

**University of Notre Dame**  
**Department of Economics and Econometrics**

**Econ 70602: Graduate Labor Economics II**  
**Prof. Abigail Wozniak**

### **Labor Economics II**

This graduate course examines a combination of fundamental and cutting-edge research topics in labor economics—including unemployment, barriers to labor market equilibrium, labor market adjustment, major policies impacting the labor market and other advanced topics. Students are expected to master the theoretical underpinnings and empirical applications presented in highlighted readings. Labor Economics I is a required prerequisite, as are graduate level microeconomic theory and introductory econometrics. Some knowledge of macroeconomic theory is also expected.

#### **Graded Assignments**

Grades are based on the following assignments:

Midterm (25%)

Final (25%)

Paper Prospectus (50%)

Class participation is not an explicit part of your grade, but my willingness to serve as a dissertation advisor or committee member will depend directly on your participation in this class. Although I use graded assignments as a means to infer your ability and effort in the class, the quality and frequency of your participation contribute to this inference.

#### **Major Dates**

1/13 First class

3/1 In class discussion of prospectus projects

3/3 Midterm in class

3/6 to 3/14 Spring Break

4/21 In class discussion of prospectus projects

4/26 Open

4/28 Last class, final exam in class

5/5 Paper prospectus due

#### **Class Preparation**

An outline of course topics and lecture dates follows. Starred papers will be discussed in class. Students are expected to come prepared to comment on and/or ask questions about them. In most cases, guidance will be given in class as to which required papers will be covered on each date. Students are also expected to familiarize themselves with the general approach and findings of additional papers. Access to the readings will be discussed at the first class meeting.

## Lecture Topics

### **I. Unemployment, Barriers to Equilibrium, and Labor Market Adjustment**

#### **Discrimination**

(1/13, 1/18)

\* “The theory of discrimination.” K. Arrow. In *Discrimination in Labor Markets*. O. Ashenfelter and A. Rees, eds. Princeton U. Press (1973): 3-33.

“Race and gender in the labor market.” J. Altonji and R. Blank. *HOLE* 3C(1999) pp. 3143-3259.

\* “Statistical theories of discrimination.” G. Cain and D. Aigner. *ILRR* (1977).

\* “Racial Bias in Motor Vehicle Searches: Theory and Evidence.” J. Knowles; N. Persico; and P. Todd. *The Journal of Political Economy*, Vol. 109, No. 1. (Feb., 2001), pp. 203-229.

“Orchestrating impartiality: The effect of ‘blind’ auditions on female musicians.” C. Goldin and C. Rouse. *AER* 2000.

“Wages, Productivity, and Worker Characteristics: Evidence from Plant-Level Production Functions and Wage Equations.” J. Hellerstein, D. Neumark and K. Troske *Journal of Labor Economics*, Vol. 17, No. 3. (Jul., 1999), pp. 409-446.

“A categorical model of cognition and biased decision-making.” R. Fryer and M. Jackson. *BEJ* Press, forthcoming. 2007.

#### **Institutions**

(1/20)

\* “The economic theory of trade unions: An introductory survey.” A. Oswald. *Scandinavian Journal of Economics*. 87 (1985): 160-193.

“The analysis of union behavior.” H. Farber. *HOLE* vol. 2. 1040-1089.

*What do unions do?* R. Freeman and J. Medoff. Basic Books (1984).

“Estimating the Effects of Unions on Wage Inequality in a Panel Data Model with Comparative Advantage and Nonrandom Selection.” T. Lemieux. *Journal of Labor Economics*, 16 (Apr., 1998), pp. 261-291.

\* “Contraction and Expansion: The Divergence of Private Sector and Public Sector Unionism in the United States.” R. Freeman. *The Journal of Economic Perspectives*, Vol. 2 (1988), pp. 63-88.

“Getting together and breaking apart: The decline of centralized collective bargaining.” R. Freeman and R. Gibbons. NBERWP 4464 (1993). Published in *Differences and Changes in Wage Structures*, ed. L. Katz and R. Freeman, University of Chicago Press, 1995.

