


University of California- Santa Barbara  
**Economics 250A: Graduate Labor Economics 1**  
Syllabus

This course provides an introduction to the basic research questions in labor economics at the graduate level. Meetings consist of a combination of lectures and student presentations. Almost all the readings are available in major journals, most of which are available at [http://ucelinks.cdlib.org:8888/sfx\\_ucsb/a-z/default](http://ucelinks.cdlib.org:8888/sfx_ucsb/a-z/default). NBER working papers are available at [www.nber.org](http://www.nber.org). To access both of these electronic resources you will need to be on campus, or to configure your home computer to use the library's proxy server (for instructions see <http://www.library.ucsb.edu/proxy/faq.html>). A few harder-to-find readings are accessible directly from this syllabus via the  [document](#) links. Please contact me if you have trouble finding any reading.

**EVALUATION** in the course will have three components:

**1. Reports and Presentations on Individual Journal Articles (30%).** During the quarter you will be asked to present a number of journal articles to the class. **One week** after your presentation, your written report based on the article is due in my office. Your article report (and your class presentation) should contain:

- a *concise* statement of the author's main goals in writing the paper
- a *brief* summary of how the author goes about achieving those goals (methods, data, etc.)
- a list of *critiques, praise, or questions* you have regarding the adequacy of the methodology
- the *bottom line*: are you convinced that the author has achieved his/her goals? Why or why not?

In sum, article reports are like the referee reports you will write one day for journal editors to assess the publishability of your colleagues' research. I will distribute some sample referee reports I have written (anonymized to protect the authors' identities) to give you an idea of what these look like. Please note: referee reports are typically one to three pages single-spaced but that does not mean they are not the result of a great deal of thought. I will accept slightly longer reports from you: up to **eight pages, double-spaced** but no more please. **Please double-space** them so I can write comments/editing suggestions on them more easily.

For the term, you will owe me three article reports, each of which contributes 10 points toward your final grade in the course. This is divided equally between the quality/clarity of your in-class presentation, and the quality of the written report (which includes style/grammar as well as substance). If for some reason (class size or scheduling) you do fewer than three in-class presentations, you may select any article from the reading list and do a report on it. These reports are due in my office one week after the last day of class, **i.e. by noon, Thursday December 10**. In that case your entire mark will be based on the quality of the written report. If you do more than three in-class presentations, your best three article reports will determine your grade.

**2. Survey paper and presentation (40%).** Starting about halfway through the quarter, each student will take charge of the class's discussion of an entire research topic. Preparing for this will involve reading a number of papers on that topic, choosing a subset of papers that the whole class will be asked to read in preparation for class, presenting your own summary of the literature, and co-ordinating class discussion. At the end of the quarter (again, by **noon, Thursday December 10**) you will turn in a critical literature review paper covering this entire research topic. It will include not only a synthetic discussion of what is currently known about this topic, but a discussion of how the state of knowledge could be advanced by research in the future. At the bottom of this reading list I list several suggested topics that would work well for such a paper (I am happy to entertain others if you approach me about them). In most cases it should be quite clear which section of the reading list is involved; we will schedule precise dates for each student's class leadership later in the quarter. Because this is a big job, I recommend that you choose a topic and start reading the papers associated with that topic **as early as possible in the quarter**.

**3. Take Home Final (30%).** During the quarter a number of simple theoretical models will be presented. Experience shows that students don't really understand these models unless they actually work with them on their own. Thus, to help you understand the models I will periodically distribute practice problems. These will not be handed in or graded, but I will post answers to them and you should compare your answers to mine carefully. In our last class (on **Thursday, December 3**) I will distribute a take-home final containing questions very similar to the practice problems. You will have until **noon on Monday December 7** to work out and write up the answers to these problems. During this period you are free to consult any sources you wish, and to consult with your fellow students. However each student must write up and hand in his/her own version of their answers and will be graded individually.

