

Labor Economics II

Aalto University / Helsinki GSE

Last updated: May 18, 2022

Instructor contact information	Course information
Flavio Hafner Email: flavio.hafner@aalto.fi Office hours: Wednesdays, 4pm to 5pm	MSc (econ), elective course Location: Otaniemi Language of instruction: English Course website
TA: Jerry Montonen, jerry.montonen@aalto.fi	

Overview

The goal of the present class is to understand differences in labor market outcomes across demographic groups, both in the cross-section and over time. Using theory and empirical applications, it covers topics such as self-selection, education, technological change and trade as well as imperfectly competitive labor markets, discrimination and compensating wage differentials. By covering both classic papers and more recent studies, the class lies somewhere in between a standard labor class and a PhD topics class. Understanding the economic intuition of the theory is more important than the math, but we will discuss some models in more detail, too. The empirical papers are selected with the aim to discuss a range of different methodologies, although descriptive and quasi-experimental work is overrepresented.

The class is based on a book and a set of classes taught by other people. Depending on the topic, I rely more or less heavily on either of the sources. The main book reference is:

- Cahuc, P., Carcillo, S., and Zylberberg, A. (2014). *Labor Economics*. MIT Press

The main other references have been the lecture notes from MIT by David Autor, Heidi Williams and Daron Acemoglu. I warmly recommend you to read their lecture notes yourself, as they are more detailed and cover more topics and papers than the present class.

Instruction & communication While hybrid, in-person attendance is the default. Students that need to attend the class online can request so by sending me an email. The practical sessions are held in person only.

Prerequisites

You should be comfortable with intermediate microeconomics and with basic concepts covered in Empirical Methods for Economists (31Co1200). I also recommend Labor Economics I.

Assessment method

There will be five graded problem sets and a final exam. The problem sets count one third, the exams two thirds towards the final grade. To pass the course, students should pass both the problem sets and the exam.

Problem sets Problem sets are due on Thursday night, 23:59h, before the respective TA session. Problem sets can be handed in via mycourses. The deadline is binding and problem sets handed in late will not count towards your grade.

Exam Written, in-person exam on 02/06/2022 from 09:00 to 12:00. The exam will assess students' understanding of the concepts and models discussed in class, and similar to the problem sets it will focus on the economic mechanisms rather than on the algebra. No coding will be required.

Structure and content

Each lecture is assigned a topic, but some topics will likely take longer than one lecture. This is why I have included two reserve lectures with space to catch up with the program.

1. Tue, 19.4.22. Roy model: Self-selection
2. Wed, 20.4.22. Education: theory
 - *Fri, 22.4.22. Tools and revisions. No problem set.*
3. Tue, 26.4.22. Education: empirics
4. Wed, 27.4.22. Wage structure
 - *Fri, 29.4.22. Roy model. Problem set 1 due (28.4.22 23:59)*
5. Tue, 3.5.22. Skills, tasks and technology
6. Wed, 4.5.22. Reserve for catch-up
 - *Fri, 6.5.22. Education. Problem set 2 due (5.5.22 23:59)*
7. Tue, 10.5.22. Trade and labor markets
8. Wed, 11.5.22. Imperfect competition
 - *Fri, 13.5.22. Skill differentials in the wage structure. Problem set 3 due (12.5.22 23:59)*
9. Tue, 17.5.22. Collective Bargaining & Labor Unions
10. Wed, 18.5.22. Discrimination
 - *Mon, 23.5.22. Polarization / Trade. Problem set 4 due (19.5.22 23:59). NOTE: Different timing for the practical session!*
11. Tue, 24.5.22. Equalizing wage differences
12. Wed, 25.5.22. Reserve for catch-up

- Fri, 27.5.22. *Imperfect competition / Unions. Problem set 5 due (26.5.22 23:59)*

The main content of the course will be on slides, which are themselves based on the following references for the class. As we go along, I will update it and add or subtract papers, so please regularly check the syllabus.

1 Roy model: Self-selection

- Abramitzky, R., Boustan, L. P., and Eriksson, K. (2012). Europe's Tired, Poor, Huddles Masses: Self-Selection and Economic Outcomes in the Age of Mass Migration. *The American Economic Review*, 102(5):1832–1856
- Abramitzky, R., Boustan, L. P., and Eriksson, K. (2014). A nation of immigrants: Assimilation and economic outcomes in the age of mass migration. *Journal of Political Economy*, 122(3):467–506
- Borjas, G. J. (1987). Self-selection and the earnings of immigrants. *The American Economic Review*, 77(4):531–553
- Borjas, G. J. (1994). The economics of immigration. *Journal of Economic Literature*, 32(4):1667–1717
- Mulligan, C. B. and Rubinstein, Y. (2008). Selection, investment, and women's relative wages over time. *Quarterly Journal of Economics*, 123(3):1061–1110

2 Education: theory

- Cahuc et al., 2014, Chapter 4
- Ben-Porath, Y. (1967). The production of human capital and the life cycle of earnings. *Journal of Political Economy*, 75:352–352

