

Labor Economics I
Purdue University
Spring 2010

Professor Kevin Mumford
mumford@purdue.edu
Office: RAWL 4038

RAWL 2079
Monday & Wednesday
1:10 - 2:40 pm

Course Description

This course is part of a field sequence in labor economics and covers the empirical methods used in labor (and other applied microeconomics fields). Students will learn how to read, evaluate, and conduct applied labor economics research. The emphasis is on applied econometric techniques, but this is not an econometrics course. Instead of deriving properties of estimators, we will focus on the application of applied micro techniques and providing an introduction to several areas of labor research.

Course Requirements

This course has no textbook; it is based on journal articles that will be provided to you for downloading. Attendance is mandatory. All students are expected to read assigned articles before the class in which they will be discussed.

The grade for the course will be based upon the following factors:

- **Attendance (10%)** Everyone starts with 5 points. You lose one point for every class missed after the first.
- **Class Participation (10%)** This class will not be as enjoyable (for me or you) if I do all the talking. Since economists believe incentives matter, class participation will be rewarded. The grade will obviously be subjective, but I'll try to be fair. It is the quality not the quantity that is most important.
- **One-Page Summaries (10%)** For certain papers, students will be expected to complete a one-page summary of the article. I will describe the format for these summaries in class.
- **Homework Assignments (10%)** There will be a small number of homework assignments.
- **Final Exam (30%)** The exam is scheduled on Monday, May 3 from 1:00 - 3:00 pm in RAWL 2079. It will cover material from lectures and the assigned readings.
- **Research Paper (30%)** The key assignment is the completion of an empirical research paper. It is due on Saturday, May 1. The paper should be roughly 15-25 pages, double spaced. It can either be an extension of a paper from an earlier labor courses or can be on a new topic. The paper must be empirical and use techniques from this course. A replication exercise is acceptable, however you are not to contact authors ask for their data.

Lectures

Applied Econometrics

The Selection Problem

- Angrist, Joshua D. and Alan B. Krueger (1999) "Empirical Strategies in labor Economics" *Handbook of Labor Economics*, Vol. 3, Edited by O. Ashenfelter and D. Card, Ch 23, 1277-1358.

Selection on Observables

- Black, Dan A., Jeffrey A. Smith, Mark C. Berger, and Brett J. Noel (2003) "Is the Threat of Reemployment Services more Effective Than the Services Themselves? Evidence from Random Assignment in the UI System" *American Economic Review*, Vol. 93(4), 1313-1327.

Differences-in-Differences

- Card, David and Alan B. Krueger (1994) "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania" *American Economic Review*, Vol. 84(4), 772-793.
- Eissa, Nada and Hilary Hoynes (2004) "Taxes and the labor market participation of married couples: the earned income tax credit" *Journal of Public Economics* Vol. 88, 1931-1958.

Matching Methods

- Angrist, Joshua D. (1998) "Estimating the Labor Market Impact of Voluntary Military Service Using Social Security Data on Military Applicants" *Econometrica*, Vol. 66, No. 2, 249-288.
- Black, Dan and Jeffery Smith (2004) "How robust is the evidence on the effects of college quality? Evidence from Matching" *Journal of Econometrics*, 121:99-124.

Panel Data, Fixed-Effects

- Stevenson, Betsey and Justin Wolfers (2006) "Bargaining in the shadow of the law: divorce laws and family distress" *Quarterly Journal of Economics* 121:267-288.

Instrumental variables

- Angrist, Joshua D. and William N. Evans (1998) "Children and Their Parents' Labor Supply: Evidence from Exogenous Variation in Family Size" *American Economics Review*, Vol. 88, No. 3, 450-477.
- Bound, John, David Jaeger, and Regina 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*, 90:443-450.

Regression Discontinuity

- Angrist, Joshua and Victor Lavy (1999) "Using Maimonides' Rule to estimate the effect of class size on scholastic achievement" *Quarterly Journal of Economics*, 114:533-575.

