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TOPICS IN LABOUR ECONOMICS (NEKM55)

Spring Term 2009

Plan for the course and literature-list

The Topics in Labour Economics course in 2009 will be comprised of the following three parts. **Part I** will be devoted to Labour Supply and Time Allocation, **Part II** to Labour Demand and Discrimination, and **Part III** to Minimum Wages and Unemployment.

The **TEXTBOOK** used for the course is Bosworth, D., Dawkins, P. & Stromback, T., *The Economics of the Labour Market*, Addison Wesley Longman Ltd, 1996, paperback. (In the following designated by **BDS***). But the course will also make intensive use of recently published articles and working papers in the three topic areas (see further below under the respective topics).

[* There are other textbooks about Labour Economics that could be used by the students as complement to the **BDS** textbook, e.g. George J. Borjas, *Labor Economics* (Fourth Edition, McGrawHill International Student Edition, Paperback, 2007). During the course period both textbooks will be put on reserve for the students in the reception of the Economics Library. They can thus be taken out by the students and read in the library.]

Most of the papers in the literature-list below are available electronically to the students via Lund University Library's electronic subscriptions. Access via www.lub.lu.se and then via "ELIN@Lund - Tidskrifter (or via the database EconLit). The IZA Discussion Papers are available via the IZA website www.iza.org . Other websites containing Working Papers in the research area are those of The Institute for Labour Market Policy Evaluation (IFAU) at www.ifau.se and of the National Bureau of Economic Research (NBER) at www.nber.org .

Part I. Labour Supply and Time Allocation

I.A. Labour Economics – introduction, issues and evolution

As background and introduction to the course the students should read:

Boyer, G. R. & Smith, R. S., “The Development of the Neoclassical Tradition in Labor Economics”, *Industrial and Labor Relations Review*, vol. 54, no. 2, January 2001.

I.B. Labour Supply and Time Allocation: Theories and estimation problems

BDS Chap. 2 ”Introduction to labour supply” (p. 9-19).

BDS Chap. 3 ”Individual labour supply” (p. 20-34)

Borjas, *Labor Economics*, p. 55-65 (about benefit systems) and p. 78-87 (about retirement)

BDS Chap. 4 ”Extensions to the theory of labour supply” (p. 43-50; p. 54-63).

BDS Chap. 5 ”Empirical evidence on labour supply” (p. 66-80).

Moffitt, R., "The Econometrics of Kinked Budget Constraints", *Journal of Economic Perspectives*, Spring 1990, p. 119-140.

Gruber & Wise, ”Social Security and Retirement: An International Comparison”, *American Economic Review*, May 1998 (Papers and Proceedings), p. 158-163.

Meyer, B. D., “The US earned income tax credit, its effects, and possible reforms”, *IFAU* (www.ifau.se) Working Paper 2008:14.

I.C. Labour Supply and Time Allocation: Empirical/Econometric studies (preliminary)

Flood, L., Hansen, J. & Wahlberg, R. (2004), “Household Labor Supply and Welfare Participation in Sweden”, *Journal of Human Resources*, vol. 39, no. 4, p. 1008-1032.

Eissa, N. & Hoynes, H. W. (2004), ”Taxes and the labor market participation of married couples: the earned income tax credit”, *Journal of Public Economics*, vol. 88, p. 1931-1958.

Eissa, N. & Liebman, J.B. (1996) ”Labor Supply Response to the Earned Income Tax Credit”, *Quarterly Journal of Economics*, May 1996, p. 605-637.

Svensson. L., (2008), “Technology, institutions and allocation of time in Swedish households 1920-1990”, *IFAU* (www.ifau.se) Working Paper 2008:20.

Freeman, R.B. & Schettkat, R. (2005), “Marketization of household production and the EU-US gap in work”, *Economic Policy*, vol. 20, no. 41, p. 6-50.

Röed, K. & Haugen, F. (2003), "Early Retirement and Economic Incentives: Evidence from a Quasi-natural Experiment", *Labour: Review of Labour Economics and Industrial Relations*, vol. 17, no. 2, p. 203-228.

