

## Economics 731: Labor Economics I

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Office Hours: Tues. 3:30-4:30pm, Friday 10:00-1100am or by appointment.

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**Course Outline:** This course is designed to provide a basic overview of modern labor economics. For each general area I will present the basic theory and then we will discuss some of the empirical work in support of the theory. The reading list contains the topics that we will over and the papers related to these topics.

**Course Requirements:** The requirements for this course are a final exam, one referee report, and class participation.

Class Participation: Students are expected to read the (\*) readings before class and be prepared to discuss the papers in class. Class participation accounts for 10% of the grade.

Referee Reports: Students are expected to write a referee report based on a recently published labor economics article of your own choosing. **You must discuss with me your choice of article prior to writing the report.** The report should contain both a brief summary of the paper and a critical evaluation of the research. Your evaluation should answer the following questions: (a) Does the paper address an interesting question? (b) Does the paper come up with a reasonable answer to this question? (c) Are the authors familiar with the relevant literature? (d) If there is a theoretical component, is the theory original? (e) If there is an empirical component, is the empirical work original? (f) Do the authors use the appropriate data? And most importantly; (g) How might the authors improve the analysis? The report is due on the last day of class. The report will account for 30% of the grade.

Exam: The final exam will cover all of the material we cover during the class. The final is scheduled for Monday December, 15<sup>th</sup> from 10:30am-12:30pm.

### Special Needs

Any student with a disability who is taking this course and needs classroom or exam accommodations should contact the Disability Resource Center, Room 2 Alumni Gym, 257-2754.

### Academic Honesty

Cheating is in no way tolerated at The University of Kentucky. Anyone caught cheating will be penalized severely. The full penalty will be determined in consultation with the Chairman of the Department of Economics. The minimum penalty is an "E" for the course.

**Reading List:** The reading list contains both (\*) articles, which will be discussed in class, and

some supplemental readings. All of the general reference books are on reserve at Ellis library. You can obtain copies of most of the articles from the JSTOR web site which is: <http://www.jstor.org>. If you have trouble obtaining any article, I will give you the article so that you can make a copy.

### **General References:**

O. Ashenfelter and R. Layard, *Handbook of Labor Economics*, Vol. 1, 2 Amsterdam: North Holland, 1986. (Handbook below)

O. Ashenfelter and David Card, *Handbook of Labor Economics*, Vol., 3A, 3B, & 3C Amsterdam: North Holland, 1999. (Handbook below).

M Killingsworth, *Labor Supply*, Cambridge University Press, 1983. (out of print). (LS below).

A. Smith, *The Wealth of Nations*, Chicago: The University of Chicago Press, 1976. (Wealth of Nations below).

### **I. Introduction**

- \* *Wealth of Nations*, Book I, Ch 8 & 10.
- \* Z, Griliches, "Data and Econometricians—The Uneasy Alliance," *American Economic Review*, 1983, 75(2), pp. 196-200.
- \* R. Freeman, "Introduction," in *Labor Markets in Action: Essays in Empirical Economics*.
- \* Marshall, Alfred. 1964. *Principles of Economics* (London: Macmillan & Co. Ltd., eighth edition), Book VI, Chapter IV, "Earnings of Labour, Continued."

### **II. Human Capital**

- \* Card, David. "The Causal Effect of Education and Earnings," Ch 30 in Handbook.
- A. *Theory*
- \* Gary Becker, *Human Capital*, University of Chicago Press, 2<sup>nd</sup> Ed. 1975, pp. 1-88.
- \* Robert Willis, "Wage Determinants: A Survey and Reinterpretation of Human Capital Earnings Functions," Ch 10 in Handbook.
- \* J. Mincer, *Schooling, Experience and Earnings*, (NBER, 1974), Ch 1-5,
- \* Heckman, James J., Lance Lochner and Petra Todd, "Earnings Functions, Rates of Return, and Treatment Effects: The Mincer Equation and Beyond," in E. Hanushek and F. Welch (eds.), *Handbook of the Economics of Education*, Vol. 1, Chapter 7, Amsterdam: Elsevier Science, 2007, pp.