**TOPICS AND READINGS** are summarized below. I do not expect you to read every one of these articles. Instead I will indicate which articles will be covered in class (including those to be presented by students) a week or so ahead of time; it is important that *all* students read these ahead of time. The remaining articles are provided as an introduction to a vast literature we can't possibly cover completely, and to assist you in future research including your thesis. Finally, students who have not taken any undergraduate labor economics will benefit, from time to time, from a peek at the relevant sections of any undergraduate labor economics textbook. For your convenience, I indicate the relevant sections of Borjas, G., *Labor Economics*, 4<sup>th</sup> edition (Boston: McGraw-Hill Irwin), 2008 in what follows.

## A. LABOR SUPPLY

### 1. The "Classic" Static Labor Supply Model

for undergrad-level background, see Borjas, chapter 2.

Ashenfelter, O. and J. Heckman, "The Estimation of Income and Substitution Effects in a Model of Family Labor Supply," *Econometrica*, January 1974.

Heckman, James., "Shadow Prices, Market Wages, and Labor Supply," *Econometrica*, July 1974.

Borjas, G. "The Relationship between Wages and Weekly Hours of Work: The Role of Division Bias". *Journal of Human Resources* 15(3) (1980): 409-423.

Battalio, R., L. Green and H. Kagel, "Income-Leisure Tradeoffs of Animal Workers" *American Economic Review* 71 (4) (September 1981): 621-632.

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Chiappori, P.-A. (1988), "Rational Household Labor Supply", *Econometrica*, **56**, 63–89.

Kahn, Shulamit, and Kevin Lang. "The Effect of Hours Constraints on Labor Supply Estimates" *Review of Economics and Statistics*. November 1991; 73(4): 605-11

Chiappori, P.-A. (1992), "Collective Labor Supply and Welfare", *Journal of Political Economy*, 100, 437–467.

Chiappori, P.-A. (1997), "Introducing Household Production in Collective Models of Labor Supply", *Journal of Political Economy*, 105, 191–209.

Blundell, R. W., A. Duncan and C Meghir (1998), "Estimating Labor Supply Using Tax Policy Reforms", *Econometrica*, 66, 827–861.

Blundell, R. W. and T. MaCurdy (1999), "Labor Supply: A Review of Alternative Approaches", *Handbook of Labor Economics*, 3, 1560–1695.

Zhang, Junsen. and K. Fong. (2001), "The Identification of Unobservable Independent and Spousal Leisure", *Journal of Political Economy*, 109, 191–202.

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Blundell, R., P.-A. Chiappori, T. Magnac, and C. Meghir. "Collective Labour Supply: Heterogeneity and Non-participation" *Review of Economic Studies*. April 2007; 74(2): 417-45

Bobonis, Gustavo J. "Is the Allocation of Resources within the Household Efficient? New Evidence from a Randomized Experiment". *Journal of Political Economy*, 2009, vol. 117, no. 3

## 2. Life Cycle Labor Supply

### a) Theory and Econometric Studies

for undergrad-level background, see Borjas, pages 70-78.

Heckman, J. and T. E. MaCurdy, "A Life Cycle Model of Female Labor Supply," *Review of Economic Studies*, January 1980, 47-74.

Altonji, J., "Intertemporal Substitution in Labor Supply: Evidence from Micro Data," *Journal of Political Economy*, June 1986.

Blundell, R. W. and I. Walker. (1986), "A Life Cycle Consistent Empirical Model of Labor Supply Using Cross Section Data", *Review of Economic Studies*, **53**, 539-558.

Ham, J., "Testing Whether Unemployment Represents Intertemporal Labor Supply Behaviour", *Review of Economic Studies*, August 1986.

Abowd, J. M. and D. Card, "On the Covariance Structure of Earnings and Hours Changes," *Econometrica* 57, March 1989, 411-446.

Card, D., "Intertemporal Labor Supply: An Assessment," NBER Working Paper No. 3602, January 1991.

