

# ECO 2801

## Labour Economics

Department of Economics  
University of Toronto  
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### Evaluation:

A final examination will make up 40% of the final grade.

For MA students, the remaining 60% will be allocated as follows 1) 30% to a problem set 2) 30% to two “reaction papers” to papers marked with a # on the reading list. The reaction papers should be 3 pages maximum and are due at the start of the class in which they are discussed.

For Ph.D. students, the remaining 60% will be allocated as follows: 1) 30% to a research paper proposal (not your second year paper proposal), and 2) 30% to 2 referee reports on one of the papers marked with an \* on the reading list.

### Reference Books

MA students will find reference to the following undergraduate labour economics textbook useful. Multiple copies are available in the library system, although some are earlier editions. While page and chapter references are to the indicated edition, in most cases the material can also be found in the earlier versions.

Benjamin, D., Gunderson, M., Lemieux, T. and W.C. Riddell, *Labour Market Economics: Theory, Evidence and Policy in Canada*, McGraw Hill Ryerson, 6th Edition, 2007, (BGLR).

Ph.D. students should also make reference to the other sources listed under the “reference section” of each topic area. More generally, the latest edition of the *Handbook of Labour Economics* (3 volumes!) is a useful reference for most subject areas. Those planning to specialize in labour are advised to purchase this set. The reference is:

% Ashenfelter, O.C. and D. Card, editors, *Handbook of Labor Economics*, New York: Elsevier, 1999, volumes 3A, 3B and 3C.

A fourth edition of the Handbook is forthcoming, and many of the chapters can be found in draft form on the NBER website (search under the authors' names)

Most of the journal articles listed in the applications sections will be discussed in class. MA students will find articles marked with an “#” easier going, and should focus on them. Items marked with a % are available on reserve at Robarts.

The articles listed under “Some Further Reading” are intended as introductions to the literature and/or background reading for Ph.D. students.

Many or most of the articles should be available on the web through the e-Journals link on the library web page, or if too recent in working paper form on the web.

## **Reading List:**

### **1. Introduction**

#### **Some Further Reading**

% Angrist, J. and A.B. Krueger, “Empirical Strategies in Labour Economics”, in Ashenfelter, O.C. and D. Card, editors, *Handbook of Labor Economics*, New York: Elsevier, 1999, volumes 3A.

### **2. Static Labour Supply**

#### **Reference**

BGLR Chapters 2-4

% Becker, G. and G. Ghez, 1975, “Introduction”, *The Allocation of Time and Goods Over the Life Cycle*, New York: Columbia University Press.

% Blundell, R. and T. MaCurdy. 1999. “Labour Supply: A Review of Alternative Approaches”, in Ashenfelter, O.C. and D. Card, editors, *Handbook of Labor Economics*, New York: Elsevier, 1999, volumes 3A.

Bound, John and Alan Krueger, “The Extent of Measurement Error in Longitudinal Earnings Data: Do Two Wrongs Make a Right?,” *Journal of Labor Economics* , 1991, 9:1, 1-24.

Heckman, James. “Sample Selection Bias as a Specification Error,” *Econometrica*, 1979.

#### **Some Applications**

\* Angrist, J. and W.N Evans. 1998. “Children and Their Parents Labour Supply: Evidence from Exogenous Variation in Family Size”. *American Economic Review* 88: 450-477.

# Ashenfelter, O. and M. Plant, 1990, "Non-Parametric Estimates of the Labor Supply Effects of Negative Income Tax Programs", *Journal of Labor Economics*, 8, S397-S415.

Baker, Michael, Jonathan Gruber, and Kevin Milligan, 2008, "Universal Childcare, Maternal Labor Supply, and Family Well-being," *Journal of Political Economy*, Vol. 116, No. 4, pp. 709-745.

Lemieux, Thomas, and Kevin Milligan "Incentive Effects of Social Assistance: A Regression Discontinuity Approach", *Journal of Econometrics*, vol. 142 (February 2008) 807-28.

# Mulligan C.B., and Y. Rubinstein, "Selection, Investment and Women's Relative Wages Over Time, *Quarterly Journal of Economics*, 123, August 2008, 1061-1110.

