

University of Colorado -- Boulder
Department of Economics

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Economics 8686
Syllabus and Schedule
1 May 2007

Syllabus

Welcome. I am Prof. Jeffrey S. Zax. This is Economics 8686, Labor Economics 2. The objective of this course is to prepare the student for original research in areas of labor demand, as well as in economics more generally. This course will explore static and dynamic models of labor demand, job matching and job hierarchies, wage inequality, employment change, discrimination in the labor market, the composition of compensation, the balance between authority and participation in the workplace, the economics of unions, and the macroeconomics of labor markets. Prerequisites are a previous graduate course in microeconomic theory and some previous exposure to econometric analysis.

The material to be mastered in this course is contained in the lectures and assigned readings. The syllabus, any assignments and readings that are difficult to access elsewhere will be available, typically in .pdf format, at the course website, www.colorado.edu/Economics/Zax/Econ8686.

This class will meet on Tuesdays and Thursdays from 9:30 a.m. to 10:45 a.m. in Hellems 220. I will hold regular office hours between 2:00 p.m. and 3:30 p.m. on Tuesdays and Thursdays in my office, Economics 111. Appointments can be made for meetings at other times.

Performance in this class will be judged on the basis of several instruments. The final examination for the course is scheduled to take place on Wednesday, 9 May, from 10:30 a.m. to 1:00 p.m. It will be worth 150 points. Any student who has three final examinations scheduled on 9 May and wishes to reschedule the final examination in this course must meet with me immediately.¹ A midterm examination will take place following section III, on approximately Tuesday, 6 March. It will be worth 75 points.

In addition, all students will complete two short term papers, each outlining possible research projects. The first, due on 22 February, must be no longer than three pages, and is worth 25 points. The second, due on 19 April, must be no longer than five pages, and is worth 50 points.

¹ University policies regarding multiple final examinations on the same day are available at http://www.colorado.edu/policies/final_exam.html. They stipulate that examinations scheduled after the first two on any day may be rescheduled.

The course as a whole, then, is valued at 300 points. The score attained by each student, evaluated relative to the score that would be attained by an intelligent doctoral student of labor economics, will determine final letter grades.

Tentative schedule

I.	Demand	
	A. Static models of labor demand	16, 18, 23, 25, 30 January
	B. Dynamic models of labor demand	1, 6 February
	C. Job matching and career evolution	8, 13 February
II.	Wages	
	A. Wage and earnings inequality	15, 20 February
	B. The composition of compensation	22 February
	C. Incentives	27 February, 1 March
	Midterm Examination	6 March
III.	Employment and job stability	8, 13 March
IV.	Power	
	A. Labor market discrimination	3, 5 April
	B. Authority and structure	10 April
	C. Participation and productivity	12, 17 April
	D. Division of the surplus	19 April
	E. The economics of unions	24 April
V.	Happiness	26 April
VI.	Labor economics and macroeconomics	1, 3 May

Reading list

I.A. Static models of labor demand

Intrilligator, Michael D., Mathematical Optimization and Economic Theory, Chapter 8.

Bresnahan, Timothy F., Erik Brynjolfsson and Lorin M. Hitt (2002) “Information technology, workplace organization, and the demand for skilled labor: Firm-level evidence”, Quarterly Journal of Economics, Vol. 117, No. 1, February, 339-376.

Pencavel, John, Luigi Pistaferri and Fabiano Schivardi (2006) “Wages, employment, and capital in capitalist and worker-owned firms”, Industrial and Labor Relations Review, Vol. 60, No. 1, October, 23-44.

Teulings, Coen N. (2005) “Comparative advantage, relative wages, and the accumulation of human capital”, Journal of Political Economy, Vol. 113, No. 2, April, 425-461.

I.B. Dynamic models of labor demand

Devereux, Paul J. (2000) “Task assignment over the business cycle”, Journal of Labor Economics, Vol. 18, No. 1, January, 98-124.

Pfann, Gerard A. (2006) “Downsizing and heterogeneous firing costs”, Review of Economics and Statistics, Vol. 88, No. 1, February, 158-170.

Varejao, Jose and Pedro Portugal (2007) “Employment dynamics and the structure of labor adjustment costs”, Journal of Labor Economics, Vol. 25, No. 1, January, 137-165.

I.C. Job matching and career evolution

Delacroix, Alain and Shouyong Shi (2006) “Directed search on the job and the wage ladder”, International Economic Review, Vol. 47, No. 2, May, 651-699.

