

LABOR ECONOMICS I

Spring 2004
ECON 670 (001)
TR 1:30 -2:45
Saunders, Room 244
Professor SH Lee

Course Outline

The goal of the course is twofold: to survey existing research on a number of topics of current interest in labor economics, and to develop students' abilities to engage in original research at the doctoral level. To help achieve the latter goal, there is a fairly heavy emphasis on the modeling approaches and empirical analysis that are associated with each of the areas. The topics covered include labor supply and demand, the human capital model, changes in wage structure, earnings inequality, mobility and migration, and gender and discrimination in labor markets.

Because of the empirical bend of this course and of labor economics in general, it is essential that you have an understanding of modern empirical methods in economics. At the end of the course, you are expected to understand how problems such as simultaneity, omitted variables, and measurement error affect ordinary least squares estimates. You will also learn what panel data estimation techniques, and techniques employed in estimating simultaneous relationships and in the presence of limited dependent variables.

Course Requirements

There are four requirements. First, students must complete two empirical exercise (40%). Two, students must submit and present a research paper (30%). Four, students must take the final exam (30%). Late work is not accepted in this course.

Empirical Exercise

There will be two exercise in which students are given access to a standard data set, and asked to assemble evidence on a topic covered in a set of papers that we are discussing in class. I will announce the due date later in class. This project will undoubtedly entail major time commitments, even for those students who have developed computer skills. Students are also strongly encouraged to help each other out in learning how to use the computers, appropriate software and data manipulation. However, students are not allowed to pair off with another student in data manipulation, nor writing up the final paper. Students should start on these early in the semester, and work on them throughout the semester. The quality of writing will be an important determinant of the grade on the exercise.

Project/paper

Students should submit a term paper. This is envisioned as the nucleus of a final paper, with only the actual empirical work or fully-developed theoretical model missing. It should have many components of a final paper, including introduction, and literature review. If it is to be a theoretical paper, it should include a discussion of data and econometric strategy, including anticipated problems and proposed solutions. If it is to be an empirical paper, it should include preliminary results and proposed extensions. This proposal might serve as a basis for paper you will write while in graduate school. Students should feel free to consult with other professors. These papers will be due May 10. Students should start on these early in the semester, and work on them throughout the semester.

Final Exam

Students should take the final exam. Final exam is scheduled at 12:00 - 2:00, May 11 (T).

Help: Office Hours: TR 9:00-10:20
Office: Saunders 512
Phone: 956-8590
E-mail: leesang@hawaii.edu
Web: www2.hawaii.edu/~leesang/

Computer Lab: PC Lab, 342, TR 1:30-3:00, during regular class hours.

Reading List

There are no required texts. However, students may find it helpful to have access to a number of good econometrics texts and monographs which cover OLS, instrumental variables, panel data, and models with qualitative and limited dependent variables. The reading list is limited to the required readings for the course. Some of our readings come from Ashenfelter, Orley C. and David Card ed. 1999. *Handbook of Labor Economics* Volume 3A, 3B and 3C, North-Holland (*Handbook 3A/3B/3C*). Because students may not want copies of every paper, I have not made a course pack. However, I assigned it at the Sinclair library for students to borrow. I also made it possible for students to borrow copies of all of the readings during course.

Ehrenberg, R.G. and Robert S. Smith. 2002. *Modern Labor Economics*, 8th ed. (Addison Wesley Longman) is useful as a background reading.

Filer, Randall K., Daniel S. Hamermesh and Albert Rees, 1996. *The Economics of Work and Pay*, 6th ed. (Harper Collins) might be also useful as a background reading.

I. Empirical Strategies

*Angrist, Joshua D and Alan B. Krueger. 1999, "Empirical Strategies in Labor Economics," *Handbook 3A*, Ch. 23.

*Moffitt, Robert. 1999. "New Development in Econometric Methods for Labor Market Analysis," *Handbook 3A*, Ch. 24.

Griliches, Zvi. 1985. "Data and Econometricians--The Uneasy Alliance," *American Economic Review*, 75(2), pp. 196-200.

*Deaton, Angus. 1997. *The Analysis of Household Surveys*, The Johns Hopkins University Press, Chapters 1 and 2.

Heckman, James J. 1979. "Selection Bias as a Specification Error," *Econometrica*, Vol. 47, pp. 153-162.

II. Labor Supply

Pencavel, John. 1986. "Labor Supply of Men: A Survey," *Handbook I*.

*Heckman, James. J. 1993. "What Has Been Learned about Labor Supply in the Past Twenty Years," *American Economic Review* (Papers and Proceedings) 83, pp. 116-121.

