

## Labor Economics

MIT (14.661)  
Fall 2017

D. Acemoglu  
J. Angrist

TA: Mateo Montenegro ([mateo\\_m@mit.edu](mailto:mateo_m@mit.edu)) - OH: Tuesday 1-2pm, E52-516

This course aims to acquaint students with traditional and contemporary topics in labor economics and to encourage the development of independent research interests. Prerequisites are intermediate microeconomics and a course in econometrics.

Class requirements: Grades are based on 4 problem sets (10 points each), an empirical project involving replication and extension of published work (30 points), and a 3 hour final during exam week (40 points). In addition, there are two ungraded problem sets, one at the beginning and one at the end of the course.

[LMOD](#) has our readings, assignments, and recitation material.

Articles, handbook chapters will be made available through Stellar. Books are also on reserve. An (M) flags studies done as part of an MIT thesis.

### Second Part - Acemoglu

Cahuc and Zilberberg's *Labor Economics* MIT Press, 2004 is a useful reference. You may also want to consult the lecture notes on my website (Acemoglu, Daron and David Autor, *Lectures in Labor Economics*, Web notes), though these do not cover all our material.

For this part of the syllabus, stars (\*) designate recommended readings.

#### I. Labor Market Externalities

##### A. Non-Pecuniary and Pecuniary Externalities in the Labor Market

Rauch, James E. (1993) "Productivity Gains from Geographic Concentration of Human Capital: Evidence from the Cities" *Journal of Urban Economics* 34, 380-400.

Acemoglu, Daron (1996) "A Microfoundation for Social Increasing Returns in Human Capital Accumulation," *Quarterly Journal of Economics* 111 [3], 779-804.

\* Acemoglu, Daron and Joshua Angrist (2000) "How Large Are The External Returns to Education: Evidence from Compulsory Schooling Laws" NBER Macro Annual 2000.

##### B. Signaling

\* Spence, Michael (1973) "Job Market Signaling" *Quarterly Journal of Economics*, 87(3), 355 – 374.

Stiglitz, Joseph (1986) "The Theory of Screening, Education, and the Distribution of Income" *American Economic Review*, 66, 283 – 300.

Lang, Kevin, and David Kropp (1986) "Human Capital Versus Sorting: The Effects of Compulsory Attendance Laws," *Quarterly Journal of Economics* 101(2), 609-624.

Bedard, Kelly (2001) "Human Capital Versus Signaling Models: University Access and High School Dropouts." *Journal of Political Economy* 109.4, 749 – 775.

\* Tyler, John, Richard J. Murnane and John Willett (2000) "Estimating the Labor Market Signaling value of the GED" *Quarterly Journal of Economics*, 115(2), 431-468.

## II. Social Mobility, Peer Effects and Human Capital

### A. Social Mobility

\* Becker, Gary and Nigel Tomes "Human capital and the rise and fall of families," *Journal of Labor Economics* 4, (1986) S1-S39.

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

Zimmerman, David J. "Regression Toward Mediocrity in Economic Stature" *American Economic Review* v82, n3 (June 1992): 409-29

Mulligan Casey, *Parental Priorities and Economic Inequality*, (1997) University of Chicago Press.

Chetty, Raj, Nathaniel Hendren, Patrick Kline and Emmanuel Saez (2014) "Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility" *American Economic Review: Papers and Proceedings*, 104(5), 141-147.

\* 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" *The Quarterly Journal of Economics*, vol. 129(4), pages 1553-1623.

\* Chetty, Raj, Nathaniel Hendren, and Lawrence F Katz (2016) "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment." *American Economic Review* 106.4, 855 – 902.

Roback, Jennifer (1982) "Wages, Rents and the Quality of Life" *Journal of Political Economy*, 90(6), 1257-1278.

\* Galor, Oded and Joseph Zeira (1993) "Income Distribution and Macroeconomics." *Review of Economic Studies*, 60, pp. 35-52.

\* Benabou, Roland (1993) "Workings of a City: Location, Education and Production", *Quarterly Journal of Economics*, Vol. 108, No. 3, pp. 619-652.