Disney, R. & Smith, S. (2002), "The Labour Supply Effect of the Abolition of the Earnings Rule for Older Workers in the United Kingdom", *Economic Journal*, vol. 112, March 2002, p. C136-C152.

Blau, D.M. & Riphahn, R.T. (1999), "Labor force transitions of older married couples in Germany", *Labour Economics*, vol. 6, no. 2, p. 229-252.

Part II. Labour Demand and Discrimination

II.A. Labour Demand

BDS, Chap. 6 "Introduction to labour demand" (p. 83-86).

BDS, Chap. 7 "Demand for labour under perfect competition" (read relevant parts as a refresher of earlier micro courses, i.e. "repetition").

II.B. Empirics on the labor demand elasticity

Borjas, G., Freeman, R. and Katz, L. (1996), "Searching for the Effect of Immigration on the Labor Market", *American Economic Review*, May 1996, pp. 246-251.

Borjas, G. (2003), "The Labor Demand Curve is Downward Sloping: Reexamining the Impact of Immigration on the Labor Market," *Quarterly Journal of Economics*, November, pp. 1335-1374.

Card, D. and Krueger, A. (1994), "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania", *The American Economic Review*, Vol. 84(4), pp. 772-793.

Card, D. and Krueger, A. (2000), "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Reply", *The American Economic Review*, Vol. 90(5), pp. 1397-1421.

II.C. Technological change, skills and wage inequality

BDS, Chap. 10 "Technological change and labor demand".

Eckstein, Z. and Nagypál, É., 2004, "The Evolution of U.S. Earnings Inequality: 1961-2002", *Federal Reserve Bank of Minneapolis Quarterly Review*, vol 29(2), pp.10-29.

Gould, E.D., 2005, "Inequality and Ability" *Labour Economics*, vol 12(2), pp.169-189.

Johnson, G.E., 1997, "Changes in Earnings Inequality: The Role of Demand Shifts", *Journal of Economic Perspectives*, vol. 11(2), pp. 41-54.

Nordin, M., 2008, "Ability and Rates of Return to Schooling - making use of the Swedish Enlistment Battery Test", *Journal of Population Economics*, vol 21, pp.703-717.

II.D . Labor Market Discrimination - Ethnicity, Gender and Looks

BDS, Chap. 24 "Discrimination and segmentation" (pp. 330-344)

Heckman, J. (1998), "Detecting discrimination", *Journal of Economic Perspectives*, pp. 101-116.

Goldin, C. and Rouse, C. (2000), “Orchestrating Impartiality”: The Impact of ‘Blind’ Auditions on Female Musicians”, *American Economic Review*, no. 4, pp. 715-741.

Åslund, O. and Rooth, D. (2005), “Shifts in attitudes and labor market discrimination: Swedish experiences after 9-11”, *Journal of Population Economics*. 18(4). pp. 603-629.

Carlsson, M. and Rooth, D. (2007), “Evidence of Ethnic Discrimination in the Swedish Labor Market Using Experimental Data”, *Labour Economics*, vol. 14, no. 4, pp. 716-729.

Altonji, J.G. and Blank, R.M. (1999), “Race and Gender in the Labor Market”, Chapter 48 in Ashenfelter & Card (eds), *Handbook of Labor Economics*, Volume 3C, Northholland. [Non-compulsory reading – provides a good, extensive survey of the field]

Part III. Minimum Wages and Unemployment

III.A. Minimum Wages and Unemployment: Theories and issues

BDS, Chap. 11, section 3.3 (minimum wages) (p. 157-159) and Chap. 13, section 3 (monopsony), (p. 187-189).

Borjas, *Labor Economics*, 136-147 (about minimum wages).

Dawkins, P. (1997), "The Minimum Wages Debate and Policy Developments in Australia, the UK and the US: An Introductory Overview", *Australian Economic Review*, vol. 30, no. 2, 1997, p. 187-93.

