

**Labor Economics II**  
**Spring 2009**

**Instructor:**

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**Class Schedule:**

Wednesday, 4-6 p.m., Room 802, 19 W. 4th Street

**Office Hours:**

By appointment (send me an e-mail to set one up).

**Course Objectives:**

The objective of the course is to acquaint students with modern topics, modeling strategies, econometric methods, and empirical work in the field of labor economics. We will cover topics in the analysis of labor market dynamics [(unemployed) search and informational models of turnover], models of the employment relationship in the presence of moral hazard, alternative models of wage determination, bargaining models of household behavior, and models of equ. For each of the topics covered we will begin by presenting some of the relevant theoretical models that have been developed. We will then turn our attention to issues of model specification and estimation given the type of data typically available to labor economists. We intend to spend roughly equal amounts of time on theoretical and empirical issues.

**Prerequisites:**

One year of microeconomic theory and Econometrics II or its equivalent.

**Requirements and Grading:**

1. There is a take-home examination at the end of the term. Questions will be based on the required material on the reading list and lecture material.
2. Students are expected to complete a *short* research paper, in which they pursue some topic covered in class or other labor market issues (subject to the approval of the instructor). The paper may consist of an empirical and/or theoretical analysis, but should contain some original aspects. You are to complete a two-page research proposal by the end of February, and you have until the end of the semester to complete the paper. If you have difficulty developing a topic, speak to me and we'll work on it together.

The course paper and final exam have equal weight in determining the final grade.

## Readings:

The items on the reading list marked with an asterisk (\*) are required readings. You should be able to find almost everything on-line. If you have difficulties locating something, let me know.

## Topics:

<i>Lecture</i>	<i>R.L. #</i>	<i>Topic</i>
<b>Labor Market Dynamics</b>		
1	1.A	<i>Course Introduction; Describing Labor Market Dynamics</i>
2	1.B	<i>Unemployed Search Theory</i>
3	1.C	<i>Econometrics of Unemployed Search</i>
4	1.D	<i>Matching, Bargaining, and Search</i>
5	1.E	<i>Job Mobility</i>
6		<i>Job Mobility (Continued)</i>
<b>Household Economics</b>		
7	2.A	<i>Household Bargaining and Labor Supply</i>
8	2.B	<i>Models of Household Formation and Dissolution</i>
9	2.C	<i>Equilibrium Marital Sorting</i>
<b>Asymmetric Information in the Labor Market</b>		
10	3.A	<i>Principal-Agent Problems in the Labor Market</i>
11	3.B	<i>Econometric Models of Moral Hazard</i>
<b>Other Equilibrium Models of the Labor Market</b>		
12	4.A	<i>Models of Comparative Advantage</i>
13	4.B	<i>Empirical Research on Compensating Differentials</i>
14	4.C	<i>Equilibrium Models of Human Capital Investment</i>

## Reading List

**Note: Selections with (\*) are required**

### 1.A. Describing Labor Market Dynamics

1. \*Burdett, K. and D. Mortensen. "Labor Supply under Uncertainty." In *Research in Labor Economics, Vol. 2* (Ehrenberg, ed.). Greenwich:CN: JAI Press, 1979.
2. \*Flinn, C. Chapter 3 of *Minimum Wages and Labor Market Outcomes: Theory and Evidence*. Downloadable from course home page.
3. \*Flinn, C. and J. Heckman. "Are Unemployment and Out of the Labor Force Behaviorally Distinct Labor Force States?" *Jour. of Labor Economics* 1 (1983): 28-42
4. Flinn, C. and J. Heckman. "Models for the Analysis of Labor Force Dynamics" in *Advances in Econometrics, vol. 1* (Basmann and Rhodes, eds.). Greenwich, CN: JAI Press, 1982.
5. Flinn, C. "Econometric Analysis of CPS-Type Unemployment Data." *J. of Human Resources (1986)*21: 456-484.
6. Toikka, R. "A Markovian Model of Labor Market Decisions by Workers." *A.E.R.* 66 (1976): 821-834.
7. \*Ross, S. *Applied Probability Models with Optimization Applications*. San Francisco: Holden-Day, 1970. Available as a Dover paperback. Highly recommended as background material.

