

ECONOMICS 732
Labor Economics II

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MW 2:00-3:15 pm
BE 214

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PRELIMINARIES

This course is part of a two-course sequence in analytical labor economics. The purpose of this course is to familiarize the student with many of the issues, methods of analysis, and findings that comprise modern labor economics, thereby enabling the student to conduct and evaluate research at the frontier of the field. The reading list is intended as a guide to much of the literature. It is not an exhaustive list of significant papers in each of the topic areas, but it gives a good sampling. I have selected several papers for detailed treatment in class and these are marked with a '*'. I will draw substantial material from papers marked by a '#'. Additional papers will be considered, but mostly to discuss how they fit with the literature considered in detail.

Students are encouraged to acquire introductory and background information in each of the topic areas by reading the relevant sections of a labor economics textbook, such as Ehrenberg, R. and Smith, R., Modern Labor Economics.

COURSE REQUIREMENTS

Two examinations will be given, each covering approximately one half of the course. The exams may be partly take home. Each exam is worth one-third of your grade. Additionally, there is an assignment of a term paper worth one-third of your grade. The paper may consist of one of the following: (i) a review of some focused part of the literature; (ii) preliminary empirical investigation of a topic; (iii) preliminary modeling of an issue; or (iv) some combination of the above. Topics should be discussed and cleared with the instructor and must be someone related to issues addressed in the course. I will be happy to work with you on topic selection and other matters that come up regarding your papers.

COURSE OUTLINE AND READINGS

I. Hedonic Price Equilibrium and Applications

*Rosen, Sherwin, "The Theory of Equalizing Differences," in Ashenfelter and Layard (eds.), *Handbook of Labor Economics*, vol. 1, New York: Elsevier, 1986. (Especially see Sections 1 through 4.1.)

*Rosen, Sherwin, "Hedonic Prices and Implicit Markets: Product Differentiation in Pure Competition," *JPE*, Jan. 1974.

*Brown, James and Rosen, Harvey, "On the Estimation of Structural Hedonic Price Models," *Econometrica*, May 1982.

#Ekeland, Ivar; Heckman, James; and Nesheim, Lars, "Identification and Estimation of Hedonic Models," *JPE*, Feb. 2004, supplement. (Especially pp. S60-S79.)

*Thaler, Richard and Rosen, Sherwin, "The Value of Saving a Life: Evidence from the Labor Market," in N. Terleckyj (ed.), *Household Production and Consumption*, NBER Studies in Income and Wealth, 1975.

#Brown, Charles, "Equalizing Differences in the Labor Market," *QJE*, Feb. 1980.

*Hwang, H.; Reed, W.R.; and Hubbard, C., "Compensating Wage Differentials and Unobserved Productivity," *JPE*, Aug. 1992.

#Roback, Jennifer, "Wages, Rents, and the Quality of Life," *JPE*, December 1982.

Epple, Dennis, "Hedonic Prices and Implicit Markets: Estimating Demand and Supply Functions for Differentiated Products," *JPE*, Feb. 1987.

Garen, John, "Compensating Wage Differentials and the Endogeneity of Job Riskiness," *REStat*, Feb. 1988.

Arnould, Richard and Nichols, Len, "Wage-Risk Premiums and Workers' Compensation: A Refinement of Estimates of Compensating Wage Differential," *JPE*, April 1983.

Viscusi, W. Kip, "The Value of Risks to Life and Health," *Journal of Economic Literature*, December 1993.

Long, James and Scott, Frank, "The Income Tax and Nonwage Compensation," *REStat*, May 1982.

Blomquist, Glenn; Berger, Mark, and Hoehn, John, "New Estimated of Quality of Life in Urban Areas," *AER*, March 1988.

II. Employment and Labor Supply over the Business Cycle

A. Two Models

*MaCurdy, Thomas, "An Empirical Model of Labor Supply in a Life-Cycle Setting," *JPE*, Dec. 1981.

Blundell, Richard and MaCurdy, Thomas, "Labor Supply: A Review of Alternative Models," in Orley Ashenfelter and David Card, *Handbook of Labor Economics*, vol. 3A, Elsevier, 1999, pp. 1586-1596.