Correlated Errors

Labor Demand

- Substitution in Production and Separability
- Hamermesh, Daniel S. (1986). "Demand for Labor in the Long Run" in *Handbook of Labor Economics*, Volume 1, eds. Orley Ashenfelter and Richard Layard, New York: Elsevier Science Publishers.
- Capital-Skill Complementarity and Non-Neutral Technological Change
- * Katz, Lawrence F. and Kevin M. Murphy (1992). "Changes in Relative Wages, 1963-1987: Supply and Demand Factors" *Quarterly Journal of Economics*, February, 35-78.
- Estimating Labor Demand Functions
- * Pencavel, John and Ben Craig (1994) "The Empirical Performance of Orthodox Models of the firm: Conventional Firms and Worker Cooperatives" *Journal of Political Economy*, vol. 102, no. 4 (August), 718-744.
- * Card, David and Thomas Lemieux (2001) "Can Falling Supply Explain the Rising Return to College for Younger Men? A Cohort-Based Analysis" *Quarterly Journal of Economics*, vol.
- Beaudry, Paul and David A. Green (2005) "Changes in U.S. Wages, 1976-2000: Ongoing Skill Bias or Major Technological Change?" *Journal of Labor Economics*, vol. 23, no. 3, 609-648.

Labor Supply

- Static Labor Supply Model
- Pencavel, John (1986). "Labor Supply of Men: A Survey" in *Handbook of Labor Economics*, Volume 1, eds. Orley Ashenfelter and Richard Layard, New York: Elsevier Science Publishers.
- Killingsworth, Mark R. and James J. Heckman (1986). "Female Labor Supply: A Survey" in *Handbook of Labor Economics*, Volume 1, eds. Orley Ashenfelter and Richard Layard, New York: Elsevier Science Publishers.
- Estimating the Static Labor Supply Model
- * Gelbach, Jonah (2002) "How Large an Effect Do Child Care Costs Have on Single Mother's Labor Supply? Evidence Using Access to Free Public Schooling" *American Economic Review* 93:307-322.
- Life-Cycle Labor Supply Model
- * MaCurdy, Thomas (1981) "An Empirical Model of Labor Supply in a Life-Cycle Setting" *Journal of Political Economy* 89:1059-1085.
- Blundell, R. and T. MaCurdy (1999) "Labor Supply: A Review of Alternative Approaches" in *Handbook of Labor Economics*, Vol. 3, Ch 27, edited by O. Ashenfelter and D. Card, North-Holland.
- * Heckman, J. (1993), What has been learned about labor supply in the past 20 years?, *American Economic Review*, 83-2

Labor Economics Topics

Human Capital

Heckman, James, Lance Lochner, and Petra Todd (2006) "Earnings Functions, Rates of Return and Treatment Effects: The Mincer Equation and Beyond" *Handbook of Education Economics*, Vol. 1, ed E. Hanushek and F. Welch, Ch 7, Elsevier.

Ashenfelter, Orley and Alan Krueger (1994) "Estimates of the Economic Return to Schooling From a New Sample of Twins." *American Economic Review*, 84(5):1157-1173.

Black, Sandra E., Paul J. Devereux, and Kjell G. Salvanes (2008) "Too Young to Leave the Nest? The Effects of School Starting Age" *Mimeo*

Migration

Borjas, George J. (1999), "The Economic Analysis of Immigration," in: Orley C. Ashenfelter and David Card, Editor(s), *Handbook of Labor Economics*, Elsevier, Volume 3, Part 2, pages 1697-1760.

Blanchard, Olivier Jean and Lawrence F. Katz (1992), "Regional Evolutions," *Brookings Papers on Economic Activity*, 1: 1-37.

Borjas, George J. (2003), "The Labor Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market," *Quarterly Journal of Economics* 118, (4) (November 2003): 1335-1374

Card, David (2003), "The Impact of the Mariel Boatlift on the Miami Labor Market," *Industrial and Labor Relations Review*, Vol. 43, No. 2 (Jan., 1990), pp. 245-257

Dahl, Gordon B. (2002), "Mobility and the Return to Education: Testing a Roy Model with Multiple Markets," *Econometrica*, Vol. 70, No. 6, pp. 2367-2420.

Gallin, Joshua Hojvat (2004), "Net Migration and State Labor Market Dynamics," *Journal of Labor Economics*, 22, 1-21.