## **Unemployment**

(1/25)

Sullivan, D. and von Wachter, T. “Job Displacement and Mortality: An Analysis using Administrative Data.” *QJE* (August 2009).

\* Jacobson, L.; Lalonde, R. and Sullivan, D. “Earnings Losses of Displaced Workers.” *American Economic Review* 83(1993):685-709.

\* Card, D. and Levine, P. “Extended benefits and the duration of unemployment spells: evidence from the New Jersey extended benefit program.” *Journal of Public Economics* 78(2000)107-138.

\* Card, D.; Chetty, R. and Weber, A. “The spike at benefit exhaustion: Leaving the unemployment system or finding a new job?” *American Economic Review Papers and Proceedings* (2007).

Jacobson, L.; Lalonde, R. and Sullivan, D. “The Impact of Community College Retraining on Older Displaced Workers: Should We Teach Old Dogs New Tricks?” *Industrial and Labor Relations Review* 58(2005): 398-415.

## **Search and Matching**

(1/27, 2/1)

\* “Job Matching and the Theory of Turnover.” B. Jovanovic. *The Journal of Political Economy*, Vol. 87, No. 5, Part 1. (Oct., 1979), pp. 972-990.

\* “Layoffs and Lemons.” R. Gibbons and L. Katz. *Journal of Labor Economics*, Vol. 9, No. 4. (Oct., 1991), pp. 351-380.

\* “Search theoretic models of the labor market: A survey.” R. Rogerson, R. Shimer and R. Wright. *JEL* 43 (2005): 959-988.

“Work, Rest, and Search: Unemployment, Turnover, and the Cycle.” B. Jovanovic. *Journal of Labor Economics*, Vol. 5, No. 2. (Apr., 1987), pp. 131-148.

“Specific Capital, Mobility, and Wages: Wages Rise with Job Seniority.” R. Topel. *The Journal of Political Economy*, Vol. 99, No. 1. (Feb., 1991), pp. 145-176.

## **Contracting Models and Luck in the Labor Market**

(2/3, 2/8)

Beaudry, P. and Dinardo, J. "Is the Behavior of Hours Worked Consistent with Implicit Contract Theory?" *Quarterly Journal of Economics* 110(1995):743-768.

\* Beaudry, P. and Dinardo, J. "The Effect of Implicit Contracts on the Movement of Wages over the Business Cycle: Evidence from Microdata." *Journal of Political Economy* 99(1991): 665-668.

Harris, M. and Holmstrom, B. "A Theory of Wage Dynamics." *Review of Economic Studies* 49(1982): 315-333.

Schmieder, J. and von Wachter, T. "Does Wage Persistence Matter for Employment Fluctuations? Evidence from Displaced Workers." *American Economic Journal: Applied* (forthcoming).

\* von Wachter, T. "In the Right Place at the Wrong Time: The Role of Firms and Luck in Young Workers' Careers." *American Economic Review* 96(2006): 1679-1705.

\* Wozniak, A. "Are College Graduates More Responsive to Distant Labor Market Opportunities?" *Journal of Human Resources* (forthcoming).

### **Labor Market Adjustment and Wage Structure Change**

(2/10, 2/15, 2/17)

\* "Wage Inequality and the Rise in Returns to Skill." C. Juhn; K. Murphy; B. Pierce. *The Journal of Political Economy*, Vol. 101, No. 3. (Jun., 1993), pp. 410-442.

\* "Trends in US wage inequality: Revising the revisionists." D. Autor, L. Katz, and M. Kearney. Manuscript (2007). [Forthcoming *ReStat?*]

\* "Skill-Biased Technological Change and Rising Wage Inequality: Some Problems and Puzzles." D. Card and J. DiNardo *Journal of Labor Economics* 20 (Oct., 2002), pp. 733-783.

"Regional evolutions." O. Blanchard and L. Katz. (Comments by R. Hall and B. Eichengreen.) *Brookings Papers on Economic Activity*, Vol. 1992, No. 1. (1992), pp. 1-75.

