

UC San Diego
Fall 2005
Class: T-Th, 8-9:20 (Econ 210)

Prof. Eli Berman
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OH: T 9:30-10:30, Econ 218
(or drop by in afternoons)
Prof. Kate Antonovics

Economics 250C Labor Economics

Objectives: to prepare students to write thesis quality papers in labor economics (which we hope will become your major activity by third year) and to practice basic skills of research: creative thinking, reading, writing, presentation, constructive criticism and schmoozing.

Requirements: To do well in this course you should have completed microeconomics and econometrics (A-C) courses. It would be helpful if you have already taken Labor Economics 250A, where we covered many of the empirical methods that we will use in this course. If you are unsure please consult the 250A course syllabus at <http://weber.ucsd.edu/~jbetts/250A%202004.html> and discuss with either of us if there are holes in your knowledge of the relevant empirical methods.

You are expected to attend and participate actively in all classes.

Evaluation: 5% A paper proposal. Please email both of us a one to three page proposal with a few references by the end of Week 2. (Feel free to consult either of us more informally before that time.) This could be a literature review. Alternatively you could initiate or continue an applied project. Some of you may have initiated more empirically oriented projects in 250A or 250B. You are welcome to continue with that work in this course, but you must clear this with us and provide us with a copy of the final version of the paper(s) you prepared for those classes, along with a clear statement of how you will extend that analysis. A third alternative, for those of you taking the 3rd year paper course, is to extend your 3rd year literature review in a new direction. A fourth alternative is to take an existing paper you have written in a closely related field such as public economics and propose an extension. Again, please provide us with a copy of the paper in pdf or hardcopy and a plan for extending your work. 45% A final draft of your paper, due on the last class. Please bring two copies. There will be no extensions beyond the end of quarter, and papers submitted after the last class will lose 5 percentage points (out of 50) per day late. 50% A two-hour final exam in finals week.

Books: There is no required text. Students looking for a starting point or background material may wish to use Cahuc P. and Zylberberg A. *Labor Economics* (MIT press, 2004) [C&Z]. For a clear, accessible summary of much of the empirical literature up till about 2000, try Ehrenberg, Ronald G. and Robert S. Smith (2003) *Modern Labor Economics, Theory and Public Policy*, (8th edition), HarperCollins, New York. Good writing is important. For an entertaining style manual, see Becker, Howard S. (1986) *Writing For Social Scientists*, U. of Chicago.

Instruction: Prof. Berman will teach sections I and II and Prof. Antonovics will teach sections III-V.

Reading List: This list is subject to change. You are not expected to read every paper on the list. The (*) means priority reading. We will also try to give you some guidance as to which papers are the most important. Please let me know if you discover any mistakes in the references.

Reading material is available on electronic reserve at <http://reserves.ucsd.edu>. You can access this web page from a campus computer or from an off-campus computer that uses a UCSD proxy server.

I. Labor Demand

Static Models

[C&Z, 4.1]

*Hamermesh, Daniel S. Labor Demand, Princeton, NJ: Princeton University Press, 1993, chapters 2&3.

J. Hicks, Theory of Wages, chapter 1, Appendix, sections 18-19.

* D. Hamermesh, "The Demand for Labor in the Long Run," in O. Ashenfelter and R. Layard, eds., Handbook of Labor Economics, vol. 1, 1986.

Empirical Applications of Static Models

[C&Z, 4.2]

* K. Clark and R. Freeman, "How Elastic is the Demand for Labor?" RESTAT, November 1980, pp. 509-520.

C. Brown, C. Gilroy, and A. Kohen, "The Effect of the Minimum Wage on Employment and Unemployment," Journal of Economic Literature, June 1982.

R. Freeman, "The Effect of Demographic Factors on Age-Earnings Profiles," Journal of Human Resources, 1979, pp. 289-318.

R. Freeman, "The Effect of the Increased Relative Supply of College Graduates on Skill Differences and Employment Opportunities," in Z. Griliches et al., Income Distribution and Economic Inequality, Campus Verlag, 1978, pp. 240-55.

*Z. Griliches, "Capital-Skill Complementarity," RESTAT, November 1969.

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

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Berman Eli and Linda Bui (2000), "Air Quality Regulation and Labor Demand: Evidence from the L.A. Basin," Journal of Public Economics xx x.