Seltzer, A. (1997), "An Evaluation of the International Evidence on the Employment Effects of Minimum Wage Legislation", *Australian Economic Review*, vol. 30, no. 2, 1997, p. 208-214.

BDS, Chap. 28 "Unemployment" (p. 407-419).

BDS, Chap. 3, section 8 "Job search and labour supply" (p. 36-41).

BDS, Chap. 29, section 3 "Inflation and the labour market" (p. 423-429).

BDS, Chap. 22 "Efficiency wages" (extensively; "kursivt").

BDS, Chap. 25, sections 7-9 about "Union bargaining models" (p. 355-358).

Wyplosz, C. (1994), "Demand and Structural Views of Europe's High Unemployment Trap", *Swedish Economic Policy Review*, vol. 1, no. 1- 2, 1994, pp. 75-107.
Available via (<http://www.regeringen.se/sb/d/9970/a/94722>)

Kluge, J. & Schmidt, C. M. (2002), "Can training and employment subsidies combat European Unemployment?", *Economic Policy*, October 2002, p. 409-448.

III.B. Minimum Wages and Unemployment: Empirical/econometric studies (preliminary)

Bazen, M. & Skourias (1997), N., "Is there a negative effect of minimum wages on youth employment in France?", *European Economic Review*, April 1997, pp. 723-32.

Pereira, S.C. (2003), "The impact of minimum wages on youth employment in Portugal", *European Economic Review*, vol. 47, no. 2, 2003, p. 229-244.

Machin, S. & Wilson, J. (2004), "Minimum wages in a low wage labour market: Care homes in the UK", *Economic Journal*, vol. 114, no. 494, 2004, p. C102-C109.

Gindling, T.H. & Terrell, K. (2007), "The effects of multiple minimum wages throughout the labor market: The case of Costa Rica", *Labor Economics*, vol. 14, no. 3, 2007, p. 485-511.

Addison, J.T., Centeno, M. & Portugal, P. (2004), "Reservation Wages, Search Duration and Accepted Wages in Europe", *IZA* (www.iza.org) *Discussion Paper*, no. 1252, August 2004.

Krueger, A.B. & Mueller, A., "Job Search and Unemployment Insurance: New Evidence from Time Use Data", *IZA* (www.iza.org) *Discussion Paper*, no. 3667, 2008.

Fredriksson, P. & Söderström, M., "Do unemployment benefits increase unemployment? New evidence on an old question", *IFAU* (www.ifau.se) *Working Paper* 2008:15.

Uusitalo, R. & Verho, J., "The effect of unemployment benefits on re-employment rates: evidence from the Finnish UI-benefit reform", *IFAU* (www.ifau.se) *Working Paper* 2007:21.

Verho, J., "Scars of recession: the long-term costs of the Finnish economic crisis", *IFAU* (www.ifau.se) *Working Paper* 2008:9.

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Preliminary Time Plan, Spring term 2005

Part I. Labour Supply and Time Allocation (Inga Persson)

- 23/1** **L 1:** Introduction to Labour Economics; Introduction to Labour Supply
- 27/1** **L 2:** Individual Labour Supply Models
- 29/1** **L 3:** Applications of the Basic Model (tax systems, benefit systems, retirement)
- 3/2** **L 4:** Extensions to the Theory of Labour Supply : Non-market Work;
Household Models
- 5/2** **L 5:** Econometric Issues and Empirical Illustrations

Workshop 1: Devoted to Empirical/Econometric Studies of Labour Supply and Time Allocation (**February 12th**)

Problem Set 1: Devoted to Labour Supply and Time Allocation (will be handed out in connection with the Workshop on Febr. 12th; is due Monday, **February 16th**, at the latest at 13.00).

