Labor Economics II
Spring 2006

Instructor:

Christopher Flinn
Room 508, 110 Fifth Avenue
212-998-8925
e-mail: christopher.flinn@nyu.edu

Class Schedule:

Tuesday and Thursday, 2-4, Room 539, 110 Fifth Avenue
Class meets from January 17-March 9

Office Hours:

Tuesday 4:30-6, 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:

1. There will be a final exam for the course, which will be given on March 14. The exam will be in class, and will cover the required material on the reading list as well as lecture material.

2. Students are expected to complete a short research paper, in which they pursue some topic covered in class or other labor market issues (subject to the approval of the instructor). The paper may consist of an empirical and/or theoretical analysis, but should contain some original aspects. You are to complete a two-page research proposal no later than February 23, and you have until the end of the semester to complete the paper. If you have difficulty developing a topic, speak to me and we'll work on it together.

3. Each student will be asked to give a report on one or two of the assigned readings during the class meetings (the readings will be selected by the student subject to my approval). 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).

The course paper and final exam each have a weight of .45 in the determination of the final grade, with the in-class report and class participation accounting for the rest.
Readings:

The items on the reading list marked with an asterisk (*) are required readings. You should be able to find almost everything on-line. If you have difficulties locating something, let me know.

Topics:

<table>
<thead>
<tr>
<th>Week</th>
<th>R.L. #</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.A</td>
<td>Course Introduction; Describing Labor Market Dynamics</td>
</tr>
<tr>
<td>2</td>
<td>1.B</td>
<td>Unemployed Search Theory</td>
</tr>
<tr>
<td>3</td>
<td>1.C</td>
<td>Econometrics of Unemployed Search</td>
</tr>
<tr>
<td>4</td>
<td>1.D</td>
<td>Matching, Bargaining, and Search</td>
</tr>
<tr>
<td>5</td>
<td>1.E</td>
<td>Job Mobility</td>
</tr>
<tr>
<td>6</td>
<td>2.A</td>
<td>Static Labor Supply</td>
</tr>
<tr>
<td>7</td>
<td>2.B</td>
<td>Life-Cycle Labor Supply</td>
</tr>
<tr>
<td>8</td>
<td>2.C</td>
<td>Household Bargaining and Labor Supply</td>
</tr>
<tr>
<td>9</td>
<td>2.D</td>
<td>Bargaining Models of Household Formation and Dissolution</td>
</tr>
<tr>
<td>10</td>
<td>3.A</td>
<td>Signalling Models</td>
</tr>
<tr>
<td>11</td>
<td>3.B</td>
<td>Principal-Agent Problems in the Labor Market</td>
</tr>
<tr>
<td>12</td>
<td>3.C</td>
<td>Econometric Models of Moral Hazard</td>
</tr>
<tr>
<td>13</td>
<td>4.A</td>
<td>Human Capital Investment Decisions</td>
</tr>
<tr>
<td>14</td>
<td>4.B</td>
<td>Equilibrium Models of Human Capital Investment</td>
</tr>
</tbody>
</table>

Labor Market Dynamics

Labor Supply and Household Economics

Asymmetric Information in the Labor Market

Human Capital Investment Decisions
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

3. Hausman, J. “The Effect of Wages, Taxes, and Fixed Costs on Women’s Labor Force Participa-
of Joint Household Decisions, with Taxes and Quantity Constraints.” J. of Applied Econo-
metrics 14 (July-August 1999): 403-422.

2.B Life-Cycle Labor Supply

1. *Deaton and Muellbauer, Chapters 4.2,5.
Wages and Hours.” Mimeo, NYU, 2006. Downloadable from
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, Fertility, and Cohort Size