*Rosen, Sherwin, "Implicit Contracts: A Survey," *JEL*, Sept. 1985.

Azariadis, Costas and Stiglitz, Joseph, "Implicit Contracts and Fixed Price Equilibria," *QJE*, supplement, 1983.

Hall, Robert and Lilien, David, "Efficient Wage Bargains under Uncertain Supply and Demand," *AER*, Dec. 1979.

B. Evidence

*Feldstein, Martin, "The Importance of Temporary Layoffs: An Empirical Analysis," *Brookings Papers on Economic Activity*, no. 3, 1975.

*Abowd, John and Card, David, "Intertemporal Labor Supply and Long-Term Employment Contracts," *AER*, March 1987.

*Beaudry, Paul and DiNardo, John, "The Effect of Implicit Contracts on the Movement of Wages over the Business Cycle: Evidence from Micro Data," *JPE*, Aug. 1991.

Beaudry, Paul and DiNardo, John, "Is the Behavior of Hours Worked Consistent with Implicit Contract Theory," *QJE*, Aug. 1995.

#Carrington, William; McCue, Kristin; and Pierce, Brooks, "The Role of Employer/Employee Interactions in Labor Market Cycles: Evidence from the Self-Employed," *JOLE*, October 1996.

Ham, John and Reilly, Kevin, "Testing Intertemporal Substitution, Implicit Contracts, and Hours Restrictions Models of the Labor Market Using Micro Data," *AER*, Sept. 2002.

C. Layoffs, Unemployment, and Unemployment Insurance

#Topel, Robert and Welch, Finis, "Unemployment Insurance: Survey and Extensions," *Economica*, Aug. 1980.

Feldstein, Martin, "Temporary Layoffs in the Theory of Unemployment," *JPE*, Oct. 1976.

*Topel, Robert, "On Layoffs and Unemployment Insurance," *AER*, Sept. 1983.

Brechling, Frank, "Layoffs and Unemployment Insurance," in Sherwin Rosen (ed.), *Studies in Labor Markets*, Chicago: University of Chicago Press, 1981.

Deere, Donald, "Unemployment Insurance and Employment," *JOLE*, Oct. 1991.

D. Employment Protection

Lazear, Edward, "Job Security Provisions and Employment," *QJE*, Aug. 1990.

Dertouzos, James and Karoly, Lynn, "Labor-Market Responses to Employer Liability," RAND Corporation Report R-3989-ICJ, 1992.

Krueger, Alan, "The Evolution of Unjust-Dismissal Legislation in the United States," *Industrial and Labor Relations Review*, July 1991.

III. Job Stability

A. Overview

*Farber, Henry, "Mobility and Stability: The Dynamics of Job Change in Labor Markets," in Ashenfelter, O. and Card, D. (eds.), *Handbook of Labor Economics*, v. 3B, New York: Elsevier, 1999. Sections 1 through 3.

B. Human Capital, Job Stability, and Wages

*Becker, Gary, "Investment in Human Capital: A Theoretical Analysis," *JPE*, Oct. 1962.

*Oi, Walter, "Labor as a Quasi-Fixed Factor," *JPE*, Dec. 1962.

#Rosen, Sherwin, "Short-Run Employment Variation on Class-I Railroads in the U.S., 1947-1963," *Econometrica*, July 1968.

Parsons, Donald, "Specific Human Capital: An Application to Quit Rates and Layoff Rates," *JPE*, Dec. 1972.

#Mincer, Jacob and Jovanovic, Boyan, "Labor Mobility and Wages," in Rosen, Sherwin (ed.), *Studies in Labor Markets*, Chicago: University of Chicago Press, 1981.

Bartel, Ann and Borjas, George, "Middle-Age Job Mobility: Its Determinants and Consequences," in S. Wolfbein (ed.), *Men in the Pre-Retirement Years*, 1977.

Acemoglu, Daron and Pischke, Jorn-Steffen, "The Structure of Wages and Investment in General Training," *JPE*, June 1999.

C. Job Matching: An Alternative Model

Jovanovic, Boyan, "Job Matching and the Theory of Turnover," *JPE*, Oct. 1979.