### 1.B. Unemployed Search Theory

1. \*Burdett and Mortensen (from 1.A), continued.
2. \*Flinn (from 1.A), continued.
3. Mortensen, D. "Job Search and Labor Market Analysis." Chapter 15 in *Handbook of Labor Economics, Volume 2* (Ashenfelter and Layard, eds), Amsterdam: North-Holland, 1986..
4. Danforth, J. "On the Role of Consumption and Decreasing Absolute Risk Aversion in the Theory of Job Search." In *Studies in the Economics of Search* (Lippman and McCall, eds). Amsterdam: North-Holland, 1979.
5. Rendon, S. "Job Search and Asset Accumulation under Borrowing Constraints." Forthcoming, *International Economic Review*, 2006.
6. \*Rothschild, M. "Searching for the Lowest Price when the Distribution of Prices is Unknown." *J. Pol. Econ.* 82 (1974): 689-711.
7. \*Salop, S. "Systematic Job Search and Unemployment." *Rev. Econ. Studies* 40 (1973): 191-201.

### 1.C. Econometrics of Unemployed Search

1. \*Flinn, C. and J. Heckman. "New Methods for Analyzing Structural Models of Labor Force Dynamics." *J. Econometrics* 18 (1982): 115-168.
2. \*Wolpin, K. "Estimating a Structural Search Model: The Transition from School to Work." *Econometrica* 55 (1987): 801-818
3. Wolpin, K. *Empirical Methods for the Study of Labor Force Dynamics*. Harwood Academic Publishers, 1995. Chs. 2,3.
4. \*Van den Berg, G. "Nonstationarity in Job Search Theory." *Rev. Econ. Studies* 57 (1990), pp. 255-277.
5. Lancaster, T. and A. Chesher. "An Econometric Analysis of Reservation Wages." *Econometrica* 51 (1983), pp. 1661-1676.

### 1.D. Matching, Bargaining, and Search

1. \*Dey, M. and C. Flinn. "An Equilibrium Model of Health Insurance Provision and Wage Determination." *Econometrica*, (March 2005): 571-627.
2. \*Flinn, C. "Minimum Wage Effects on Labor Market Outcomes under Search, Bargaining, and Endogenous Contact Rates." *Econometrica* 74 (2006): 1013-1062
3. \*Postel-Vinay, F. and JM Robin. "Wage Dispersion with Worker and Employer Heterogeneity." *Econometrica* 70 (2002): 295-350.
4. Flinn, C., and J. Mabili. "On-the-Job Search, Minimum Wages, and Labor Market Outcomes in an Equilibrium Bargaining Framework. Downloadable at <http://www.irp.wisc.edu/publications/dps/pdfs/dp133708.pdf>

### 1.E. Job Mobility

1. \*Jovanovic, B. "Job Matching and the Theory of Turnover." *J. Pol. Econ.* 87 (1979): 972-990.
2. Jovanovic, B. "Matching, Turnover, and Unemployment." *J. Pol. Econ.* 92 (1984): 108-122.
3. Rosen, S. "Learning and Experience in the Labor Market." *J. Human Resources* 7 (1972): 326-342.
4. \*Flinn, C. "Labour Market Structure and Inequality: A Comparison of Italy and the U.S." *Review of Economic Studies* 69 (August 2002): 611-645.
5. Lippman, S. and J. McCall. "The Economics of Belated Information." *Int. Econ. Rev.* 22 (1981): 135-146.
6. Mortensen, D. "Specific Capital and Labor Turnover." *Bell J. Econ.* 9 (1978): 572-586.
7. Salop, S. "Wage Differentials in a Dynamic Theory of the Firm." *J. Econ. Theory* 6 (1973): 321-344.

8. \*Flinn, C. "Wage and Job Mobility of Young Workers." *J. Pol. Econ.* 94 (1986): S88-S110.
9. \*Miller, R. "Job Matching and Occupational Choice." *J. Pol. Econ.* 92 (1984): 1086-1120.
10. McCall, B. "A Dynamic Model of Occupational Choice." *Journal of Econ. Dyn. and Control* 15 (1994): 387-408.
11. \*Van der Klaauw, Wilbert. "On the Use of Expectations Data in Estimating Structural Dynamic Models: An Analysis of Career Choices." Mimeo, UNC (2000). Downloadable at <http://www.unc.edu/~vanderkl/expect.pdf>.

