

Labor Economics

MIT (14.661)
Fall 2016

D. Acemoglu
J. Angrist

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This course aims to acquaint students with traditional and contemporary topics in labor economics and to encourage the development of independent research interests. Prerequisites are intermediate microeconomics and a course in econometrics.

Class requirements: Grades are based on 4 problem sets (10 points each), an empirical project involving replication and extension of published work (30 points), and a 3 hour final during exam week (40 points). In addition, there are two ungraded problem sets, one at the beginning and one at the end of the course.

A [Stellar site](#) has our readings, assignments, and recitation material.

Articles, handbook chapters will be made available through Stellar. Books are also on reserve. An (M) denotes studies done as part of an MIT thesis.

First Part - Angrist

READINGS

- Books*
- O. Ashenfelter and R. Layard, *The Handbook of Labor Economics*, Volumes 1 & 2, North-Holland, 1986; Volume 3A, 3B & 3C, 1999.
- J. Angrist and S. Pischke, *Mostly Harmless Econometrics: An Empiricist's Companion*, Princeton University Press, 2009 (MHE; a reference on empirical methods).
- J. Angrist and S. Pischke, *Mastering 'Metrics*, Princeton University Press, 2014 (MM; more methods and examples).

I. Labor Market Facts and Trends

- C. Goldin, "Labor Markets in the 20th Century," NBER Historical Working Paper No. 8, June 1994 [also in *Cambridge Economic History of the US*, pp. 1-85].
- C. Romer, "Spurious Volatility in Historical Unemployment Data," *Journal of Political Economy*, 94 [1], February 1986, 1-37.
- C. Goldin and R. Margo, "The Great Compression: The Wage Structure in the United States at Mid-century," *Quarterly Journal of Economics*, February 1992.
- D. Autor and M. Duggan, "The Rise in the Disability Rolls and the Decline in Unemployment," *Quarterly Journal of Economics*, February 2003.
- H. Farber, "Job Loss and the Decline in Job Security in the United States," in Abraham, K., Spletzer, J. and Harper, M., eds., Labor in the New Economy, University of Chicago, 2010.
- L. Katz and D. Autor, "Changes in the Wage Structure and Earnings Inequality," chapter 26 in volume 3A of The Handbook of Labor Economics, 1999. (M)
- T. Lemieux, "The Changing Nature of U.S. Wage Inequality," *J. of Population Economics*, 2007.

D. Autor, L. Katz, and M. Kearney, "Trends in U.S. Wage Inequality: Revising the Revisionists," *The Review of Economics and Statistics*, May 2008. (M)

E. Saez and T. Piketty, "Income Inequality in the United States: 1913-1998," *Quarterly Journal of Economics*, February 2003 (and web updates on Saez home page).

W. Kopczuk, E. Saez, and J. Song, "Earnings Inequality and Mobility in the United States: Evidence From Social Security Data Since 1937," *The QJE*, 125(1), February 2010.

M. Elsby, B. Hobijn, and A. Sahin, "The Labor Market in the Great Recession," *BPEA* Spring 2010 (2011 update <http://www.frbsf.org/publications/economics/papers/2011/wp11-29bk.pdf>.)

C.B. Mulligan, "Do Welfare Policies Matter for Labor Market Aggregates? Quantifying Safety Net Work Incentives Since 2007," NBER Working Paper 18088 (May 2012).

J. Rothstein, "The Labor Market Four Years Into the Crisis: Assessing Structural Explanations" *Industrial and Labor Relations Review* 65(3), June 2012, 467-500.

H. Farber, "Job Loss in the Great Recession and its Aftermath: US Evidence from the Displaced Workers Survey," NBER Working Paper 21216 (May 2015).

D. Autor, "Why Are There Still So Many Jobs? The History and Future of Workplace Automation," *J. Economic Perspectives* 29 (Summer 2015), 3-30.

L. Katz and C. Goldin, *The Race Between Education and Technology*, Harvard University Press, 2010.

II. The Neoclassical Labor Supply Model

A. Basics

A. Deaton and J. Muellbauer, *Economics and Consumer Behavior*, Cambridge University Press, 1980, especially Chapter 4.

M. Killingsworth, *Labor Supply*, Cambridge University Press, 1983; Chapters 1, 2, and 7.

O. Ashenfelter and J. Heckman, "The Estimation of Income and Substitution Effects in a Model of Family Labor Supply," *Econometrica*, 42[1], January 1974, 73-86.

