness and Retaliation: The Economics of Reciprocity” *Journal of Economic Perspectives* 14:159-81. 2000.
- \*E. Fehr and S. Gächter. “Do Incentive Contracts Undermine Voluntary Cooperation?”, Working Paper No. 34, IERE University of Zurich, 2002.
- A. Mas. “Pay, Reference Points, and Police Performance.” *Quarterly Journal of Economics* 121: 783-821, 2006.
- \*U. Gneezy and J. List. “Putting Behavioral Economics to Work: Testing for Gift Exchange in Labor Markets Using Field Experiments.” *Econometrica* 74: 1365-1384, 2006.

### 4. Search frictions.

- \*R. Rogerson, R. Shimer and R. Wright. “Search-theoretic Models of the Labor Market: A Survey.” *Journal of Economic Literature* 43: 959-988, 2005.

- D. Mortensen and C. Pissarides. “New Developments in Models of Search in the Labor Market”, O. Ashenfelter and D. Card (eds.) *Handbook of Labor Economics*, volume 3B: 2567-2627.
- \*C. A. Pissarides. *Equilibrium Unemployment Theory*, 2nd Edition, Basil Blackwell, 2000 (esp. chapters 1, 2 and 8) (CC HD5707.5 P67)
- \*D. T. Mortensen and C.A. Pissarides. “Job Creation and Job Destruction in the Theory of Unemployment.” *Review of Economic Studies*, 61: 397-415, 1994.
- \*J. Hosios, “On the Efficiency of Matching and Related Models.” *Review of Economic Studies* 57: 279-298, 1990.
- D. T. Mortensen. “Job Search and Labor Market Analysis” in O. Ashenfelter and R. Layard (eds.), *Handbook of Labor Economics*, Volume 2: 849-920.
- \*A. Manning, *Monopsony in Motion*, chapter 4.
- \*K. Burdett, and D. Mortensen. “Wage Differentials, Employer Size, and Unemployment.” *International Economic Review* 39: 257-73, 1998.
- \*N. Kiefer. “Economic Duration Data and Hazard Functions.” *Journal of Economic Literature* 26: 646-679, 1988.
- T. Devine and N. Kiefer. *Empirical Labor Economics: The Search Approach*, Oxford University Press, 1991. (HD4901 D49)
- \*B. Petrongolo and C. A. Pissarides. “Looking into the Black-Box: A Survey of the Matching Function.” *Journal of Economic Literature* 39: 390-431, 2001.
- B. Petrongolo. “Re-employment Probabilities and Returns to Matching.” *Journal of Labor Economics* 19: 716-741, 2001.

## 5. Employer wage differentials.

- P. Cahuc and A. Zylberberg (2004), chapter 5.
- \*A. Krueger and L. Summers. “Efficiency Wages and the Inter-industry Wage Structure.” *Econometrica* 56: 259-93, 1988.
- R. Gibbons and L. Katz. “Does Unmeasured Ability Explain Inter-Industry Wage Differentials?” *Review of Economic Studies* 59: 515-535, 1992.
- C. Brown and J. Medoff. “The Employer-Size Wage Effect.” *Journal of Political Economy* 97: 1027-1059.
- \*A. Manning, *Monopsony in Motion*, chapter 8.
- J. Abowd and T. Lemieux. “The Effects of Product Market Competition on Collective Bargaining Agreements: The Case of Foreign Competition in Canada”, *Quarterly Journal of Economics* 108: 983-1014, 1993.

## 6. Unemployment compensation and welfare reforms

- \*D. Mortensen. “Unemployment Insurance and Job Search Decisions.” *Industrial and Labor Relations Review* 30: 505-17, 1977.

- A. Atkinson and J. Micklewright. “Unemployment Compensation and Labor Market Transitions: A Critical Review.” *Journal of Economic Literature* 29: 1679-1727, 1991.
- \*B. Meyer, “Lessons from the U.S. Unemployment Insurance Experiments.” *Journal of Economic Literature* 33: 91-131, 1995.
- D. Black, J. Smith, M. Berger and B. Noel. “Is the Threat of Re-employment Services More Effective than the Services Themselves?” *American Economic Review* 22: 1313-1327, 2003.
- A. Manning. “You Can’t Always Get What You Want: the Impact of the Job-seeker’s Allowance” CEP Discussion Paper 0697, 2005.
- \*R. Chetty. “Moral Hazard vs. Liquidity in Unemployment Insurance”, UC Berkeley mimeo, 2007.
- D. Card, R. Chetty and A. Weber. “Cash-on-Hand and Competing Models of Intertemporal Behavior: New Evidence from the Labor Market”. *Quarterly Journal of Economics*, forthcoming 2007.
- A. Krueger and B. Meyer. “Labor Supply Effects of Social Insurance”, NBER Working Paper 9014, 2002.

## 7. Employment protection

- \*S. Bentolila and G. Bertola. “Firing Costs and Labour Demand: How Bad Is Eurosclerosis?” *Review of Economic Studies* 57: 381-402, 1990.
- E. Lazear. “Job Security Provisions and Employment”, *Quarterly Journal of Economics* 105: 699-726, 1990.
- O. Blanchard and P. Portugal. “What Lies Behind an Unemployment Rate”, *American Economic Review* 91: 187-207, 2001.
- \* I. Marinescu. “Shortening the Tenure Clock: The Impact of Strengthened Job Security Legislation.” University of Chicago mimeo, 2007.
- D. Autor, J. Donohue III and S. Schwab. “The Costs of Wrongful-Discharge Laws”. *The Review of Economics and Statistics* 88: 211-231, 2006.

## 8. Training: Government programs and firm provision

- G. Becker, *Human Capital*, 3rd Edition, University of Chicago Press, 1993. (CC LB2321-B39)
- O. Ashenfelter. “Estimating the Effect of Training Programs on Earnings.” *Review of Economics and Statistics* 60: 47-57, 1978.
- O. Ashenfelter and D. Card. “Using the Longitudinal Structure of Earnings to Estimate the Effect of Training Programs on Earnings.” *Review of Economics and Statistics* 67: 648-660, 1985.
- R. LaLonde. “Evaluating the Econometric Evaluations of Training Programs with Experimental Data.” *American Economic Review* 76: 604-620, 1986.

- D. Acemoglu “Training and Innovation in An Imperfect Labor Market.” *Review of Economic Studies* 64: 445-464, 1998.
- \*D. Acemoglu and S. Pischke. “Why Do Firms Train.” *Quarterly Journal of Economics* 113: 79-119.
- \*D. Acemoglu and S. Pischke. “The Structure of Wages and Investment in General Training.” *Journal of Political Economy* 107: 539-572
- \*D. Acemoglu and S. Pischke. “Beyond Becker: Training in Imperfect Labor Markets.” *The Economic Journal* 109: F112-F142, 1999.
- \*D. Autor. “Why Do Temporary Help Firms Provide Free General Skills Training.” *Quarterly Journal of Economics* 116: 1409-1448, 2001.
- D. Acemoglu and S. Pischke. “Minimum Wages and on-the-Job Training.” *Research in Labor Economics* 22: 159-202, 2003.