307-458.

**B. Application - Returns to Education**

- \* Roy, A.D., "Some Thoughts on the Distribution of Earnings." *Oxford Economic Papers*, 3 (1951) pp. 135-146.
- \* R. Willis and S. Rosen, "Education and Self-Selection." *Journal of Political Economy*, 87 (1979) pp. S7-S36.
- \* O. Ashenfelter and A. Krueger, "Estimates of the Economic Returns to Schooling from a New Sample of Twins." *American Economic Review* (Dec. 1994) pp. 1157-1173.
- \* O. Ashenfelter and C. Rouse. "Income, Schooling, and Ability: Evidence from a New Sample of Identical Twins." *Quarterly Journal of Economics*, CXIII (Feb. 1998), pp. 253-284.
- \* Card, David. 2001. "Estimating the Return to Schooling: Progress on Some Persistent Econometric Problems." *Econometrica* 69:5, 1127–1160.
- \* Z. Griliches, "Estimating Returns to Schooling: Some Econometric Problems," *Econometrica*, 45 (January 1977) pp. 1-22.
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- Behrman, Jere R., Mark R. Rosenzweig, and Paul Taubman. "Endowments and the Allocation of Schooling in the Family and in the Marriage Market: The Twins Experiment." *Journal of Political Economy*, 102(6), pp. 1131-74.
- Blackburn, McKinley L., and David Neumark. 1995. "Are OLS Estimates of the Return to Schooling Biased Downward? Another Look." *Review of Economics and Statistics*, LXXVII(2), pp. 217-30.
- \* Angrist, Joshua D., and Alan B. Krueger. 1991. "Does Compulsory School Attendance Affect Schooling and Earnings?" *Quarterly Journal of Economics*, CVI(4), p. 979-1014.
- \* Bound, John, David A. Jaeger, and Regina M. Baker. 1995. "Problems with Instrumental Variables Estimation When the Correlation Between the Instruments and the Endogenous Explanatory Variable is Weak." *Journal of the American Statistical Association*, 90(430), pp. 443-50.
- Angrist, Joshua D., and Alan B. Krueger. 1995. "Split-Sample Instrumental Variables Estimates of the Return to Schooling." *Journal of Business & Economic Statistics*, 13(2), pp. 225-35.

**III. Discrimination**

- \* Altonji, Joseph G. and Rebecca Blank. "Race and Gender in the Labor Market," Ch 48 in Handbook.
- A. Theories of Discrimination**
- \* Becker, Gary S. 1971. *The Economics of Discrimination* (Chicago, IL: The University of Chicago Press), Chapters 1-5.

