

Labor Economics and Public Policy

MIT Department of Economics
14.64/640/661 Fall 2021

J. Angrist
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This course is an introduction to labor economics, which we explore using microeconomic theory and econometric analysis. The course emphasizes the link between research and public policy. Topics include labor supply and labor demand, taxes and transfers, minimum wages, immigration, human capital, education production, inequality, discrimination, and labor unions. The first half of the course meets with graduate labor economics, 14.661.

TAs: Ahmet Gulek (14.64), Andrea Manera (14.661), and Grace Chuan

Course prerequisites

14.64 prerequisites include a course in microeconomics (14.01 is good, 14.03 ideal) and a course in statistics or econometrics (14.30 is good, 14.32 is best). Problem sets presume familiarity with statistical computing; empirical work for credit is to be done using *Stata*.

Course requirements

Eighty percent of success is showing up – Woody Allen

Classroom work

Two lectures (TTH 10:30-12:00) and weekly recitations (E52-432). Students are expected to come to class prepared to discuss readings and other class material.

Readings and Written work

Select reading assignments (announced weekly) are scored for credit via [Perusall](#), available through our Canvas course site. We also use other LMS tools, including [Piazza](#) and [Gradescope](#).

In addition to exams and the readings listed below, there are four graded problem sets, each of which has a substantial empirical component. Ungraded review problem sets are distributed at the beginning and end of the course.

Grading

You may earn a total of 100 regular points plus 10 participation points. It's possible to get an A without earning participation points. Points are allocated as follows

- Regular points
 - 4 Problems sets (40 points): 10 each
 - Exams (60 points): midterm (25), final exam (35)
- Participation points
 - Attendance (6 points): 24 classes*.25 each
 - Perusall comments: up to 4 points

Texts

G. Borjas, Labor Economics, 8th Edition, McGraw-Hill, 2020. This differs little from earlier editions, though watch for changes in chapter and section numbers.

J. Angrist and J.S. Pischke, Mastering 'Metrics, Princeton University Press, 2015 (MM).

Readings are also drawn from:

J. Angrist and A. Krueger, "Empirical Strategies in Labor Economics," Chapter 23 in O. Ashenfelter and D. Card, eds., The Handbook of Labor Economics, Volume III, North Holland, 1999 (AK99).

W. Nicholson and C. Snyder, Microeconomic Theory: Basic Principles and Extensions, 12th Edition, Cengage, 2016 (intermediate micro review).

A. Deaton and J. Muellbauer, Economics and Consumer Behavior, Cambridge University Press, 1980 (Awesome micro for precocious Course 14 majors).

F. Blau and A. Winkler, The Economics of Women, Men, and Work, 8th Edition, Prentice Hall, 2017 (specializes in family and gender issues; differs little from earlier editions).

K. Lang, Poverty and Discrimination, Princeton University Press, 2007.

Course Outline and Readings by Topic

A. Labor Market Facts, Trends and Theoretical Framework

C. Goldin, "Labor Markets in the 20th Century," *NBER Historical Working Paper No. 8*, (June 1994) (also in *Cambridge Economic History of the US*, 1-85).

C. Romer, "Spurious Volatility in Historical Unemployment Data," *Journal of Political Economy*, 94 [1], February 1986, 1-37.

T. Lemieux, "The Changing Nature of U.S. Wage Inequality," *J. of Population Economics*, (2008).

D. Autor and D. Acemoglu, "Skills, Tasks, and Technologies: Implications for Employment and Warnings," *The Handbook of Labor Economics*, Volume 4b, Elsevier, 2011.

C. Mulligan and Y. Rubinstein, "Selection, Investment and Women's Relative Wages Over Time," *The QJE* 123 (2008).

[Bauer, Dube, Edelberg, and Sojourner](#), "Examining the Uneven and Hard-to-Predict Labor Market Recovery," Brookings, June 3, 2021.

Borjas, Chapter 1, including the Appendix; 2-1 and 2-2

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

Borjas, Chapter 4

G.E. Johnson, "The Labor Market Effects of Immigration," *Industrial and Labor Relations Review* 33 (April 1980).

D. Card, "The Impact of the Mariel Boatlift on the Miami Labor Market," *Industrial and Labor Relations Review* 43 (January 1990).

