

**LABOR ECONOMICS 250B**  
**UCSD**  
**PROFESSORS ELI BERMAN AND GORDON DAHL**  
**Winter 2009**  
**COURSE OUTLINE**

This course blends theoretical labor economics with applied research, studying appropriate methods of estimation as necessary. 250A is NOT a prerequisite for 250B, although it will prove helpful.

We will cover several topics:

- I. Labor Demand
- II. Immigration
- III. Increased Returns to Skills and Increased Income Inequality
- IV. Demographics and Economics of the Family
- V. Religion
- VI. Religion, Public Goods, Terrorism and Insurgency
- .. with further topics TBA

Berman will teach topics I, III-VI, while Dahl will teach II and VII- xx.

**Requirements for the Course/Schedule**

To do well in this course you should have completed microeconomics and econometrics (A-C) courses. It would be helpful if you have already taken Labor Economics 250A, because there we covered many of the empirical methods that we will use in this course. If you are unsure please consult one of the past 250A course syllabi, at [econ.ucsd.edu/~elib/250A/](http://econ.ucsd.edu/~elib/250A/) for a syllabus, and come chat with us.

You are required to:

- write your own original term paper, on a subject in labor economics of your choosing;
- write and present a referee report;
- complete a midterm and a final.

We also expect you to attend and participate actively in all classes.

Here is some advice on finding a topic for your term paper. Perusing recent issues of the Journal of Labor Economics, the Journal of Human Resources, or general interest journals such as the QJE, AER, JPE, Econometrica, R.E.Stat, JPubEcon, etc. may give you some ideas for topics. NBER working papers provide another source. The reading list for this course might also help you. If you already have a general area in mind (immigration, labor supply, economics of education etc.) but not a specific topic, one of the more difficult challenges is to focus your interest on something specific. The Handbook of Labor Economics provides literature reviews that may help you see what areas are well trodden and which are relatively sparsely researched. A third approach is to flip through the Statistical Abstract of the United States or related government

publications such as the Digest of Education Statistics – sometimes seeing what sorts of data the government collects and patterns in data can get your creative juices flowing. Fourth, *talk to both of us about your ideas. This is why we are here!*

We offer you two options for the research paper. Chose the option that will be most helpful to you in completing your Ph.D.

1) Come up with a *proposal* for an original empirical paper. In week 2 please submit to us one or two ideas for original papers. We will work with you to decide which to pursue. The final paper should be a *proposal* for an original empirical paper, which

- a) states how this paper would contribute to the literature –including at least a one page literature review,
- b) devises an empirical strategy that is (ideally) based in theory, and
- c) discusses data sources that you could use.

Ideally, your proposal would be of sufficient quality that you could submit it as a grant proposal to an outside organization. (We do not require submitting a grant application, but encourage you to think along these lines. We and will work with you if you decide to follow this route.)

2) Alternatively you could initiate or continue an applied (or a theoretical) project. Some of you may have initiated more empirically (or theoretically) oriented projects in 250A, 220F, or other graduate courses. You are welcome to continue that work in this course, but you must clear this with us and provide us with the final version you prepared for those classes, along with a clear statement of how you will extend that analysis. Note that if the empirical project is limited in scope it may be conceivable for you to start from scratch, develop a plan, acquire and clean data, and perform the empirical analysis. (This goes beyond option 1 above.) We certainly would welcome this but do talk to us first so that we can help judge whether this sounds feasible over the 10 weeks of quarter.

## Evaluation

**5%** A paper proposal. Please email both of us a one to three page proposal with a few references by Wednesday of Week 2 (1/14). (Feel free to consult either of us informally before that time.) We offer you three options for this paper, as explained above.

**45%** A final draft of your paper. Due: In class in week 10 (March 11). Please bring two copies. (We would also appreciate receiving a copy by email.) There will be no extensions beyond the end of quarter. Papers submitted after March 11 will lose 5 percentage points (out of 45) per day late.