\* Schirle, Tammy, "Why Have the Labor Force Participation Rates of Older Men Increased since the Mid-1990s?," *Journal of Labor Economics*, October 2008, 549-594.

### **Some Applications in Dynamic Labour Supply**

Farber, Hank. "Is Tomorrow Another Day? The Labor Supply of New York City Cab Drivers", *Journal of Political Economy*, (February 2005).

\* Oettinger, Gerald. "An Empirical Analysis of the Daily Labor Supply of Stadium Vendors." *Journal of Political Economy*, April 1999.

### **Some Further Reading**

Blundell, R., A Duncan, C. Meghir, 1998, "Estimating Labor Supply Responses Using Tax Reforms", *Econometrica*, 66, 827-861.

Moffitt, R, 1990, "The Econometrics of Kinked Budget Constraints", *Journal of Economic Literature*, 119-139.

Mroz, T.A. 1987. "The Sensitivity of an Empirical Model of Married Women's Hours of Work to Economic and Statistical Assumptions". *Econometrica*, 55(4): 765-99.

## **3. Labour Demand and Minimum Wages**

### **Reference**

BGLR Chapter 5, 6, p. 219-230

Varian, H. Microeconomic Theory,

Neumark, David and William Wascher, "Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research", NBER Working Paper No. 12663, November 2006, revised January 2007

## Applications

\* M. Baker, D. Benjamin, and S. Stanger (1999): "The Highs and Lows of the Minimum Wage Effect: A Time Series-Cross Section Study of the Canadian Law," *Journal of Labor Economics*, 17(2), April, 318-50.

Bound, John, and Harry Holzer. "Demand Shifts, Population Adjustments, and Labor Market Outcomes during the 1980s" *Journal of Labor Economics*, 18(1), 2000, pp. 20-54.

# D. Card and A. 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), December, 1397-1420. **(Note: Reaction papers should cover both Card and Krueger and Neumark and Wascher).**

# Neumark D. and B. 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), December, 1326-1396. **(Note: Reaction papers should cover both Card and Krueger and Neumark and Wascher).**

\* Dube, Arindrajit T. William Lester, Michael Reich, "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties", *Review of Economics and Statistics* November 2010, 92(4), 945-964.

## Further Reading

Mark C. Berger "The Effect of Cohort Size on Earnings Growth, A Re-examination of the Evidence." *The Journal of Political Economy*, Vol. 93, No. 3. (Jun., 1985), pp. 561-573.

% Card D. and A. Krueger (1995): *Myth and Measurement: The New Economics of the Minimum Wage*. Princeton University Press, Princeton, NJ, Chapters 1, 2, 4.

Oi, Walter. "Labor as a Quasi-Fixed Factor." *Journal of Political Economy*. 1962, Vol 70, Issue 6, 538-555.

## 4. Equilibrium

### Reference

BGLR Chapter 7

Borjas, George J. "Self-Selection and the Earnings of Immigrants," *American Economic Review*, Vol. 77, No. 4, pp. 531-553, September 1987

Smith, Adam. 1789. "Of Wages and Profit in the Different Employments of Labour and Stock". *Wealth of Nations* Book I Chapter 10.

Roy, A.D., 1951, "Some Thoughts on the Distribution of Earnings", *Oxford Economic Papers* 3, 135-146.

## **Applications**

# Brown, C. 1980. "Equalizing Differences in the Labour Market". *Quarterly Journal of Economics*. 113-134.

# Gruber, J. 1994, "The Incidence of Mandated Maternity Benefits", *American Economic Review*, 84, 622-641.

## **Some Further Reading**

Abowd, J. and O. Ashenfelter, 1981, "Temporary Layoffs, Anticipated Unemployment and Compensating Wage Differentials", in S. Rosen, *Studies in Labour Markets*, Chicago: University of Chicago Press.

Brown, C. and J. Medoff, 1989, "The Employer Size Wage Effect", *Journal of Political Economy*, 97, 1027-1059.

Duncan, G. and B. Holmlund, 1983, "Was Adam Smith Right After All? Another Test of the Theory of Compensating Wage Differentials", *Journal of Labor Economics*, 1, 366-379.