Dynamic Models

[C&Z 4.3]

* W. Oi, "Labor As A Quasi-Fixed Factor," Journal of Political Economy, 1962, pp. 538-55.

S. Nickell, "Dynamic Models of Labour Demand," Handbook of Labor Economics, vol. 1, 1986.

* D. Hamermesh, "Labor Demand and the Structure of Adjustment Costs," American Economic Review, September 1989, pp. 675-90.

Equilibrium with Heterogeneous Labor

[C&Z 5.1, 5.4]

*Lang, Kevin and William T. Dickens. "Neoclassical and Sociological Perspectives on Segmented Labor Markets," in Farkas, G. and England, P. ,eds., Industries, Firms, and Jobs, New York: Plenum, 1988.

*Kahn, Shulamit. "Economic Estimates of the Value of Life," Institute of Electrical Engineers Technology and Society, June 1986.

Rosen, Sherwin. "The Theory of Equalizing Differences." in Handbook of Labor Economics, Vol. I.

Willis, Robert J. "Wage Determinants: A Survey and Reinterpretation of Human Capital Earnings Functions," in Handbook of Labor Economics.

Immigration

* 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, U. of Chicago Press and NBER, 1991.

*Card, David, "The Impact of the Mariel Boatlift on the Miami Labor Market," Industrial and Labor Relations Review, 43 (January 1990): 245-57.

Chiswick, Barry R. "The Effect of Americanization on the Earnings of Foreign-born Men," Journal of Political Economy 86(5) (1978).

Friedberg, Rachel "The Impact of Mass Migration on the Israeli Labor Market," The Quarterly Journal of Economics 2001 116 (4)1373-1408.

*Borjas, George, "Self-Selection and the Earnings of Immigrants," American Economic Review, 77 (Sept. 1987): 531-53.

Berman, Eli, "Language-Skill Complementarity: Estimated Returns to Immigrant Language Acquisition," (with Kevin Lang and Erez Siniver), Labour Economics, 10 (3), (June 2003) 265-290.

Bleakely, Hoyt, and Aimee Chin, "Returns to English Language Skills among first generation immigrants: How much and why?" Review of Economics and Statistics, forthcoming.

II. Increased Returns to Skills and Increased Income Inequality

The basic facts on quantities and prices

- Blackburn, M.L., D.E. Bloom and R.L. Freeman (1990). "The Declining Economic Position of Less-Skilled American Males," in G. Burtless (ed.), *A Future of Lousy Jobs?* Brookings, Washington D.C.
- * Bound, John and George Johnson (1992) "Changes in the Structure of Wages During the 1980s: An Evaluation of Alternative Explanations," *American Economic Review*, 82(June).
- * Katz, Lawrence F. and Kevin M. Murphy (1992). "Changes in Relative Wages, 1963-1987: Supply and Demand Factors," *Quarterly Journal of Economics*, 107(February) 35-78.
- Murphy, Kevin M. and Finis Welch (1993) Industrial change and the rising importance of skill, in Sheldon Danziger and Peter Gottschalk (eds.) *Uneven Tides: Rising Inequality in America*, New York: Russell Sage Foundation.
- Murphy, Kevin M. and Finis Welch (1992) "The Structure of Wages," *Quarterly Journal of Economics*, 107(February): 285-326.

Race

- Bound, John and Richard Freeman (1992) "What Went Wrong? The Erosion of Relative Earnings Among Young Black Men in the 1980s," *Quarterly Journal of Economics* 107(1), February.

International Evidence

- Blau, Francine D. and Lawrence M. Kahn (1994) "International Differences in Male Wage Inequality: Institutions versus Market Forces," NBER WP #4678, March.
- * Freeman, Richard and Lawrence Katz (1994) "Rising wage inequality: The United States vs. other advanced countries," in Richard Freeman (ed.) *Working Under Different Rules*, New York: Russell Sage Foundation.
- Katz, Lawrence F., Gary W. Loveman and David G. Blanchflower (1993). "A comparison of Changes in the Structure of Wages in Four OECD Countries," National Bureau of Economic Research Working Paper #4297, March.

Historical Perspective

- Goldin, Claudia and Robert Margo (1992) "The Great Compression: The Wage Structure in the United States at Mid-Century," *Quarterly Journal of Economics*, 107(1), February.