**10%** A written referee report and short class presentation on ONE recent NBER working paper of your choice related to material on the reading list. Please send us your choice as soon as possible so that we can intersperse your presentation with lectures. Feel free to consult with either or both of us in advance. Rank order the papers if you select more than one, and we can jointly decide which might be the most appropriate. One week before the scheduled presentations, please email the paper (or url) to all classmates and to us. In your presentation, you should plan to present the paper as if it were “yours”, to offer constructive criticism and ideas for how you might extend the work. A rough guideline for the talk might be 15 minutes for presentation of the paper, 5 minutes discussion of your “referee comments”, and 5 minutes for questions from classmates and us.

**20%** A midterm on sections I, III-VI (Berman) in (the second period of) class on Feb. 11.  
**20%** A second midterm on the remaining sections (Dahl) on March 18 (exam week).

## Readings

**Books:** There is no required text. Students looking for a starting point or background material may wish to use Cahuc P. and Zylberberg A. *Labor Economics* (MIT press, 2004) [C&Z]. For a clear, accessible summary of much of the empirical literature up till about 2000, try Ehrenberg, Ronald G. and Robert S. Smith (2006) *Modern Labor Economics, Theory and Public Policy*, (9th edition), HarperCollins, New York. Good writing is important. For an entertaining style manual, see Becker, Howard S. (1986) *Writing For Social Scientists*, U. of Chicago.

**Reading List:** The list is subject to renegotiation. The (\*) means priority reading. We will also provide guidance as to which papers are the most important.

### *I. Labor Demand*

#### *Static Models*

\*Hamermesh, Daniel S. Labor Demand, Princeton, NJ: Princeton University Press, 1993, chapters 2&3.

J. Hicks, Theory of Wages, chapter 1, Appendix, sections 18-19.

\* D. Hamermesh, "The Demand for Labor in the Long Run," in O. Ashenfelter and R. Layard, eds., Handbook of Labor Economics, vol. 1, 1986.

### ***Empirical Applications of Static Models***

\* K. Clark and R. Freeman, "How Elastic is the Demand for Labor?" RESTAT, November 1980, pp. 509\_520.

C. Brown, C. Gilroy, and A. Kohen, "The Effect of the Minimum Wage on Employment and Unemployment," Journal of Economic Literature, June 1982.

R. Freeman, "The Effect of Demographic Factors on Age\_Earnings Profiles," Journal of Human Resources, 1979, pp. 289-318.

R. Freeman, "The Effect of the Increased Relative Supply of College Graduates on Skill Differences and Employment Opportunities," in Z. Griliches et al., Income Distribution and Economic Inequality, Campus Verlag, 1978, pp. 240-55.

\*Z. Griliches, "Capital\_Skill Complementarity," RESTAT, November 1969.

D. Card, "Unexpected Inflation, Real Wages, and Employment Determination in Union Contracts," American Economic Review, September 1990.

Berman Eli and Linda Bui (2000), "Air Quality Regulation and Labor Demand: Evidence from the L.A. Basin," Journal of Public Economics xx x.

### ***Dynamic Models***

\* W. Oi, "Labor As A Quasi\_Fixed Factor," Journal of Political Economy, 1962, pp. 538-55.

S. Nickell, "Dynamic Models of Labour Demand," Handbook of Labor Economics, vol. 1, 1986.

\* D. Hamermesh, "Labor Demand and the Structure of Adjustment Costs," American Economic Review, September 1989, pp. 675-90.

### ***Equilibrium with Heterogeneous Labor***

\*Lang, Kevin and William T. Dickens. "Neoclassical and Sociological Perspectives on Segmented Labor Markets," in Farkas, G. and England, P. ,eds., Industries, Firms, and Jobs, New York: Plenum, 1988.

\*Kahn, Shulamit. "Economic Estimates of the Value of Life," Institute of Electrical Engineers Technology and Society, June 1986.

Rosen, Sherwin. "The Theory of Equalizing Differences." in Handbook of Labor Economics, Vol. I.

