

ECONOMICS 732
Labor Economics II

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Spring 2015
12:30 -1:45 TTh
BE 214

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PRELIMINARIES

This course is part of a two-course sequence in analytical labor economics. The purpose of this course is to familiarize the student with many of the issues, methods of analysis, and findings that comprise modern labor economics, thereby enabling the student to conduct and evaluate research at the frontier of the field. The reading list is intended as a guide to much of the literature. It is not an exhaustive list of significant papers in each of the topic areas, but it gives a good sampling. I have selected several papers for detailed treatment in class and these are marked with a '*'. I will draw substantial material from papers marked by a '#'. Additional papers will be considered, but mostly as background and to consider how they fit with the papers described in detail.

Students are encouraged to acquire introductory and preparatory information in each of the topic areas by reading the relevant sections of a labor economics textbook, such as Ehrenberg, R. and Smith, R., Modern Labor Economics.

COURSE REQUIREMENTS

The equivalent of two midterms and one final examination will be given, though they may be spread through the term in parts to fit the schedule of the course, the instructor, and the students. The exams may be partly take home. Exams are worth, collectively, two-thirds of your grade. Additionally, there is an assignment of a term paper worth one-third of your grade. The paper may consist of one of the following: (i) a review of some focused part of the literature; (ii) preliminary empirical investigation of a topic; (iii) preliminary modeling of an issue; or (iv) some combination of the above. Topics should be discussed and cleared with the instructor and must be someone related to issues addressed in the course. I will work with you on topic selection and other matters that come up regarding your papers.

COURSE OUTLINE AND READINGS

I. Hedonic Price Models and Labor Market Applications

A. The Basic Model

*Rosen, Sherwin, "The Theory of Equalizing Differences," in Ashenfelter and Layard (eds.), *Handbook of Labor Economics*, vol. 1, New York: Elsevier, 1986, sections 1 through 4.1.

Rosen, Sherwin, "Hedonic Prices and Implicit Markets: Product Differentiation in Pure Competition," *JPE*, Jan. 1974.

B. An Application to Schooling

*Willis, Robert, "Wage Determination: A Survey and Reinterpretation of Human Capital Earnings Functions," in Ashenfelter and Layard (eds.), *Handbook of Labor Economics*, vol. 1, New York: Elsevier, 1986. (See sections 3.1 through 3.3.)

#Willis, Robert and Rosen, Sherwin, "Education and Self-Selection," *JPE* (supplement), October 1979.

Garen, John, "The Returns to Schooling: A Selectivity Bias Approach With a Continuous Choice Variable," *Econometrica*, September 1984.

C. Further Issues with Application to Job Riskiness

*Thaler, Richard and Rosen, Sherwin, "The Value of Saving a Life: Evidence from the Labor Market," in N. Terleckyj (ed.), *Household Production and Consumption*, NBER Studies in Income and Wealth, 1975.

*Viscusi, W. Kip; Harrington, Joseph; and Vernon, John, *Economics of Regulation and Antitrust*, Cambridge, MA: MIT Press, 4th Edition, 2005, Ch. 19, pp. 693, 696, 700; Ch. 20, pp. 732, 734-735; Ch. 23, pp. 833-838, 854-860.

#Brown, Charles, "Equalizing Differences in the Labor Market," *QJE*, Feb. 1980.

*Hwang, H.; Reed, W.R.; and Hubbard, C., "Compensating Wage Differentials and Unobserved Productivity," *JPE*, Aug. 1992.

Brown, James and Rosen, Harvey, "On the Estimation of Structural Hedonic Price Models," *Econometrica*, May 1982.

Garen, John, "Compensating Wage Differentials and the Endogeneity of Job Riskiness," *REStat*, Feb. 1988.

D. Workers' Compensation Insurance

#Fishback, Price and Kantor, Shawn, *A Prelude to the Welfare State: The Origins of Workers' Compensation*, Chicago: University of Chicago Press, 2000, Ch. 1, pp. 15-22.

*Fishback, Price and Kantor, Shawn, "Did Workers Pay for the Passage of Workers' Compensation Laws?," *Quarterly Journal of Economics*, August 1995.

*Viscusi, W. Kip and Moore, Michael J., "Workers' Compensation: Wage Effects, Benefit Inadequacies, and the Value of Health Losses," *Review of Economics and Statistics*, May 1987.

