Labor Economics I  
Fall 2002

Instructor:

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Office Hours:

Tuesday, 4:30-6, or by appointment.

Course Web Page:

http://www.nyu.edu/econ/user/flinnc/courses/labor02/labor02.htm

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. In this first semester of the two-semester sequence in 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 two examinations in the course, a midterm and a final. The midterm exam will be a take-home which students will have approximately one week to complete and the final will be given during the final examination period. Both examinations will ask the student to apply what they have learned in class to the modeling of labor market phenomena, as well as to synthesize and/or critique the theoretical and econometric models which are presented in the lectures and/or the required readings. The examinations will have equal weight in the determination of the student’s final grade.

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]. The purpose of this exercise is to increase
class participation and to familiarize students with the presentation of economic research.

Over the course of the semester three or four homework assignments will be distributed that
must be completed. They will involve simulation and/or estimation of models discussed in the
lectures and/or contained in the papers (I will provide the data sets when estimation is called
for). I will also distribute sample programs from time to time (written in GAUSS) to illustrate
estimation and simulation techniques.

Readings:

The items on the reading list marked with an asterisk (*) are required readings. Copies of these
will be on reserve in the C.V. Starr Center library on the third floor of 269 Mercer, and whenever
possible will be available on line. Students who have difficulty finding other readings in which they
are interested should contact me.
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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>3</td>
<td>1.C</td>
<td>Econometrics of Unemployed Search</td>
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<td>1.D</td>
<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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<tr>
<td>6</td>
<td>2.A</td>
<td>Static Labor Supply</td>
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<td>7</td>
<td>2.B</td>
<td>Life-Cycle Labor Supply</td>
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<td>8</td>
<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>3.A</td>
<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>4.A</td>
<td>Human Capital Investment Decisions</td>
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<tr>
<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


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

