Labor Economics II  
Spring 1999

Instructor:

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Office Hours:

Wednesday 11-1, or by appointment.

Course Objectives:

The objective of the course is to acquaint students with modern topics, modelling strategies, econometric methods, and empirical work in the field of labor economics. In this first semester of the two-semester sequence in labor economics, we will cover topics in the analysis of labor market dynamics [(unemployed) search and informational models of turnover], equilibrium models of comparative advantage and sorting, issues of labor market selection [signalling models], models of the employment relationship when moral hazard is present, the effect of minimum wages on labor market outcomes, and human capital investment decisions in equilibrium frameworks. For each of the eight topics covered in the course we will begin by presenting some of the relevant theoretical models which 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 [except when we discuss signalling models]. Approximately two-thirds of the course will be devoted to labor market theory and one-third to the specification and estimation of econometric models of the labor market. Empirical results will be discussed when appropriate.

Prerequisites:

One year of microeconomic theory and concurrent registration in or completion of Econometrics II.

Requirements and Grading:

There will be two examinations in the course, a midterm and a final. The midterm exam will be given in class on Monday, March 8 and the final will be given during the final examination period. Both examinations
will ask the student to apply what they have learned in class to the modeling of labor market phenomena, as well as to synthesize and/or critique the theoretical and econometric models which are presented in the lectures and/or the required readings. The examinations will have equal weight in the determination of the student’s final grade.

In addition students will be asked to give approximately two reports on a few of the assigned readings in class [the readings will be selected by the student after consulting with me]. The reports will consist of a summarization of the basic argument of the paper(s), the model, and econometric methodology and results [where appropriate]. The purpose of this exercise is to increase class participation and to familiarize students with the presentation of economic research; hopefully this experience will prove useful when students begin their own research careers.

Readings:

The items on the reading list in italic are required readings. Copies of these will be on reserve in the C.V. Starr Center library on the third floor of 269 Mercer. Students who have difficulty finding other readings in which they are interested [especially unpublished working papers] should contact me.
### Lecture Schedule

<table>
<thead>
<tr>
<th>Week</th>
<th>R.L. #</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1A</td>
<td><em>Course Introduction; Describing Labor Market Dynamics</em></td>
</tr>
<tr>
<td>2</td>
<td>1B</td>
<td><em>Unemployed Search Theory</em></td>
</tr>
<tr>
<td>3</td>
<td>1C</td>
<td><em>Econometrics of Unemployed Search</em></td>
</tr>
<tr>
<td>4</td>
<td>2A,2B</td>
<td><em>Equilibrium Search: Theory and Estimation</em></td>
</tr>
<tr>
<td>5</td>
<td>3A</td>
<td><em>Models of Turnover</em></td>
</tr>
<tr>
<td>6</td>
<td>3B</td>
<td><em>Econometric Models of Turnover</em></td>
</tr>
<tr>
<td>7</td>
<td></td>
<td><strong>Midterm Exam (March 8)</strong></td>
</tr>
<tr>
<td>8</td>
<td>4</td>
<td><em>Comparative Advantage</em></td>
</tr>
<tr>
<td>9</td>
<td>5</td>
<td><em>Minimum Wages</em></td>
</tr>
<tr>
<td>10</td>
<td>6</td>
<td><em>Signalling Models</em></td>
</tr>
<tr>
<td>11</td>
<td>7A</td>
<td><em>Principal-Agent Problems in the Labor Market</em></td>
</tr>
<tr>
<td>12</td>
<td>7B</td>
<td><em>Econometric Models of Moral Hazard</em></td>
</tr>
<tr>
<td>13</td>
<td>8</td>
<td><em>Human Capital Investment and Cohort Size</em></td>
</tr>
</tbody>
</table>
Reading List

Note: Selections in *italic* are required

1A. Describing Labor Market Dynamics


1B. Search Theories of Labor Market Behavior [Unemployment]


1C. Econometric Models of the Search for Employment


2A. Equilibrium Models of Employment Search


2B. Econometric Models of Equilibrium Employment Search


3A. Informational Stories of Turnover


### 3B. Econometric Models of Turnover


### 4. Theory and Estimation of Models of Compensating Differentials and Comparative Advantage


4. Sattinger, M. J. *Econ. Theory*


5. Minimum Wages: Theory and Measurement


6. Job-Market Signalling


**7A. Moral Hazard and Incentive Problems in the Labor Market**


**7B. Estimation of Models with Moral Hazard**


8. Human Capital Investment and Cohort Size