\* Benabou, Roland (1996) "Heterogeneity, Stratification and Growth: Macroeconomic Implications of Community Structure in School Finance" *American Economic Review* Vol. 86, No. 3, pp. 584-609.

Fernandez, Racquel and Richard Rogerson (1996) "Income Distribution, Communities and the Quality of Public Education," *Quarterly Journal of Economics* 111(1), 135-164.

Hoxby, Caroline (1996) "Are Efficiency and Equity in School Finance Substitutes or Complements", *Journal of Economic Perspectives*, Vol. 10, No. 4, pp. 51-72.

### B. Peer Effects

Lazear, Edward P. (2001) "Educational Production" *Quarterly Journal of Economics*, 116(3), 777-803.

Black, Sandra (1999) "Do Better Schools Matter? Parental Evaluation of Elementary Education" *Quarterly Journal of Economics*, 114(3), 577-600.

Bayer, Patrick Fernando Ferreira and Robert MacMillan (2007) "Unified Framework for Measuring Preferences for Schools and Neighborhoods," *Journal of Political Economy*, 115(4), 588-68.

Manski, Charles (1993) "Identification of Endogenous Social Effects: the Reflection Problem," *Review of Economic Studies*, 60, 531-542.

Angrist, Joshua (2014) "The Perils of Peer Effects," *Labour Economics*, vol. 30(C), pages 98-108.

\* Crepon, Bruno, Esther Duflo, Grugand, Marc, Rathelot, Roland and Philippe Zamora (2014) "Do Labor Market Policies have Displacement Effects? Evidence from a Clustered Randomized Experiment," *The Quarterly Journal of Economics*, vol. 128(2), pages 531-580.

\* Sacerdote, Bruce (2001) "Peer Effects with Random Assignment: Results from Dartmouth Roommates" *Quarterly Journal of Economics*, 116, 681-704.

Zimmerman, David (2003) "Peer Effects in Higher Education: Evidence from a Natural Experiment," *Review of Economics and Statistics*, 85, 9-23.

Lyle, David (2007) "Estimating and Interpreting Peer and Role Model Effects from Randomly Assign Social Groups at West Point" *Review of Economics and Statistics*, 89, 289-299.

Mas, Alex and Enrico Moretti (2009) "Peers at Work" *American Economic Review*, American Economic Association, vol. 99(1), pages 112-45, March.

Card, David and Laura Giuliano (2013) "Peer Effects in Multiple Equilibria in the Risky Behavior of Friends," *The Review of Economics and Statistics*, MIT Press, vol. 95(4), pages 1130-1149, October.

Bramoulle, Yann, Rachel Kranton and Martin D'Amours (2014) "Strategic Interaction and Networks," *American Economic Review*, American Economic Association, vol. 104(3), pages 898-930, March.

Ballester, Coralio, Antoni Calvo-Armengol, and Yves Zenou (2006) "Who's Who in Networks: Wanted: The Key Player", *Econometrica*, 74(5), 1403-1417.

\* Bramoulle, Yann, Habiba Djebbari, and Bernard Fortin (2009) "Identification of Peer Effects through Social Networks" *Journal of Econometrics*, 150, 41-55.

Acemoglu, Daron, Camilo Jimeno Garcia and James a Robinson (2015) "State Capacity and Economic Development: A Network Approach," *American Economic Review*, American Economic Association, vol. 105(8), pages 2364-2409, August.

\* Carrell, Scott, Bruce Sacerdote and James West (2013) "From Natural Variation to Optimal Policy? The Lucas Critique Meets Peer Effects" *Econometrica*, 81(3), 855-882.

### III. Incentives, Agency and Efficiency Wages

#### A. Multitasking

\* Holmstrom, Bengt (1979) "Moral Hazard and Observability" *Bell Journal of Economics*, 10, 74-91.

Lazear, Edward (2000) "Performance Pay and Productivity." *American Economic Review*, 90(5): 1346-61.