Heckman and Honore (1990) The empirical content of the Roy model *Econometrica* 58, 1121-1149.

Krueger, A. and L. Summers, 1988, "Efficiency Wages and the Inter-Industry Wage Structure", *Econometrica*, 56, 259-293.

Rosen, S., 1974, "Hedonic Prices and Implicit Markets: Product Differentiation in Pure Competition", *Journal of Political Economy*, 82, 34-55.

Viscusi, K.W., 1993, "The Value of Risks to Life and Health", *Journal of Economic Literature*, 31, 1912-1946.

## **5 Earnings and Human Capital**

### **Reference**

BGLR Chapter 9

% Becker, G. *Human Capital*. University of Chicago Press. Chapters II and III.

Bound, J. Brown, C., Duncan, G.J and W.L. Rodgers, 1994, "Evidence on the Validity of Cross-Sectional and Longitudinal Labor Market Data", *Journal of Labour Economics*, 12, 345-368.

Bound, J., D. Jaeger, and R. 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*,

Card, D. "The Causal Effect of Education on Earnings." In O. Ashenfelter and D. Card, eds., *Handbook of Labor Economics*, vol. 3A (Elsevier, 1999).

Griliches, Z. 1977. "Estimating the Returns to Schooling: Some Econometric Problems". *Econometrica* 1-22.

Mincer, Jacob. *Schooling, Experience and Earnings*, Columbia University Press for NBER, 1974

Roy, A. 1951. "Some Thoughts on the Distribution of Income", *Oxford Economic Papers*

Spence, A. 1973. Job Market Signaling, *Quarterly Journal of Economics*, 87, 353-374

Willis, R. and S. Rosen, "Education and Self-Selection," *Journal of Political Economy*, October 1979.

## **Applications**

### *Measurement*

\* Ashenfelter, O. and C. Rouse. 1998, "Income Schooling and Ability: Evidence from a New Sample of Identical Twins", *Quarterly Journal of Economics*, 113, 253-284.

\* Oreopoulos, P, "Estimating Average and Local Average Treatment Effects of Education when Compulsory School Laws Really Matter " *American Economic Review*, Vol. 96, No. 1, March 2006, pp. 152-175.

# Oreopoulos, P., "The Compelling Effects of Compulsory Schooling: Evidence from Canada" *Canadian Journal of Economics*, Vol. 39, No. 1, February 2006, pp. 22-52.

### *Signaling*

\* Bedard, Kelly, "Human Capital versus Signaling Models: University Access and High School Dropouts", *Journal of Political Economy*; 109(4), August 2001, pages 749-75.

### *Experience and Seniority*

Baker, Michael and Gary Solon "Earnings Dynamics and Inequality among Canadian Men, 1976-1992: Evidence from Longitudinal Income Tax Records," *Journal of Labor Economics*, 21(2), April 2003, pages 289-321

# Stevens, A. 1997. "Persistent Effects of Job Displacement: The Importance of Multiple Job Losses". *Journal of Labour Economics* 15: 165-188.

\* Topel, R. 1991. "Specific Capital, Mobility and Wages: Wages Rise with Job Seniority", *Journal of Political Economy*, 145-167

#### *Intergenerational Perspectives*

\* Black Sandra, Paul Devereux and Kjell Salvanes "Why the Apple Doesn't Fall Far: Understanding the Intergenerational Transmission of Education", *American Economic Review*, March 2005.

Black Sandra, Paul Devereux and Kjell Salvanes , "Like Father, Like Son? A Note on the Intergenerational Transmission of IQ Scores." NBER Working Paper #14274, August 2009, *Economics Letters*, forthcoming.

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

#### *Early Childhood*

Baker, Michael, Jonathan Gruber, and Kevin Milligan, 2008, "Universal Childcare, Maternal Labor Supply, and Family Well-being," *Journal of Political Economy*, Vol. 116, No. 4, pp. 709-745.