Part II. Labour Demand and Discrimination (Dan-Olof Rooth; Martin Nordin)

- 16/2** **L 1:** Labour demand (Martin Nordin)
- 18/2** **L 2:** Empirics on the labor demand elasticity (Dan-Olof Rooth)
- 20/2** **Lab 1:** Finding the demand elasticity - the impact of immigration on native earnings using the area approach
- 24/2** **L 3:** Technological change, skills and wage inequality (Martin Nordin)
- 25/2** **L 4:** Labor Market Discrimination - Ethnicity, Gender and Looks (Dan-Olof Rooth)
- 26/2** **Lab 2:** Labor Market Discrimination – The black-white wage gap in the U.S.

Laboratory assignment: Laboratory assignment 1 will be handed out in connection with L 2 on Febr. 18th (due on Febr. 26th) and laboratory assignment 2 will be handed out in connection with L 4 on Febr. 25th (due on March 4th).

Part III. Minimum Wages and Unemployment (Inga Persson)

- 26/2 **L 1:** Minimum Wages: Theories and Empirical Findings
- 2/3 **L 2:** Unemployment: An overview of evolution, issues and theories
- 4/3 **L 3:** Unemployment and Job Search
- 5/3 **L 4:** Unemployment and Wage Setting

Workshop 2: Devoted to Empirical/Econometric Studies of Minimum Wages and Unemployment (**March 10th**)

Problem Set 2: Devoted to Minimum Wages and Unemployment (will be handed out in connection with Workshop 2 on March 10th ; is due Friday, **March 13th**, at the latest at 16.00).

Final Seminars: Presentation and discussion of student essays:

Thursday, March 26th

Friday, March 27th

(essays to be distributed to the participants at the latest on Tuesday morning (i.e. before 12.00), March 24th).

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EXAMINATION

The examination for the course will consist of the following components:

- a) Two (take-home) problem sets to be handed in (due on February 16th respectively on and March 13th). The problem sets cover Part I respectively Part III of the course and will account for $2 \times 30 \% = 60 \%$ of the grade for the course.
- b) One oral presentation of one of the empirical/econometric papers on the course list for Part I and Part III. The oral presentation will be at one of the two (compulsory) workshops for the course. The oral presentation will only be graded with Pass – No Pass.
- c) Two quantitative/econometric (laboratory) assignments for Part II of the course. These assignments will only be graded with Pass – No Pass. Assignment 1 will be handed out in connection with L 2 on Febr. 18th (due on Febr. 26th) and assignment 2 will be handed out in connection with L 4 on Febr. 25th (due on March 4th).
- d) One short essay (5-10 pages) on a subject selected by the student to be handed in and discussed at one of the final (compulsory) seminars for the course. Further instructions will be given in connection with the lectures. This essay will account for 40 % of the grade for the course. (Each student also has to be a seminar discussant of one of the other students' papers.)

The two problem sets and the short essay will be graded on a scale from 0-20 points. A Pass (Godkänd) will require a (weighted) minimum of 10 points, and a Pass with Distinction (Väl Godkänd) a (weighted) minimum of 15 points on the three assignments (for the weights, see above).

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INSTRUCTIONS FOR THE ORAL PRESENTATIONS AT WORKSHOPS 1 AND 2

As part of the examination of the course, the students have to make an oral presentation (review) at one of the two (compulsory) workshops.

The assignment is based on the articles included in the literature list for Part I and Part III of the course under the heading empirical/econometric studies. All the students should take a look at all these articles before the respective workshop, but the intention is that each student should also have read and worked through at least one of the articles in a more in-depth way. The result of this in-depth reading and scrutiny should be presented orally for all the other students at one of the Workshops.

Instructions for the presentation:

- 1) Characterize the aim of the paper and the issues/problems it deals with and put it into its theoretical context.
- 2) Describe the "model" and/or "specification" that is used in the paper.
- 3) Describe the data/type of data used in the study.
- 4) Describe and comment (in a summary manner) the empirical results obtained in the paper.
- 5) Give your comments, reflections, criticisms plus an overall evaluation of the paper.

Each paper is allowed a maximum of 30 minutes, including room for questions and discussion. This means that the presentation of the paper should not be longer than 15-20 minutes. (You can use overheads).