*Heckman James J. and Thomas MaCurdy. 1981. "New Methods for Estimating Labor Supply Functions: A Survey," *Research in Labor Economics*, Vol. 4, pp. 65-102.

*Blundell, Richard and Thomas MaCurdy. 1999. "Labor Supply: a Review of Alternative Approaches," *Handbook 3A*, Ch. 27 (sections 4, 7, and 8).

*MaCurdy, Thomas. 1981. "An Empirical Model of Labor Supply in a Life-Cycle Setting," *Journal of Political Economy* 89, pp. 1059-85.

*Becker, Gary S. 1965. "A Theory of the Allocation of Time," *The Economic Journal*, September, pp. 493-517.

Chiappori, Pierre-Andre. 1992. "Collective Labor Supply and Welfare," *Journal of Political Economy*, Vol. 100, No.3, pp.437-467.

III. Labor Demand and Minimum Wage

*Hamermesh, Daniel S. 1993. *Labor Demand*, New Jersey: Princeton University Press, Chapters 2, 3, and 6.

Oi, Walter Y. and Todd L. Idson. 1999. "Firm Size and Wages," *Handbook 3A*.

Card, David, and Alan B. Krueger. 1995. *Myth and Measurement: The New Economics of the Minimum Wage*, New Jersey: Princeton University Press, Chapter 2 and 11.

IV. Wage Determination-The Human Capital Model

General Theory

*Mincer, Jacob. 1974. *Schooling, Experience, and Earnings*, New York: Columbia University Press, Chapters 1, 3, 4, and 5.

*Becker, Gary S. 1993. *Human Capital*, Chicago: University of Chicago Press, Chapters II, III, IV, and V (section 2).

*Card, David. 1999. "The Causal Effect of Education and Earnings," *Handbook 3A*, Ch. 30.

Evidence on Returns to Schooling

*Blackburn, McKinley L., and David Neumark. 1995. "Are OLS Estimates of the Return to Schooling Biased Downward? Another Look," *Review of Economics and Statistics*, LXXVII(2), pp. 217-30.

*Angrist, Joshua D., and Alan B. Krueger. 1991. "Does Compulsory School Attendance

Affect Schooling and Earnings?" *Quarterly Journal of Economics*, CVI(4), p. 979-1014.

Bound, John, David A. Jaeger, and Regina M. Baker. 1995. "Problems with Instrumental Variables Estimation When the Correlation between the Instruments and the Endogenous Explanatory Variables is Weak," *Journal of American Statistical Association*, Vol. 90, No. 430, pp. 443-450.

Evidence on Returns to Experience and Tenure

*Abraham, Katharine G., and Henry S. Farber. 1987. "Job Duration, Seniority, and Earnings," *American Economic Review*, 77(3), pp. 278-97.

*Altonji, Joseph, and J. Shakotko. 1987. "Do Wages Rise with Seniority?" *Review of Economic Studies*, LIV, pp. 437-59.

*Topel, Robert. 1991. "Specific Capital, Mobility, and Wages: Wages Rise with Job Seniority," *Journal of Political Economy*, 99(1), pp. 145-76.

Evidence on Returns to Marriage

Korenman, Sanders, and David Neumark. 1991. "Does Marriage Really Make Men More Productive?" *Journal of Human Resources* 26(2): 282-307.

Nakosteen, Robert A., and Michael A. Zimmer. 1987. "Marital Status and Earnings of Young Men," *Journal of Human Resources*, 22, pp. 248-68.

Evidence on Age-Earnings Profile

*Lazear, Edward P. 1979. "Why Is There Mandatory Retirement?" *Journal of Political Economy*, 87(6), pp. 1261-84.

Lazear, Edward P. 1981. "Agency, Earnings Profiles, Productivity, and Hours Restrictions," *American Economic Review*, 71(4), pp. 606-20.

*Lazear, Edward P., and Sherwin Rosen. 1981. "Rank-Order Tournaments as Optimum Labor Contracts." *Journal of Political Economy*, 89(5), pp. 841-64.

Rosen, Sherwin. 1986. "Prizes and Incentives in Elimination Tournaments." *American Economic Review*, pp. 701-15.

Loewenstein, George, and Nachum Sicherman. 1991. "Do Workers Prefer Increasing Wage Profiles?" *Journal of Labor Economics*, 9, pp. 67-84.

Medoff, James L., and Katharine G. Abraham. 1980. "Experience, Performance, and Earnings." *Quarterly Journal of Economics*, XCV(4), pp. 703-36.