"Who benefits from local job growth: Migrants or the original residents?" T. Bartik. *Regional Studies*. 27(1993): 297-311.

\* "Wage Inequality in the United States during the 1980s: Rising Dispersion or Falling Minimum Wage?" D. S. Lee. *The Quarterly Journal of Economics*, Vol. 114, No. 3. (Aug., 1999), pp. 977-1023.

"The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence." O. Blanchard and J. Wolfers. *The Economic Journal*, Vol. 110, No. 462, Conference Papers. (Mar., 2000), pp. C1-C33.

“Diverging Male Wage Inequality in the United States and Canada, 1981-1988: Do Institutions Explain the Difference?” J. Dinardo and T. Lemieux. *Industrial and Labor Relations Review*, 50(Jul., 1997), pp. 629-651.

“Rising Wage Inequality in the United States: Causes and Consequences: Changing Wage Structure and Black-White Wage Differentials.” D. Card and T. Lemieux. *The American Economic Review*, Vol. 84 (May, 1994), pp. 29-33.

“Increasing Residual Wage Inequality: Composition Effects, Noisy Data, or Rising Demand for Skill?” T. Lemieux. *The American Economic Review*, 2006, pp. 1- 64.

“Higher-Education Policies and the College Wage Premium: Cross-State Evidence from the 1990s.” N. Fortin. *AER* 96(2006).4

## **II. Why is Improving Labor Market Outcomes so Hard?**

### **Major Labor Market Policies and Hard to Quantify Skills**

(2/22, 2/24, and 3/15, 3/17)

\* J. Heckman’s research overview: <http://jenni.uchicago.edu/human-inequality/>

\* “The economics and econometrics of active labor market programs.” Heckman, LaLonde and Smith. *HOLE* 3A (1999).

“Why has black-white skill convergence stopped?” D. Neal. NBERWP 11090 (2005). Forthcoming *Handbook* chapter.

“The American high school graduation rate: Trends and levels.” J. Heckman and P. LaFontaine. NBERWP 13670 (2007).

\* “Motivation, test scores and economic success.” C. Segal. Manuscript (2006).

“Classroom behavior.” C. Segal. *JHR* forthcoming (2006 manuscript).

“Short- and Long-Term Career Effects of Graduating in a Recession: Hysteresis and Heterogeneity in the Market for College Graduates.” P. Oreopolous, T. von Wachter, and A. Heisz. Manuscript (2007).

\* “The Determinants of Participation in a Social Program: Evidence from a Prototypical Job Training Program.” J. Heckman and J. Smith. *Journal of Labor Economics*, Vol. 22, No. 2. (Apr., 2004), pp. 243-298.

### **Networks, Spillovers and Externalities in the Labor Market**

(3/22, 3/24)

“Workings of a City: Location, Education, and Production.” R. Benabou. *The Quarterly Journal of Economics*, Vol. 108, No. 3. (Aug., 1993), pp. 619-652.

\* “Human Capital Externalities in Cities.” E. Moretti. *Handbook of Regional and Urban Economics*, North Holland-Elsevier, 2004.

“Estimating the Social Return to Higher Education: Evidence from Longitudinal and Repeated Cross-Sectional Data.” E. Moretti. *Journal of Econometrics* 121(1-2), 2004.

“Cities and Skills.” E. Glaeser and D. Maré. *Journal of Labor Economics*, Vol. 19, No. 2. (Apr., 2001), pp. 316-342.

\* “Workplace segregation in the United States: Race, ethnicity and skill.” J. Hellerstein and D. Neumark. NBERWP #11599 (2005)

“Spatial mismatch or racial mismatch?” J. Hellerstein, D. Neumark and M. McInerney. NBERWP 13161 (2007).

“Place of work and place of residence: Informal hiring networks and labor market outcomes.” P. Bayer, S. Ross, G. Topa. NBERWP 11019 (2005).

\* “Are ghettos good or bad?” D. Cutler and E. Glaeser. *QJE* Vol. 112 (1997): 827-872.

