Labor Economics and Public Policy

MIT Department of Economics
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The course is an introduction to labor economics, emphasizing applied microeconomic theory and empirical analysis. We are especially interested in the link between research and public policy. Topics to be covered include: labor supply and demand, taxes and transfers, minimum wages, immigration, human capital, education production, inequality, discrimination, labor unions, and unemployment.

Course prerequisites

Prerequisites include basic-to-intermediate microeconomics and a course in statistics or econometrics. Also helpful is some experience with statistical computing, ideally using Stata.

Course requirements

In addition to exams and the readings listed below, there are four problem sets, each of which has an empirical component. There are also ungraded review problem sets at the beginning and the end of the course. Students are expected to participate in class discussions. The readings are available online.

Grading is based on the following formula: 10 points for each problem set, 25 points for the midterm, and 35 points for the out-of-class final. Strong class participation, including regular attendance, is worth 10 bonus points.

Required text

G. Borjas, Labor Economics, 7th Edition, McGraw-Hill, 2016. (This differs little from earlier editions, which you may also use, though watch for changes in chapter and section numbers).

Optional and supplementary texts

Econometrics


Micro Theory


Labor Topics


Course Outline and readings (articles are on stellar, books are on reserve)

1. Introduction

   Labor market facts and trends


   Borjas, Chapter 1, including the Appendix

   Supply and demand in the labor market: do immigrants take jobs from natives?

   Borjas, Chapter 4


   Empirical methods: regression and differences-in-differences

   Angrist and Krueger (1999), through Section 2.2.2 and Section 2.4.

   MM, Chapters 1, 2, and 5.

2. Labor supply basics

   Borjas, chapter 2.

   Nicholson, chapters 2-5 (math and micro review).

   Deaton and Muellbauer, Chapters 1-4, 11.
Application: welfare and the EITC


Income effects on labor supply


Unemployment and unemployment insurance

Borjas, chapter 12.


3. Additional labor supply topics

A. Life-cycle models

Borjas, section 12.6.

Intertemporal substitution on the road and at the ballpark


B. Home production; the economics of the family

Borjas, Section 9.11.


**Economic effects of changes in family size**


**Empirical methods: instrumental variables**

Angrist and Krueger (1999), Section 2.2.3.

MM, Chapter 3.

4. The demand for labor and demand-side policies

Borjas, chapters 3 and 4.

Nicholson, chapters 9-11.


**Minimum wages**


**International Trade**


5. Human capital, education, and training

Borjas, chapter 6.

**The economic returns to human capital**


School quality and education production


6. Discrimination

Borjas, chapter 9.


**Effects of anti-discrimination policy**


7. The wage structure

Borjas, chapter 7.


8. Unions and bargaining

Borjas, chapter 10.


**Union relative wage effects**