P. Cortes, "The Effect of Low-Skilled Immigration on US Prices: Evidence from CPI Data," *JPE* 381-422 (2008).

G. Borjas, "The Wage Impact of the *Marielitos*: A Reappraisal," *Industrial and Labor Relations Review*, 70 (2017) (see also the comment by Clemens and Hunt, *ILRR* 2019).

Empirical methods: regression and differences-in-differences

AK99, through Section 2.2.2 and Section 2.4.

MM, Chapters 1, 2, and 5.

B. Labor Supply and Supply-Side Policies

Borjas, chapter 2.

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

Deaton and Muellbauer, Chapters 1-4, 11

Welfare and the EITC

Lang, Chapters 2, 3, and 9.

R. Moffitt, "Welfare Programs and Labor Supply," Chapter 34 in *The Handbook of Public Economics Volume IV*, North-Holland (2002).

O. Ashenfelter and M. Plant, "Non-Parametric Estimates of the Labor Supply Effects of Negative Income Tax Programs," *Journal of Labor Economics*, 8(1) Part 2, S397-S415 (1990).

N. Eissa and J. Liebman, "Labor Supply Response to the Earned Income Tax Credit," *Quarterly Journal of Economics* 111 (May 1996).

R. Blank, "Evaluating Welfare Reform in the United States," *The JEL* 40 (December 2002).

Income effects on labor supply

Imbens, Rubin, and Sacerdote, "Estimating the Effect of Unearned Income on Labor Supply: Evidence from a Survey of Lottery Players," *American Economic Review* 91 (2001).

D. Cesarini, E. Lindqvist, M. Notowidigdo, and R. Östling, "The Effect of Wealth on Individual and Household Labor Supply: Evidence from Swedish Lotteries," *American Economic Review*, 107 (2017).

Unemployment and unemployment insurance

Borjas, chapter 12.

O. Ashenfelter, "What is Involuntary Unemployment?" *Proceedings of the American Philosophical Society* 122:135-138 (June 1978).

B. Meyer, "Unemployment Insurance and Unemployment Spells," *Econometrica* 58: 757-782 (1990).

S. Woodbury and R. Spiegelman, "Bonuses to Workers and Employers to Reduce Unemployment: Randomized Trials in Illinois," *American Economic Review* 77, 513-530 (September 1987).

D. Autor and M. Duggan, "The Rise in the Disability Rolls and the Decline in Unemployment," *Quarterly Journal of Economics* (February 2003).

C. Additional Labor Supply Topics

1. *Home Production; The Economics of the Family*

R. Gronau, "Leisure, Home Production and Work -- The Theory of the Allocation of Time Revisited," *Journal of Political Economy* 85 (Dec 1977).

Borjas, Section 9.11.

Blau, et al. (2013), Chapters 3 and 4.

T. Hofmarcher and E. Plug, "Specialization in Same-sex and Different-sex Couples," IZA Discussion Paper No. 14709, September 2021.

J. Gelbach, "Public Schooling for Young Children and Maternal Labor Supply," *The AER* 92, (March 2002).

Economic effects of changes in family size

J. Angrist and W. Evans, "Children and Their Parents' Labor Supply: Evidence from Exogenous Variation in Family Size," *American Economic Review*, 88 (June 1998).

J. Angrist, V. Lavy, and A. Schlosser, "New Evidence on the Causal Link between the Quantity and Quality of Children," *The Journal of Labor Economics* (October 2010).

C. Goldin and L.F. Katz, "The Power of the Pill: Oral Contraceptives and Women's Career and Family Decisions," *The JPE* 110 (2002).

Empirical methods: instrumental variables

AK99, Section 2.2.2.

MM, Chapter 3.

2. *Life-cycle models*

Borjas, section 2-13, 12.6.

Intertemporal substitution at work

E. Fehr and Goette, "Do Workers Work More if Wages are High? Evidence from a Randomized Field Experiment," *American Economic Review* (March 2007).

Oettinger, Gerald S., "An Empirical Analysis of the Daily Labor Supply of Stadium Vendors," *Journal of Political Economy*, 107(2), 360-92 (April 1999).