Kotlikoff, Laurence J., and Jagadeesh Gokhale. 1992. "Estimating a Firm's Age-Productivity Profile Using the Present Value of Workers' Earnings." *Quarterly Journal of Economics*, CVII(4), pp. 1215-42.

Hutchens, Robert. 1985. "Delayed Payment Contracts and a Firm's Propensity to Hire Older Workers." *Journal of Labor Economics*, 4, pp. 439-57.

Ehrenberg, Ronald G., and Michael L. Bognanno. 1990. "Do Tournaments Have Incentive Effects?" *Journal of Political Economy*, 98(6), pp. 1307-24.

V. Changes in Wage Structure and Earnings Inequality

*Katz, Lawrence F., and David H. Autor, 1999. Changes in the Wage Structure and Earnings Inequality, *Handbook 3A*, Ch. 26.

*Bound, John, and George Johnson. 1992. "Changes in the Structure of Wages in the 1980's: An Evaluation of Alternative Explanations." *American Economic Review*, 82(3), pp. 371-92.

*Katz, Lawrence F., and Kevin M. Murphy. 1992. "Changes in Relative Wages, 1963-1987: Supply and Demand Factors." *Quarterly Journal of Economics*, 35-78.

*Juhn, Chinhui, Kevin M. Murphy, and Brooks Pierce. 1993. "Wage Inequality and the Rise in Returns to Skill." *Journal of Political Economy*, 101(3), pp. 410-42.

*Card, David and John E. DiNardo. 2002. "Skill-Biased Technological Change and Rising Wage Inequality: Some Problems and Puzzles" *Journal of Labor Economics* 20 (4). Pp. 733-83.

Berman, Eli, John Bound, and Zvi Griliches. 1994. "Changes in the Demand for Skilled Labor within U.S. Manufacturing: Evidence from the Annual Survey of Manufactures." *Quarterly Journal of Economics*, CIX(2), pp. 367-98.

*Krueger, Alan B. 1993. "How Computers Have Changed the Wage Structure: Evidence from Microdata, 1984-1989." *Quarterly Journal of Economics*, CVII(1), pp. 33-60.

*DiNardo, John E., and Jörn-Steffen Pischke. 1997. "The Returns to Computer Use Revisited: Have Pencils Changed the Wage Structure Too?" *Quarterly Journal of Economics* 112: 291-303.

Lee, Sang-Hyop and Jonghyuk Kim, 2004 forthcoming. "Has the Internet Changed the Wage Structure Too?" *Labour Economics*.

VI. Mobility and Migration

Job Mobility

*Farber, Henry S. 1999. "Mobility and Stability: The Dynamics of Job Change in Labor Markets", *Handbook 3B*, Ch. 37.

*Farber, Henry S. 1994. "The Analysis of Interfirm Worker Mobility," *Journal of Labor Economics*, Vol. 12 no. 4, pp. 554-93.

Mincer, Jacob and Boyan Jovanovic, 1981. "Labor Mobility and Wages", in *Studies in Labor Markets*, Sherwin Rosen (ed.), pp. 21-63. Chicago: University of Chicago Press

*Topel, Robert H. and Michael P. Ward, 1992. "Job Mobility and the Careers of Young Men", *Quarterly Journal of Economics*, vol. 107, 441-79.

Immigration

*Borjas, George B. 1999. "The Economic Analysis of Immigration", *Handbook 3A*, Ch. 28.

Borjas, George B. 1987. "Self-Selection and the Earnings of Immigrants", *American Economic Review* 77 (4), pp. 531-553.

*Mincer, Jacob. 1978. "Family Migration Decisions", *Journal of Political Economy*, pp. 749-774.

VII. Policy Issues

1. Public Sector Labor Market

*Gregory, R.G. and J. Borland. 1999. "Recent Development in Public Sector Labor Markets", In *Handbook of Labor Economics* Vol. 3C, edited by O. Ashenfelter and D. Card, pp. 3573-3630. NY: Elsevier Science Publishing Company, Inc.

Linneman, P.D. and M.L. Wachter. 1990. "The Economics of Federal Compensation", *Industrial Relations* 29:1, pp. 58-76.

Hundly, Greg. 1991. "Public- and Private-Sector Occupational Pay Structures", *Industrial Relations* 30:3, pp. 417-434.

Belman, D. and J.S. Heywood. 1993. "Job Attributes and Federal Wage Differentials", *Industrial Relations* 32:2, 148-157.

