Labor Economics II  
Spring 2005

Instructor:

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Office Hours:  
Thursday 10:30-12, or by appointment.

Course Objectives:  
The objective of the course is to acquaint students with modern topics, modeling strategies, econometric methods, and empirical work in the field of labor economics. We will cover topics in the analysis of labor market dynamics [(unemployed) search and informational models of turnover], models of the employment relationship in the presence of moral hazard, labor supply in both static and dynamic contexts, alternative models of wage determination, and bargaining models of household behavior. For each of the topics covered we will begin by presenting some of the relevant theoretical models that have been developed. We will then turn our attention to issues of model specification and estimation given the type of data typically available to labor economists. We intend to spend roughly equal amounts of time on theoretical and empirical issues.

Prerequisites:  
One year of microeconomic theory and Econometrics II or its equivalent.

Requirements and Grading:  
There will be a take-home final examination for the course. Students will have approximately one week to complete it.

In addition, students will be asked to give a report on one or more of the assigned readings in class [the readings will be selected by the student after consulting with me]. The reports will consist of a summarization of the basic argument of the paper(s), the model and the econometric methodology and empirical results [where appropriate]. If appropriate, the student may also want to suggest extensions to the modeling or empirical work conducted in the paper(s) they report upon.
Readings:

The items on the reading list marked with an asterisk (*) are required readings. Most of these will be downloadable from the course home page. Those required readings which are not downloadable will be on reserve in the C.V. Starr Center library on the third floor of 269 Mercer. Students who have difficulty finding other readings in which they are interested [especially unpublished working papers] should contact me.

Topics:

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<th>Week</th>
<th>R.L. #</th>
<th>Topic</th>
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<tr>
<td>1</td>
<td>1.A</td>
<td>Course Introduction; Describing Labor Market Dynamics</td>
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<td>2</td>
<td>1.B</td>
<td>Unemployed Search Theory</td>
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<td>Econometrics of Unemployed Search</td>
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<td>Matching, Bargaining, and Search</td>
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<td>1.E</td>
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Labor Market Dynamics

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<td>2.A</td>
<td>Static Labor Supply</td>
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<td>2.B</td>
<td>Life-Cycle Labor Supply</td>
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<td>2.C</td>
<td>Household Bargaining and Labor Supply</td>
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<td>9</td>
<td>2.D</td>
<td>Bargaining Models of Household Formation and Dissolution</td>
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Labor Supply and Household Economics

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<td>Signalling Models</td>
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<td>3.B</td>
<td>Principal-Agent Problems in the Labor Market</td>
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<td>12</td>
<td>3.C</td>
<td>Econometric Models of Moral Hazard</td>
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Asymmetric Information in the Labor Market

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<td>Human Capital Investment Decisions</td>
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<td>14</td>
<td>4.B</td>
<td>Equilibrium Models of Human Capital Investment</td>
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Reading List

Note: Selections with (*) are required

1.A. Describing Labor Market Dynamics


1.B. Unemployed Search Theory

1. *Burdett and Mortensen (from 1.A), continued.

2. *Flinn (from 1.A), continued.


1.C. Econometrics of Unemployed Search


**1.D. Matching, Bargaining, and Search**


1.E. Job Mobility

2.A Static Labor Supply


2.B Life-Cycle Labor Supply

1. *Deaton and Muellbauer, Chapters 4.2,5.


2.C Household Bargaining and Labor Supply


2.D Models of Household Formation and Dissolution


3.A Job-Market Signalling


### 3.B Principal-Agent Problems in the Labor Market

1. *Kreps, D. A Course in Microeconomic Theory*, Ch. 16.


### 3.C. Estimation of Models with Moral Hazard


4.A Human Capital Investment Decisions


4.B. Human Capital Investment and Cohort Size