A. Mas and A. Pallais, "Valuing Alternative Work Arrangements," *The AER* (2017)

A. Mas and A. Pallais, "Labor Supply and the Value of Non-Work Time: Experimental Estimates from the Field," *American Economic Review: Insights*, 1 (2019).

J. Angrist, S. Caldwell, and J. Hall, "Uber vs, Taxi: A Driver's Eye View," *American Economic Journal: Applied Economics* 13 (July 2021).

(more advanced LCLS theory/metrics)

T. MaCurdy, "An Empirical Model of Labor Supply in a Life-Cycle Setting," *Journal of Political Economy*, 89[6], December 1981, 1059-1085.

J. Altonji, "Intertemporal Substitution in Labor Supply: Evidence from Micro Data," *Journal of Political Economy*, 94[3] Part 2, June 1986, S176-S215.

J. Angrist, "Grouped-Data Estimation and Testing in Simple Labor Supply Models," *Journal of Econometrics*, 47[2], 1991, 243-266.

D. Card, "Intertemporal Labor Supply: An Assessment," in C. Sims, ed., Advances in Econometrics Sixth World Congress, vol. II, Cambridge University Press, 1994, 49-78.

3. *Efficiency Wages and Performance Pay*

Borjas, Chapter 11.

A. Krueger, "Ownership, Agency, and Wages: An Examination of the Fast Food Industry," *The QJE* 106 (February 1991).

E. Lazear, "Performance Pay and Productivity," *The AER* 90 (December 2000).

D. Labor Demand and Demand-Side Policies

Borjas, Chapters 3 and 4.

Nicholson and Snyder, chapters 9-11.

J. Angrist, "Short-Run Demand for Palestinian Labor," *Journal of Labor Economics* (July 1996).

D. Hamermesh, "The Demand for Labor in the Long Run," *The HOLE*, Volume I, 1986.

Card (2022) AEA Pres address – who sets your wages?

Minimum wages and market structure

D. Card and A. Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *American Economic Review* 84, 772-93 (September 1994).

D. Cengiz, A. Dube, A. Lindner, and B. Zipperer, "The Effect of Minimum Wages on Low-Wage Jobs," *The Quarterly Journal of Economics* (2020).

Trade and the labor market

D. Autor, "Trade and Labor Markets: Lessons from China's Rise," *IZA World of Labor*, (February 2018).

D. Autor, D. Dorn, G. Hanson, "The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade," *Ann. Rev. of Economics*, 205-40 (2016).

Automation

D. Autor, "Why Are There Still So Many Jobs? The History and Future of Workplace Automation," *J. Economic Perspectives* 29, 3-30 (Summer 2015).

D. Acemoglu, D. Autor, J. Hazell, and P. Restrepo, "AI and Jobs: Evidence from Online Vacancies," NBER Working Paper No. 28257 (January 2021).

E. Human Capital [LAST JA MODULE]

Borjas, chapters 6-7; MM, Chapter 6

Griliches (1977) and Card (2001), in *Econometrica*.

Schooling, experience, and earnings

J. Angrist and A. Krueger, "Does Compulsory School Attendance Affect Schooling and Earnings?," *Quarterly Journal of Economics* 106 (November 1991).

J. Angrist, "Lifetime Earnings and the Vietnam-Era Draft Lottery: Evidence from Social Security Administrative Records," *American Economic Review* 80 (June 1990).

P. Martorell and D. Clark, "The Signaling Value of a High School Diploma," *Journal of Political Economy*, 122(2) (April 2014).

School quality and education production

D. Card and A. Krueger, "School Quality and Black-White Relative Earnings: A Direct Assessment," *Quarterly Journal of Economics* 107, February 1992.

F. Welch, "Black-White Differences in Returns to Schooling," *American Economic Review* 63 (December 1973).

A. Krueger, "Experimental Estimates of Education Production Functions," *Quarterly Journal of Economics*, May 1999.

J. Angrist and V. Lavy, "Using Maimonides Rule to Estimate the Effects of Class Size on Academic Achievement," *Quarterly Journal of Economics* (May 1999), 533-575.

J. Angrist, V. Lavy, J. Leder-Luis, and A. Shany, "Maimonides Rule Redux," *AER: Insights* 1, December 2019.

J. Angrist, D. Lang, and P. Oreopoulos, "Incentives and Services for College Achievement: Evidence from a Randomized Trial," *American Economic Journal: Applied Economics* 1 (January 2009).