#Moore, Michael and Viscusi, W. Kip, "Promoting Worker Safety Through Workers' Compensation: The Efficacy and Net Wage Costs of Injury Insurance," *Rand Journal of Economics*, 20(4), Winter 1989, pp. 499-515.

E. Other Applications

Roback, Jennifer, "Wages, Rents, and the Quality of Life," *JPE*, December 1982.

Blomquist, Glenn; Berger, Mark, and Hoehn, John, "New Estimated of Quality of Life in Urban Areas," *AER*, March 1988.

Long, James and Scott, Frank, "The Income Tax and Nonwage Compensation," *REStat*, May 1982.

II. Selected Issues in Labor Market Regulation

A. Direct Regulation of Workplace Safety

Leeth, J.D., "OSHA's Role in Promoting Occupational Safety and Health," *Foundations and Trends in Microeconomics*, 7(4), 2012, pp. 267-353.

<http://www.nowpublishers.com/article/Details/MIC-055>

B. Employment Protection

*Dertouzos, James and Karoly, Lynn, "Labor-Market Responses to Employer Liability," RAND Corporation Report R-3989-ICJ, 1992, pp. 1-16, 46-61.

<http://www.rand.org/content/dam/rand/pubs/reports/2007/R3989.pdf>

#Krueger, Alan, "The Evolution of Unjust-Dismissal Legislation in the United States," *Industrial and Labor Relations Review*, July 1991.

Lazear, Edward, "Job Security Provisions and Employment," *QJE*, Aug. 1990.

C. Fringe Benefit Mandates

*Gruber, Jonathan, "The Incidence of Mandated Maternity Benefits," *American Economic Review*, Vol. 84, No. 3, (Jun., 1994), pp. 622-641

C. Occupational Licensing

*Kleiner, Morris and Krueger, Alan, "Analyzing the Extent and Influence of Occupational Licensing on the Labor Market," *J. of Labor Economics*, 31, suppl., 2013, pp. S173-S202.

#Kleiner, Morris M. and Kudrle, "Does Regulation Affect Economic Outcomes? The Case of Dentistry," *Journal of Law and Economics*, 2000, 43(2), Oct. 2000, pp.548-582.

D. Right-to-Work Laws

*Holmes, Thomas, "The Effect of State Policies on the Location of Manufacturing: Evidence from State Borders," *Journal of Political Economy*, 106(4), August 1998, pp. 667-705.

E. Minimum Wage

Grossman, Jonathan, "Fair Labor Standards Act of 1938: Maximum Struggle for a Minimum Wage," U.S. Department of Labor , undated.

<http://www.dol.gov/oasam/programs/history/flsa1938.htm#UOx3ZuTAfzg>

*Brown, Charles, "Minimum Wages, Employment, and the Distribution of Income," in *Handbook of Labor Economics*, Ashenfelter, O. and Card, D. (eds.), vol. 3B, Amsterdam: Elsevier, 1999. (See especially pp. 2101-2106, 2111-2117, 2121-2130, 2134-2139, 2150-2154).

*Neumark, David and Wascher, William,"Minimum Wages and Employment," *Foundations and Trends in Microeconomics*, Vol. 3, No 1–2, 2007, Introduction, p. 1-7.

Stigler, George, "The Economics of Minimum Wage Legislation," *AER*, June 1946.

Mincer, Jacob, "Unemployment Effects of Minimum Wages," *JPE*, supplement, August 1976.

F. Labor Unionism

Farber, Henry, "The Analysis of Union Behavior," in Orley Ashenfelter and Richard Layard (eds.), *Handbook of Labor Economics*, volume 2, Amsterdam: Elsevier, 1986.

III. Employment and Labor Supply over the Business Cycle

A. Two Models

#MaCurdy, Thomas, "An Empirical Model of Labor Supply in a Life-Cycle Setting," *JPE*, Dec. 1981.

*Rosen, Sherwin, "Implicit Contracts: A Survey," *JEL*, Sept. 1985.

B. Evidence

#Feldstein, Martin, "The Importance of Temporary Layoffs: An Empirical Analysis," *Brookings Papers on Economic Activity*, no. 3, 1975.

#Abowd, John and Card, David, "Intertemporal Labor Supply and Long-Term Employment Contracts," *AER*, March 1987.

*Beaudry, Paul and DiNardo, John, "The Effect of Implicit Contracts on the Movement of Wages over the Business Cycle: Evidence from Micro Data," *JPE*, Aug. 1991.