Currie, J., "Healthy, Wealthy, and Wise: Socioeconomic Status, Poor Health in Childhood, and Human Capital Development", NBER Working Paper No. 13987 April 2008

# U.S. Department of Health and Human Services, Administration for Children and Families (January 2010). *Head Start Impact Study. Final Report*. Washington, DC. ([http://www.acf.hhs.gov/programs/opre/hs/impact\\_study/](http://www.acf.hhs.gov/programs/opre/hs/impact_study/)) (Executive summary is sufficient for reaction papers)

#### *Cognitive and Non Cognitive Skills*

Heckman, James, Stixrud, Jora, and Sergio Urzua. 2006. "The Effects of cognitive and Noncognitive Abilities on Labor Market Outcomes and Social Behavior." *Journal of Labor Economics* 24(3): 411-82.

\* Erik Lindqvist, Roine Vestman "The Labor Market Returns to Cognitive and Noncognitive Ability: Evidence from the Swedish Enlistment" *American Economic Journal: Applied Economics*. 2011, 3(1), 101-128

## *Social Returns*

\* Milligan, Kevin, Enrico Moretti and Philip Oreopoulos. "Does Education Improve Citizenship? Evidence from the U.S. and the U.K." *Journal of Public Economics* 88 (August 2004) 1667-1695.

## **Some Further Reading**

Acemoglu, Daron and Joshua Angrist. "How Large are Human Capital Externalities? Evidence from Compulsory Schooling Laws" *NBER Macroeconomics Annual* 2000, 2001, 9-59

Acemoglu, Daron and Steve Pischke, "Why Do Firms Train? Theory and Evidence," *Quarterly Journal of Economics*, 113(1), February 1998, 79-119.

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

Bound, J. and G. Solon, 1999, "Double Trouble: On the Value of Twins-Based Estimation of the Return to Schooling", *Economics of Education Review*, 18, 169-182.

Card, David, "Estimating the Return to Schooling: Progress on Some Persistent Econometric Problems," *Econometrica* 69(5), September 2001, pages 1127-60.

David Card, "Using geographic variation in college proximity to estimate the return to schooling" in *Aspects of Labour Market Behaviour* edited by L. Christophides et. al., University of Toronto Press, 1995, pp. 201-222.

% Heckman, J., LaLonde, R. and J. Smith, 1999, "The Economics and Econometrics of Active Labour Market Programs", *Handbook of Labour Economics*, Volume 3A.

Murphy, K. and F. Welch, 1990, "Empirical Age-Earnings Profiles", *Journal of Labour Economics*, 8, 202-229.

## **6. Discrimination**

### **Reference**

BGLR Chapter 12

Aigner, D. and G. Cain. 1977. "Statistical Theories of Discrimination in Labour Markets". *Industrial and Labour Relations Review*.



% Altonji, J. and R. Blank, 1999, "Race and Gender in the Labour Market", *Handbook of Labour Economics*, Volume 3C.

% Arrow, Kenneth J., "The Theory of Discrimination." In Orley Ashenfelter and Albert Rees, eds. *Discrimination in Labor Markets*. Princeton, N.J.: Princeton University Press, 1973. 3-33

Becker, G. *The Economics of Discrimination*, Chicago: University of Chicago Press, 1971.

Goldberg, G.S., "Discrimination, Nepotism and Long Run Wage Differentials", *Quarterly Journal of Economics*, May 1982, 307-319.

Goldin, C. 1990. *Understanding the Gender Gap*. Oxford University Press. Ch. 3 and 4.

Oaxaca, R. "Male-Female Wage Differentials in Urban Labor Markets," *International Economic Review*, Vol. 14 (Oct., 1973): 693-709.

Lundberg, S. and R. Startz. 1983. "Private Discrimination and Social Intervention in Competitive Labour Markets". *American Economic Review*

## **Applications**

### *Measurement*

# Baker M. and M. Drolet, 2010, "A New View of the Male/Female Pay Gap in Canada". *Canadian Public Policy*, 36(4), 429-464.

# Bertrand, M. and S. Mullainathan, "Are Emily and Greg More Employable than Latisha and Jamal? A Field Experiment on Labor Market Discrimination," *American Economic Review*, 94 (September 2004), 991-1013.

# Drolet, M., "New Evidence on Gender Pay Differentials: Does Measurement Matter?", *Canadian Public Policy*, 28, 2002a, 1-16

\* Neal, D. and W. Johnson. 1996. "The Role of Pre-Market Forces in Black-White Wage Differences". *Journal of Political Economy* 104: 869-895.

