

## **ECO 2801: Labour Economics II**

**F, 11:00 am-1:00 pm, GE 106**

**Instructor: Laura Turner**

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**Office hours: 1:15pm-3:30pm, F, GE 204 or by appointment**

### **REQUIRED COURSE READINGS:**

You should read (on average) two articles per week (24 articles total). Papers listed on the class schedule before the “;” we will cover in detail in class; these are the readings you will be responsible to know for your exam. The additional readings we will touch on briefly and should be used for the assignments where possible. There is no required textbook, but Benjamin, Gunderson, Lemieux and Riddell *Labour Market Economics* 6th Edition provides a good undergraduate-level primer, and some topics draw on Manning's *Monopsony in Motion* (2003). The other readings should be available online through the UofT VPN service; I will also make them available on the Blackboard course website.

### **CLASS SCHEDULE**

Classes will mainly be informal lecture format with a ten minute break in the middle. Class notes on all the readings will be provided on Blackboard. You should come to class prepared to discuss and ask questions about the week's required readings.

#### **Week 1 – Course introduction: Review: Static labour supply and demand**

The individual and (unitary) household labour supply problem; continuous and corner solutions for labour supply; comparative statics and static labour supply elasticities; competitive labour demand

#### **Readings (optional for brush-up): Benjamin et al, Chapters 2 and 5**

#### **Week 2 – Unions I**

Allocation of labour in competitive and unionized labour markets. Efficient vs. right-to-manage union bargaining. Identifying the union's objective function

#### **Readings: Oswald (1985), Brown & Ashenfelter (1986); McCurdy & Pencavel (1986)**

#### **Week 3 – Unions II**

Effects of unions: wages, employment, inequality.

#### **Readings: Card, Lemieux & Ridell (2002), Boal & Pencavel (1994)**

Week 4 – Monopsonistic labour markets

**Readings: Ransom and Oaxaca (2010); Isen (2013) Abowd, Kramarz & Margolis (1999)**

Week 5-6– Intertemporal labour supply in life cycle and perpetual youth models

**Readings: MacCurdy (1981), Altonji (1985), Pistaferri (2003); Imai & Keane (2004)**

Week 7-8 – Micro vs. macro elasticities of intertemporal substitution

**Readings: Domeij & Floden (2006), Kim & Chang (2006), Erosa, Fuster & Kambourov (2012); Rogerson and Wallenius (2009)**

Week 9 – Labour search, unemployment and wages

**Readings: Rogerson, Shimer & Wright (2007), Hall and Kreuger (2008)**

Week 10 – Optimal unemployment insurance

**Readings: Shavell & Weiss (1979), Hansen & Imrohorglu (1992); Acemoglu & Shimer (2000)**

Week 11-12 – Skill-biased technological change

**Readings: Autor and Dorn (2008), Autor and Acemoglu (2010); Firpo, Fortin and Lemieux (2012)**

**CLASSES END**

**EVALUATION**

60% -- Three assignments, each worth 20%. Only three of the four assignments listed below should be completed, as fits your schedule and interest. The due dates for the assignments are the beginning of class Week 4, Week 7, Week 10 and Week 12. Masters and PhD students will complete the same assignments, but standards will be adjusted accordingly.

40% -- Open book April exam, date TBA

There are no points for attendance/participation, but misunderstandings of the theory in your assignments will be treated more kindly if you've been in class.

**ASSIGNMENTS (3 to 5 pages each using space and a half font)**

Assignment #1: Describe the respective approaches of Brown & Ashenfelter (1986) and McCurdy and Pencavel (1986) in testing and assessing the monopoly (labour demand curve) vs. efficient contracting (contract curve) models of union bargaining. Which approach do you find more intuitively appealing? Which do you think was more empirically successful?

Assignment #2: Describe the empirical strategy for estimating intertemporal labour supply elasticity proposed by MacCurdy (1981). What do you consider the most problematic assumption

underlying his results? Discuss an alternative approach (from a paper on the syllabus or another recent paper) that relaxes this assumption. If no paper has yet addressed the problem, how might some economist go about doing so?

Assignment #3: Discuss the reasons for the divergent estimates of intertemporal labor supply that have emerged in the micro and macro labor literatures. Discuss the attempts to reconcile them in two of the papers on the syllabus (or one from the syllabus and another of your choice.)

Assignment #4: Write a mock referee report for Acemoglu & Shimer (2000), Isen (2013), or Firpo, Lemieux and Fortin (2012) as if you had been contacted to serve as a referee at the *American Economic Review*. Remember that part of the job of a referee is to request the revisions you think would most improve the paper.