- \* Arrow, Kenneth J. 1972. "Models of Job Discrimination." In A.H. Pascal, ed., *Racial Discrimination in Economic Life* (Lexington, MA: D.C. Heath), pp. 83-102.
  - \* Cain, Glen G. And D Aigner, "Statistical Theories of Discrimination," *Industrial and Labor Relations Review*, January 1977.
  - Cain, Glen G. 1986. "The Economic Analysis of Labor Market Discrimination: A Survey." Ch 13 in Handbook.
  - Bergmann, Barbara R. "The Effect on White Incomes of Discrimination in Employment." *Journal of Political Economy*, 79(2), pp. 294-313.
  - Lundberg, S. And R. Startz, "Private Discrimination and Social Intervention in Competitive Labor Markets," *American Economic Review*, June 1983.
- B. Alternative Explanations*
- \* Becker, Gary S. 1985. "Human Capital, Effort, and the Sexual Division of Labor." *Journal of Labor Economics*, 1, pp. S33-S58.
  - \* Polachek, Solomon W. 1981. "Occupational Self-Selection: A Human Capital Approach to Sex Differences in Occupational Structure." *Review of Economics and Statistics*, pp. 60-9.
  - \* Black, Dan A., 1995. "Discrimination in an Equilibrium Search Model." *Journal of Labor Economics*, Vol. 13, (April): 309-334.
- C. Evidence of Discrimination—Male/Female Differentials*
- \* Oaxaca, Ronald. 1973. "Male-Female Wage Differentials in Urban Labor Markets." *International Economic Review*, 14, pp. 693-709.
  - \* Neumark, D. 1988. "Employers' Discriminatory Tastes and the Estimation of Wage Discrimination. *Journal of Human Resources*, 23, pp. 279-295.
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  - Kuhn, Peter. 1987. "Sex Discrimination in Labor Markets: The Role of Statistical Evidence." *American Economic Review*, 77, pp. 567-83.
  - \* Light, Audrey, and Manuelita Ureta. 1995. "Early-Career Work Experience and Gender Wage Differentials." *Journal of Labor Economics*, 13, 121-54.
  - \* Polachek, Solomon. 1975. "Differences in Expected Post-School Investment as a Determinant of Market Wage Differentials." *International Economic Review*, 16, pp. 451-70.
  - Butler, Richard. 1982. "Estimating Wage Discrimination in the Labor Market." *Journal of Human Resources*, 17, pp. 606-21.
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  - Neumark, David, and Michele McLennan. 1995. "Sex Discrimination and Women's Labor Market Interruptions." *Journal of Human Resources*, 30(4), pp. 713-40.

- Korenman, Sanders, and David Neumark. 1991. "Does Marriage Really Make Men More Productive?" *Journal of Human Resources* 26(2): 282-307.
- Korenman, Sanders, and David Neumark. 1992. "Marriage, Motherhood, and Wages." *Journal of Human Resources*, 27, 233-55.
- \* Carrington, William and Kenneth Troske. "Sex Segregation in U.S. Manufacturing." *Industrial and Labor Relations Review*. 51, (April 1998), pp. 445-464.
- Carrington, William and Kenneth Troske. "On Measuring Segregation in Samples with Small Units." *Journal of Business and Economic Statistics*, 15 (Oct. 1997), pp. 402-409.
- \* Foster, Andrew D., and Mark R. Rosenzweig. 1993. "Information, Learning, and Wage Rates in Low-Income Rural Areas." *Journal of Human Resources*, 28(4), pp. 759-90.
- \* Hellerstein, Judith, David Neumark, and Kenneth Troske. "Wages, Productivity, and Worker Characteristics." *Journal of Labor Economics*, 17 (July 1999), pp. 409-446.
- \* Bayard, Kimberly, Judith Hellerstein, David Neumark and Kenneth Troske, "New Evidence on Sex Segregation from Matched Employer-Employee Data." *Journal of Labor Economics*, (October 2003): 887-922.
- Neumark, David. 1996. "Sex Discrimination in Restaurant Hiring: An Audit Study." *Quarterly Journal of Economics*, 111(3): 915-41.
- \* Goldin, Claudia and Cecilia Rouse. 1997. "Orchestrating Impartiality: The Impact of "Blind" Auditions on Female Musicians." *American Economic Review*, 90(4) (September, 2000): 715-741.
- \* Kunze, Astrid and Kenneth Troske. 2006. "Comparative advantage or discrimination? Studying male-female wage differentials using displaced workers." *Mimeo*, (November).

