LABOR ECONOMICS 250B  
UCSD  
PROFESSORS ELI BERMAN AND JULIAN BETTS  
Winter 2005  
COURSE OUTLINE

The course will provide a blend of theoretical labor economics and applied research. The three main themes will be labor supply, labor demand, and wage and employment determination. There will also be a fairly heavy methodological emphasis. 250A is NOT a prerequisite for 250B.

We will cover three broad themes:
A The Supply Side of the Labor Market (Including Education and Training)  
B Theories of Unemployment and Empirical Evidence on Unemployment  
C Labor Demand  
D Increased Returns to Skills and Increased Income Inequality

Professor Betts will teach topics A and B and Professor Berman will teach topics C and D.

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 or its predecessor 236B, because there we covered many of the empirical methods that we will use in this course. If you are unsure please consult the 250A course syllabus at http://weber.ucsd.edu/~jbetts/250A%202004.html and discuss with either of us if there are holes in your knowledge of the relevant empirical methods.

You are required to write your own term paper, on a subject in labor economics of your choosing. There will also be a final exam. You are also expected to attend and participate actively in all classes.

There will be no classes on Monday 1/17 or Monday 2/17 (UCSD holidays) or on Wed. 1/26.

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 in class. (You should also feel free to consult either of us more informally before that time.) Most likely you will choose to write a 15-25 page literature review of a topic in labor economics. Ideally this literature review would also include suggestions for future research. Alternatively you could initiate or continue an applied project. Some of you may have initiated more empirically oriented projects in 250A. You are welcome to continue with that work in this course, but you must clear this with us and provide us with a copy of the final version of the paper(s) you prepared for
those classes, along with a clear statement of how you will extend that analysis. However, we do not encourage you to develop an empirical project from scratch just for this course, due to the severe time limitations. A third alternative, for those of you taking the 3rd year paper course, is to extend your 3rd year literature review in a new direction. A fourth alternative is to take an existing paper you have written in a closely related field such as public economics and propose to us how you will extend it. Again, please provide us with a copy of the paper in pdf or hardcopy and a plan for extending your work.

45% A final draft of your paper. Due: In class on Wednesday of week 10 (March 9). Please bring two copies. There will be no extensions beyond the end of quarter, and papers submitted after March 9 will lose 5 percentage points (out of 50) per day late.

50% A three-hour final exam in finals week.

Readings

We provide a detailed reading list later in this syllabus. A very useful supplementary graduate text on labor economics (the only one we know of) is available at the bookstore:


Office Hours

Professor Betts will hold office hours Mondays 9:30-10:30 throughout the quarter.

Professor Berman’s hours will be announced at a later date.
A More Detailed Agenda:

A. The Supply Side of the Labor Market

1) The Quantity of Labor Supplied

   i) Static Labor Supply -- Theory and Estimation
   
   ii) Dynamic Labor Supply -- Theory and Basic Estimation
   
   iii) Using Non-linear Budget Constraints Induced by Taxes and Subsidies to Estimate Labor Supply Responses
   
   iv) Pensions and Retirement
   
   v) Health Insurance and Labor Supply

2) The Quality of Labor Supplied: Human Capital

   a) The Economics of Education

      i) Human Capital Theory
      
      ii) Econometric Techniques For Estimating The Returns To Education
          a) Standard Approach
          b) Heckman Selectivity Correction
          c) IV Methods
          d) Fixed Effect Methods
      
      iii) Human Capital Versus Signaling
          a) A Review of the Signaling Model
          b) Empirical Evidence

      iv) The Determinants of School Quality
          a) Literature Review on School Inputs and Student Outcomes
          b) Recent Findings
          c) Peer Groups and Ability Grouping
          d) School Choice and School Competition
          e) School Standards and Accountability

      v) Postsecondary School Quality

   b) On-the-Job Training

   c) Government Training Programs
B. Theories of Unemployment and Empirical Evidence on Unemployment

1) An Overview Of Different Theoretical Explanations and Evidence
   a) Efficiency Wages
   b) Minimum Wages And Unemployment
   c) Insider-Outsider/Hysteresis Theories
   d) Sectoral Shifts