Basic Human Capital Theory

[C&Z, CH 2]

G. Becker, Human Capital, 2nd edition, 1975.

* Y. Ben-Porath, "The Production of Human Capital and the Life Cycle of Earnings," Journal of Political Economy, August 1967, pp. 352-65.

Hellerstein, Judith K., David Neumark and Kenneth R. Troske (1994) "Wages, Productivity and Worker Characteristics," Northwestern University, mimeo, November.

* R. Willis, "Wage Determinants: A Survey and Reinterpretation of Human Capital Earnings Functions," in O. Ashenfelter and R. Layard, eds., Handbook of Labor Economics, vol. 1, 1986.

* Mincer, Jacob (1994) "The Production of Human Capital and the Lifecycle of Earnings: Variations on a Theme," NBER WP #4838, August.

Mincer, Jacob (1994) "Investment in U.S. Education and Training," NBER WP #4844, August.

Trade as an Explanation

Borjas, George J. and Valerie A. Ramey (1994) "Foreign Competition, Market Power and Wage Inequality, UCSD mimeo.

Feenstra, Robert C. and Gordon Hanson, "Globalization, Outsourcing, and Wage Inequality" American Economic Review Paper and Proceedings, LXXXVI (1996), 240-245.

Helpman, Elhanan and Paul R. Krugman, Market Structure and Foreign Trade, (Cambridge, MA: MIT, 1985).

Krugman, Paul and Robert Lawrence (1993). "Trade, Jobs and Wages," National Bureau of Economic Research Working Paper #4478, September.

Lawrence, Robert and Matthew Slaughter (1993) 'International Trade and U.S. wages in the 1980s: Great sucking sound or small hiccup', *Brookings Papers on Economic Activity*, Fall, n2, pp161(66)

Sachs, Jeffrey and Howard Shatz (1994) 'Trade and jobs in U.S. manufacturing', *Brookings Papers on Economic Activity*.

Skill Biased Technological Change as an Explanation

Allen, Steven (1993) Technology and the Wage Structure, *Journal of Labor Economics*, 2001, vol. 19, issue 2, pages 440-83.

* Berman, Eli, John Bound and Zvi Griliches (1994) '*Changes in the demand for skilled labour within US manufacturing industries: Evidence from the Annual Survey of Manufacturing*', *Quarterly Journal of Economics*, 109, 367-98.

* Berman, Eli, John Bound and Stephen Machin "Implications of Skill-Biased Technological Change: International Evidence," (1998), *Quarterly Journal of Economics*, 113, November.

Mincer, Jacob (1991). "Human Capital, Technology and the Wage Structure: What do Time Series Show?" National Bureau of Economic Research Working Paper #3581.

Autor, David, Lawrence Katz and Alan Krueger (1998) "Computing Inequality" Quarterly Journal of Economics, 113.

Berman, Eli and Stephen Machin, "Skill-Biased Technology Transfer Around the World," Oxford Review of Economic Policy 16(3), Fall 2000.

Human Capital and Technological Change in Growth Models

Barro and Sala-I-Martin (1994) *Economic Growth*

Lucas, Robert E. (1988) "On the Mechanics of Economic Development," *Journal of Monetary Economics*, XXII, 3-42.

Mankiw, N. Gregory, David Romer and David N. Weil (1992) "A Contribution to the Empirics of Economic Growth," *The Quarterly Journal of Economics*, May.

III. Race and Gender Inequality

* Altonji, Joseph and Rebecca Blank. "Race and Gender in the Labor Market," in O. Ashenfelter and D. Card (ed.) *Handbook of Labor Economics*, Vol 3C, Chapter 48. New York, NY: Elsevier, 1999.

Bound, John and Richard B. Freeman. "What Went Wrong? The Erosion of Relative Earnings and Employment Among Young Black Men in the 1980s." *Quarterly Journal of Economics*, February 1992, 107(1), pp. 201-32.

Brown, Charles. "Black-White Earnings Ratios Since the Civil Rights Act of 1964: The Importance of Labor Market Dropouts." *Quarterly Journal of Economics*, February 1984, 99(1), pp. 31-44.

Card, D. and Lemieux, T. "Wage Dispersion, Returns to Skill, and Black-White Wage Differentials", *Journal of Econometrics*, 1996, 74, 319-361.

Card, David and Alan Krueger. "School Quality and Black-White Relative Earnings: A Direct Assessment." *Quarterly Journal of Economics*, February 1992, 107(1), pp. 151-200.