#### IV. Program Evaluation

- \* Heckman, James J., Robert J. LaLonde, and Jeffery A. Smith. "The Economics and Econometrics of Active Labor Market Programs," Ch 31 in *Handbook*.
- \* Friedlander, Daniel, David H. Greenberg, and Philip K. Robins, "Evaluating Government Training Program for the Economically Disadvantaged." *Journal of Economic Literature* 35 (Dec. 1997), pp. 1809-1855.
- LaLonde, Robert J. "The Promise of Public Sector-Sponsored Training Programs." *Journal of Economic Perspectives*, 9 (Spring 1995), pp. 149-168.
- Bloom, Howard S., et. al., "The Benefits and Costs of JTPA Title II-A Programs." *Journal of Human Resources*, 32 (Summer 1997).
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- \* Lalonde, Robert J. "Evaluating the Econometric Evaluations of Training Programs with Experimental Data." *American Economic Review*, 76,

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- Ashenfelter, Orley and David Card. "Using the Longitudinal Structure of Earnings to Estimate the Effect of Training Programs." *Review of Economics and Statistics*, 67 (Nov 1985), pp. 648-60.
- \* Ashenfelter, Orley. "Estimating the Effect of Training Programs on Earnings." *Review of Economics and Statistics*, 60 (Feb. 1978), pp. 47-57.
  - \* Heckman, James J. and Jeffery A. Smith. "Assessing the Case for Social Experiments." *Journal of Economic Perspectives*, 9 (Spring 1995), pp. 85-110.
  - \* Friedlander, Daniel and Robins, Phillip. "Evaluating Program Evaluations: New Evidence on commonly Used Nonexperimental Methods." *American Economic Review* 85 (September 1995): 923-937.
  - \* Dehejia, Rajeev H. and Wahba, Sadek. 1999 "Causal Effects in Non-Experimental Studies: Re-Evaluating the Evaluation of Training Programs." *Journal of the American Statistical Association*, 94, pp. 1053-1062.
  - \* Rosenbaum, P. and D. Rubin, "Constructing a Control Group Using Multivariate Matched Sampling Methods that Incorporate the Propensity Score." *The American Statistician*, 39, (February 1985): 33-38.
  - \* Mueser, Peter, Kenneth R. Troske and Alexey Gorislavsky. 2006 "Using State Administrative Data to Measure Program Performance," *The Review of Economics and Statistics*, (November 2007): 761-783.

#### IV. The Classic Model of Labor Supply

- \* Blundell, Richard and Thomas MaCurdy. 1998. "Labour Supply: A Review of Alternative Approaches." Ch. 27 in Handbook.
- A. *The Simple Static Model and Basic Findings.*
- \* Killingsworth, LS, Ch 1-3.
  - \* J. Pencavel, "Labor Supply of Men: A Survey," Handbook, Ch 1.
- B. *Problems of Truncation*
- \* Killingsworth, LS, Ch 4.
  - M. Killingsworth and J. Heckman, "Female Labor Supply: A Survey,," Handbook, Ch 2.
  - \* J. Heckman, "Sample Selection Bias as Specification Error," *Econometrica*, 1979, 153-162.
  - \* J. Heckman, "What Have we Learned About Labor Supply in the past 20 Years?" *American Economic Review*, 83 (May 1993), 116-121.
  - T. Mroz, "The Sensitivity of an Empirical Model of Married Women's Hours of Work to Econometric and Statistical Assumptions," *Econometrica*, (July 1987).

C. *The Dynamic Model*

- \* T. MaCurdy, "An Empirical Model of Labor Supply in a Life-Cycle Setting," *Journal of Political Economy*, (December 1981).
- T. MaCurdy, "A Simple Scheme for Estimating and Intertemporal Model of Labor Supply and Consumption in the Presence of Taxes and Uncertainty." *International Economic Review* 24 (1983): 265-289.
- J. Heckman and T. MaCurdy, "A Life-Cycle Model of Female Labor Supply," *Review of Economic Studies*, (1980), pp. 75-122.
- J. Altonji, "Intertemporal Substitution in Labor Supply: Evidence from Micro Data," *Journal of Political Economy*, (June 1996).
- \* D. Card, "Intertemporal Labor Supply: An Assessment," in C. Sims, ed. *Advances in Econometrics* (Cambridge University Press, Cambridge, UK), 1990.
- J. Cogan, "Fixed Costs and Labor Supply," *Econometrica*, (December 1981), pp. 945-64.