Gelbach, Jonah B. (2004), "Migration, the Lifecycle, and State Benefits: How low is the bottom?" *Journal of Political Economy*, 112 (5), pages 1091-1130.

Gemici, Ahi, (2008), "Family Migration and Labor Market Outcomes," University of Pennsylvania.

Greenwood, Michael J. (1997), "Internal migration in developed countries," in Mark R. Rosenzweig and Oded Stark, Editor(s), *Handbook of Population and Family Economics*, Elsevier, Volume 1, Part 2, pages 647-720.

Kennan, John and James R. Walker (2008) "The Effect of Expected Income on Individual Migration Decisions", University of Wisconsin-Madison.

Lalonde, Robert J. and Robert H. Topel, "Economic impact of international migration and the economic performance of migrants," in Mark R. Rosenzweig and Oded Stark, Editor(s), *Handbook of Population and Family Economics*, Elsevier, Volume 1, Part 2, pages 799-850.

Mincer, J. (1978) "Family Migration Decisions," *Journal of Political Economy*, 86 (5), 749-773.

Razin, Assaf and Efraim Sadka, "International migration and international trade," in Mark R. Rosenzweig and Oded Stark, Editor(s), *Handbook of Population and Family Economics*, Elsevier, Volume 1, Part 2, pages 851-887.

Personnel Economics

Rosen, Sherwin (1986) "The Theory of Equalizing Differences" *Handbook of Labor Economics*, Edited by O. Ashenfelter and R. Layard, Vol. 1, Ch. 12.

William J. Carrington (2002) "Nondiscrimination Rules and the Distribution of Fringe Benefits" *Journal of Labor Economics*, vol. 20, no. S2

Craig A. Olson (2002) "Do Workers Accept Lower Wages in Exchange for Health Benefits" *Journal of Labor Economics*, vol. 20, no. S2

Christopher D. Ittner and David F. Larcker (2002) "Determinants of Performance Measure Choices in Worker Incentive Plans" *Journal of Labor Economics*, vol. 20, no. S2

Stephen A. Woodbury (1983) "Substitution between Wage and Nonwage Benefits" *The American Economic Review*, Vol. 73, No. 1, pp. 166-182

Harald Dale-Olsen (2006) "Wages, fringe benefits and worker turnover" *Labour Economics* Vol. 13, Issue 1, pp. 87-105

James E. Pesando, Morley Gunderson and John McLaren (1991) "Pension Benefits and Male-Female Wage Differentials" *Canadian Journal of Economics* Vol. 24, No. 3

Buchmueller, Thomas C. (1999) "Fringe benefits and the demand for part-time workers" *Applied Economics* Vol. 31 Issue 5, pp. 551-563

Royalty, Anne Beeson (2000) "A Discrete Choice Approach to Estimating Workers' Marginal Valuation of Fringe Benefit"

Charles Brown and James L. Medoff (2003) "Firm Age and Wages" *Journal of Labor Economics*, Vol. 21, No. 3, pp. 677-697

Discrimination

Altonji, Joseph and Rebecca Blank. 1999. Race and Gender in the Labor Market. In O. Ashenfelter and D. Card, eds., *Handbook of Labor Economics*, North-Holland: Amsterdam, (3C):3143-3260.

Francine D. Blau and Lawrence M. Kahn, Gender Differences in Pay, *Journal of Economic Perspectives*, 14(4), 2000: 75-99.

Charles, Kerwin Kofi and Jonathan Guryan. 2007. Prejudice and the Economics of Discrimination. NBER Working Paper W13661.

Family Economics

Lunberg, Shelly, and Robert Pollak. 1996. Bargaining and Distribution in Marriage. *Journal of Economic Perspectives*. 10(4): 139-58.

Program Evaluation

Blank, Rebecca. 2002. Evaluating Welfare Reform in the United States. *Journal of Economic Literature* 40(4):1105-1166.

Hotz, V. Joseph and John Karl Scholz, Not Perfect, but Still Pretty Good: The EITC and Other Policies to Support the US Low-Wage Labour Market. *OECD Economic Studies* 0(31), 2000, pages 25-42.

Moffitt, Robert. 2003. The Negative Income Tax and the Evolution of U.S. Welfare Policy, *Journal of Economic Perspectives*. Summer 2003; 17(3): 119-40.

