LABOR ECONOMICS I

Spring 2007
ECON 670 (001)
MW 3:00-4:15
BUSAD G103

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 graduate level. To help achieve the latter goal, there is a fairly heavy emphasis on modeling approach and empirical analysis that are associated with each of the areas. The topics covered include labor supply and demand, the human capital model, contract and incentive in the labor market, changes in wage structure, job search and mobility, migration, 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. You need 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 one empirical exercise (30%). Two, students must submit and present a research paper (40%). Three, students select a paper from reading list and critically review the paper and present in the class (10%). Fourth, students must take the final exam (20%).

Empirical Exercise

There will be two exercises 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 econometrics and computer skills. Thus, 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 paper. Students should start on these early in the semester, and work on them throughout the semester. The quality of topic writing will be an important determinant of the grade on the exercise.
**Project/paper**

Students should submit a term paper. Although this counts for 40% of final grade, I consider this the most important part of the course. This is envisioned as the nucleus of a final 3rd year research paper, with only the actual empirical work or with fully-developed theoretical model without the empirical part. It should have many components of a final research 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 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. Students should start on these early in the semester, and work on them throughout the semester. We will have a brainstorm session for this project.

**Final Exam**

Students should take the final exam. Final exam is scheduled at 2:15-4:15 PM on May 7 (Monday).

**Help:**
Office Hours: MW 9:30-11:00 PM
Office: Saunders 512
Phone: 956-8590
E-mail: leesang@hawaii.edu
Web: www2.hawaii.edu/~leesang

**Computer Lab:** PC Lab.
Reading List

The following book is required and it is available from the campus bookstore.


Students may also 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. In addition to the text book, there is a reading list which is limited to the required readings for the course. Many 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. Any edition of Ehrenberg, R.G. and Robert S. Smith (most recent one is 2006, 9th edition). Modern Labor Economics (Pearson/Addison Wesley) is useful as a background reading. Or any undergraduate level textbook is fine for quick review. * on the reading materials means the papers I will more likely to refer and cover in class.

I. Empirical Strategies


II. Labor Supply

Cahuc & Zylberberg (C&Z hereafter) Ch. 1.


**III. The Human Capital Model**

*General Theory*

C&Z Ch. 2


*Schooling and Ability*


Experience, Tenure, and Marriage


IV. Labor Demand

C&Z Ch. 4.


V. Technological Progress, Globalization, and Changes in Wage Structure

C&Z Ch. 10


**Immigration**


**VI. Contract, Incentive, and Mobility**

C&Z Ch. 6


**Job Mobility**


**VII. Job Search**

C&Z Ch. 3


**VIII. Discrimination in Labor Markets**


How to use NLSY (National Longitudinal Survey of Youth)

2. Choose NLSY 79, download data (D79-11.2) and install extraction software. Also order a hardcopy of the Handbook
3. After installation of the software, click the DB’ Gator icon.

4. Three windows:
   1) Contents: Indexes: Any word in context
      Area of interest
      Survey year
      Refnum
      Qname

      Ex) Area of interest:

      COMMON : Choose identification code and sex (does not change and need to merge)
      KEYVAR: most variables

   2) Variables

   3) The code book: mouse right button click (F2)

5. Extract: extract tagged variables
   choose Stata dictionary option and choose extract codebook file option
   : they will create filename.dct, filename.dat, and filename.cdb

6. Abbreviation, jargons:
   R: respondent
   INT: interview
   Collapsed
   Revised

7. In the Stata command, type

   infile using c:\directory\filename.dct

   Then you created a stata file!!!
Economics 670 Empirical Project

There is one 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 encouraged to help each other out in learning how to use the computers and appropriate software. However, students are not allowed to pair off with another student in data manipulation, nor writing up. On the day the projects are due, each student or group of students will make a brief presentation. Students should start on these early in the semester, and work on them throughout the semester. The quality of writing and presentation will be an important determinant of the grade on the exercise.

<Project>

Use the NLSY to obtain OLS estimates of the returns to schooling, experience, and tenure for men and women. What functional forms for the dependent variable and these independent variables best fit the data? What is the estimated return to schooling with and without controlling for experience and tenure? Which estimate provides a better measure of the financial benefit of additional schooling? I have obviously left a host of the details unspecified, including sample period, model specification, etc. Regarding these issues, make your own decisions as to how best to estimate these returns. Explain the rationale for these decisions. Discuss the econometric problems inherent in interpreting your estimated returns as causal effects of additional schooling, experience, or tenure. Discuss some possible solutions to these problems.

Your results and discussion should be written up in a professional manner, including typed text and tables. See the syllabus for additional guidelines for doing this exercise.