## 2.A Household Bargaining and Labor Supply

1. McElroy, M. and M. Horney. "Nash-bargained Decisions: Towards a Generalization of the Theory of Demand." *International Economic Review* 22 (1981): 333-349.
2. Manser, M. and M. Brown. "Marriage and Household Decision-Making: A Bargaining Analysis." *International Economic Review* 21 (1980): 31-44.
3. Chiappori, P-A. "Rational Household Labor Supply." *Econometrica* 56 (1988): 63-89.
4. \*Mabli, J. "Dynamic Household Labor Supply: An Application of Household Search over Wages and Hours." Mimeo, NYU, 2006. Downloadable from [http://homepages.nyu.edu/~jgm243/household\\_search.pdf](http://homepages.nyu.edu/~jgm243/household_search.pdf)
5. McElroy, M. "The Empirical Content of Nash-bargained Household Behavior." *Journal of Human Resources* 25 (1990): 559-583.
6. A. Kapteyn and P. Kooreman. "Household Labor Supply: What Kind of Data Can Tell Us How Many Decision-Makers There Are?" *European Economic Review* 36 (1992): 365-371?
7. \*Browning, M, F. Bourguignon, P-A Chiappori, and V. Lechene. "Incomes and Outcomes: A Structural Model of Intra-Household Allocation." *Journal of Political Economy* 102 (1994): 1067-1096.
8. Kooreman, P. and A. Kapteyn. "On the Empirical Implementation of some Game Theoretic Models of Household Labor Supply." *Journal of Human Resources* 25 (1990): 584-598.
9. \*Del Boca, D. and C. Flinn. "Endogenous Household Interaction." Mimeo, NYU, October 2006. Downloadable from <http://www.econ.nyu.edu/user/flinn/papers/ddb-cf-interaction.pdf>

## 2.B Models of Household Formation and Dissolution

1. \*Weiss, Y. and R. Willis. "Children as Collective Goods and Divorce Settlements." *Journal of Labor Economics* 3 (July 1985): 268-292.
2. \*Flinn, C. "Modes of Interaction between Divorced Parents." *International Economic Review* (August 2000): 545-578.
3. \*Del Boca, D. and C. Flinn. "Rationalizing Child Support Decisions." *American Economic Review* 85 (December 1995): 1241-1262.
4. Del Boca, D. and R. Ribero. "Visitations and Transfers after Divorce." *Review of Economics of the Household* 1 (2003): 187-204.
5. \*Brown, M. and C. Flinn. "Investment in Child Quality over Marital States." Mimeo, U.W.-Madison and NYU, January 2006. Downloadable from <http://www.econ.nyu.edu/user/flinn/papers/bf-divorce.pdf>
6. Brien, M., L. Lillard, and S. Stern. "Cohabitation, Marriage, and Divorce in a Model of Match Quality." *International Economic Review* 47 (2006): 451-494.

## 2.C Marital Sorting

1. \*Choo, E. and A. Siow. "Who Marries Whom and Why?" *Journal of Political Economy*.114 (2006): 175-201.
2. Iyigun, M. and R. Walsh. "Building the Family Nest: Pre-Marital Investments, Marriage Markets, and Spousal Allocations." *Review of Economic Studies* 74 (2007): 507-535.
3. \*Del Boca, D. and C. Flinn. "Household Time Allocation and Modes of Behavior: A Theory of Sorts. Mimeo, NYU, 2007.. Downloadable from <http://www.econ.nyu.edu/user/flinn/papers/hhsorting4.pdf>
4. \*Chiappori, PA, Iyigun, M. and Y. Weiss. "Spousal Matching, Marriage Contracts, and Property Division in Divorce." Working paper, 2006.