3 Education: empirics

- Cahuc et al., 2014, Chapter 4
- Angrist, J. D. and Krueger, A. B. (1991). Does compulsory school attendance affect schooling and earnings. *Quarterly Journal of Economics*, 106(4):979–1014
- Angrist, J. D. (2004). Treatment effect heterogeneity in theory and practice. *The Economic Journal*, 114(494):52–83
- Kirkeboen, L. J., Leuven, E., and Mogstad, M. (2016). Field of study, earnings, and self-selection. *Quarterly Journal of Economics*, 131(3):1057–1111
- Moretti, E. (2004). Estimating the social return to higher education: Evidence from longitudinal and repeated cross-sectional data. *Journal of Econometrics*, 121(1):175–212
- Oreopoulos, P. (2006). Estimating average and local average treatment effects of education when compulsory schooling laws really matter. *The American Economic Review*, 96(1):152–175
- Additional materials: Prize in Economic Sciences in Memory of Alfred Nobel 2021

- Angrist, J. (2021). Prize lecture. Technical report, NobelPrize.org. <https://www.nobelprize.org/prizes/economic-sciences/2021/angrist/lecture/> Accessed: 2022-04-05
- Imbens, J. (2021). Prize lecture. Technical report, NobelPrize.org. <https://www.nobelprize.org/prizes/economic-sciences/2021/imbens/lecture/> Accessed: 2022-04-06
- Card, D. (2021). Prize lecture. Technical report, NobelPrize.org. <https://www.nobelprize.org/prizes/economic-sciences/2021/card/lecture/> Accessed: 2022-04-05

4 Wage structure

- Cahuc et al., 2014, Chapter 10
- Card, D. and Lemieux, T. (2001). Can falling supply explain the rising return to college for younger men? a cohort-based analysis. *Quarterly Journal of Economics*, 116(2):705–746
- Goldin, C. and Katz, L. F. (2007). The race between education and technology: The evolution of u.s. educational wage differentials, 1890 to 2005. *National Bureau of Economic Research*
- Katz, L. F. and Murphy, K. M. (1992). Changes in relative wages, 1963–1987: Supply and demand factors. *Quarterly Journal of Economics*, 107(1):35–78
- Leuven, E., Oosterbeek, H., and van Ophem, H. (2004). Explaining international differences in male skill wage differentials by differences in demand and supply of skill. *The Economic Journal*, 114(495):466–486

5 Skills, tasks and technologies

- Cahuc et al., 2014, Chapter 10
- Acemoglu, D. and Autor, D. H. (2011). Skills, tasks and technologies: Implications for employment and earnings. In *Handbook of Labor Economics*, volume 4, pages 1043–1171

6 Trade and labor markets

- Autor, D. H., Dorn, D., and Hanson, G. H. (2013). The china syndrome: Local labor market effects of import competition in the united states. *The American Economic Review*, 103(6):2121–2168
- Eaton, J. and Kortum, S. (2002). Technology, geography, and trade. *Econometrica*, 70(5):1741–1779
- Eaton, J. W. and Kortum, S. (2012). Putting ricardo to work. *Journal of Economic Perspectives*, 26(2):65–90

7 Imperfect competition

- Manning, A. (2011). Imperfect competition in the labor market. In *Handbook of Labor Economics*, volume 4, pages 973–1041

8 Unions

- Cahuc et al., 2014, Chapter 7
- DiNardo, J. and Lee, D. S. (2004). Economic impacts of new unionization on private sector employers: 1984–2001. *The Quarterly Journal of Economics*, 119(4):1383–1441
- Lee, D. S. and Mas, A. (2012). Long-run impacts of unions on firms: New evidence from financial markets, 1961–1999. *Quarterly Journal of Economics*, 127(1):333–378
- Card, D., Lemieux, T., and Riddell, W. C. (2004). Unions and wage inequality. *Journal of Labor Research*, 25(4):519–559
- Frandsen, B. R. (2021). The surprising impacts of unionization: Evidence from matched employer-employee data. *Journal of Labor Economics*, 39(4):861–894

9 Discrimination

- Cahuc et al., 2014, Chapter 8
- Bertrand, M. and Mullainathan, S. (2004). Are emily and greg more employable than lakisha and jamal? a field experiment on labor market discrimination. *The American Economic Review*, 94(4):991–1013
- Neal, D. A. and Johnson, W. R. (1996). The role of pre-market factors in black-white wage differences. *Journal of Political Economy*, 104(5):869–895

10 Equalizing wage differences

- Cahuc et al., 2014, Chapter 3
- Brown, C. (1980). Equalizing differences in the labor market. *Quarterly Journal of Economics*, 94(1):113–134
- Mas, A. and Pallais, A. (2017). Valuing alternative work arrangements. *American Economic Review*, 107(12):3722–59
- Roback, J. (1982). Wages, rents, and the quality of life. *Journal of Political Economy*, 90(6):1257–1278
- Rosen, S. (1986). The theory of equalizing differences. In *Handbook of Labor Economics*, volume 1, pages 641–692