Blundell and MaCurdy, HOLE Volume 3A, chapter 27, 1999.

M. Killingsworth and J. Heckman, "Female Labor Supply: A Survey," chapter 2 in The Handbook of Labor Economics, Volume 1, 103-204

Heckman, James J., "Shadow Prices, Market Wages and Labor Supply," *Econometrica*, 42[4], July 1974, 679-94.

Imbens, Rubin, and Sacerdote, "Estimating the Effect of Unearned Income on Labor Supply: Evidence from a Survey of Lottery Players," *American Economic Review* 91 (2001).

D. Cesarini, E. Lindqvist, M. Notowidigdo, and R. Östling, "The Effect of Wealth on Individual and Household Labor Supply: Evidence from Swedish Lotteries," NBER Working Paper No. 21762, 2015.

B. Tax and Transfer Programs

R. Moffitt, "Welfare Programs and Labor Supply," Handbook of Public Economics: Volume 4. eds. A. Aurbach and M. Feldstein, September 2002.

N. Eissa and J. Leibman, "Labor Supply Response to the Earned Income Tax Credit," *Quarterly Journal of Economics* 111 (May 1996).

B. Meyer and D. Rosenbaum, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers" (with Dan T. Rosenbaum), *Quarterly Journal of Economics* CXVI, August 2001, 1063-1114.

O. Ashenfelter, "The Labor Supply Response of Wage Earners," in Palmer and Pechman, eds., Welfare in Rural Areas, Brookings, 1978, 109-148.

Greenberg, D., and H. Halsey, "Systematic Misreporting and Effects of Income Maintenance Experiments on Work Effort: Evidence from the SIME-DIME," *Journal of Labor Economics*, 1[4], October 1983, 380-407.

O. Ashenfelter, "Determining Participation in Income-Tested Social Programs," *Journal of the American Statistical Association*, 78[383], September 1983, 517-525.

O. Ashenfelter and M. Plant, "Non-Parametric Estimates of the Labor Supply Effects of Negative Income Tax Programs," *Journal of Labor Economics*, 8[1] Part 2, 1990, S397-S415.

Plant, M., "An Empirical Analysis of Welfare Dependence," *American Economic Review*, 74[4], September 1984, 673-684.

R. Blank, "Evaluating Welfare Reform in the United States," *Journal of Economic Literature*, December 2002, 1105-66.

D. Card and D. Hyslop, "Estimating the Effects of a Time-Limited Earnings Subsidy For Welfare-Leavers," *Econometrica* 73 (November 2005), 1723-1770.

J. Rothstein, "Is the EITC as Good as an NIT? Conditional Cash Transfers and Tax Incidence." *American Economic Journal: Economic Policy* 2 (1), February 2010, p.p. 177-208.

R. Chetty, J. Friedman, and E. Saez, "Using Differences in Knowledge Across Neighborhoods to Uncover the Impacts of the EITC on Earnings," *The AER* 103 (December 2013), 2683-2721.

C. The Life-Cycle Model

Lucas, R.E., and L. Rapping, "Real Wages, Employment, and Inflation," *Journal of Political Economy*, 77[5], September-October 1969, 721-764.

G. Becker and G. Ghez, The Allocation of Time and Goods Over the Life-Cycle, Columbia University Press, 1975.

T. MaCurdy, "An Empirical Model of Labor Supply in a Life-Cycle Setting," *Journal of Political Economy*, 89[6], December 1981, 1059-1085.

J. Altonji, "Intertemporal Substitution in Labor Supply: Evidence from Micro Data," *Journal of Political Economy*, 94[3] Part 2, June 1986, S176-S215.

Browning, Deaton and Irish, "A Profitable Approach to Labor Supply and Commodity Demand Over the Life-Cycle," *Econometrica*, 53[3], May 1985, 503-543.

O. Ashenfelter, "Macroeconomic and Microeconomic Analyses of Labor Supply," Carnegie-Rochester Conference on Public Policy, 21, 1984, 117-156.

J. Angrist, "Grouped-Data Estimation and Testing in Simple Labor Supply Models," *Journal of Econometrics*, 47[2], 1991, 243-266.