*Krueger, Alan.B. 1988. "Are Public Sector Workers Paid More Than Their Alternative wage?" In *When Public Sector Workers Unionize*, edited by R.B. Freeman and C. Ichniowsky, pp. 217-242. Chicago, IL: The University of Chicago Press

*Gyourko, J. and J. Tracy. 1988. "An Analysis of Public- and Private-Sector Wages Allowing for Endogenous Choices of both Government and Union Status", *Journal of Labor Economics* 6:2, pp. 229-253.

*Lee, Sang-Hyop, 2004 forthcoming, A Re-Examination of Public Sector Wage Differentials in the United States: Evidence from the NLSY with Geocode. *Industrial Relations*.

2. Gender and Discrimination in Labor Markets

Altonji, Joseph G. and Rebecca Blank. 1999. "Race and Gender in the Labor Market." *Handbook 3C*. Ch. 48.

Theory

*Becker, Gary S. 1971. *The Economics of Discrimination* (Chicago, IL: The University of Chicago Press), Chapters 1-5.

Becker, Gary S. 1985. "Human Capital, Effort, and the Sexual Division of Labor." *Journal of Labor Economics*, 1, pp. S33-S58.

Altonji, Joseph G. 1999. "Race and Gender in the Labor Market", *Handbook 3C*, Ch. 48.

Methodology

*Oaxaca, Ronald. 1973. "Male-Female Wage Differentials in Urban Labor Markets." *International Economic Review*, 14, pp. 693-709.

Neumark, David. 1988. "Employers' Discriminatory Behavior and the Estimation of Wage Discrimination", *The Journal of Human Resources*, Vol. 23, No. 3, pp. 279-295.

Lee, Sang-Hyop. 2000. "A Note on Decomposing Changes in the Male-Female Wage Gap", Working Paper Series. University of Hawaii at Manoa.

Evidence

*Blau, Francine D. and Andrea H. Beller. 1988. "Trends in Earning Differentials by Gender, 1971-1981," *Industrial and Labor Relations Review*, Vol. 41, No. 4, pp. 513-29.

Polachek, Solomon William. 1981. "Occupational Self-Selection: A Human Capital Approach to Sex Differences in Occupational Structure." *Review of Economics and*

Statistics, pp. 60-9.

Fields, Judith and Edward N. Wolff. 1995. "Interindustry Wage Differentials and the Gender Wage Gap", *Industrial and Labor Relations Review*, Vol. 49, No. 1, pp. 105-120.

Kuhn, Peter. 1987. "Sex Discrimination in Labor Markets: The Role of Statistical Evidence," *American Economic Review*, Vol. 77, No. 4, pp. 567-83.

Macpherson, David A. and Barry T. Hirsch. 1995. "Wages and Gender Composition: Why Do Women's Job Pay Less?" *Journal of Labor Economics*, Vol. 13, No. 3, pp. 426-71.

Oaxaca, Ronald L., and Michael R. Ransom. 1994. "On Discrimination and the Decomposition of Wage Differentials." *Journal of Econometrics*, 61, pp. 5-21.

Kuhn, Peter. 1987. "Sex Discrimination in Labor Markets: The Role of Statistical Evidence." *American Economic Review*, 77, pp. 567-83.

*Blau, Francine D. and Lawrence M. Kahn. 1995. "The Gender Earnings Gap: Some International Evidence", in Richard B. Freeman & Lawrence F. Katz (eds.), *Differences & Changes in Wage Structures*, NBER Comparative Labor Markets Series, The University of Chicago Press.

O'Neil, June and Solomon Polachek. 1993. "Why the Gender Gap in Wages Narrowed in the 1980s", *Journal of Labor Economics*, Vol. 11, No. 1, pp. 205-225.

Wellington, Alison J. 1993. "Changes in the Male/Female Wage Gap, 1976-85", *The Journal of Human Resources*, Vol. 28, No. 2, pp. 383-411.

3. Other Policy Issues

Lumsdaine, Robin, and Olivia S. Mitchell. 1999. "Recent Development in the Economic Analysis of Retirement," *Handbook 3C*, Ch. 49.

Currie, Janet, and Brigitte C. Madrian. 1999. "Health, Health Insurance and the Labor Market," *Handbook 3C*, Ch. 50.

Bound, John, and Richard V. Burkhauser. 1999. "Economic Analysis of Transfer Programs Targeted on People with Disabilities," *Handbook 3C*, Ch. 51.

Freeman, Richard B. 1999. "The Economics of Crime," *Handbook 3C*, Ch. 52.