

Topics in Labor Economics

Winter 2009

Prof. Paul Heaton

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Class Times: 10:30-12:00 Tuesdays and Thursdays

Office Hours: By appointment

Description: Labor economics as a field has grown enormously in the past several decades. Although originally focused on the interactions between firms and workers, modern labor research examines diverse areas such as crime, family interactions, time-use, and education. The purpose of this course is to review a number of topics of interest to labor economists, outlining the relevant theoretical work and empirical evidence. Particular emphasis will be given to identifying data sources that will be useful for students in their own empirical work, as well as furthering students' understanding of the empirical methods used by labor economists.

Prerequisites: Students should be comfortable with microeconomic reasoning and basic econometric methods (such as regression analysis) and be sufficiently familiar with a statistical software package to conduct their own empirical analyses. Successful completion of the first year PRGS core or a strong prior background in economics are good indicators of adequate preparation for this course.

Requirements: Grading for the course will be based upon the following criteria:

- 20% Class participation
- 40% In-class presentations
- 40% Paper

Each student will be required to make several brief presentations over the course of the class. At least one will be a presentation on a data source used by labor economists that describes where the data source can be found, the nature of the sample and variables, and potential research uses. Another will be a presentation describing one of the papers on the reading list, including a discussion of its major arguments, empirical methods, and the strengths and limitations of the research. Data sources and presentations will be assigned in advance by the instructor. For the paper presentations, presenters will be randomly selected at the beginning of class based upon the readings assigned for that particular lecture.

The paper requirement for the class is a write-up of what I would term a "fast first cut" of data. It does not have to be a formal and complete research report, but rather a description of a research idea along with an exploratory analysis designed to test the feasibility of the idea. At a minimum, the report should contain 1) A clear research question related to labor economics and 2) Data and statistical analysis. Being able to identify an interesting research question and then quickly assemble data to provide a preliminary answer is an essential skill, both for producing a good dissertation and for your future employment. To facilitate completion of the paper, students are required to review their paper idea with me prior to the midpoint of the term (February 6).

Text: There is no required text for the course other than the course readings. Students may find it helpful to consult textbooks on microeconomic theory and econometrics, such as Varian's *Intermediate Microeconomics* and Wooldridge's *Introductory Econometrics: A Modern Approach* and *Econometric Analysis of Cross-Section and Panel Data*.

Course Schedule: The first half of the course will cover several traditional labor topics involving the determination of market wages. The second half of the course includes modules addressing other interesting areas of labor economics. Topics will typically be introduced by outlining the major theoretical models, followed by a discussion of recent empirical work.

1. Returns to Schooling (2 Weeks)

Theory: Jacob Mincer. *Schooling, Experience, and Earnings*. 1974.

Required Readings

Angrist, Joshua and Alan Krueger. 1991. "Does Compulsory School Attendance Affect Schooling and Earnings?" *Quarterly Journal of Economics* 106(4) 979-1014.

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

Duflo, Esther. 2001. "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from an Unusual Policy Experiment." *American Economic Review* 91(4) 795-813.

Lochner, Lance and Enrico Moretti. 2004. "The Effect of Education on Crime: Evidence From Prison Inmates, Arrests, and Self-Reports." *American Economic Review* 94(1): 155-189.

Lleras-Muney, Adriana. 2005. "The Relationship Between Education and Adult Mortality in the United States." *Review of Economic Studies* 72: 189–221.

Currie, Janet and Enrico Moretti. 2003. "Mother's Education and the Intergenerational Transmission of Human Capital: Evidence from College Openings," *Quarterly Journal of Economics* 118(4) 1495-1532.

Heaton, Paul. 2008. "Childhood Educational Disruption and Later Life Outcomes: Evidence from Prince Edward County." *Journal of Human Capital* 2(2) 154-187.

Other Readings

Staiger, Douglas and James H. Stock. 1997. "Instrumental Variables Regression with Weak Instruments," *Econometrica* 65(3) 557-586.

2. Tournament Models (1 Week)

Theory: Lazear, Edward and Sherwin Rosen. 1981. "Rank-Order Tournaments as Optimum Labor Contracts." *Journal of Political Economy* 89(5) 841-864.

Required Readings

Baker, George, Michael Gibbs, and Bengt Holmstrom. 1994. "The Wage Policy of a Firm." *Quarterly Journal of Economics* 109(4) 921-955.

Bognanno, Michael. 2001. "Corporate Tournaments." *Journal of Labor Economics* 19(2): 290-315.

Levitt, Steven and Sudhir Venkatesh. 2000. "An Economic Analysis of a Drug-Selling Gang's Finances." *Quarterly Journal of Economics* 115(3) 755-789.