\* Holmstrom, Bengt and Milgrom, Paul (1991) "Multitask Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design" *Journal of Law, Economics and Organization* vol 7, n0 (Special Issue): 24-52

Baker, George P. (1992) "Incentive Contracts and Performance Measurement" *Journal of Political Economy* v100, n3: 598-614

Courty, Pascal, and Gerald Marschke (2004) "An Empirical Investigation of Gaming Responses to Explicit Performance Incentives." *Journal of Labor Economics* 22: 23-56.

\* Oyer, Paul (1998) "Fiscal Year Ends and Nonlinear Incentive Contracts: The Effect on Business Seasonality." *Quarterly Journal of Economics* 113:149-85.

Alston, Lee, and Robert Higgs (1982) "Contractual Mix in Southern Agriculture since the Civil War: Facts, Hypotheses, and Test." *Journal of Economic History* 42:327-53.

#### B. Career Concerns in the Private and the Public Sector

\* Holmstrom, Bengt (1999) "Managerial Incentive Problems: A Dynamic Perspective" *Review of Economic Studies* 66, n1: 169-82.

Dewatripont, Mathias; Ian Jewitt; and Jean Tirole (1999) "The Economics of Career Concerns, Part I: Comparing Information Structures," *Review of Economic Studies*, January, 66(1),183-198.

Dixit, Avinash (2002) "Incentives and Organizations in the Public Sector: An Interpretative Review", *Journal of Human Resources* 37 (4), Fall, 696-727.

Acemoglu, Daron, Michael Kremer and Atif Mian (2007) "Incentives in Markets, Firms and Governments" *Journal of Law, Economics and Organizations*, December 2007.

Chevalier, Judith and Glenn Ellison (1999) "Career Concerns of Mutual Fund Managers." *Quarterly Journal of Economics* 114: 389-432.

#### C. Efficiency Wages

\* Carl Shapiro and Joseph Stiglitz (1984) "Unemployment as Worker Discipline Device," *American Economic Review*, vol. 74(3), pages 433-44, June.

Bulow, Jeremy and Lawrence Summers (1986); "A Theory of Dual Labor Markets with Application to Industrial Policy, Discrimination and Keynesian Unemployment" *Journal of Labor Economics*, Vol 4, pp376-415.

Acemoglu, Daron and Andrew Newman (2002) "The Labor Market and Corporate Structure," *European Economic Review*, December, volume 46, pp. 1733-1756.

Lazear, Edward (1996) *Personnel Economics*, MIT University Press, Chapter 3.

Raff, Danielle and Lawrence Summers (1987) "Did Henry Ford Pay Efficiency Wages?" *Journal of Labor Economics*, vol. 5, S57-S86.

Campbell III, Carl M., and Kunal S. Kamani (1997) "The Reasons for Wage Rigidity: Evidence from a Survey of Firms." *Quarterly Journal of Economics*, 112(3), 759 – 789.

Neil, Derek (1993) "Supervision and Wages Across Industries," *Review of Economics and Statistics*, August, 1993, vol. 75, pp. 409-17.

Krueger, Alan B. (1991) "Ownership, Agency and Wages: An Examination of Franchising in the Fast Food Industry." *Quarterly Journal of Economics*, 106(1) 75 – 101.

\* Cappelli, Peter and Keith Chauvin (1991) "An Interplant Test of the Efficiency Wage Hypothesis." *Quarterly Journal of Economics*, 106(3), 769 – 787.

\* Krueger, Alan B, and Lawrence H. Summers (1988) "Efficiency Wages and the Inter-Industry Wage Structure, *Econometrica*, 56(2) 259 - 93.

#### IV. Investment in Skills

##### A. Holdups and Investments

\* Grout, Paul, 1984 "Investment and Wages in the Absence of Binding Contracts: A Nash Bargaining Approach," *Econometrica*, 52, 449-460.

Grossman, Sanford and Oliver Hart (1986) "The Costs and Benefits of Ownership: a Theory of Vertical and Lateral Integration" *Journal of Political Economy*, vol. 94, pp. 691-719.

Hart, Oliver and John H. Moore, 1990 "Property Rights and the Nature of the Firm" *Journal of Political Economy*, 98, 1119-58

##### B. Investment in General Skills

Acemoglu, Daron (1997a) "Training and Innovation in An Imperfect Labor Market," *Review of Economic Studies* 64, 445-464.