Beaudry, Paul and DiNardo, John, "Is the Behavior of Hours Worked Consistent with Implicit Contract Theory," *QJE*, Aug. 1995.

*Carrington, William; McCue, Kristin; and Pierce, Brooks, "The Role of Employer/Employee Interactions in Labor Market Cycles: Evidence from the Self-Employed," *JOLE*, October 1996.

C. Unemployment Insurance

Price, Daniel, "Unemployment Insurance, Then and Now, 1935-1985," *Social Security Bulletin*, October 1985. <http://www.ssa.gov/policy/docs/ssb/v48n10/v48n10p22.pdf>

(i) Job Search and Unemployment Insurance

*McCall, John, "Economics of Information and Job Search," *QJE*, February 1970.

Alchian, Armen, "Information Costs, Pricing, and Resource Unemployment," in E.S. Phelps (ed.), *Microeconomic Foundations of Employment and Inflation Theory*, New York: W.W. Norton, 1970.

Mortensen, Dale and Pissarides, Christopher, "New Developments in Models of Search in the Labor Market," in Ashenfelter, O. and Card, D. (eds.), *Handbook of Labor Economics*, v. 3B, New York: Elsevier, 1999.

Solon, Gary, "Work Incentive Effects of Taxing Unemployment Benefits," *Econometrica*, March 1985.

#Meyer, Bruce, "Unemployment Insurance and Unemployment Spells," *Econometrica*, July 1990.

(ii) Layoffs and Unemployment Insurance

#Topel, Robert and Welch, Finis, "Unemployment Insurance: Survey and Extensions," *Economica*, Aug. 1980.

Feldstein, Martin, "Temporary Layoffs in the Theory of Unemployment," *JPE*, Oct. 1976.

*Topel, Robert, "On Layoffs and Unemployment Insurance," *AER*, Sept. 1983.

Brechling, Frank, "Layoffs and Unemployment Insurance," in Sherwin Rosen (ed.), *Studies in Labor Markets*, Chicago: University of Chicago Press, 1981.

D. Unemployment During the Great Depression

*Cole, Harold and Ohanian, Lee, "New Deal Policies and the Persistence of the Great Depression: A General Equilibrium Analysis," *JPE*, August 2004 (pgs. 779-793).

*Benjamin, Daniel and Kochin, Levis, "Searching for an Explanation of Unemployment in Interwar Britain," *JPE*, June 1979.

E. The Great Recession

*Farber, Henry, "Job Loss and Unemployment in the 21st Century: The Great Recession in Labor Market Perspective," Federal Reserve Bank of Atlanta, November 2010.
https://www.frbatlanta.org/documents/news/conferences/10CHCS_farber.pdf

#Mulligan, Casey, "What Caused the Recession of 2008? Hints from Labor Productivity," NBER working paper #14729, Feb. 2009.
http://www.nber.org/papers/w14729.pdf?new_window=1

#Farber, Henry and Valletta, Robert, "Extended Unemployment Insurance and Unemployment Duration in The Great Recession," IZA workshop paper, June 2011.
<http://www.frbsf.org/economics/economists/rvalletta/uiext.pdf>

*Fujita, Shigeru, "On the Causes of Declines in the Labor Force Participation Rate," Federal Reserve Bank of Philadelphia Special Report, February 6, 2014.
<http://philadelphiafed.org/research-and-data/publications/research-rap/2013/on-the-causes-of-declines-in-the-labor-force-participation-rate.pdf>

IV. Job Stability

A. Overview

*Farber, Henry, "Mobility and Stability: The Dynamics of Job Change in Labor Markets," in Ashenfelter, O. and Card, D. (eds.), *Handbook of Labor Economics*, v. 3B, New York: Elsevier, 1999. Sections 1 through 3.

B. Human Capital, Job Stability, and Wages

*Becker, Gary, "Investment in Human Capital: A Theoretical Analysis," *JPE*, Oct. 1962.

*Oi, Walter, "Labor as a Quasi-Fixed Factor," *JPE*, Dec. 1962.

Rosen, Sherwin, "Short-Run Employment Variation on Class-I Railroads in the U.S., 1947-1963," *Econometrica*, July 1968.

Nadiri, M. and Rosen, Sherwin, "Interrelated Factor Demand Equations," *AER*, Sept. 1969.

Hamermesh, Daniel, "Labor Demand and the Structure of Adjustment Costs," *AER*, Sept. 1989

#Mincer, Jacob and Jovanovic, Boyan, "Labor Mobility and Wages," in Rosen, Sherwin (ed.), *Studies in Labor Markets*, Chicago: University of Chicago Press, 1981.