Dohmen, Thomas J. (2004) “Performance, seniority, and wages: formal salary systems and individual earnings profiles”, Labour Economics, Vol. 11, No. , December, 741-763.

Gibbons, Robert and Michael Waldman (2006) “Enriching a theory of wage and promotion dynamics inside firms”, Journal of Labor Economics, Vol. 24, No. 1, January, 59-107.

Pekkarinen, Tuomas and Juhana Vartiainen (2006) “Gender differences in promotion on a job ladder: Evidence from Finnish metalworkers”, Industrial and Labor Relations Review, Vol. 59, No. 2, January, 285-301.

II.A. Wage and earnings inequality

Acemoglu, Daron (1999) “Changes in unemployment and wage inequality: An alternative theory and some evidence”, The American Economic Review, Vol. 89, No. 5, December, 1259-1278.

Baker, Michael and Gary Solon (2003) “Earnings dynamics and inequality among

Canadian men, 1976-1992: Evidence from longitudinal income tax records”, Journal of Labor Economics, Vol. 21, No. 2, April, 289-321.

Card, David and John E. DiNardo (2002) “Skill-biased technological change and rising wage inequality: Some problems and puzzles”, Journal of Labor Economics, Vol. 20, No. 4, October, 733-783.

Costrell, Robert M. and Glenn C. Loury (2004) “Distribution of ability and earnings in a hierarchical job assignment model”, Journal of Political Economy, Vol. 112, No. 6, December, 1322-1363.

II.B. Composition of compensation

Baicker, Katherine and Amitabh Chandra (2006) “The labor market effects of rising health insurance premiums”, Journal of Labor Economics, Vol. 24, No. 3, July, 609-634.

Lang, Kevin and Sumon Majumdar (2004) “The pricing of job characteristics when markets do not clear: Theory and policy implications”, International Economic Review, Vol. 45, No. 4, November, 1111-1128.

Pierce, Brooks (2001) “Compensation inequality”, The Quarterly Journal of Economics, Vol. 116, No. 4, November, 1493-1525.

II.C. Incentives

Bandiera, Oriana, Iwan Barankay and Imran Rasul (2005) “Social preferences and the response to incentives: Evidence from personnel data”, Quarterly Journal of Economics, Vol. 120, No. 3, August, 917-962.

Benabou, Roland and Jean Tirole (2003) “Intrinsic and extrinsic motivation”, Review of Economic Studies, Vol. 70, No., July, 489-520.

Carmichael, H. Lorne and W. Bentley MacLeod (2000) “Worker cooperation and the ratchet effect”, Journal of Labor Economics, Vol. 18, No. 1, January, 1-19.

de Meza, David and Clive Southey (1999) “Too much monitoring, not enough performance pay”, The Economic Journal, Vol. 109, Issue 454, March, C126-C139.

Prendergast, Canice (2002) “Uncertainty and incentives”, Journal of Labor Economics, Vol. 20, No. 2, Part 2, April, S115-S137.

III. Employment and job stability

Abowd, John M., Patrick Corbel and Francis Kramarz (1999) “The entry and exit of workers and the growth of employment: An analysis of French establishments”, The Review of Economics and Statistics, Vol. 81, No. 2, May, 170-187.

Lentz, Rasmus and Dale T. Mortensen (2005) “Productivity growth and worker reallocation”, International Economic Review, Vol. 46, No. 3, August, 731-749.

Maurin, Eric and David Thesmar (2004) “Changes in the functional structure of firms and the demand for skill”, Journal of Labor Economics, Vol. 22, No. 3, July, 639-664.

Neumark, David, Daniel Polsky and Daniel Hanson (1999) “Has job stability declined Yet? New evidence for the 1990s”, Journal of Labor Economics, Vol. 17, No. 4, Part 2, October, S29-S64.

IV.A. Labor market discrimination

Acemoglu, Daron and Joshua D. Angrist (2001) “Consequences of employment protection? The case of the Americans with Disabilities Act”, Journal of Political Economy, Vol. 109, No. 5, October, 915-957.

Antecol, Heather and Kelly Bedard (2004) “The racial wage gap: The importance of labor force attachment differences across Black, Mexican, and White men”, Journal of Human Resources, Vol. 39, No. 2, Spring, 564-583.

Blume, Lawrence E. (2006) “The dynamics of statistical discrimination”, Economic Journal, Vol. 116, Issue 515, November, F480-F498.