* Donohue, John J III and James J. Heckman. "Continuous Versus Episodic Change: The Impact of Civil Rights Policy on the Economic Status of Blacks." *Journal of Economic Literature*, December 1991, 29(4), pp. 1603-43. [JS]

* Neal, Derek and William Johnson. "The Role of Premarket Factors in Black-White Wage Differences." *Journal of Political Economy*, October 1996, 104(5), pp. 869-85.

Smith, James P. "Affirmative Action and the Racial Wage Gap." *American Economic Review Papers and Proceedings*, May 1993, 83(2), pp. 79-84.

Discrimination--Theory

* Aigner, Dennis J. and Glen C. Cain. "Statistical Theories of Discrimination in the Labor Market." *Industrial and Labor Relations Review*, January 1977, 30(2), pp. 175-87.

* Altonji, Joseph and Rebecca Blank. "Race and Gender in the Labor Market," in O. Ashenfelter and D. Card (ed.) *Handbook of Labor Economics*, Vol 3C, Chapter 48. New York, NY: Elsevier, 1999.

Antonovics, Kate. "Statistical Discrimination and Intergenerational Income Mobility." *mimeo*, 2004.

Arrow, Kenneth, "Models of Job Discrimination" and "Some Mathematical Models of Race in the Labor Market", in A. Pascal (ed.) *Racial Discrimination in Economic Life*. **Lexington, MA: Lexington Books, 1972.**

Becker, Gary S., *The Economics of Discrimination*, **Chicago, IL: The University of Chicago Press, 1957.**

Borjas, George and Matthew Goldberg. "Biased Screening and Discrimination in Labor Markets." *American Economic Review*, December 1978, 68(5), pp. 918-922.

* Coate, S. and Loury G. "Will Affirmative Action Eliminate Negative Stereotypes?" *American Economic Review*, December 1993, 83(5), pp. 1220-1240.

* Lundberg, S. and Startz, R. "Private Discrimination and Social Intervention in a Competitive Labor Market." *American Economic Review*, June 1983, 73(3), pp. 340-347.

Lundberg, Shelly J. "The Enforcement of Equal Opportunity Laws Under Imperfect Information: Affirmative Actions and Alternatives." *Quarterly Journal of Economics*, February 1991, 106(1), pp. 309-326. [JS]

Mailath, George J., Larry Samuelson and Avner Shaked. "Endogenous Inequality in Integrated Labor Markets with Two-Sided Search." *American Economic Review*, March 2000, 90(1), pp. 46-72.

McCall, J. "The Simple Mathematics of Information, Job Search and Prejudice," in A. Pascal (ed.), *Racial Discrimination in Economic Life*. Lexington, MA: Lexington Books, 1972.

Milgrom, Paul and Sharon Oster, "Job Discrimination, Market Forces, and the Invisibility Hypothesis." *Quarterly Journal of Economics*, 1987, 102(3), pp. 453-476.

Schwab, Stewart, "Is Statistical Discrimination Efficient?" *American Economic Review*, March 1986, 76(1), pp. 228-234.

Discrimination--Empirical Evidence

* Altonji, Joseph and Rebecca Blank. "Race and Gender in the Labor Market," in O. Ashenfelter and D. Card (ed.) *Handbook of Labor Economics*, Vol 3C, Chapter 48. New York, NY: Elsevier, 1999.

* Altonji, J. and Pierret, C. "Employer Learning and Statistical Discrimination", *Quarterly Journal of Economics*, February 2001, 116(1), pp. 313-350.

* Antonovics, Kate and Brian Knight. "A New Look at Racial Profiling: Evidence from the Boston Police Department." *mimeo*, March 2004.

* Bertrand, Marianne and Sendhil Mullainathan. "Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment in Labor Market Discrimination," *American Economic Review*, September 2004, 94(4), pp. 991-1013.

Hellerstein, Judith K. and David Neumark. "Wages, Productivity, and Worker Characteristics: Evidence from Plant- Level Production Functions and Wage Equations." *International Economic Review*, February 1999, 40(1), pp. 95-123.

Hernández-Murillo, Rubén and John Knowles. "Racial Profiling or Racist Policing? Bounds Tests in Aggregate Data," *International Economic Review*, August 2004, 45(3). pp. 959-89.