Willis, Robert J. "Wage Determinants: A Survey and Reinterpretation of Human Capital Earnings Functions," in Handbook of Labor Economics.

## ***II. Immigration***

\* J. Altonji and D. Card, "The Effects of Immigration on the Labor Market Outcomes of Less\_Skilled Natives," in J. Abowd and R. Freeman, eds., Immigration, Trade, and the Labor Market, U. of Chicago Press and NBER, 1991.

\* Card, David, "The Impact of the Mariel Boatlift on the Miami Labor Market," Industrial and Labor Relations Review, 43 (January 1990): 245-57.

Chiswick, Barry R. "The Effect of Americanization on the Earnings of Foreign-born Men," Journal of Political Economy 86(5) (1978).

Friedberg, Rachel "The Impact of Mass Migration on the Israeli Labor Market," The Quarterly Journal of Economics 2001 116 (4)1373-1408.

\* Borjas, George, "Self\_Selection and the Earnings of Immigrants," American Economic Review, 77 (Sept. 1987): 531-53.

\* Dahl, Gordon, "Mobility and the Return to Education: Testing a Roy Model with Multiple Markets," Econometrica, Sept. 2002.

Bleakely, Hoyt, and Aimee Chin, "Returns to English Language Skills among first generation immigrants: How much and why?" Review of Economics and Statistics, forthcoming.

## ***III. Increased Returns to Skills and Increased Income Inequality*** ***The basic facts on quantities and prices***

Blackburn, M.L., D.E. Bloom and R.L. Freeman (1990). "The Declining Economic Position of Less\_Skilled American Males," in G. Burtless (ed.), *A Future of Lousy Jobs?* Brookings, Washington D.C.

\* Bound, John and George Johnson (1992) "Changes in the Structure of Wages During the 1980s: An Evaluation of Alternative Explanations," *American Economic Review*, 82(June).

\* Katz, Lawrence F. and Kevin M. Murphy (1992). "Changes in Relative Wages, 1963-1987: Supply and Demand Factors," *Quarterly Journal of Economics*, 107(February) 35-78.

Murphy, Kevin M. and Finis Welch (1993) Industrial change and the rising importance of skill, in

Sheldon Danziger and Peter Gottschalk (eds.) *Uneven Tides: Rising Inequality in America*, New York: Russell Sage Foundation.

Murphy, Kevin M. and Finis Welch (1992) "The Structure of Wages," *Quarterly Journal of Economics*, 107(February): 285\_326.

## ***Race***

Bound, John and Richard Freeman (1992) "What Went Wrong? The Erosion of Relative Earnings Among Young Black Men in the 1980s," *Quarterly Journal of Economics* 107(1), February.

### *International Evidence*

Blau, Francine D. and Lawrence M. Kahn (1994) "International Differences in Male Wage Inequality: Institutions versus Market Forces," NBER WP #4678, March.

\* Freeman, Richard and Lawrence Katz (1994) "Rising wage inequality: The United States vs. other advanced countries," in Richard Freeman (ed.) *Working Under Different Rules*, New York: Russell Sage Foundation.

Katz, Lawrence F., Gary W. Loveman and David G. Blanchflower (1993). "A comparison of Changes in the Structure of Wages in Four OECD Countries," National Bureau of Economic Research Working Paper #4297, March.

### *Historical Perspective*

Goldin, Claudia and Robert Margo (1992) "The Great Compression: The Wage Structure in the United States at Mid-Century," *Quarterly Journal of Economics*, 107(1), February.

### ***Basic Human Capital Theory***

G. Becker, Human Capital, 2nd edition, 1975.

\* Y. Ben\_Porath, "The Production of Human Capital and the Life Cycle of Earnings," Journal of Political Economy, August 1967, pp. 352\_65.

Hellerstein, Judith K., David Neumark and Kenneth R. Troske (1994) "Wages, Productivity and Worker Characteristics," Northwestern University, mimeo, November.