## 3.A Principal-Agent Problems in the Labor Market

1. Kreps, D. *A Course in Microeconomic Theory*, Ch. 16.
2. \*Shapiro, C. and J. Stiglitz. "Equilibrium Unemployment as a Worker Discipline Device." *A.E.R.* 74 (1984): 433-444.
3. \*Foster, J. and H. Wan. "Involuntary Underemployment as a Principal-Agent Equilibrium." *A.E.R.* 74 (1984): 476-484.
4. Malcomson, J. "Work Incentives, Hierarchy, and Internal Labor Markets." *JPE.* 92 (June 1984): 486-507.
5. \*MacLeod, B. and J. Malcomson. "Implicit Contracts, Incentive Compatability, and Involuntary Unemployment." *Econometrica* 57 (March 1989): 447-480.

6. Albrecht, J. and S. Vroman. "Nash Equilibrium Efficiency Wage Distributions." *International Economic Review* 39 (February 1998): 183-203.

### **3.B. Estimation of Models with Moral Hazard**

1. Flinn, C. "Equilibrium Dismissal without Stigma." Chapter 5 in *Labor Demand and Equilibrium Wage Formation* (van Ours, Pfaan, and Ridder, eds.). Amsterdam: North-Holland, 1993, pages 249-275.
2. \*Flinn, C. "Equilibrium Wage and Dismissal Processes." *Journal of Business and Economic Statistics* 15 (April 1997): 221-236.
3. \*Ferrall, C. and B. Shearer. "Incentives and Transactions within the Firm: Estimating an Agency Model Using Payroll Records." *Review of Economic Studies* 66 (1999): 309-338.
4. \*Paarsch, H. and B. Shearer. "The Response of Worker Effort to Piece Rates: Evidence from the British Columbia Tree-Planting Industry." *Journal of Human Resources* 34 (1999): 643-667.
5. \*Shearer, B. "Piece Rates, Fixed Wages, and Incentives: Evidence from a Payroll Experiment." *Review of Economic Studies* 71 (2004): 513-534.

### **4.A Comparative Advantage**

1. Roy, A. "Some Thoughts on the Distribution of Earnings." *Oxford Economic Papers* 3 (1951): 135-146.
2. Gorman, W. "A Possible Procedure for Analysing Quality Differentials in the Egg Market." *Review of Economic Studies* 47 (1980): 843-856.
3. \*Tinbergen, J. "Some Remarks on the Distribution of Labor Incomes." *International Economic Papers* 1 (1951): 195-207.
4. \*Sattinger, M. "Compensating Wage Differences." *Journal of Economic Theory* 16 (1977): 496-503.
5. \*Mussa, M. and S. Rosen. "Substitution and the Division of Labor." *Economica* 45 (1978): 235-250.

#### 4.B Empirical Research on Compensating Differentials

1. \*Hwang, H., D. Mortensen, and W. R. Reed. "Hedonic wages and labor market search" *Journal of Labor Economics* (October 1998) 16: 815-47.
2. \*Dey, M. and C. Flinn. "Household search and health insurance coverage." *Journal of Econometrics* (July 2008): 43-63.
3. Hwang, H., W. R. Reed, and H. Carleton. "Compensating Wage Differentials and Unobserved Productivity," *Journal of Political Economy* (August 1992): 835-58.
4. Bonhomme, S. and G. Jolivet. "The Pervasive Absence of Compensating Differentials." Downloadable at <http://www.cemfi.es/~bonhomme/bonjo-final.pdf>. Forthcoming, *Journal of Applied Econometrics*.

#### 4.C. Human Capital Investment, Fertility, and Cohort Size

1. \*Flinn, C. "Cohort Size and Schooling Choice." *Journal of Population Economics* 6 (1993): 31-55.
2. \*Lee, D. "An Estimable Dynamic General Equilibrium Model of Work, Schooling, and Occupational Choice." *International Economic Review* 46 (2005): 1-34.
3. Welch, F. "Effects of Cohort Size on Earnings: The Baby Boom Babies Financial Bust." *Journal of Political Economy* 87 (1979): S65-S97.
4. Stapleton, D. and D. Young. "Educational Attainment and Cohort Size." *Journal of Labor Economics* 6 (1988): 330-361.
5. Hotz, J. and R. Miller. "An Empirical Analysis of Life Cycle Fertility and Female Labor Supply." *Econometrica* 56 (1988): 91-118.
6. Siow, A. "Occupational Choice under Uncertainty." *Econometrica* 52 (1984): 631-645.