Rogerson, Richard, and Peter Rupert. "New Estimates of Intertemporal Substitution: The Effect of Corner Solutions for Year-Round Workers" *Journal of Monetary Economics*. April 1991; 27(2): 255-69

Rogerson, Richard, and Peter Rupert. "On Testing the Intertemporal Substitution Theory of Labor Supply" *Journal of Economic Dynamics and Control*. January-March 1993; 17(1-2): 37-50

Carroll, Christopher D. "How Does Future Income Affect Current Consumption?" *Quarterly Journal of Economics*. Vol. 109 (1). p 111-47. February 1994.

Carroll, Christopher D. "Buffer-Stock Saving and the Life Cycle/Permanent Income Hypothesis". *Quarterly Journal of Economics*. Vol. 112 (1). p 1-55. February 1997.

Mulligan, C. "Substitution Over Time: Another Look at Life Cycle Labor Supply" NBER Working Paper No. W6585, May 1998

Rupert, Peter, Richard Rogerson, and Randall Wright. "Homework in Labor Economics: Household Production and Intertemporal Substitution" *Journal of Monetary Economics*. December 2000; 46(3): 557-79

Carroll, Christopher D. "A Theory of the Consumption Function, with and without Liquidity Constraints". *Journal of Economic Perspectives*. Vol. 15 (3). p 23-45. Summer 2001.

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Rogerson, Richard, and Johanna Wallenius. "Micro and Macro Elasticities in a Life Cycle Model With Taxes" NBER Working Papers: 13017, 2007.

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Attanasio, Orazio, Hamish Low, and Virginia Sanchez-Marcos. "Explaining Changes in Female Labor Supply in a Life-Cycle Model" *American Economic Review* 98(4) (September 2008): 1517-1552.

Kimball, Miles S. and Matthew D. Shapiro. "Labor Supply: Are the Income and Substitution Effects Both Large or Both Small?" NBER Working Paper No. 14208 (July 2008).

Prescott, Edward C., Richard Rogerson and Johanna Wallenius. "Lifetime Aggregate Labor Supply with Endogenous Workweek Length." *Review of Economic Dynamics*. January 2009; 12(1): 23-36

*b) Experiments and Case Studies*

- Camerer, Colin, Linda Babcock, George Loewenstein, and Richard Thaler. 1997. "Labor Supply of New York City Cabdrivers: One Day at a Time." *Quarterly Journal of Economics* 112 (May): 407–41.
- Imbens, G., D. Rubin, and B. Sacerdote, "Estimating the Effect of Unearned Income on Labor Earnings, Savings and Consumption: Evidence from a Survey of Lottery Players" *American Economic Review* 91(4)(September 2001): 778-794.
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- Fehr, Ernst and Lorenz Goette. "Do Workers Work More if Wages are High? Evidence from a Randomized Field Experiment" *American Economic Review* 97(1) (March 2007): 298-317.
- Fuchs-Schundeln, Nicola. "The Response of Household Saving to the Large Shock of German Reunification". *American Economic Review* 98(5) (December 2008): 1798-1828.
- Brown, Alexander, Eric Chua Zhikang, and Colin F. Camerer. "Learning and Visceral Temptation in Dynamic Saving Experiments" *Quarterly Journal of Economics* 124(1) (February 2009): 197-231.
- Kuhn, Peter, Peter Kooreman, Adriaan R. Soetevent, and Arie Kapteyn. "The Own and Social Effects of an Unexpected Income Shock: Evidence from the Dutch Postcode Lottery" (available on my website)

### 3. Principal-Agent Models and Personnel Economics

*a. Overviews*

- Gibbons, R. "Incentives in Organizations". *Journal of Economic Perspectives* 12 (Fall 1998): 115-132.
- Prendergast, C. "The Provision of Incentives in Firms". *Journal of Economic Literature* 37 (March 1999): 7-63.
- Lazear, E. and M. Gibbs. *Personnel Economics in Practice, 2<sup>nd</sup> edition*. Hoboken, N.J: John Wiley and Sons, 2009.
- Lazear, E. and K. Shaw, "Personnel Economics: The Economist's View of Human Resources" *Journal of Economic Perspectives* 21(4) (Fall 2007): 91-114.