\* R. Willis, "Wage Determinants: A Survey and Reinterpretation of Human Capital Earnings Functions," in O. Ashenfelter and R. Layard, eds., Handbook of Labor Economics, vol. 1, 1986.

\* Mincer, Jacob (1994) "The Production of Human Capital and the Lifecycle of Earnings: Variations on a Theme," NBER WP #4838, August.

Mincer, Jacob (1994) "Investment in U.S. Education and Training," NBER WP #4844, August.

### ***Trade as an Explanation***

Borjas, George J. and Valerie A. Ramey (1994) "Foreign Competition, Market Power and Wage Inequality, UCSD mimeo.

Feenstra, Robert C. and Gordon Hanson, "Globalization, Outsourcing, and Wage Inequality" American Economic Review Paper and Proceedings, LXXXVI (1996), 240-245.

Helpman, Elhanan and Paul R. Krugman, Market Structure and Foreign Trade, (Cambridge, MA: MIT, 1985).

Krugman, Paul and Robert Lawrence (1993). "Trade, Jobs and Wages," National Bureau of Economic Research Working Paper #4478, September.

Lawrence, Robert and Matthew Slaughter (1993) 'International Trade and U.S. wages in the 1980s: Great sucking sound or small hiccup', *Brookings Papers on Economic Activity*, Fall, n2, pp161(66)

Sachs, Jeffrey and Howard Shatz (1994) 'Trade and jobs in U.S. manufacturing', *Brookings Papers on Economic Activity*.

### ***Skill Biased Technological Change as an Explanation***

Allen, Steven (1993) Technology and the Wage Structure, *Journal of Labor Economics*, 2001, vol. 19, issue 2, pages 440-83.

\* Berman, Eli, John Bound and Zvi Griliches (1994) 'Changes in the demand for skilled labour within US manufacturing industries: Evidence from the Annual Survey of Manufacturing', *Quarterly Journal of Economics*, 109, 367\_98.

\* Berman, Eli, John Bound and Stephen Machin "Implications of Skill-Biased Technological Change: International Evidence," (1998), *Quarterly Journal of Economics*, 113, November.

Mincer, Jacob (1991). "Human Capital, Technology and the Wage Structure: What do Time Series Show?" National Bureau of Economic Research Working Paper #3581.

Autor, David, Lawrence Katz and Alan Krueger (1998) "Computing Inequality" *Quarterly Journal of Economics*, 113.

Berman, Eli and Stephen Machin, "Skill-Biased Technology Transfer Around the World," *Oxford Review of Economic Policy* 16(3), Fall 2000.

### ***Human Capital and Technological Change in Growth Models***

Barro and Sala\_I\_Martin (1994) *Economic Growth*

Lucas, Robert E. (1988) "On the Mechanics of Economic Development," *Journal of Monetary Economics*, XXII, 3-42.

Mankiw, N. Gregory, David Romer and David N. Weil (1992) "A Contribution to the Empirics of Economic Growth," *The Quarterly Journal of Economics*, May.

### ***IV. Economics of the Family, Fertility and Demographics***

Background: Ray, Debraj *Development Economics* ch 9, or Weil, David *Economic Growth* (2<sup>nd</sup> edition) ch 4 & 5.

\* Becker, Gary S. "The Demand for Children," and Becker, Gary S. and Barro, Robert "A Reformulation of the Economic Theory of Fertility," in Becker, Gary S. *A Treatise on the Family*, (Harvard, Cambridge MA, 1991).

\* Becker, Gary S. "A Theory of the Allocation of Time", *Economic Journal* 75 (Sept. 1965): 493-517.