D. Card, "Intertemporal Labor Supply: An Assessment," in C. Sims, ed., Advances in Econometrics Sixth World Congress, vol. II, Cambridge University Press, 1994, 49-78.

R. Blundell, A. Duncan, and C. Meghir, "Estimating Labor Supply Responses Using Tax Reforms," *Econometrica* 66 (1998), 827-861.

P.J. Devereux. "Small Sample Bias in Synthetic Cohort Models of Labor Supply," *The Journal of Applied Econometrics*, June 2007, 839-848.

Metrics: MHE, Section 4.1 (especially 4.1.2 and 4.1.3), and MM, Chapter 3.

Cab drivers, et al.

C. Camerer, L. Babcock, G. Lowenstein, and R. Thaler, "Labor Supply of New York City Cabdrivers: One Day at a Time," *QJE* 112 (1997), 407-441.

Oettinger, Gerald S., "An Empirical Analysis of the Daily Labor Supply of Stadium Vendors," *Journal of Political Economy*, 107[2], April 1999, 360-92.

H. Farber, "Is Tomorrow Another Day? The Labor Supply of New York City Cab Drivers," *JPE*, February 2005.

E. Fehr and L. Goette, "Do Workers Work More if Wages are High? Evidence from a Randomized Field Experiment," *American Economic Review* 97, March 2007.

H. Farber, "Reference-Dependent Preferences and Labor Supply: The Case of New York City Taxi Drivers," *The American Economic Review* 98 (2008), 1069-1082.

T. Stafford, "What Do Fisherman Tell Us that Taxi Drivers Don't? An Empirical Investigation of Labor Supply," *Journal of Labor Economics*, 33[3], 2015.

M.K. Chen and M. Sheldon, Dynamic Pricing in a Labor Market: Surge Pricing and Flexible Work on the Uber Platform," UCLA Anderson, December 2015.

D. Household and Family Models

Becker, Gary S., 1981, *A Treatise on the Family*, Cambridge: Harvard University Press.

Bronars, S., and J. Grogger, "The Economic Consequences of Unwed Motherhood: Using Twins as a Natural Experiment," *American Economic Review*, 84[5], December 1994, 1141-1156.

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Coen-Pirani, D., León, A. and Lugauer, S. "The effect of household appliances on female labor force participation: Evidence from microdata," *Labour Economics*, vol. 17(3), pages 503-513, June 2010.

J. Angrist and I. Fernandez-Val, "Extrapolating: External Validity and Overidentification in the LATE Framework," Chapter 11 in *Advances in Economics and Econometrics (Tenth World Congress)*, 2013.

R. Dehejia, C. Pop-Eleches, and C. Samii, "From Local to Global: External Validity in a Fertility Natural Experiment," NBER Working Papers 21459, 2015.

Metrics: MHE, Chapter 4 (Instrumental Variables), and MM Chapter 3.

III. Labor Demand and Demand-Side Institutions and Policies

A. Labor Demand

D. Hamermesh, Labor Demand, Princeton, NJ: Princeton University Press, Chapters 2-3, 18-136.

D. Hamermesh, "The Demand for Labor in the Long Run," Chapter 8 in O. Ashenfelter and R. Layard [eds.] Handbook of Labor Economics, Volume 1, 1986.

S. Nickell, "Dynamic Models of Labour Demand," Chapter 9 in O. Ashenfelter and R. Layard [eds.] Handbook of Labor Economics, Volume 1, 1986.

D. Card, "Unexpected Inflation, Real Wages, and Employment Determination in Union Contracts," *American Economic Review*, September 1990, 669-88.

J. Angrist, "Short-Run Demand for Palestinian Labor," *Journal of Labor Economics*, July 1996.

D. Card and T. Lemieux, "Can Falling Supply Explain the Rising Return to College for Younger Men? A Cohort-based Analysis," *QJE* 116 (May 2001), 705-746.

B. Market Structure and the Min

C. Brown, "Minimum Wages, Employment, and the Distribution of Income", Chapter 32 in O. Ashenfelter and D. Card [eds.] Handbook of Labor Economics, Volume 3, 1999.

D. Card, "Using Regional Variation to Measure the Effect of the Federal Minimum Wage," *Industrial and Labor Relations Review*, October 1992.