### **LATE ASSIGNMENT POLICY**

Assignments must be handed in at the beginning of the class in which they are due. After one assignment is missed, additional late assignments will be penalized at 5% per day.

### **COURSE BIBLIOGRAPHY (required readings)**

Abowd, J., F. Kramarz, and D. Margolis (1999): "High wage workers and high wage firms", *Econometrica*, (67), 251-335

Acemoglu, D. and R. Shimer (2000): "Productivity Gains from Unemployment Insurance", *European Economic Review* 44, 1195-1224

Altonji, J. (1986): "Intertemporal substitution in labor supply: Evidence from micro data", *Journal of Political Economy* 94(2), 176-215

Autor, D. and Acemoglu, D (2010): "Skills, Tasks, and Technologies: Implications for Employment and Earnings". NBER Working Paper No. 16082 (forthcoming in O. Ashenfelter and D. Card, eds., *Handbook of Economics*, vol. IV.)

Autor, D. and D. Dorn (2013): "Inequality and Specialization: The Growth of Low-Skill Service Jobs in the United States", *American Economic Review* (forthcoming)

Boal, W.M. and J. Pencavel (1994): "The Effects of Labor Unions on Employment, Wages, and Days of Operation: Coal Mining in West Virginia", *The Quarterly Journal of Economics* 109(1), 267-298

Brown, J.N. and O. Ashenfelter (1986): "Testing the efficiency of employment contracts". *Journal of Political Economy* 94(3), 40-87

Card, D., T. Lemieux and C. Riddell (2003): "Unions and the Wage Structure", in John T. Addison and Claus Schnabel (eds.) *The International Handbook of Trade Unions*, Cheltenham: Edward Elgar, 2003, 246-92.

- Chang, Y., and S.-B. Kim (2006): "From Individual to Aggregate Labor Supply: A Quantitative Analysis Based on a Heterogeneous Agent Macroeconomy," *International Economic Review*, 47(1), 1–27.
- Domeij, D. and M. Floden (2005): "Labour-supply elasticity and borrowing constraints: Why estimates are biased", *Review of Economic Studies* (9), 242-262
- Erosa, A., L. Fuster and G. Kambourov (2011): "Towards a Micro-Founded Theory of Aggregate Labor Supply", University of Toronto working paper 443
- Firpo, S, N Fortin, and T Lemieux (2012): "Occupational Tasks and Changes in the Wage Structure", University of British Columbia working paper
- Hall, R. & A. Krueger (2008): "Wage Formation between Newly Hired Workers and Employers: Survey Evidence". Princeton University working paper, 534
- Hansen, G.D., and A. Imrohorglu (1992): "The role of unemployment insurance in an economy with liquidity constraints and moral hazard", *Journal of political economy*, 118-142
- Imai S., and Keane (2004): "Intertemporal Labor Supply and Human Capital Accumulation", *International Economic Review* 45(2), 601-641
- Isen, A (2013): "Dying to Know: Are Workers Paid their Marginal Product", Wharton Business School working paper.
- MaCurdy, T. E. (1981): "An Empirical Model of Labor Supply in a Life-Cycle Setting", *Journal of Political Economy*, 89(6), 1059–1085.
- MaCurdy, T. E. and J. Pencavel (1986): "Testing Between Competing Models of Wage and Employment Determination in Unionized Markets", *Journal of Political Economy* 94(3), S3-S39
- Oswald, J (1985): "The Economic Theory of Trade Unions: An Introductory Survey", *The Scandanavian Journal of Economics* 87(2), 160-193
- Pistaferri, L (2003): "Anticipated and Unanticipated Wage Changes, Wage Risk, and Intertemporal Labor Supply", *Journal of Labor Economics* 21(3)
- Rogerson, R., P. Rupert and R. Wright (2000): "Homework in labor economics: Household production and intertemporal substitution", *Journal of Monetary Economics* 46(3), 557-579
- Rogerson, R. and J. Wallenius (2009): "Micro and Macro Elasticities in a Life Cycle Model with Taxes", *Journal of Economic Theory* 144(6), 2277-2292
- Rogerson, R., R. Shimer and R. Wright (2007): "Search-Theoretic Models of the Labor Market: A Survey", *Journal of Economic Literature* 43(4), 959-998
- Shavell, S. & Weiss, L. (1979): "The optimal payment of unemployment insurance benefits over time." *Journal of Political Economy*, 87, 1347-1362.