\* Acemoglu, Daron and Steve Pischke (1998). "Why Do Firms Train", *Quarterly Journal of Economics*, Vol. 113, No. 1, pp. 79-119.

\* Acemoglu, Daron and Steve Pischke (1999). "The Structure of Wages and Investment in General Training," *Journal of Political Economy*, vol 107, June 1999, pp. 539-572.

\* Autor, David H. (2001) "Why do Temporary Help Firms Provide Free General Skills Training?", *Quarterly Journal of Economics*, Vol. 116, No. 3, pp. 1409-1448.

Acemoglu, Daron and Steve Pischke (1999). "Beyond Becker: Training in Imperfect Labor Markets," *Economic Journal* vol 109 February 1999, pp F112-142.

Acemoglu, Daron and Steve Pischke (2000) "Minimum Wages and on-the-Job Training" *Research in Labor Economics* 22, 2003, 159-202.

### C. Specific Skills, Investments and Learning

Topel Robert (1991). "Specific Capital, Mobility, and Wages: Wages Rise with Job Seniority" *Journal of Political Economy* v99, n1 145-76

\* Jacobson, Louis, Robert LaLonde and Daniel Sullivan (1993). "Earning Losses of Displaced Workers," *American Economic Review*, vol. 83, pp. 685-709.

Neal, Derek (1995). "Industry-Specific Human Capital: Evidence From Displaced Workers," *Journal of Labor Economics*, October, 1995, vol. 13, pp. 653-77.

Altonji, Joseph and R. Shakotko (1987). "Do Wages Rise With Seniority?" *Review of Economics Studies*, 54, 1987, 437-459.

Abraham Katherine and Henry Farber (1986). "Job Duration, Seniority, and Earnings," *American Economic Review*, 1986, 278-297.

\* Jovanovic, Boyan (1979). "Job Matching and the Theory of Turnover," *Journal of Political Economy*, 1979, 972-990.

\* Jovanovic, Boyan (1979). "Firm Specific Capital and Turnover," *Journal of Political Economy*, 1979, 1246-1260.

\* Lazear, Edward (2003). "Firm-Specific Human Capital: A Skill Weights Approach." NBER Working Paper No. 9679.

Topel Robert and Michael Ward (1992). "Job Mobility and the Careers of Young Men," *Quarterly Journal of Economics* 107 [2], 439-479.

\* Prendergast, Canice (1993). "The Role of Promotion in Inducing Specific Human Capital Acquisition", *Quarterly Journal of Economics*, Vol. 108, No. 2, pp. 523-534.

Charmichael, Lorne, (1983). "Firm-Specific Capital and Promotion Ladders", *Bell Journal of Economics*, Vol. 14, No. 1, pp. 251-258.

Lazear, Edward P. *Personnel Economics*, (Cambridge: MIT Press), 1995, Chapter 7.

Farber, Henry and Robert Gibbons (1996). "Learning and Wage Dynamics" *Quarterly Journal of Economics*, 111, 107-147.

### V. Search and Unemployment

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

\* Nickell, Steve (1997) "Unemployment and Labor Market Rigidities: Europe versus North America," *Journal of Economic Perspectives*, Vol 11, pp. 55-74.

Shimer, Robert (1998) "Why Is the U.S. Unemployment Rate So Much Lower?" *Macroeconomics Annual*, 1998

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

\* Elsby, Michael, Bart Hobjin and Aysegul Sahin (2010) "The Labor Market in the Great Recession" Brookings Papers on Economic Activity, vol. 41(1 (Spring), pages 1-69

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

Blanchard, Olivier and Peter Diamond (1989); "The Beveridge Curve" Brookings Papers on Economics Activity 1989:1, pp 1-60.

## B. The Partial Equilibrium Search Model

\* Rogerson, Richard, Robert Shimer and Randall Wright (2004) "Search Models of the Labor Market: A Survey" Journal of Economic Literature, 43, pp. 959-988.

## C. The Basic Equilibrium Search Framework

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

Hosios, Arthur (1990) "On the Efficiency of Matching and Related Models of Search and Unemployment." Review of Economics Studies 57:2, 279-98.