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J. Kennan, "The Elusive Effects of Minimum Wages," *Journal of Economic Literature*, 33[4], December 1995, 1949-1965.

R. Dickens, S. Machin and A. Manning, "The Effects of Minimum Wages on Employment: Theory and Evidence From Britain", *Journal of Labor Economics*, 17[1], January 1999, 1-22.

Manning, Alan, *Monopsony in Motion: Imperfect Competition in Labor Markets*, Princeton University Press, 2003.

Propper, Carol and Van Reenen, John. "Can Pay Regulation Kill? Panel Data Evidence on the Effect of Labor Markets on Hospital Performance," *Journal of Political Economy*, 2010, 118 (2). pp. 222-273.

Metrics: MHE, Chapter 5 and MM, Chapter 5 (DD)

C. Immigration and Migration

G.E. Johnson, "The Labor Market Effects of Immigration," *Industrial and Labor Relations Review* 33 (April 1980).

G. Borjas (1995) "The Economic Benefits from Immigration," *JEP* 9 (Spring), 3-22.

J. Altonji and D. Card, "The Effects of Immigration on the Labor Market Outcomes of Less-Skilled Natives," in J. Abowd and R. Freeman, eds., Immigration, Trade, and the Labor Market, University of Chicago Press, 1991, 201-234.

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- J. Angrist and A. Kugler, "Protective or Counter-Productive? Labor Market Institutions and the Effect of Immigration on EU Natives," *The Economic Journal*, June 2003.
- G. Borjas, "The Labor Demand Curve is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market," *QJE* November 2003.
- P. Cortes, "The Effect of Low-Skilled Immigration on US Prices: Evidence from CPI Data," *JPE* 2008, 381-422. (M)
- D. Card, "Immigration and Inequality," *AER* 99 (May 2009), 1-21.
- C.L. Smith, "The Impact of Low-skilled Immigration on the Youth Labor Market," *Journal of Labor Economics* 30.1, 2012, 55-89. (M)
- H. Bleakley and A. Chin, "Language Skills and Earnings: Evidence from Childhood Immigrants," *RESTAT* 86 (May 2004), 481-96. (M)
- G. Ottaviano and G. Peri, "Rethinking the Effects of Immigration on Wages," *J. of the Eur. Ec. Assoc.* 10 (2012), 152-197
- G. Borjas, "The Wage Impact of the Marielitos: A Reappraisal," NBER Working Paper No. 21588 (September 2015).

D. Unions

- G. Borjas, *Labor Economics*, 5th Ed., McGraw-Hill, 2010 (Chapter 10).
- R. Freeman and J. Medoff, *What Do Unions Do?*, Basic Books, 1985.
- H. Gregg Lewis, *Union Relative Wage Effects: A Survey*, Chicago: University of Chicago Press, 1986.
- Farber, Henry. "The Analysis of Union Behavior," In Orley Ashenfelter and Richard Layard (eds), The Handbook of Labor Economics, Volume II, 1986.
- J.N. Brown and O.C. Ashenfelter, "Testing the Efficiency of Employment Contracts," *Journal of Political Economy* 1986, S40-S87.
- O. Ashenfelter and G. Johnson, "Bargaining Theory, Trade Unions, and Industrial Strike Activity," *The AER* 59 (1969), 35-49.
- G. Jakubson, "Estimation and Testing of the Union Wage Effect Using Panel Data," *Review of Economic Studies*, 1991, 971-91.
- J. DiNardo and D.S. Lee, "Economic Impacts of New Unionization on US Private Sector Employers: 1984-2001," *QJE* 119 (2004), 1383-1442.
- D. Lee and A. Mas, "Long-run Impacts of Unions on Firms: New Evidence from Financial Markets, 1961-1999," *The Quarterly Journal of Economics*, 2012, 127(1), 333-378.
- B. Frandsen, "The Surprising Impacts of Unionization: Evidence from Matched Employer-Employee Data," BYU Economics Department, Manuscript, December 2014. (M)

B. Frandsen, "The Effects of Collective Bargaining Rights on Public Employee Compensation: Evidence from Teachers, Fire Fighters, and Police," *The Industrial and Labor Relations Review*, 2016. (M)

C. Hoxby, "How Teachers Unions Affect Education Production," *The Quarterly Journal of Economics*, August 1996.

Metrics: MHE, Chapters 5 (Panel Data) and 6 (RD) and MM, Chapter 4 (RD).