*Garen, John, "Empirical Studies of the Job Matching Hypothesis," *Research in Labor Economics*, v. 9, 1988. Sections I through IIIA.

Altonji, Joseph and Shakotko, Robert, "Do Wages Rise With Job Seniority?," *REStud*, 1987.

Garen, John, "Job-Match Quality as an Error Component and the Wage-Tenure Profile: A Comparison of Alternative Estimators," *JBES*, April 1989.

Topel, Robert, "Specific Capital, Mobility, and Wages: Wages Rise With Job Seniority," *JPE*, Feb. 1991.

Abraham, Katharine and Farber, Henry, "Job Duration, Seniority, and Earnings," *AER*, June 1987.

D. Specific Human Capital and Contracts: Some Personnel Economics

#Tirole, Jean, *The Theory of Industrial Organization*, MIT Press, 1990, p. 21-28.

*Hashimoto, M. and Yu, Ben, "Specific Capital, Employment Contracts, and Wage Rigidity," *Bell Journal of Economics*, 11, Autumn 1980.

*Hall, Robert and Lazear, Edward, "The Excess Sensitivity of Layoffs and Quits to Demand," *Journal of Labor Economics*, 2, April 1984.

IV. Search, Unemployment, and Unemployment Insurance

A. The Basic Search Model

*McCall, John, "Economics of Information and Job Search," *QJE*, February 1970.

Stigler, George, "The Economics of Information," *JPE*, June 1961.

Alchian, Armen, "Information Costs, Pricing, and Resource Unemployment," in E.S. Phelps (ed.), *Microeconomic Foundations of Employment and Inflation Theory*, New York: W.W. Norton, 1970.

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

B. Some Empirics

Kiefer, Nicholas and Neumann, George, "An Empirical Job Search Model with a Test of the Constant Reservation-Wage Hypothesis," *JPE*, Feb. 1979.

*Solon, Gary, "Work Incentive Effects of Taxing Unemployment Benefits," *Econometrica*, March 1985.

#Meyer, Bruce, "Unemployment Insurance and Unemployment Spells," *Econometrica*, July 1990.

Woodbury, Stephen and Spiegelman, Robert, "Bonuses to Workers and Employers to Reduce Unemployment: Randomized Trials in Illinois," *AER*, Sept. 1987.

Ehrenberg, Ronald and Oaxaca, Ronald, "Unemployment Insurance, Duration of Unemployment, and Subsequent Wage Gain," *AER*, Dec. 1976.

V. Labor Demand

A. Static

#Hamermesh, Daniel, "The Demand for Labor in the Long Run," in Orley Ashenfelter and Richard Layard, *Handbook of Labor Economics*, Vol. 1, Elsevier, 1986, pp. 429-471.

B. Dynamic

#Nadiri, M. and Rosen, Sherwin, "Interrelated Factor Demand Equations," *AER*, Sept. 1969.

#Hamermesh, Daniel, "Labor Demand and the Structure of Adjustment Costs," *AER*, Sept. 1989.

C. Minimum Wage Legislation

*Brown, Charles, "Minimum Wages, Employment, and the Distribution of Income," in *Handbook of Labor Economics*, Ashenfelter, O. and Card, D. (eds.), vol. 3B, Amsterdam:

Elsevier, 1999. (See especially pp. 2101-2106, 2111-2117, 2121-2130, 2134-2139, 2150-2154).

Stigler, George, "The Economics of Minimum Wage Legislation," *AER*, June 1946.

Mincer, Jacob, "Unemployment Effects of Minimum Wages," *JPE*, supplement, August 1976.

D. Labor Unionism

Farber, Henry, "The Analysis of Union Behavior," in Orley Ashenfelter and Richard Layard (eds.), *Handbook of Labor Economics*, volume 2, Amsterdam: Elsevier, 1986.

VI. More Personnel Economics

A. The Principal-Agent Problem

*Holmstrom, Bengt and Milgrom, Paul, "Multitask Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design," *Journal of Law, Economics, and Organization*, 7, Spring 1991.

Holmstrom, Bengt, "Moral Hazard and Observability," *Bell Journal of Economics*, 13, Spring 1979.

