

LABOR ECONOMICS 250B - COURSE OUTLINE

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Winter 2016

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

We will cover topics from the following list:

- I. Demographics and Economics of the Family
- II. Religion
- III. Development and Conflict
- IV. Labor Demand
- V. Increased Returns to Skills and Increased Income Inequality

- VI. Human Capital*
- VII. Migration and Immigration*
- VIII. Social Program Evaluation*
- IX. Wage Determination*
- X. Unemployment*
- XI. Social Interactions and Neighborhood Effects*

Professor Dahl will teach topics in italics, while Berman is responsible for regular fonts.

Requirements

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 a 250A course syllabus

http://econweb.ucsd.edu/~jbetts/Grad%20Courses/250A_syllabus_fall_2013_final.pdf, and come chat with us.

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

Proposal

Here is some advice on finding a topic. Peruse 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. for ideas. 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 us about your ideas. We may have some of our own. Research is why we are here!*

Come up with a *proposal* for an original empirical paper. We will work with you to decide on ideas to pursue. The *proposal* should

- a) state how this paper would contribute to the literature –including at least a one page literature review;
- b) devise an empirical strategy that is (ideally) based in theory; and
- c) discuss 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.)

Evaluation

30% An original proposal/paper. Please submit to both of us a one to three page proposal complete with references (by email and hard copy) in faculty mailboxes by Monday, Feb 1. Feel free to consult either of us informally before that time.

20% 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 (and certainly by Wednesday, Jan 20 at 1pm.) 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.

30%. An empirical project involving a known data set and a set of questions we provide.

20% Class participation and/or final exam. This is a little unusual. We expect you to arrive prepared and to participate in class discussions. If your participation is found to be lacking we reserve the right to examine you in order to determine your final grade.

Readings – Berman Topics (Dahl Readings will arrive separately)

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.

I. Economics of the Family, Fertility and Demographics (Jan. 6)

Background: Ray, Debraj *Development Economics* ch 9, or Weil, David *Economic Growth* (2nd 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" *American Economic Review*, 99(4), September 2009, pp. 1245-1277.

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).

II. The Economics of Religion (Feb. 17)

- * 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, "Club Goods and Group Identity: Evidence from Islamic Resurgence during the Indonesian Financial Crisis" *Journal of Political Economy*, 118(2), 2010.
 - Liang, Wang Choon (2009) "Restricting Secular Education - Prohibition or Sacrifice? Evidence from the Amish," UCSD mimeo, <http://www.econ.ucsd.edu/~lwang/AmishRestriction.pdf>
 - Aimone, Jason, Laurence Iannaccone, Michael Makowsky and Jared Rubin, "Endogenous Group Formation via Unproductive Costs," Chapman U. mimeo, 2011. <http://faculty.fullerton.edu/jrubin/EndogGroup.pdf>
 - Andreoni, James, Abigail Payne, Justin D. Smith, David Karp, "Diversity and Donations: The Effect of Religious and Ethnic Diversity on Charitable Giving," NBER WP #17618, November 2011.
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III. Development and Conflict (Feb. 24)

Note: This material is frequently updated at igcc.ucsd.edu/DACOR

Why violence? Pareto would object.

Fearon, James (1995), Rationalist Explanations for War, *International Organization* 49: pp. 379-414.

Religion and Terrorism

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

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

Skarbeck, David, "Governance and Prison Gangs," *American Political Science Review*, November 2011.

Does Poverty cause Political Violence?

Blattman, Christopher and Edward Miguel. 2010. "Civil War." *Journal of Economic Literature*, 48(1).

Collier, Paul and Anke Hoeffler (2001) "Greed and Grievance in Civil War" <http://econ.worldbank.org/progarms/library>.

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

Lucas Condra "The Perils of the Periphery," UCSD mimeo.

Berman, Eli, Jacob Shapiro and Joseph Felter, "Do Working Men Rebel? Insurgency and Unemployment in Iraq and the Philippines," *Journal of Conflict Resolution* 2011.

Development in Conflict Spaces

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).

* Berman, Eli, Jacob Shapiro and Joseph Felter, "Can Hearts and Minds Be Bought? *Journal of Political Economy*, August 2011.

Berman, Eli, Joseph Felter, Jacob N. Shapiro and Erin Troland. 2013. "Modest, Secure and Informed: Successful Development in Conflict Zones," *American Economic Review Paper and Proceedings*, Vol. 103 No. 3 (May 2013), 512-17..

IV. Labor Demand (March 2)

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.

V. Increased Returns to Skills and Increased Income Inequality (March 9)

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.

Rodrik, Dani, "Unconditional Convergence," NBER WP #17546, October 2011.