A. Abdulkadiroglu, J. Angrist, S. Dynarski, T. Kane, and P. Pathak. "Accountability and Flexibility in Public Schools: Evidence from Boston's Charters and Pilots," *The Quarterly Journal of Economics*, 2011, 126(2), 699-748.

S. Dale and A. Krueger, 2002, "Estimating the Payoff to Attending a More Selective College: An Application of Selection on Observables and Unobservables," *Quarterly Journal of Economics*, vol. 117, no. 4, 1491-1527.

A. Abdulkadiroglu, J. Angrist, and P. Pathak. "The Elite Illusion: Achievement Effects at Boston and New York Exam Schools," *Econometrica*, 2014, 82(1), 137-196.

J. Angrist, D. Autor, and A. Pallais, "Marginal Effects of Merit Aid," forthcoming, *The QJE*.

J. Angrist, E. Bettinger, M. Kremer "Vouchers for Private Schooling in Colombia: Evidence from a Natural Experiment," *The AER*, December 2002.

*** Second half ***

F. Social Mobility

Solon, Gary (1992) "Intergenerational Income Mobility in the United States" *American Economic Review*, 82(3): 393-408

- * Chetty, Raj, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez (2014). “Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States,” *Quarterly Journal of Economics*, 129(4): 1553-1623.
- * Chetty, Raj, Nathaniel Hendren, and Lawrence F. Katz: “Effects of Exposure to Better Neighbourhoods on Children: New Evidence from the Moving to Opportunity Experiment” *American Economic Review*, 106(4): 855-902.
- * Ellora Derenoncourt “Can You Move to Opportunity? Evidence to the Great Migration”

Becker, Gary and Nigel Tomes "Human capital and the rise and fall of families," *Journal of Labor Economics* 4, (1986) S1-S39.
- Galor, Oded and Joseph Zeira (1993) “Income Distribution and Macroeconomics.” *Review of Economic Studies*, 60, pp. 35-52.

G. Discrimination

1. Statistical Discrimination

- Aigner, Dennis and Glen Cain (1977) “Statistical Theories of Discrimination on Labor Markets” *Industrial and Labor Relations Review*, 30(2): 175-187
- * Coate, Stephen and Glenn Loury (1993), “Will Affirmative Action Eliminate Negative Stereotypes?” *American Economic Review*, 83(5), 1220-1240.
- Lehmann, J-Y K. (2013), “Job Assignment and Promotion Under Statistical Discrimination: Evidence from the Early Careers of Lawyers” working paper.
- Agan, A. and S. Starr (2018). “Ban the Box, Criminal Records, and Racial Discrimination: A Field Experiment.” *Quarterly Journal of Economics* 133(1): 191-235.
- Arnold, D., W. Dobbie, and C. Yang (2018). “Racial Bias in Bail Decisions.” *Quarterly Journal of Economics* 133(4): 1885-1932.
- * Bohren, J.A., A. Imas, and M. Rosenberg (2019). “The Dynamics of Discrimination: Theory and Evidence.” *American Economic Review*.
- Phelps, E. S. (1972), “The Statistical Theory of Racism and Sexism,” *American Economic Review*, 62(4): 659-661.

Autor, David and David Scarborough (2008), "Does Job Testing Harm Minority Workers? Evidence from Retail Establishments." *Quarterly Journal of Economics*, 123 (February).

Koszegi, Botond, Paul Heidhaus, and Philipp Strack (2020) "Overconfidence and Prejudice," working paper.

2. On-the-job Discrimination and Biased Updating

Glover, Dylan, Amanda Pallais, and William Pariente. 2017. "Discrimination as a Self-Fulfilling Prophecy: Evidence from French Grocery Stores." *QJE*, 132(3): 1219-1260

- * Sarsons, Heather, Klarita Gerxhani, Ernesto Reuben, and Arthur Schram. (2021). "Gender Differences in Recognition for Group Work" *Journal of Political Economy*, 129(1).

Sarsons, Heather "Interpreting Signals in the Labor Market" , working paper.

