

ECO 2801: Labour Economics II

R, 11:00 am-1:00 pm, 1088 SS

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REQUIRED COURSE READINGS:

We will cover (on average) two articles per week between weeks 2 and 11 (20 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, 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 consist of one hour of lecturing on the basic theory underlying each topic, drawn from survey readings or the two textbooks mentioned above, followed by a 50 minute discussion of the applied readings, with a ten minute break in the middle. Class notes on all the readings will be provided on Blackboard.

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)

Week 3 – Unions II

Effects of unions: wages, employment, inequality.

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

Week 4 – Monopsonistic labour markets

Readings: Webber (2011), Abowd, Kramarz & Margolis (1999)

Week 5-7– Intertemporal labour supply

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

Readings: MacCurdy (1981); Kim & Chang (2006); Erosa, Fuster & Kambourov (2011), Rogerson, Rupert & Wright (2002)

Week 8 – Dynamic programming and and perpetual youth models of labour supply

Readings: Domeij & Floden (2006); Burkhauser, Butler & Gumus (2004)

Week 9 – Labour search, unemployment and wages

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

Week 10 – Application: optimal unemployment insurance

Readings: Shavell & Weiss (1979); Hansen & Imrohoroglu (1982)

Week 11 – Static family labour supply

Readings: Acemoglu & Shimer (2000), Chiappori (1992)

Week 12 – Dynamic family labour supply

Readings: Becker (1985); Mazzocco & Yamaguchi (2007)

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% -- 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; double or space and a half)

Assignment #1: Explain the approach of Brown & Ashenfelter (1986) in testing and assessing the monopoly (labour demand curve) vs. efficient contracting (contract curve) models of union bargaining. Are you convinced by their empirical results?

Assignment #2: Describe the empirical strategy for estimating intertemporal labour supply elasticity proposed by MaCurdy (1981). What assumptions about preferences and the economic environment are most important for MaCurdy's results?

Assignment #3: Domeij & Floden (2006) and Rogerson, Rupert & Wright (2000) offer two micro-based explanations of the estimated 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 at the beginning of the class in which they are due. To maintain a level playing field, 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)

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

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

Burkhauser, R, J.S. Butler and G. Gumus (2004): "Dynamic Programming Model Estimates of Social Security Disability Insurance Application Timing". *Journal of Applied Economics* (19), 671-685

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
- Erosa, A., L. Fuster and G. Kambourov (2011): "Towards a Micro-Founded Theory of Aggregate Labor Supply", University of Toronto working paper 443
- 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
- 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. (1983): "A simple scheme for estimating an intertemporal model of labor supply and consumption in the presence of taxes and uncertainty" *International Economic Review* 24(2), 265--289
- 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
- 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.
- Webber, D. (2011): "Firm Market Power and the Earnings Distribution." Cornell Working Paper.