Moving to Opportunity experiments: See websites for Lawrence Katz (Dept. of Economics, Harvard University) and Jeffrey Kling (Brookings Institution).

### **Intergenerational Transmission of Human Capital, Earnings, Etc.** (3/29, 3/31)

\* “Why the Apple Doesn’t Fall Far: Understanding the Intergenerational Transmission of Education.” S. Black, P. Devereux and K. Salvanes. *American Economic Review* (2005).

\* “Intergenerational mobility in the labor market.” G. Solon. *HOLE* vol. 3A, pp. 1761-1800.

“Intergenerational economic mobility in the US: 1940 to 2000.” D. Aaronson and B. Mazumder. Manuscript. Chicago Federal Reserve. (2007)

“Galton versus the Human Capital Approach to Inheritance.” C. Mulligan. *The Journal of Political Economy*, Vol. 107 (Dec., 1999), pp. S184-S224.

“Intergenerational effects of job displacement.” Oreopoulos, P.; Page, M. and Stevens, A.H. *Journal of Labor Economics* 26(2008): 455-483.

### **III. More Advanced Topics in Labor Economics**

#### **Technology of Skill Formation – Moving beyond “Types” and the Classic Schooling Decision Model**

(4/5, 4/7)

\* “The technology of skill formation.” F. Cunha and J. Heckman. *AER Papers and Proceedings* (2007).

“Towards a unified approach for modeling the production function for cognitive achievement.” P. Todd and K. Wolpin. *EJ* 2003.

“Who Goes to College? Differential College Enrollment by Race and Family Background.” S. Black and A. Sufi. NBER Working Paper 9310, November 2002.

“The Production of Cognitive Achievement in Children: Home, School and Racial Test Score Gaps.” P. Todd and K. Wolpin, Manuscript (2006).

### **Identity and Behavioral Models in the Labor Market**

(4/12, 4/14, 4/19)

“A Theory of Social Custom, of Which Unemployment May be One Consequence.” G. Akerlof. *The Quarterly Journal of Economics*, Vol. 94, No. 4. (Jun., 1980), pp. 749-775.

\* “Gift Exchange and Efficiency-Wage Theory: Four Views.” G. Akerlof. *The American Economic Review*, Vol. 74, (May, 1984), pp. 79-83.

“Fairness and freight handlers: Local labor-market conditions and wage-fairness perceptions in a trucking firm.” E. Verhoogen, S. Burks, and J. Carpenter. *ILRR* 60(2007).

\* “Identity and Schooling: Some Lessons for the Economics of Education.” G. Akerlof and R. Kranton. *Journal of Economic Literature*, Vol. 40, No. 4. (Dec., 2002), pp. 1167-1201.

“Identity and the Economics of Organizations.” G. Akerlof and R. Kranton. *The Journal of Economic Perspectives*, Vol. 19, No. 1. (Winter, 2005), pp. 9-32.

“Individual behavior and group membership.” G. Charness, L. Rigotti and A. Rustichini. *AER*, 97(2007): 1340-1352.

\* “Strikes, Scabs, and Tread Separations: Labor Strife and the Production of Defective Bridgestone/Firestone Tires.” A. Krueger and A. Mas. *JPE*. Vol. 112, No. 2 (Apr., 2004), pp. 253-289.

“Man’s search for meaning: The case of Legos.” D. Ariely, E. Kamenica, and D. Prelec. *Journal of Economic Behavior and Organization*. Forthcoming.

“Agents with and without Principals.” M. Bertrand and S. Mullainathan. *The American Economic Review*, Vol. 90 (May, 2000), pp. 203-208.

\* “Prospect Theory: An Analysis of Decision under Risk.” D. Kahneman and A. Tversky. *Econometrica*, Vol. 47, No. 2. (Mar., 1979), pp. 263-292.

\* “The economics and psychology of personality and motivation.” L. Borghans, A. Duckworth, J. Heckman and B. ter Weel. JHR 2007.

*The Presentation of the Self in Everyday Life.* Erving Goffman. New York: Anchor Books, Doubleday (1953).