Card, David and Thomas Lemieux (1994) “Changing wage structure and black-white wage differentials”, American Economic Review, Vol. 84, No. 2, May, 29-33.

Goldin, Claudia and Cecilia Rouse (2000) “Orchestrating impartiality: The impact of ‘blind’ auditions on female musicians”, American Economic Review, Vol. 90, No. 4, September, 715-741.

Mailath, George J., Larry Samuelson and Avner Shaked (2000) “Endogenous inequality in intergrated labor markets with two-sided search”, The American Economic Review, Vol. 90, No. 1, March, 46-72.

IV.B. Authority and structure

Falk, Armin and Michael Kosfeld (2006) “The hidden costs of control”, American

Economic Review, Vol. 96, No. 5, December, 1611-1630.

Ortin-Angel, Pedro and Vicente Salas-Fumas (2002) “Compensation and span of control in hierarchical organizations”, Journal of Labor Economics, Vol. 20, No. 4, October, 848-876.

Rajan, Raghuram G. and Julie Wulf (2006) “The flattening firm: Evidence from panel data on the changing nature of corporate hierarchies”, Review of Economics and Statistics, Vol. 88, No. 4, November, 759-773.

Rajan, Raghuram G. and Luigi Zingales (2001) “The firm as a dedicated hierarchy: A theory of the origins and growth of firms”, Quarterly Journal of Economics, Vol. 116, No. 3, August, 805-851.

IV.C. Participation and productivity

Che, Yeon-Koo and Seung-Weon Yoo (2001) “Optimal incentives for teams”, The American Economic Review, Vol. 91, No. 3, June, 525-541. Available as .pdf file via Chinook.

Hamilton, Barton H., Jack A. Nickerson and Hideo Owan (2003) “Team incentives and worker heterogeneity: An empirical analysis of the impact of teams on productivity and participation”, The Journal of Political Economy, Vol. 111, No. 3, June, 465-497.

Ichniowski, Casey, Kathryn Shaw and Giovanna Prennushi (1997) “The effects of human resource management practices on productivity: A study of steel finishing lines” The American Economic Review, Vol. 87, No. 3, June, 291-313.

Olsen, Trond E. and Gaute Torsvik (2000) “Discretion and incentives in organizations”, Journal of Labor Economics, Vol. 18, No. 3, July, 377-404.

IV.D. Division of the surplus

Arai, Mahmood (2003) “Wages, profits, and capital intensity: Evidence from matched worker-firm data”, Journal of Labor Economics, Vol. 21, No. 3, July, 593-618.

Budd, John W., Jozef Konings and Matthew J. Slaughter (2005) “Wages and international rent sharing in multinational firms”, Review of Economics and Statistics, Vol. 87, No. 1, February, 73-84.

Guiso, Luigi, Luigi Pistaferri and Fabiano Schivardi (2005) “Insurance within the firm”, Journal of Political Economy, Vol. 113, No. 5, October, 1054-1087.

Stole, Lars A. and Jeffrey Zweibel (1996) “Intra-firm bargaining under non-binding contracts”, Review of Economic Studies, Vol. 63, No. 1, July, 375-410.

IV.E. The economics of unions

Booth, Alison L. And Mark L. Bryan (2004) “The union membership wage-premium puzzle: Is there a free rider problem?”, Industrial and Labor Relations Review, Vol. 57, No. 3, April, 402-421.

DiNardo, John and David S. Lee (2004) “Economic impacts of new unionization on private sector employers”, Quarterly Journal of Economics, Vol. 119, No. 4, November, 1383-1441.

Magnani, Elisabetta and David Prentice (2003) “Did globalization reduce unionization? Evidence from U.S. manufacturing”, Labour Economics, Vol. 10, No. 6, December, 705-726.

Palokangas, Tapio (2003) “The political economy of collective bargaining”, Labour Economics, Vol. 10, No. 2, April, 253-264.

Petrakis, Emmanuel and Minas Vlassis (2000) “Endogenous scope of bargaining in a union – oligopoly model: When will firms and unions bargain over employment?”, Labour Economics, Vol. 7, No. 3, May, 261-281.

V. Happiness

Easterlin, Richard A. (2001) “Income and happiness: Towards a unified theory”, Economic Journal, Vol. 111, Issue 473, July, 465-484.