Garen, John, "Executive Compensation and Principal-Agent Theory," *JPE*, December 1994.

Aggarwal, Rajesh and Samwick, Andrew, "The Other Side of the Trade-off: The Impact of Risk on Executive Compensation," *JPE*, Feb. 1999.

B. Methods of Pay

*Lazear, Edward, "Performance Pay and Productivity," *AER*, December 2000.

Holmstrom, Bengt and Milgrom, Paul, "The Firm as an Incentive System," *AER*, Sept. 1994.

#Garen, John, "Independent Contractors and Self-Employment as Systems of Incentives and Control: Theory, Empirics, and a Survey of Evidence," in S. Polachek (ed.), *Research in Labor Economics*, Accounting for Worker Well-Being, volume 23, 2004.

Brown, Charles, "Firms' Choice of Method of Pay," in Ehrenberg, R. (ed.), *Do Compensation Policies Matter?*, ILR Press, 1990.

Fama, Eugene, "Time, Salary, and Incentive Payoffs in Labor Contracts," *Journal of Labor Economics*, 9, Jan. 1991.

Garen, John, "Self-Employment, Pay Systems, and the Theory of the Firm: An Empirical Analysis," *Journal of Economic Behavior and Organization*, August 1998.

Baker, G.; Jensen, M., and Murphy, K.J., "Compensation and Incentives: Practice vs. Theory," *Journal of Finance*, 43, July 1988.

Anderson, E. and Schmittlein, D., "Integration of the Sales Force: An Empirical Examination," *Rand Journal of Economics*, 15, Autumn 1984.

C. Backloading

*Becker, Gary and Stigler, George, "Law Enforcement, Malfeasance, and Compensation of Enforcers," *Journal of Legal Studies*, Jan. 1974.

#Lazear, Edward, "Why is There Mandatory Retirement?," *JPE*, Dec. 1979.

*Hutchens, Robert, "A Test of Lazear's Theory of Delayed Payment Contracts," *JOLE*, Oct. 1987, part 2.

Brandt, Loren and Hosios, Arthur, "Credit, Incentives, and Reputation: A Hedonic Analysis of Contractual Wage Profiles," *JPE*, December 1996

Hutchens, Robert, "Seniority, Wages, and Productivity: A Turbulent Decade," *JEP*, Summer 1989.

Salop, Joanne and Salop, Steven, "Self-Selection and Turnover in the Labor Market," *QJE*, Nov. 1976.

Guasch, J. Luis and Weiss, Andrew, "Self-Selection in the Labor Market," *AER*, June 1981.

D. Efficiency Wages

*Shapiro, Carl and Stiglitz, Joseph, "Equilibrium Unemployment as a Worker Discipline Device," *AER*, June 1984.

Akerlof, George and Katz, Lawrence, "Workers' Trust Funds and the Logic of Wage Profiles," *QJE*, Aug. 1989.

Weiss, Andrew, "Job Queues and Layoffs in Labor Markets with Flexible Wages," *JPE*, June 1980.

*Leonard, Jonathan, "Carrots and Sticks: Pay, Supervision, and Turnover," *JOLE*, Oct. 1987, part 2.

#Allgulin, Magnus and Ellingsen, Tore, "Monitoring and Pay," *JOLE*, April 2002.

Krueger, Alan and Summers, Lawrence, "Efficiency Wages and the Inter-Industry Wage Structure," *Econometrica*, March 1988.

Black, Dan and Garen, John, "Efficiency Wages and Equilibrium Wages," *Economic Inquiry*, July 1991.

D. Tournaments

*Lazear, Edward and Rosen, Sherwin, "Rank-Order Tournaments as Optimum Labor Contracts," *JPE*, Oct. 1981.

#Eriksson, Tor, "Executive Compensation and Tournament Theory: Empirical Tests on Danish Data," *JOLE*, April 1999.

Main, B.; O'Reilly, C.; and Wade, J., "Top Executive Pay: Tournament or Teamwork?," *JOLE*, Oct. 1993.

Knoeber, Charles and Thurman, Walter, "Testing the Theory of Tournaments: An Empirical Analysis of Broiler Production," *JOLE*, April 1994.