* Knowles, John and Persico, Nicola. "Racial Bias in Motor Vehicle Searches: Theory and Evidence." *Journal of Political Economy*, 2001, 109(1), pp. 203-229.

Oettinger, Gerald. "Statistical Discrimination and the Early Career Evolution of the Black- White Wage Gap." *Journal of Labor Economics*, January 1996, 14(1), pp. 52-78.

IV. Intergenerational Income Mobility

Becker, Gary and Nigel Tomes. "An Equilibrium Theory of the Distribution of Income and Intergenerational Mobility," *Journal of Political Economy*, December 1986, 87(6), pp. 1153-1189.

Goldberger, Arthur. "Economic and Mechanical Models of Intergenerational Transmission," *American Economic Review*, June 1989, 79(3), pp. 504-513.

Grawe, Nathan and Casey Mulligan. "Economic Interpretations of Intergenerational Correlations," *Journal of Economic Perspectives*, Summer 2002, 16(3), pp. 45-58.

Cameron, Stephen and James Heckman. "The Dynamics of Educational Attainment for Black, Hispanic, and White Males," *Journal of Political Economy*, June 2001, 109(3), pp. 455-99.

Carneiro, Pedro and James Heckman. "The Evidence on Credit Constraints in Post-secondary Schooling," *Economic Journal*, October 2002, 112(482), pp. 705-34.

Solon, Gary. "Intergenerational Income Mobility in the United States," *American Economic Review*, June 1992, 82(3), pp. 393-408.

V. Wage Dynamics and Employment Dynamics

Theories of Wage Dynamics

* Ben-Porath, Yoram. "The Production of Human Capital and the Life Cycle of Earnings." *Journal of Political Economy*, August 1967, 75(4), Part I, pp. 352-365.

Chiappori, Pierre-Andre and Bernard Salanié. "Early Starters versus Late Beginners," *Journal of Political Economy*, 1999, 107(4), pp. 731-760.

* Farber, H., and R. Gibbons. "Learning and Wage Dynamics." *Quarterly Journal of Economics*, November 1996, 111(4), pp. 1007-1047.

* Gibbons, Robert and Michael Waldman. "A Theory of Wage and Promotion Dynamics Inside Firms." *Quarterly Journal of Economics*, November 1999, 114 (4), pp. 1321-58.

Gittins, J.C. "Multi-Armed Bandit Allocation Indices." John Wiley and Sons (1989).

Johnson, William. "A Theory of Job Shopping." *Quarterly Journal of Economics*, May 1978, 92(2), pp. 261-77.

Jovanovic, Boyan. "Firm Specific Capital and Turnover." *Journal of Political Economy*, December 1979, 87(6), pp. 1246-1260.

* Jovanovic, Boyan. "Job Matching and the Theory of Turnover." *Journal of Political Economy*, October 1979, 87(5), part I, pp. 972-990.

MacDonald, Glenn M. "A Market Equilibrium Theory of Job Assignment and Sequential Accumulation of Information," *American Economic Review*, December 1982, 72(5), pp. 1038-1055.

* Miller, Robert. "Job Matching and Occupational Choice." *Journal of Political Economy*, December 1984, 92(6), pp. 1086-1120.

* Neal, Derek and Sherwin Rosen. "Theories of the Distribution of Earnings." In *Handbook of Income Distribution*, 2000.

* Sargent, Thomas J. Dynamic Macroeconomic Theory. Cambridge, MA: Harvard University Press, 1987, pp. 71-83.

Empirical Work on Wage Dynamics

Abraham, K. and H. Farber. "Job Duration, Seniority, and Earnings," *American Economic Review*, June 1987, 77(3), pp. 278-297.

* Baker, George, Michael Gibbs and Bengt Holmstrom. "The Internal Economics of the Firm." *Quarterly Journal of Economics*, November 1994, 109(4), pp. 881-919.

* Baker, George, Michael Gibbs and Bengt Holmstrom. "The Wage Policy of a Firm." *Quarterly Journal of Economics*, November 1994, 109(4), pp. 921-55.

* Neal, Derek. "Industry-Specific Human Capital: Evidence from Displaced Workers." *Journal of Labor Economics*, October 1995, 13(4), pp. 653-677.

* Topel, Robert. "Specific Capital, Mobility, and Wages: Wages Rise with Job Seniority." *Journal of Political Economy*, February 1991, 99(1), pp. 145-176.