\* Gronau, Reuben. "Leisure, Home Production, and Work -- The Theory of the Allocation of

- Time Revisited," Journal of Political Economy, 85 (1977): 1099-1123.
- Lundberg, S.J., R.A. Pollak and T.J. Wales "Do Husbands and Wives Pool their Resources? Evidence from the U.K. Child Benefit," Journal of Human Resources 32(3) 1997: 463-480.
- Ashraf, Nava, "Spousal Control and Intra-Household Decision Making: An Experimental Study in the Philippines" Harvard, 2006, mimeo <http://people.hbs.edu/nashraf/Spousal.pdf>
- J. Mincer, "Labor Force Participation of Married Women," Aspects of Labor Economics, Princeton University Press, 1962.
- Goldin, Claudia, Understanding the Gender Gap, Oxford, 1990, chapters 2 and 5.
- Goldin, Claudia and Lawrence F. Katz, "Power of the Pill: Oral Contraceptives and Women's Career and Marriage Decisions," Journal of Political Economy, (August 2002).
- V. The Economics of Religion***
- \* Iannaccone, Laurence R (1998) "Introduction to the Economics of Religion," Journal of Economic Literature, 36, pp. 1465-1496.
- \* Smith, Adam, An Inquiry into the Nature and Causes of the Wealth of Nations (Reprint of 1776 version) Modern Library: New York; 1965. Book V, Chapter I, Part III, Article III "Religious Institutions."
- \* Iannaccone, Laurence R. (1992) "Sacrifice and Stigma: Reducing Free-riding in Cults, Communes, and other Collectives" Journal of Political Economy, 100(21), pp. 271-291.
- \* Berman, Eli, "Sect, Subsidy and Sacrifice: An Economist's View of Ultra-Orthodox Jews," Quarterly Journal of Economics, August 2000.
- Chen, Daniel, "Economic Distress and Religious Intensity: Evidence from Islamic Resurgence During the Indonesian Financial Crisis," University of Chicago mimeo, 2004. <http://cas.uchicago.edu/workshops/cpolit/papers/chen.pdf>
- Berman, Eli and Ara Stepanyan "How Many Radical Islamists? Indirect Evidence from Five Countries," UCSD mimeo 2003. [econ.ucsd.edu/~elib/](http://econ.ucsd.edu/~elib/)



## ***VI. Religion, Public Goods, Terrorism and Insurgency***

Berman, Eli and Larry Iannaccone, "Religious Extremists: The Good the Bad and the Deadly," (with Laurence Iannaccone), NBER WP 11663 (Public Choice, 2006).

\* Berman, Eli and Laitin, David, "Religion, Terrorism and Public Goods: Testing the Club Model" Journal of Public Economics, 2008.

### ***Does Poverty cause Terrorism?***

Collier, Paul and Anke Hoeffler (2001) "Greed and Grievance in Civil War"

<http://econ.worldbank.org/programs/library>.

\* Fearon, James D. and David D. Laitin (2003) "Ethnicity, Insurgency and Civil War" American Political Science Review 97(1): 75-90 (February 2003).

Krueger, Alan B. and Jitka Maleckova, "Education, Poverty, Political Violence and Terrorism: Is there a Causal Connection? NBER WP #9074, July 2002.

Benmelech, Efraim, and Claude Berrebi. "Attack assignment in terror organizations and the productivity of suicide bombers." NBER working paper #12910 (February 2007).

### ***Insurgency***

Akerloff, George A., and Janet L. Yellen, "Gang Behavior, Law Enforcement and Community Values," in Values and Public Policy, Henry J. Aaron, Thomas E. Mann and Timothy Taylor, eds. (Washington D.C.: Brookings Press, 1994).

Blattman, Christopher, and Edward Miguel, "Civil War," *Journal of Economic Literature*, forthcoming.

[http://www.econ.berkeley.edu/~emiguel/pdfs/miguel\\_civilwar.pdf](http://www.econ.berkeley.edu/~emiguel/pdfs/miguel_civilwar.pdf)

\* Berman, Eli, Jacob Shapiro and Joseph Felter, "Can Hearts and Minds Be Bought? The Economics of Counterinsurgency in Iraq," NBER WP #14606, December 2008.

**Other topics TBA**