Ollivetti, C and B. Petrongolo, "Unequal Pay or Unequal Employment? A Cross Country Analysis of Gender Gaps", *Journal of Labor Economics*, 26, 2008, 621-654.

\* Oreopoulos, Philip, "Why Do Skilled Immigrants Struggle in the Labor Market? A Field Experiment with Six Thousand Resumes" NBER Working Paper No. 15036 June 2009

# Pendakur, K and R Pendakur. "The Colour of Money: Earnings Differentials Across Ethnic Groups in Canada", *Canadian Journal of Economics* 31(3), 1998, 518-548.

### *Trends Over Time*

Blau, F. and L. Kahn, "The U.S. Gender Pay Gap in the 1990s: Slowing Convergence," NBER WP 10853 (October 2004).

O'Neill, J. and S. Polachek, "Why the Gender Gap Narrowed in the 1980s," *Journal of Labor Economics*, 11 (January 1993, part 1), 205-228.

\* Mulligan C.B., and Y. Rubinstein, "Selection, Investment and Women's Relative Wages Over Time," *Quarterly Journal of Economics*, 123, August 2008, 1061-1110.  
*Policy*

### *Sources*

\* Goldin, Claudia, and Lawrence F. Katz, "The Power of the Pill: Oral Contraceptives and Women's Career and Marriage Decisions", *Journal of Political Economy*, 2002, vol. 110, no. 4

\* Fryer, Roland G., and Steven D. Levitt. 2010. "An Empirical Analysis of the Gender Gap in Mathematics." *American Economic Journal: Applied Economics*, 2(2): 210–40.

Niederle, Muriel, Lise Vesterlund "Do Women Shy Away from Competition? Do Men Compete Too Much?" *Quarterly Journal of Economics* August 2007, Vol. 122, No. 3, Pages 1067-1101

\* Wood, R, Corcoran, M, P. Courant, 1993, "Pay Differences among the Highly Paid: The Male-Female Earnings Gap in Lawyers' Salaries", *Journal of Labour Economics*, 11: 417-41.

### *Other Forms*

# Hamermesh, Daniel and Jeff Biddle. "Beauty and the Labor Market", *American Economic Review*, December 1994.

### *Policy*

\* Acemoglu, Daron and J. Angrist. 2001. "Consequences of Employment Protection: The Case of the Americans with Disabilities Act." *Journal of Political Economy*. 109: 5, 1-43.

Baker, M. and N. Fortin, "Comparable Worth in a Decentralized Labour Market: The Case of Ontario", *Canadian Journal of Economics*, 37, November 2004 850-878.

### **Some Further Reading**

Blau, F., "Trends in the Well-Being of American Women, 1970-1995", *Journal of Economic Literature*, March 1998.

Blau, F., and L. Kahn. "Understanding International Differences in the Gender Pay Gap," *Journal of Labor Economics*, 21 (Jan. 2003), pp. 106-44.

Case, A. and C. Paxson, "Stature and Status: Height, Ability and Labor Market Outcomes," *Journal of Political Economy*, 116 (June 2008): 499-532

Carrington, W.J. and K. Troske, "Interfirm Segregation and the Black/White Wage Gap", *Journal of Labour Economics*, 16, 1998, 231-260.

Donahue, J., and J. Heckman, 1989, "Continuous Versus Episodic Change: The Impact of Civil Rights Policy on the Economic Status of Blacks, *Journal of Economic Literature*.

Fryer, R. and S. Levitt, "Testing for Racial Differences in the Mental Ability of Young Children." NBER Working Paper No. 12066, (March 2006)

Neal, D. "Why Has Black-White Skill Convergence Stopped?" In E. Hanushek and F. Welch, eds., *Handbook of Economics of Education* (Elsevier 2006). Also, NBER Working Paper no. 11090 (Jan. 2005).

Rodgers, W. and W. Spriggs, 1996, "What Does AFQT Really Measure: Race, Wages, Schooling and the AFQT Score", *Review of Black Political Economy*, 24.

Reitz, J. and R. Breton. 1994. *The Illusion of Difference*, Toronto: CD Howe Institute.