\* Mortensen, Dale and Christopher Pissarides (1994). "Job Creation and Job Destruction in the Theory of Unemployment" Review of Economic Studies Vol 61, pp 397-416.

## D. Assignment Models

Rosen, Sherwin (1981) "The Economics of Superstars," American Economic Review, 71, pp. 845--858.

\* Sattinger, Michael (1975) "Comparative Advantage and the Distribution of Earnings and Abilities," Econometrica, 43, pp. 455-468.

\* Teulings, Coen N. (1995) "The Wage Distribution in a Model of the Assignment of Skills to Jobs," Journal of Political Economy, 103, pp. 280-315.

\* Gabaix, Xavier and Augustin Landier (2006) "Why Has CEO Pay Has Increased so Much?" Quarterly Journal of Economics, 123, pp. 49-100.

Tervio, Marko (2008) "The Difference that CEOs Make: An Assignment Model Approach," American Economic Review, 98, pp. 642-668.

Acemoglu, Daron, David Laibson and John List (2014) "Equalizing Superstars: The Internet and the Democratization of Education" American Economic Review: Papers and Proceedings, pp. 523-527.

## E. The Composition of Jobs

\* Acemoglu, Daron (2001), "Good Jobs vs Bad Jobs" Journal of Labor Economics, January 2001, vol 19, pp 1-22.

\* Acemoglu, Daron (1999). "Changes in Unemployment and Wage Inequality: An Alternative Theory and Some Evidence," *American Economic Review* 89(6), 1259-1278.

Autor, David and David Dorn (2013) "The Growth of Low-Skill Service Jobs and Polarization in the US Labor Market" *American Economic Review*, 103(5), 1553-1597

Jaimovich, Nir and Henry Siu (2013) "The Trend Is the Cycle: Job Polarization and Jobless Recoveries," NBER Working Papers 18334.

Footo, Christopher L. and Richard W. Ryan (2015) "Labor Market Polarization over the Business Cycle," NBER Macroeconomics Annual 2015 29:1, 371-413.

#### F. Real Wage Rigidity, Unemployment and Unemployment Persistence (time permitting)

Shimer, Robert (2005) "The Cyclical Behavior of Equilibrium Unemployment in Vacancies" *American Economic Review*, vol 95, 25-49.

Hall, Robert E. (2008) "Limited Influence of Unemployment on the Wage Bargain" *American Economic Review*, vol 98, 1653-1674.

\* Shimer, Robert (2008) "The Consequences of Rigid Wages and Search Models" *Journal of European Economic Association*, vol 2, 469-479.

\* Pissarides, Christopher (2009) "The Unemployment Volatility Puzzle: Is Wage Stickiness the Answer?" *Econometrica*, vol 77, 1339-1369.

Shimer, Robert (2012) "Wage Rigidities and Jobless Recoveries" *Journal of Monetary Economics*, 59, S65-S77.

#### G. Nominal Wage Rigidity and Unemployment (time permitting)

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

\* Card, David and Dean Hyslop (1997). "Does inflation grease the wheels of the labor market?" In C. D. Romer and D. H. Romer (eds.), *Reducing Inflation: Motivation and Strategy*. NBER, Studies in Business Cycles, 30. Chicago: University of Chicago Press.

Baker, George, Michael Gibbs and Bengt Holmström (1994), "The Wage Policy of a Firm," *Quarterly Journal of Economics* 109(4), pp. 921-955.

Dickens W.T., L. Goette, E.L. Goshen, S. Holden, J. Messina, M.E. Schweitzer, J. Turunen, and M.E. Ward (2007). "How wages change: micro evidence from the International Flexibility Project," *Journal of Economic Perspectives*, 21(2), 195-214.

\* Fehr, Ernest, and Lorenz Goette (2005), "Robustness and Real Consequences of Nominal Wage Rigidity," *Journal of Monetary Economics*, vol. 52(4), pages 779-804.

Nickell, Steve, and Glenda Quintini (2003). "Nominal wage rigidity and the rate of inflation." *The Economic Journal* vol. 113, 762-781.