*Garen, John, "Empirical Studies of the Job Matching Hypothesis," *Research in Labor Economics*, v. 9, 1988. Sections I through IIIA.

D. Specific Human Capital and Contracts: Some Personnel Economics

Hashimoto, M. and Yu, Ben, "'Specific Capital, Employment Contracts, and Wage Rigidity,'" *Bell Journal of Economics*, 11, Autumn 1980.

*Hall, Robert and Lazear, Edward, "The Excess Sensitivity of Layoffs and Quits to Demand," *Journal of Labor Economics*, 2, April 1984.

V. More Personnel Economics

A. The Principal-Agent Problem

*Holmstrom, Bengt and Milgrom, Paul, "Multitask Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design," *Journal of Law, Economics, and Organization*, 7, Spring 1991.

Holmstrom, Bengt, "Moral Hazard and Observability," *Bell Journal of Economics*, 13, Spring 1979.

Garen, John, "Executive Compensation and Principal-Agent Theory," *JPE*, December 1994.

B. Methods of Pay

*Lazear, Edward, "Performance Pay and Productivity," *AER*, December 2000.

Holmstrom, Bengt and Milgrom, Paul, "The Firm as an Incentive System," *AER*, Sept. 1994.

#Garen, John, "Independent Contractors and Self-Employment as Systems of Incentives and Control: Theory, Empirics, and a Survey of Evidence," in S. Polachek (ed.), *Research in Labor Economics*, Accounting for Worker Well-Being, volume 23, 2004.

Brown, Charles, "Firms' Choice of Method of Pay," in Ehrenberg, R. (ed.), *Do Compensation Policies Matter?*, ILR Press, 1990.

Fama, Eugene, "Time, Salary, and Incentive Payoffs in Labor Contracts," *Journal of Labor Economics*, 9, Jan. 1991.

C. Public/Private Comparisons

*Dixit, Avinash, "Power of Incentives in Public Versus Private Organizations," *American Economic Review*, 87(2), May 1997, pp. 378-82.

Dixit, Avinash, "Incentives and Organizations in the Public Sector: An Interpretative Review," *Journal of Human Resources*, 37(4), Autumn 2002, pp. 696-727.

Acemoglu, Daron; Kremer, Michael; and Mian, Atif, "Incentives in Markets, Firms, and Governments," *Journal of Law, Economics, and Organization*, December 2007.

#Garen, John, "An Organizations and Incentives Critique of the Literature on Teacher Pay and School Governance," unpublished working paper, October 2014.

D. Backloading

*Becker, Gary and Stigler, George, "Law Enforcement, Malfeasance, and Compensation of Enforcers," *Journal of Legal Studies*, Jan. 1974.

#Lazear, Edward, "Why is There Mandatory Retirement?," *JPE*, Dec. 1979.

*Hutchens, Robert, "A Test of Lazear's Theory of Delayed Payment Contracts," *JOLE*, Oct. 1987, part 2.

Hutchens, Robert, "Seniority, Wages, and Productivity: A Turbulent Decade," *JEP*, Summer 1989.

Salop, Joanne and Salop, Steven, "Self-Selection and Turnover in the Labor Market," *QJE*, Nov. 1976.

Guasch, J. Luis and Weiss, Andrew, "Self-Selection in the Labor Market," *AER*, June 1981.

E. Efficiency Wages

*Shapiro, Carl and Stiglitz, Joseph, "Equilibrium Unemployment as a Worker Discipline Device," *AER*, June 1984.

#Leonard, Jonathan, "Carrots and Sticks: Pay, Supervision, and Turnover," *JOLE*, Oct. 1987, part 2.

#Allgulin, Magnus and Ellingsen, Tore, "Monitoring and Pay," *JOLE*, April 2002.

Black, Dan and Garen, John, "Efficiency Wages and Equilibrium Wages," *Economic Inquiry*, July 1991.

F. Tournaments

*Lazear, Edward and Rosen, Sherwin, "Rank-Order Tournaments as Optimum Labor Contracts," *JPE*, Oct. 1981.

#Eriksson, Tor, "Executive Compensation and Tournament Theory: Empirical Tests on Danish Data," *JOLE*, April 1999.

Main, B.; O'Reilly, C.; and Wade, J., "Top Executive Pay: Tournament or Teamwork?," *JOLE*, Oct. 1993.