- * Benson, Alan, Danielle Li, and Kelly Shue (2021) "'Potential' and the Gender Promotion Gap" working paper

Egan, Mark, Gregor Matvos, and Amit Seru. "When Harry Fired Sally: The Double Standard in Punishing Misconduct," *Journal of Political Economy*, forthcoming.

H. Gender

1. Child Penalties and Labor Supply

- * Kleven, Henrik, Camille Landais, and Jakob Sogaard (2019) "Children and Gender Inequality: Evidence from Denmark" *American Economic Journal: Applied Economics*, 11(4): 181-209.

- * Goldin, Claudia and Lawrence Katz (2016) "A Most Egalitarian Profession: Pharmacy and the Evolution of a Family-Friendly Occupation" *Journal of Labor Economics*, 34: 705-746.

To, Linh (2019) "The Signaling Role of Parental Leave" working paper.

Bertrand, Marianne, Claudia Goldin, and Lawrence Katz (2010) "Dynamics of the Gender Gap for Young Professionals in the Financial and Corporate Sectors" 2(3): 228-255.

Correll, Shelley, Stephen Benard, and In Paik (2007) "Getting a Job: Is there Still a Motherhood Penalty?" *American Journal of Sociology*, 112: 1297-1339.

Fernandez-Kranz, Daniel, Aitor Lacuesta, and Nuria Rodriguez-Planas (2013) “The Motherhood Earnings Dip: Evidence from Administrative Records” *Journal of Human Resources*, 48: 169-197.

Lundberg, Shelly and Eliana Rose (2000) “Parenthood and the Earnings of Married Men and Women” *Labour Economics*, 7: 689-710.

2. Norms and Gender Differences in Labor Market Outcomes

* Y. Gallen and M. Wasserman (2021) “Informed Choices: Gender Gaps in Career Advice” working paper

* Bursztyn, Leonardo, Thomas Fujiwara, and Amanda Pallais (2017) “Acting Wife: Marriage Market Incentives and Labor Market Investments” *American Economic Review*, 107(11): 3288-3319.

Bertrand, Marianne, Emir Kamenica, and Jessica Pan (2015) “Gender Identity and Relative Income within Households,” 130(2): 571-614.

Besley, Timothy, Olle Folke, Torben Persson, and Johanne Rickne (2017) “Gender Quotas and the Crisis of the Mediocre Man: Theory and Evidence from Sweden” 107(8): 2204-22042.

Tungodden, Jonas and Alexander Willen (2020) “When Parents Decide: Gender Differences in Competitiveness” working paper

Exley, Christina and Judd Kessler (2021) “The Gender Gap in Self-Promotion” working paper.

Olivetti, Claudia and Barbara Petrongolo (2016) “The Evolution of Gender Gaps in Industrialized Countries” *Annual Review of Economics*, 8: 405-434.

L. Beaman, R. Chattopadhyay, E. Duflo, and P. Topalova (2009) “Powerful Women: Does Exposure Reduce Prejudice?” *Quarterly Journal of Economics*, 124(4):1497-1540.

I. Labor Unions

Borjas, chapter 10.

H. Farber, "Analysis of Union Behavior," Chapter 18 in *The Handbook of Labor Economics*, O. Ashenfelter and R. Layard, eds., North-Holland (1986).

O.C. Ashenfelter and G.E. Johnson, “Bargaining Theory, Trade Unions, and Industrial Strike Activity,” *The American Economic Review* 74, (March 1969).

B. Biasi, “The Labor Market for Teachers under Different Pay Schemes,” *American Economic Journal: Economic Policy* 13 (2021).

B. Biasi and H. Sarsons “Flexible Pay, Bargaining, and the Gender Gap,” *Quarterly Journal of Economics*, forthcoming.

J. Geography and Pay Setting

* Hjort, Jonas, Xuan Li, and Heather Sarsons (2020) “Across-Country Wage Compression in Multinationals” working paper.

Hazell, Jonathon, Christina Patterson, Heather Sarsons, and Bledi Tasks (2021) “National Wages” working paper

* Card, David, Jesse Rothstein, and Moises Yi (2021) “Location, location, location” working paper

Moretti, Enrico (2013) “Real Wage Inequality,” *American Economic Journal: Applied Economics*, 5(1).