*b. The Basic Moral Hazard Problem and the Economics of Piece Rates*

- Harris, M. and A. Raviv, "Some Results on Incentive Contracts with Applications to Education and Employment, Health Insurance and Law Enforcement", *American Economic Review*, March 1978.
- Holmstrom, B. "Moral Hazard and Observability", *Bell Journal of Economics*, Spring 1979.
- Gibbons, R. "Piece Rate Incentive Schemes", *Journal of Labor Economics*, Oct. 1987.
- Gibbons, R. and K. J. Murphy. "Optimal Incentive Contracts in the Presence of Career Concerns: Theory and Evidence". *Journal of Political Economy* 100(3) (June 1992): 468-505.
- Dickinson, David L. An Experimental Examination of Labor Supply and Work Intensities, *Journal of Labor Economics*, 1999, vol. 17, no. 4
- Lazear, E. "Performance Pay and Productivity" *American Economic Review* 90(5) (December 2000): 1346-1361.

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Charness, Gary, Peter Kuhn and Marie-Claire Villeval, "Competition and the Ratchet Effect", unpublished paper, University of California, Santa Barbara, 2009 (available on my website).

#### c. Tournaments

Lazear, E. and S. Rosen, "Rank-Order Tournaments as Optimum Labor Contracts", *Journal of Political Economy*, Oct. 1981.

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#### d. Teams

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Nalbantian, H. and A. Schotter, "Productivity Under Group Incentives: An Experimental Study". *American Economic Review* 87 (3) (1997): 314-41.

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Falk, Armin, Ernst Fehr and Urs Fischbacher. "Driving Forces behind Informal Sanctions" *Econometrica*, Vol. 73, No. 6 (November, 2005), 2017-2030

Boning, Brent, Casey Ichniowski, and Kathryn Shaw "Opportunity Counts: Teams and the Effectiveness of Production Incentives" *Journal of Labor Economics*. October 2007; 25(4): 613-50

Barankay, Iwan, and Oriana Bandiera and Imran Rasul ."Team Incentives: Evidence from a Field Experiment" ; available at: <http://www.management.wharton.upenn.edu/barankay/Documents/teams.pdf>

#### e. Multitask Situations

Holmstrom, B. and P. Milgrom, "Multi-Task Principal-Agent Problems: Incentive Contracts, Asset Ownership, and Job Design", *Journal of Law, Economics and Organization* 7 (Special issue, 1991): 24-52.

Fehr, Ernst, and Klaus M. Schmidt. "Fairness and Incentives in a Multi-Task Principal-Agent Model" University of Munich, discussion paper no. 2004-08, April 30, 2004. [document](#)

Al-Ubaydli, Omar, Steffen Andersen, Uri Gneezy and John List. "For Love or Money? Testing Non-Pecuniary and Pecuniary Incentive Schemes in a Field Experiment" unpublished paper, November 2006.

Oosterbeek,-Hessel; Sloof,-Randolph; Sonnemans,-Joep. "Rent-seeking versus Productive Activities in a Multi-task Experiment" Tinbergen Institute, Tinbergen Institute Discussion Papers: 06-083/1, 2006.

#### 4. Efficiency Wages, Reciprocity, and Gift Exchange

*Overview:* Fehr, Ernst, Lorenz Goette, and Christian Zehnder. "A Behavioral Account of the Labor Market: The Role of Fairness Concerns" unpublished paper, November 2008. forthcoming in: *Annual Review of Economics* 2009.

Akerlof, George and Janet Yellen. Akerlof, G. and J. Yellen (1990), "The Fair-Wage Effort Hypothesis and Unemployment," *Quarterly Journal of Economics*, 105(2): 255-284.