3. Monopsony and Imperfect Competition in the Labor Market (1 Week)

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

Required Readings

Card, David and Alan Krueger. 1994. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania." *American Economic Review* 84(4) 772-93.

Neumark, David and William Wascher, 2000. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Comment" *American Economic Review* 90(5) 1362-1396.

Card, David and Alan Krueger. 2000. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Reply" *American Economic Review* 90(5) 1397-1420.

Ransom, Michael R, 1993. "Seniority and Monopsony in the Academic Labor Market," *American Economic Review* 83(1) 221-233.

4. Self-Employment and Entrepreneurship (2 Weeks)

Theory: Lazear, Edward. 2005. "Entrepreneurship." *Journal of Labor Economics* 23(4): 649-680.

Evans, David S. and Boyan Jovanovic. 1989. "An Estimated Model of Entrepreneurial Choice under Liquidity Constraints." *Journal of Political Economy* 97(4) 808-827.

Required Readings

Evans, David S. and Linda S. Leighton. 1989. "Some Empirical Aspects of Entrepreneurship." *American Economic Review* 79(3) 519-535.

Ardagna, Silvia and Annamaria Lusardi. 2008. "Explaining International Differences in Entrepreneurship: The Role of Individual Characteristics and Regulatory Constraints." NBER Working Paper 14012, May.

Wagner, Joachim. 2003. "Testing Lazear's Jack-of-All-Trades View of Entrepreneurship with German Micro Data." *Applied Economics Letters* 10(11) 687-689.

Holtz-Eakin, Douglas, David Joulfaian, and Harvey Rosen, 1994. "Sticking It Out: Entrepreneurial Survival and Liquidity Constraints." *Journal of Political Economy* 102(1) 53-75.

David G. Blanchflower, David and Andrew Oswald. 1998. "What Makes an Entrepreneur?" *Journal of Labor Economics* 16(1) 26-60.

Hurst, Erik and Annamaria Lusardi. 2004. "Liquidity Constraints, Household Wealth, and Entrepreneurship." *Journal of Political Economy* 112(2): 319-347.

5. Economics of the Family (1 Week)

Required Readings

Angrist, Joshua and William N. Evans. 1998. "Children and Their Parents' Labor Supply: Evidence from Exogenous Variation in Family Size." *American Economic Review* 88(3): 450-477.

Hanushek, Eric A, 1992. "The Trade-Off between Child Quantity and Quality." *Journal of Political Economy* 100(1): 84-117.

Price, Joseph. 2008. "Parent-Child Quality Time Does Birth Order Matter?" *Journal of Human Resources* 43(1): 240-265.

6. Crime (1 Week)

Theory: Becker, Gary. 1968. "Crime and Punishment: An Economic Approach." *Journal of Political Economy* 76(2) 169-217.

Required Readings

Levitt, Steven. 1996. "The Effect of Prison Population Size on Crime Rates: Evidence from Prison Overcrowding Litigation." *Quarterly Journal of Economics* 111(2) 319-351.

Paul Heaton, "Understanding the Effects of Anti-Profiling Policies", manuscript, RAND

Helland, Eric and Alexander Tabarrok. 2007. "Does Three Strikes Deter? A Nonparametric Estimation." *Journal of Human Resources* 42(2) 309-330.

Other Readings

Levitt, Steven and Thomas Miles. 2007. "The Empirical Study of Criminal Punishment," *Handbook of Law and Economics*, A. Mitchell Polinsky & Steven Shavell, eds.

7. Discrimination (1 Week)

Theory: Arrow, Kenneth. 1973. "The Theory of Discrimination" in in O. Ashenfelter and A. Rees (eds.), *Discrimination in Labor Markets*, Princeton, NJ: Princeton University Press.

Becker, Gary. 1971. *The Economics of Discrimination 2nd Ed.* Chicago: University of Chicago Press.

Required Readings

Neal, Derek and William Johnson. 1996. "The Role of Premarket Factors in Black-White Wage Differences." *Journal of Political Economy* 104(5) 869-895.

Ross Levine, Alexey Levkov, and Yona Rubinstein "Racial Discrimination and Competition", NBER Working Paper No. 14273, August 2008

Knowles, John, Nicola Persico, and Petra Todd. 2001. "Racial Bias in Motor Vehicle Searches: Theory and Evidence," *Journal of Political Economy* 109(1) 203-232.

Other Readings

Coate, Stephen and Glenn Loury. 1993. "Will Affirmative-Action Policies Eliminate Negative Stereotypes?" *American Economic Review* 83(5) 1220-40.

Heckman, James. 1998. "Detecting Discrimination." *Journal of Economic Perspectives* 12(2) 101-116.

Time permitting, the final week of the course will cover a topic selected by the class members.