

ECO 2800: Labour Economics I

W, 9:00-11:00 am, GE 106

Instructor: Laura Turner

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Office hours: 11:30am-2:30pm, Th, Rm. 204 GE

REQUIRED COURSE READINGS:

We will cover (on average) two articles per week between week 3 and 11 (18 articles total); these are the readings you will be responsible to know for your exam. There will be four additional readings, one corresponding to each assignment. There is no required textbook, but Benjamin, Gunderson, Lemieux and Riddell *Labour Market Economics* 6th Edition provides a good undergraduate-level primer. 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 consist of one hour of me talking about the basic theory underlying each topic, followed by a 50 minute discussion of the weekly readings, with a ten minute break in the middle.

Weeks 1 & 2 – Course introduction: Review: Static labour supply and demand

The individual and (unitary) household labour supply problem; continuous and corner solutions for labour supply; labour supply by collective groups; comparative statics and static labour supply elasticities; labour demand in competitive labour and unionized labour markets

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

Week 3 – 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)

Week 4 – Unions II

Effects of unions: wages, employment, inequality.

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

Week 5 & 6 – The life cycle model of labour supply

Theory and estimation of intertemporal labour supply for individuals and families; Micro-based vs. macro-based estimates of intertemporal substitution

Readings: MacCurdy (1981); Pencavel (2002); Browning & Crossley (2000); Kim &

Chang (2006)

Week 7 – Dynamic programming: life cycle and perpetual youth models of labour supply

Readings: Domeij & Floden (2006); Pissarides (1985)

Week 8 – Labour search, unemployment and wages

Readings:; Hall and Kreuger (2008); Shavell & Weiss (1979)

Week 9 – Application: optimal unemployment insurance

Readings: Hansen & Imrohorglu (1982); Pallage & Zimmerman (1997)

Week 10 – Static family labour supply

Readings: Chiappori (1992)

Week 11 – Dynamic family labour supply

Readings: Knowles (2007); Mazzocco & Yamaguchi (2007)

Week 12 – Review: catch-up etc

Readings: Rogerson, Rupert & Wright (2002)

CLASSES END

EVALUATION

60% -- Three of four assignments, comparing and analyzing one of the required and one supplemental course reading. The assignments are worth 20% each and only three of them 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 9 and Week 11. Masters and PhD students will complete the same assignments, but standards will be adjusted accordingly.

40% -- Christmas 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; double or space and a half)

Assignment #1: Compare the approach of MaCurdy & Pencavel (1986) to the approach of Brown & Ashenfelter (1986) in testing and assessing the monopoly (labour demand curve) vs. efficient contracting (contract curve) models of union bargaining.

Assignment #2: Discuss and compare the empirical strategies for estimating intertemporal labour supply elasticities proposed by MaCurdy (1981) and Altonji (1986).

What do they imply, respectively, in terms of assumptions on preferences, data requirements and results?

Assignment #3: Domeij & Floden (2006) and Rogerson and Wallenius (2009) offer two potential reconciliations of gap between individual-level (micro) and aggregate (macro) estimates of intertemporal wage elasticities. Explain the two resolutions and discuss which you find more convincing, intuitively and in terms of the exposition in the papers.

Assignment #4: Provide an economic critique of Acemoglu & Shimer (2000), in the context of the theory covered in the course on search and optimal unemployment insurance,

LATE ASSIGNMENT POLICY

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

COURSE BIBLIOGRAPHY (required readings)

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

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

Browning, M. & T.F. Crossley (2001): "The Life Cycle Model of Consumption and Saving" *Journal of Economic Perspectives*, vol. 15(3), 3-22

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.

- Chiappori, P.A. (1992): "Collective labor supply and welfare", *Journal of Political Economy* 100(3), 437-467
- Domeij, D. and M. Floden (2005): "Labour-supply elasticity and borrowing constraints: Why estimates are biased", *Review of Economic Studies* (9), 242-262
- 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. Imrohoroglu (1992): "The role of unemployment insurance in an economy with liquidity constraints and moral hazard", *Journal of political economy*, 118-142
- Knowles, J., (2007): "Why are married men working so much? the macroeconomics of bargaining between spouses." IZA Discussion Papers 2909, Institute for the Study of Labor (IZA).
- 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
- Mazzocco, M. and S. Yamaguchi (2007): "Labor Supply, Wealth Dynamics, and Marriage Decisions", working paper
- Oswald, J (1985): "The Economic Theory of Trade Unions: An Introductory Survey", *The Scandanavian Journal of Economics* 87(2), 160-193
- Pencavel, J. (2002): "A cohort analysis of the association between work hours and wages among men." *The Journal of Human Resources* 37 (2), 251-274.
- Pallage, S. & C. Zimmermann (1997). "Moral Hazard and Optimal Unemployment Insurance in an Economy with Heterogeneous Skills," *Cahiers de recherche CREFE / CREFE Working Papers* 54, CREFE, Université du Québec à Montréal.
- Pissarides, C.A. (1985): "Short-run equilibrium dynamics of unemployment, vacancies, and real wages" *American Economic Review* 75(4), 676--69
- 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
- Shavell, S. & Weiss, L. (1979): "The optimal payment of unemployment insurance benefits over time." *Journal of Political Economy*, 87, 1347-1362.