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Fehr, Ernst; Kirchsteiger, Georg; Riedl, Arno "Involuntary unemployment and non-compensating wage differentials in an experimental labour market" *Economic Journal*, Jan96, Vol. 106 Issue 434, p106-121

Fehr, Ernst, Simon Gächter and Georg Kirchsteiger. Reciprocity as a Contract Enforcement Device: Experimental Evidence, *Econometrica*, Vol. 65, No. 4 (Jul., 1997), pp. 833-860.

Fehr,-Ernst; Kirchsteiger,-Georg; Riedl,-Arno "Gift Exchange and Reciprocity in Competitive Experimental Markets" *European-Economic-Review*. January 1998; 42(1): 1-34

Fehr, Ernst, Erich Kirchler, Andreas Weichbold, Simon Gächter. "When Social Norms Overpower Competition: Gift Exchange in Experimental Labor Markets", *Journal of Labor Economics*, 1998, vol. 16, no. 2

Fehr, E. and A. Falk (1999), "Wage Rigidity in a Competitive Incomplete Market," *Journal of Political Economy*, 107(1): 106-134.

Charness, Gary. "Attribution and Reciprocity in an Experimental Labor Market" *Journal of Labor Economics*, 2004, vol. 22, no. 3: 665-688.

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Gneezy, Uri and John List. "Putting Behavioral Economics to Work: Testing for Gift Exchange in Labor Markets Using Field Experiments", *Econometrica*, Vol. 74, 5, September 2006, 1365-1384.

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Abeler, Johannes, Armin Falk, Lorenz Goette, and David Huffman. "Reference Points and Effort Provision", IZA Discussion Paper No. 3939 (January 2009),

## 5. Peer and Network Effects in Work Effort

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Mas, A. and E. Moretti. "Peers at Work" *American Economic Review* 99(1) (March 2009): 112-143.

Carpenter, J. and E. Seki. (2005) "Competitive Work Environments and Social Preferences: Field Experimental Evidence from a Japanese Fishing Community" *BE Journal in Economic Analysis and Policy: Advances* (forthcoming).

Barankay, Iwan, and Oriana Bandiera and Imran Rasul. "Social Incentives in the Workplace", *Review of Economic Studies*, forthcoming. [document](#)

Barankay, Iwan, and Oriana Bandiera and Imran Rasul . "Social Connections and Incentives in the Workplace: Evidence from Personnel Data" *Econometrica*, forthcoming. [document](#)

## 6. Long-Term Trends and International Differences in Work Hours

### a) Real Wage Trends:

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Murphy, Kevin M. and Finis Welch. "The Structure of Wages" *Quarterly Journal of Economics*, February 1992. (pp. 285-326)

Bosworth, Barry, George L. Perry, and Matthew D. Shapiro. "Productivity and Real Wages: Is There a Puzzle?" *Brookings Papers on Economic Activity*, Vol. 1994, No. 1 (1994), pp. 317-344 [document](#)

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Bils, Mark. "Do Higher Prices for New Goods Reflect Quality Growth or Inflation?" *Quarterly Journal of Economics* 114 (2) (May 2009): 637-676.

### b) U.S. Labor Supply Trends—Men and Overall

Juhn, Chinhui. 1992. The decline of male labor market participation: The role of declining market opportunities. *Quarterly Journal of Economics* 107 no. 1 (February) 79-121

Juhn, C. and K. Murphy. 1997. Wage inequality and family labor supply. *Journal of Labor Economics* 15(1), Part 1 no. 1. (January) 72-97.

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*c) U.S. Labor Supply Trends-- Women*

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Bailey, Martha J. "More Power to the Pill: The Impact of Contraceptive Freedom on Women's Life Cycle Labor Supply" *The Quarterly Journal of Economics*, Volume 121, Number 1, February 2006, pp. 289-320(32)

Goldin, C. "The Quiet Revolution that Transformed Women's Employment, Education and Family". NBER working paper no. 11953, January 2006.

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*d) International Differences:*

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Rogerson, Richard. "Structural Transformation and the Deterioration of European Labor Market Outcomes" *Journal of Political Economy* 116(2) (April 2008): 235-259.