2) Empirical Evidence on the Incidence and Duration of Unemployment
   a) Gross Job Flows
   b) Unemployment Insurance and the Duration of Unemployment

C. Labor Demand

   Static Models
   Empirical Applications of Static Models
   Dynamic Models
   Equilibrium with Heterogeneous Labor
   Immigration

D. Increased Returns to Skills and Increased Income Inequality

   The basic facts on quantities and prices
     Race
     International Evidence
     Historical Perspective
     Basic Human Capital Theory
   Trade as an Explanation
   Skill Biased Technological Change as an Explanation
   Human Capital and Technological Change in Growth Models
Papers preceded by an asterisk (*) represent key papers that we will focus on extensively in class. Please let us know of any incorrect references in the attached reading list.

The readings for sections C and D to be taught by Professor Berman may be updated before he begins teaching in week 7 or 8.
READING LIST

A. The Supply Side of the Labor Market

1) The Quantity of Labor Supplied

   a) Labor Supply


   i) Static Labor Supply -- Theory and Estimation


   ii) Dynamic Labor Supply -- Theory and Basic Estimation


iii) Using Non-linear Budget Constraints Induced by Taxes and Subsidies to Estimate Labor Supply Responses


iv) Pensions and Retirement


v) Health Insurance and Labor Supply


2) The Quality of Labor Supplied: Human Capital
   a) The Economics of Education

   i) Human Capital Theory


ii) Econometric Techniques For Estimating The Returns To Education

a) Standard Approach

b) Heckman Selectivity Correction


c) IV Methods


d) Fixed Effect Methods


* Ashenfelter, Orley and Alan Krueger (1994), "Estimates of the Economic Return to Schooling from a New Sample of Twins", *American Economic Review* (December).  (Note: This paper uses both instrumental variables and fixed effects.)


iii) Human Capital Versus Signaling

a) A Review of the Signaling Model


b) Empirical Evidence


**iv) The Determinants Of School Quality**

**a) Literature Review on School Inputs and Student Outcomes**


**b) Recent Findings**


See also the November 1996 issue of *Review of Economics and Statistics* for a Symposium on School Quality and Educational Outcomes.


c) Peer Groups and Ability Grouping


Lazear, Edward (2001), “Educational Production”, *Quarterly Journal of Economics*, August (116:3). This paper is also available as NBER Working Paper 7349. (This paper has as much to say about peers as it does about class size.)


d) School Choice and School Competition


e) School Standards and Accountability

Theoretical Work on Standards


Empirical Evidence


v) Postsecondary School Quality


b) On-the-Job Training


c) Government Training Programs


B. Theories of Unemployment and Empirical Evidence on Unemployment

1) An Overview Of Different Theoretical Explanations and Evidence


a) Efficiency Wages

a) Survey Articles


b) The Shirking Model


c) Other Models

i) Adverse Selection


ii) Turnover Costs


iii) Sociological Explanations


d) Theoretical Objections

i) Two Theoretical Objections to the Shirking Model


ii) A Further Qualification of Both the Shirking and Adverse Selection Models


e) A Review of Empirical Evidence


b) Minimum Wages And Unemployment


c) Insider-Outside/Hysteresis Theories


d) Sectoral Shifts


2) Empirical Evidence on the Incidence and Duration of Unemployment

a) Gross Job Flows


b) Unemployment Insurance and the Duration of Unemployment


The readings for sections C and D to be taught by Professor Berman may be updated before he begins teaching in week 7 or 8.

C. Labor Demand
Static Models

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


Empirical Applications of Static Models
* K. Clark and R. Freeman, "How Elastic is the Demand for Labor?" RESTAT, November 1980, pp. 509-520.


Dynamic Models


Equilibrium with Heterogeneous Labor


**Immigration**


**D. Increased Returns to Skills and Increased Income Inequality**


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.


Race


International Evidence


Historical Perspective


Basic Human Capital Theory


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.


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)


Skill Biased Technological Change as an Explanation


Human Capital and Technological Change in Growth Models

Barro and Sala-I-Martin (1994) Economic Growth
