14.661 Labor Economics I

Staff:
Instructors: Parag Pathak, E52-391C, ppathak@mit.edu; Daron Acemoglu, E51-380B, daron@mit.edu
Teaching fellow: Chris Walters, crwalt@mit.edu

Logistics:
Two lectures per week on Tuesday and Thursday from 10:30-12pm in E51-385
Acemoglu begins on 10/27/2011 and ends 12/14/2011

Description:
This is a graduate course in labor economics, appropriate for PhD students in the Department of Economics and other students with permission of the instructor. Pathak and Acemoglu split the fall semester. In the spring, Professors David Autor and Heidi Williams teach Labor Economics II.

The aim is to acquaint students with traditional topics and to encourage the development of independent research interests. The syllabus contains readings of two sorts. The first will be emphasized in lectures. Other readings may be discussed briefly, but are also listed as a guide to the literature.

Students who are interested in pursuing research in labor economics are strongly encouraged to attend the weekly Labor Economics student workshop, which meets on Tuesdays from 12:00-1:00pm, the joint MIT Labor/Public Finance seminar in the Fall on Mondays from 4-5:30pm, and the Econ-Sloan Applied Microeconomics seminar which meets in the Spring.

A Stellar website has readings, assignments, and recitation material.

Course Materials:
Working labor economists should have easy access to the following resources:


Grading and Requirements:
Your grade in this course depends on three parts: final exam in December covering material from both quarters (40%), 6 problem sets (40%), and an empirical project (20%) involving replication and extension of published work.
Part 1: Labor Supply

- **Static Model**

- **Dynamics**

**Household and family models**

Part 2: Labor Demand

• FOUNDATIONS


• IMMIGRATION


**UNIONS**


**MINIMUM WAGES (NOT COVERED THIS YEAR)**


**Part 3: Human Capital**

**A. BASICS AND ESTIMATING THE RETURNS TO SCHOOLING**


– Angrist, Joshua D., and Daron Acemoglu (2000): “How Large are the External Returns to Education: Evidence from Compulsory Schooling Laws.” NBER Macraannual


**B. Evaluating the Impacts of School Policies on Student Outcomes / Program Evaluation Problem**

– **Instrumental Variables, LATE, and 2SLS**

* Angrist, Joshua D. and Jorn Pischke (2008): Mostly Harmless Econometrics, esp. chs. 2, 4, 5, and 6


---

**REGRESSION DISCONTINUITY DESIGN**


---

**C. SCHOOL CHOICE: STUDENT ASSIGNMENT PROBLEMS**


D. EDUCATION, HOUSING MARKETS, AND RESIDENTIAL SORTING


E. EXTERNALITIES, PEER EFFECTS, AND NETWORKS


SECOND PART -- ACEMOGLU

Books:

Acemoglu, Daron and David Autor, Lectures in Labor Economics, manuscript in preparation.


I. Topics in The Theory of Human Capital

Overview:


A. Investment in Education and Skills

* AA, Chapter 1.

* CZ, Chapter 2.


Solon, Gary “Intergenerational Income Mobility in the United States” American Economic Review v82, n3 (June 1992): 393-408


**B. Signaling**

* AA, Chapter 2.


**C. Externalities and Peer Effects**

* AA, Chapter 3.


II. Incentives, Agency and Efficiency Wages

For an overall overview of this part see:

* Prendergast, Canice (1999) "The Provision of Incentives in Firms" Journal of Economic Literature, 28, 7-63


A. Basic Theory of Moral Hazard and Incentives, and Applications to CEO Pay and Unemployment Insurance

* AA, Chapter 4.

* CZ Chapters 6 and 11.


B. Multitasking and Counter-Productive Incentives

* AA, Chapter 5.


C. Career Concerns


* AA, Chapter 5.


D. Holdups and Investments


* AA, Chapter 6.


### E. Efficiency Wages, Unemployment and Organization of the Firm

* AA, Chapter 7.

* CZ, Chapter 7.

* Carl Shapiro and Joseph Stiglitz (1984);"Unemployment as Worker Discipline Device" American Economic Review,


### III. Investment in Skills
A. Theories of Training

* AA, Chapter 8.


B. Firm-Specific Capital and Learning

* AA, Chapter 9.


**IV. Search and Unemployment**

Overview:

* Pissarides, Christopher; *Equilibrium Unemployment Theory*, MIT Press, 2000


**A. Unemployment, Non-Employment and Labor Market Flows**


* Juhn, Chinhui, Kevin Murphy and Robert H. Topel, (1991) "Why Has the Natural Rate of Unemployment Increased over Time?" Brookings Papers on Economic Activity, 0(2) pp.75-126

OECD (1994); *Jobs Study* Volumes 1 and 2.


**B. The Partial Equilibrium Search Model**

* AA, Chapter 10.

* CZ, Chapter 3.

* Rogerson et al. op. cit.

**C. The Basic Equilibrium Search Framework**
Background: Bargaining theory, see CZ Chapter 7

* AA, Chapter 11.
* Pissarides, chapters 1, 2 and 8.


D. The Composition of Jobs

* AA, Chapter 12.


E. Real Wage Rigidity and Unemployment


F. Nominal Wage Rigidity and Unemployment

* Bewley, Truman (1999), *Why Wages Don’t Fall During a Recession*, Harvard University Press.


V. Political Economy of Labor Markets

(Time permitting)


Hall, Peter and David Soskice (2001, editors), Varieties of Capitalism, Cambridge University Press