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## **7. Incentive Effects of Taxes and Income Support Programs**

### *a. Overviews*

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## **B. LABOR DEMAND AND MARKET EQUILIBRIUM**

### **1. The "Classic" Static Labor Demand Model**

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#### Possible Literature Review Topics

(not an exhaustive list: please feel free to propose other topics,  
but:

**BE SURE TO CHOOSE A TOPIC EARLY IN THE QUARTER)**

1. What has happened to the total amount of work or leisure consumed by Americans over the last 50 years? What explains these changes?
2. Why do Americans work more than Europeans?
3. Do high taxes reduce labor supply?
4. Has U.S. welfare reform reduced welfare dependence? How has it affected poverty among welfare parents and the well being of their children?
5. Review the literature on efficiency wages and 'behavioral' labor supply. How do 'non-economic' factors like perceptions of fairness affect worker effort?
6. What, if anything, do "non-unitary" models of household behavior add to our understanding of households' labor supply and consumption decisions?
7. Is the life cycle labor supply model a useful description of how work behavior varies from year to year and over the lifetime within U.S. households?
8. How do minimum wage laws affect the distribution of wages, the number of jobs, worker incomes and poverty?
9. Do mandated limits on worker overtime create jobs for other workers?
10. What do unions do (to wages, employment, job quality, productivity, and economic efficiency?)
11. Why has wage inequality in the United States increased over the past several decades?
12. How does immigration affect the wages of U.S.-born workers?

13. How has increased international trade and foreign competition affected the wages of U.S. workers?
14. How has outsourcing affected U.S. workers?
15. How has technological progress—in particular, the diffusion of computer and internet technology—affected U.S. workers' wages?
16. How has deregulation of industries affected wages?
17. Do firms insure workers against business cycle risks? Against other risks? If so, has the amount of insurance declined?
18. Has the Americans with Disabilities Act hurt or helped disabled Americans?
19. What is the (statistical) value of a human life, and can it be accurately inferred from the study of labor markets?
20. How does employee health insurance interact with labor markets? Does it cause “job lock”? Given what we know about health insurance and the labor market, how would a move to national health insurance affect labor markets?
21. What has happened to employer pension coverage among U.S. workers? Have the predominant types of pension plans changed? Why?
22. Theoretically, how can labor economists model a promotion? Review and contrast some of the main models of workers' careers, and the empirical evidence relevant to these models.
23. How long does it take the typical immigrant to the U.S. to “catch up” to native-born workers' wages? Does it take several generations? Has the time to catch up changed over the past several decades?
24. Are recent immigrants to the U.S. less “able” than earlier cohorts? Should we care?
25. What explains the wage gap between black and white Americans?
26. Why do Hispanic Americans earn lower wages?
27. What are the costs and benefits of Affirmative Action for racial minorities?
28. What explains the gender wage gap, and its recent narrowing?
29. What is known about the labor market effects of sexual orientation?
30. What are the costs and benefits of comparable worth pay policy and/or mandated family leave policy for women?
31. Has job security and/or the practice of lifetime employment declined in the United States? How does the U.S. compare with other countries in this area?
32. What are the short-and long-term consequences of displacement in the U.S. labor market and how to these compare to other countries?
33. Do financial work incentives sometimes ‘crowd out’ monetary incentives? If so, under what circumstances?
34. Compare estimates of labor supply behavior from laboratory versus field experiments.
35. What do economists know about the effects of the Internet on labor market matching efficiency and the unemployment rate?
36. Are different elasticities of labor supply to the firm a promising explanation of the gender wage gap?
37. Why does the U.S. not have private unemployment insurance? What would an “optimal” public unemployment insurance plan look like? (see Chetty JPE 2008 and Shimer-Werning AER 2008)
38. What light, if any, can laboratory and field experiments shed on the source of the gender wage gap in the United States?
39. What are the effects of strong employment protection laws (EPLs) on worker turnover, sectoral reallocation, unemployment rates, and other outcomes?