

Labor Economics and Public Policy

MIT Department of Economics
14.64 Fall 2009

Joshua D. Angrist
Amanda Pallais

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, unions and strikes, 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 or SAS.

Course requirements

In addition to exams and the readings listed below, there are four problem sets, each of which have a computer-exercise 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. Most of the readings will be available online but some will be distributed in class.

Grading is based on the following formula: 10 points for each of the three best problem sets, 30 points for the midterm examination, and 40 points for the out-of-class final examination. Strong class participation, including regular attendance, is worth 10 bonus points.

Required text

G. Borjas, Labor Economics, 5th Edition, McGraw-Hill, 2010. (Available at the Coop. This differs little from the 4th edition, which you may also use, though note changes in chapter and section numbers).

Optional and supplementary readings

Econometrics

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.

J. Angrist and J.S. Pischke, Mostly Harmless Economics: An Empiricist's Companion, Princeton University Press, 2009 (this is a more advanced and detailed discussion than the AK Handbook chapter).

Micro Theory

W. Nicholson, Microeconomic Theory: Basic Principles and Extensions, 9th Edition, South-Western, 2005 (Price theory review).

A. Deaton and J. Muellbauer, Economics and Consumer Behavior, Cambridge University Press, 1980 (a relatively advanced text in applied consumer theory, still one of my favorites).

Labor Topics

F. Blau, M. Ferber, and A. Winkler, The Economics of Women, Men, and Work, 6th Edition, Prentice Hall, 2009 (specializes in family and gender issues; differs little from the 5th edition).

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

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

1. Introduction: facts about employment and earnings; the supply and demand 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].

Borjas, chapter 1, including the Appendix; chapter 4.

Empirical methods: regression and differences-in-differences

Angrist and Krueger (1999), through 2.2.2.

Angrist and Krueger (1999), Section 2.4.

Application: Do immigrants take jobs from natives?

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).

2. Labor supply

Borjas, chapter 2.

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

Deaton and MuellBauer, Chapters 1-4, 11.

Application: Welfare and the EITC

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

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

Application: Intertemporal Substitution on the road and at the ballpark

Borjas, section 12.6.

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], April 1999, 360-92.

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).

Unemployment and unemployment insurance

Borjas, chapter 12.

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

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

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

3. Home production and the decision to work; 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 9.12.

Blau, et al, Chapter 4.

Empirical methods: Instrumental Variables

Angrist and Krueger (1999), Section 2.2.3.

Angrist and Krueger, "Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments," *The Journal of Economic Perspectives* 15 (Fall 2001), 69-85

Application: Children and their parents' labor supply

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

4. The demand for labor, minimum wages, monopsony

Borjas, chapter 3.

Nicholson, chapters 9-11.

Applications: Minimum wages and labor supply shifts

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, September 1994, pp. 772-93.

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

5. Human capital, education, and training

Borjas, chapter 6.

Applications: The economic returns to all sorts of human capital

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).

A. Krueger, "How Computers Have Changed the Wage Structure," *Quarterly Journal of Economics* 108 (February 1993).

J. DiNardo and J.S. Pischke, "The Returns to Computer Use Revisited: Have Pencils Changed the Wage Structure Too?," *Quarterly Journal of Economics*, 112, February 1997, pp. 291-303.

Applications: education production

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

J. Angrist, E. Bettinger, E. Bloom, and E. King, "Vouchers for Private Schooling in Colombia: Evidence from a Randomized Natural Experiment," *The American Economic Review* (December 2002).

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).

6. The wage structure

Borjas, chapter 7.

T. Lemieux, "The Changing Nature of U.S. Wage Inequality," *Journal of Population Economics*, 2007.

D. Autor, L Katz, and M. Kearney, "Trends in US Wage Inequality: Revising the Revisionists," forthcoming in *The Review of Economics and Statistics*, 2008.

7. Discrimination

Borjas, chapter 9.

Blau, et al, chapter 7.

Lang, chapters 10-14.

Application: The effects of anti-discrimination policy

J. Heckman and B. Payner, "Determining the Impact of Federal Anti-discrimination Policy on the Economic Status of Blacks: A Study of South Carolina," *American Economic Review* 79, 138-177.

J. Angrist and D. Acemoglu, "Consequences of Employment Protection? The Case of the Americans with Disabilities Act," *Journal of Political Economy*, October 2001.

8. Unions and bargaining

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.

Union relative wage effects

H.G. Lewis, *Union Relative Wage Effects: A Survey*, University of Chicago Press, 1986.

DiNardo and D.S. Lee, "Economic Impacts of New Unionization on US Private Sector Employers: 1984-2001," *The Quarterly Journal of Economics* 119 (2004), 1383-1442.