Wolfe, Barbara. 2000. Incentives, Challenges, and Dilemmas of TANF. IRP Working Paper 1209-00. May 2000.

Neumark, David, and William Wascher. 2007. Minimum Wages, the Earned Income Tax Credit, and Employment: Evidence from the Post-Welfare Reform Era. NBER Working Paper W12915.

Minimum Wage

Card, David and Alan B. Krueger, Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania, *American Economic Review*, 84(4), September 1994. Pages 772-793.

Neumark, David, and William Wascher. 2006. Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research. NBER Working Paper W12663.

David Neumark and Olena Nizalova Minimum Wage Effects in the Longer Run

Mauricio Larran and Joaquin Poblete Age-Differentiated Minimum Wage: An Exploratory Model

Walter Wessels A Reexamination of Card and Kruegers State-Level Study of Minimum Wages

Kalena E. Cortes Do Immigrants Benefit from an Increase in the Minimum Wage Rate? An Analysis by Immigrant Industry Concentration

Return to Schooling

Card, David (1999) "The Causal Effect of Education on Earnings" in *Handbook of Labor Economics*, Vol. 3A, Ch 30, edited by O. Ashenfelder and D. Card, New York: Elsevier Science Publishers.

Layoffs, Unemployment, Unemployment Insurance

Juhn, Chinhui, Kevin M. Murphy, and Robert H. Topel. 2002. Current Unemployment, Historically Contemplated, *Brookings Papers on Economic Activity* 0(1): 79-116.

Katz, Lawrence F. and Alan B. Krueger, The High-Pressure U.S. Labor Market of the 1990s, *Brookings Papers on Economic Activity* 1, 1999: 1-65.

Saint-Paul, Gilles. 2004. Why Are European Countries Diverging in Their Unemployment Experience? *Journal of Economic Perspectives*, Fall 2004; 18(4): 49-68.

Shimer, Robert. 2007. Reassessing the Ins and Outs of Unemployment. NBER Working Paper W13421.

Wasylenko, Michael (1997) "Taxation and Economic Development: The State of the Economics Literature" *New England Economic Review*, March/April: 37-52.

Labor Supply

Ziliak, James and Thomas Kniesner (2005) "The Effect of Income Taxation on Consumption and Labor Supply" *Journal of Labor Economics*, vol. 23, no. 4 pp. 769 - 796.

Eissa, Nada and Hilary Hoynes (2004) "Taxes and the labor market participation of married couples: the earned income tax credit" *Journal of Public Economics*. 88: 1931-1958.

Camerer, Colin, Linda Babcock, George Loewenstein, and Richard Thaler (1997) "Labor Supply of New York City Cabdrivers: One Day at a Time" *Quarterly Journal of Economics*, pp. 407-441

Juhn, Chinhui and Kevin M. Murphy (1997). "Wage Inequality and Family Labor Supply" *Journal of Labor Economics* 15(1): 72-97.

Juhn, Chinjui and Simon Potter (2006) "Changes in Labor Force Participation in the United States" *Journal of Economic Perspectives* 20 (3): 27 - 46.

Wages

Katz, Lawrence F. and David Autor (1999) Changes in the Wage Structure and Earnings Inequality In O. Ashenfelter and D. Card, eds., *Handbook of Labor Economics*, North-Holland: Amsterdam, (3A):1463-1558.

Juhn, Chinhui, Kevin Murphy, and Brooks Pierce (1993) Wage Inequality and the Rise in Returns to Skill *Journal of Political Economy*, 101(3):410-442.

Card, David and John DiNardo (2003) Skill-Biased Technological Change and Rising Wage Inequality: Some Problems and Puzzles. *Journal of Labor Economics*, 20:4: 733-83.

Autor, David H., Frank Levy, and Richard Murnane (2002) The Skill Content of Recent Technological Change. *Quarterly Journal of Economics*. 118(4): 1279- 1333.

Goldin, Claudia, and Lawrence F. Katz (2007) Long-Run Changes in the U.S. Wage Structure: Narrowing, Widening, Polarizing. *NBER Working Paper* W13568.

Lemieux, Thomas (2007) The Changing Nature of Wage Inequality. *NBER Working Paper* W13523.