IV. Human Capital

A. Schooling, Experience, and Earnings

Theoretical considerations

J. Mincer, Schooling, Experience, and Earnings, New York: NBER, 1974.

G. Becker, Human Capital, 3rd Edition, Chicago: University of Chicago press, 1993.

R.J. Willis, "Wage Determinants," Chapter 10 in The Handbook of Labor Economics, volume 1, 1987.

Ben-Porath, Yoram (1967). "The Production of Human Capital Over the Life Cycle," *Journal of Political Economy*, Vol. 75, No. 4-1, pp. 352-365.

R.J. Willis, and Sherwin Rosen, "Education and Self-Selection," *Journal of Political Economy*, 87[5] Part 2, Oct 1979: S7-S36.

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Lang, Kevin, and David Kropp (1986), "Human Capital Versus Sorting: The Effects of Compulsory Attendance Laws," *Quarterly Journal of Economics* 101, 609-624.

Tyler, John, Richard J. Murnane and John Willett, "Estimating the Labor Market Signaling value of the GED," *Quarterly Journal of Economics*, May 2000. (M)

P. Martorell and D. Clark, "The Signaling Value of a High School Diploma," *Journal of Political Economy*, 122[2], April 2014.

B. Empirical Earnings Functions

Returns-to-schooling econometrics

Z. Griliches and W. Mason, "Education, Income, and Ability," *Journal of Political Economy*, 80(3), Part II, 1972, S74-S103.

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Angrist, J.D. and A. Krueger, "Does Compulsory Schooling Attendance Affect Schooling and Earnings?" *Quarterly Journal of Economics*, 106[4], Nov 1991, 979-1014.

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J. Kling, "Interpreting Instrumental Variables Estimates of the Returns to Schooling," *JBES* 19 (July 2001). (M)

D. Card, "Estimating the Return to Schooling: Progress on Some Persistent Econometric Problems." *Econometrica* 69 (September 2001).

P. Oreopoulos, "Estimating Average and Local Average Treatment Effects of Education when Compulsory Schooling Laws really Matter," *American Economic Review* 96(1), March 2006, pp. 152-175.

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B. Jovanovic (1979) "Firm-Specific Capital and Turnover" *Journal of Political Economy*, 87.6 (December), 1246-60.

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J. Angrist and S. Chen, "Schooling and the Vietnam-Era GI Bill: Evidence from the Draft Lottery," *American Economic Journal: Applied Economics*, April 2011, 3, 96-119.

Acemoglu, Daron and Steve Pischke (1999). "Beyond Becker: Training in Imperfect Labor Markets," *Economic Journal* vol 109 February 1999, pp F112-142.

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Jacobson, Louis, Robert LaLonde and Daniel Sullivan (1993). "Earning Losses of Displaced Workers," *American Economic Review*, vol. 83, pp. 685-709.

Second Part - Acemoglu

The book Pierre Cahuc and Andre Zilberberg *Labor Economics* MIT Press, 2004, covers some of the topics and is a very useful reference. You may also want to consult the lecture notes on my website (Acemoglu, Daron and David Autor, *Lectures in Labor Economics*, Web notes), but not all topics we will be studying are covered in those notes.

I. Labor Market Externalities

A. Non-Pecuniary and Pecuniary Externalities in the Labor Market

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B. Signaling

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II. Social Mobility, Peer Effects and Human Capital

A. Social Mobility

* Becker, Gary and Nigel Tomes "Human capital and the rise and fall of families," *Journal of Labor Economics* 4, (1986) S1-S39.

* Solon, Gary "Intergenerational Income Mobility in the United States" *American Economic Review* v82, n3 (June 1992): 393-408

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* Chetty, Raj, Nathaniel Hendren, and Lawrence F Katz (2016) "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment." *American Economic Review* 106.4, 855 – 902.

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* Benabou, Roland (1993) "Workings of a City: Location, Education and Production", *Quarterly Journal of Economics*, Vol. 108, No. 3, pp. 619-652.

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B. Peer Effects

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C. A Network Approach to Peer Effects

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III. Incentives, Agency and Efficiency Wages

A. Multitasking

* Holmstrom, Bengt (1979) "Moral Hazard and Observability" *Bell Journal of Economics*, 10, 74-91.

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