Frijters, Paul, John P. Haisken-DeNew and Michael A. Shields (2004) “Money does matter! Evidence from increasing real income and life satisfaction in East Germany following reunification”, American Economic Review, Vol. 94, No. 3, June, 730-740.

Hamermesh, Daniel S. (2001) “The changing distribution of job satisfaction”, Journal of Human Resources, Vol. 36, No. 1, Winter, 1-30.

Luttmer, Erzo F. P. (2005) “Neighbors as negatives: Relative earnings and well-being”, Quarterly Journal of Economics, Vol. 120, No. 3, August, 963-1002.

VI. Labor economics and macroeconomics

Mocan, H. Naci (1999) "Structural unemployment, cyclical unemployment, and income inequality", The Review of Economics and Statistics, Vol. 81, No. 1, February, 122-134.

Raum, Oddbjorn and Knut Roed (2006) "Do business cycle conditions at the time of labor market entry affect future employment prospects?", The Review of Economics and Statistics, Vol. 88, No. 2, May, 193-210.

Books of which you should be aware

Ashenfelter, Orley and Richard Layard (1986) Handbook of Labor Economics, Volumes 1 and 2, North-Holland.

Ashenfelter, Orley and David Card (1999) Handbook of Labor Economics, Volumes 3a, 3b and 3c, North-Holland.

Becker, Gary S. (1971) The Economics of Discrimination, Second Edition, Chicago University Press.

Becker, Gary S. (1993) Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education, Third Edition, Chicago University Press.

Blanchflower, David G. and Andrew J. Oswald (1994) The Wage Curve, Massachusetts Institute of Technology Press, Cambridge.

Cahuc, Pierre and Andre Zylberberg (2004) Labor Economics, The MIT Press, Cambridge.

Davis, Steven J., John C. Haltiwanger and Scott Schuh (1996) Job Creation and Destruction, Massachusetts Institute of Technology Press, Cambridge.

Freeman, Richard B. and James L. Medoff (1984) What do Unions Do?, Basic Books, New York.

Hamermesh, Daniel S. (1993) Labor Demand, Princeton University Press, Princeton.

Hirschman, Albert O. (1970) Exit, Voice and Loyalty, Harvard University Press, Cambridge.

Lazear, Edward P. (1995) Personnel Economics, Massachusetts Institute of Technology Press, Cambridge.

Policies

The University adheres to the standards for student privacy rights and requirements as stipulated in the Federal Rights and Privacy Act (FERPA) of 1974.² Campus policy regarding disabilities requires that faculty adhere to the recommendations of Disability Services. In addition, campus policy regarding religious observances requires that faculty make every effort to reasonably and fairly accommodate all students who, because of religious obligations, have conflicts with scheduled examinations, assignments or required attendance. Any student eligible for and needing academic adjustments or accommodations because of disability or religious practice must arrange to meet with me immediately. Those with disabilities should immediately submit a letter from Disability Services describing appropriate adjustments or accommodations.³

Students and faculty share responsibility for maintaining an appropriate learning environment. Students who fail to adhere to appropriate behavioral standards may be subject to discipline. Faculty have the professional responsibility to treat students with understanding, dignity and respect, to guide classroom discussion and to set reasonable limits on the manner in which students express opinions.⁴

All students of the University of Colorado at Boulder are responsible for knowing and adhering to this institution's policy regarding academic integrity. Cheating, plagiarism, assistance to acts of academic dishonesty, fabrication, lying, bribery, and threatening behavior are examples of behaviors that violate this policy. All incidents of academic misconduct shall be reported to the Honor Code Council. Students who are found to be in violation of the academic integrity policy will be subject to both academic sanctions from the faculty member and non-academic sanctions, including but not limited to university probation, suspension, or expulsion.⁵

² A summary is available at http://registrar.colorado.edu/regulations/ferpa_guide.html.

³ University policies regarding disabilities are available at www.colorado.edu/disabilityservices. Disability Services can be contacted by telephone at 303-492-8671, or in person at Willard 322. Policies regarding religious practice are available at www.colorado.edu/policies/fac_relig.html.

⁴ University policies regarding classroom behavior are available at www.colorado.edu/policies/classbehavior.html and at www.colorado.edu/studentaffairs/judicialaffairs/code.html#student_code

⁵ The Honor Code Council can be contacted by email at honor@colorado.edu or by telephone at 303-725-2273. Additional information regarding the University Honor Code is available at www.colorado.edu/policies/honor.html and at www.colorado.edu/academics/honorcode/