

ECON 793: Economics of Labor

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Description: The course covers three topics at the intersection of labor and macro. In the first part of the course, we will focus on theories of workers' transitions between employment, unemployment, and across different employers and on the resulting cross-sectional wage distribution. In the second part of the course, we will study the behavior of workers' transitions across labor market states over the business cycle. In the last part of the course, we will turn to studying the right-tail of the distribution of labor earnings and wages. The lectures will mostly be about theory. Open discussions will be centered on empirical facts.

Logistics: Lectures will be on Thursdays from 3:00 PM to 6:00 PM in McNeil 103. We will organize open discussions on additional material outside of class.

Outline and Readings

A. Residual Wage Inequality and Labor Reallocation

Core material:

1. Burdett, K., and D. Mortensen. 1998. Wage Differentials, Employer Size and Unemployment. *International Economic Review*.
2. Postel-Vinay, F., and J. Robin. 2002. Equilibrium Wage Dispersion with Worker and Employer Heterogeneity, *Econometrica*.

Peripheral material:

3. Diamond, P. 1971. A Model of Price Adjustment. *Journal of Economic Theory*.
4. Albrecht, J., and B. Axell. 1984. An Equilibrium Model of Search Unemployment. *Journal of Political Economy*.
5. Menzio, G., and N. Trachter. 2015. Equilibrium Price Dispersion with Sequential Search. *Journal of Economic Theory*.

6. Stevens, M. 2004. Wage Tenure Contracts in a Frictional Labor Market: Firms' Strategies for Recruitment and Retention. *Review of Economic Studies*.

7. Burdett, K., and M. Coles. 2003. Equilibrium Wage-Tenure Contracts. *Econometrica*.

Discussion material:

8. Hornstein, A., P. Krusell, and G. Violante. 2011. Frictional Wage Dispersion in Search Models: A Quantitative Assessment. *American Economic Review*.

9. Lise, J., and F. Postel-Vinay. 2015. Multidimensional skills, sorting, and human capital accumulation. Manuscript, University of Minnesota.

10. Bagger J., F. Fontaine and F. Postel-Vinay and J.-M. Robin. 2014. Tenure, Experience, Human Capital and Wages: A Tractable Equilibrium Search Model of Wage Dynamics. *American Economic Review*.

11. Davis, S. and T. Wachter. 2011. Recessions and the cost of job loss. *Brooking Papers on Economic Activity*.

12. Goldin. C. 2015. A Grand Gender Convergence. *American Economic Review*.

B. Cyclical Unemployment Dynamics

Core material:

1. Shimer, R. 2005. The Cyclical Behavior of Unemployment and Vacancies. *American Economic Review*.

2. Hall, R. 2005. Employment Efficiency and Sticky Wages: Evidence from Flows in the Labor Market. *American Economic Review*.

3. Hagedorn, M., and I. Manovskii. 2008. The Cyclical Behavior of Equilibrium Unemployment and Vacancies Revisited. *American Economic Review*.

4. Menzio, G., and S. Shi. 2011. Efficient Search on the Job and the Business Cycle. *Journal of Political Economy*.

5. Kaplan, G., and G. Menzio. 2016. Shopping Externalities and Self-Fulfilling Unemployment Fluctuations. *Journal of Political Economy*.

Peripheral material:

6. Hafke, C., M. Sonntag, and T. Van Rens. 2013. Wage Rigidity and Job Creation. *Journal of Monetary Economics*.
7. Kennan, J. 2010. Private information, wage bargaining and employment fluctuations. *Review of Economic Studies*.
8. Menzio, G. and E. Moen. 2010. Worker Replacement. *Journal of Monetary Economics*.
9. Moen, E. 1997. Competitive search equilibrium. *Journal of Political Economy*.
10. Burdett, K., S. Shi, and R. Wright. 2001. Pricing and matching with frictions. *Journal of Political Economy*.

Discussion material:

11. Schaal, E. 2016. Uncertainty and Unemployment. *Econometrica*.
12. Hall, R. 2016. High Discounts and High Unemployment. *American Economic Review*.
13. Kehoe, P., V. Midrigan and E. Pastorino. 2016. Debt Constraints and Employment. Mimeo, University of Minnesota.
14. Mian, A. and A. Sufi. 2014. What Explains the 2007-2009 Drop in Employment?
15. Fujita, S., and G. Moscarini. 2014. Recall and the Great Recession. Mimeo, Yale University.
16. Jaimovich, N., and H. Siu. 2013. The Trend is the Cycle: Job Polarization and Jobless Recoveries. Manuscript, USC.

C. Rising Wage Inequality

Core material:

1. Lucas, R. 1978. On the Size Distribution of Business Firms. *Bell Journal of Economics*.
2. Rosen, S. 1981. The Economics of Superstars. *American Economic Review*.
3. Garicano, L. 2000. Hierarchies and the Organization of Knowledge in Production. *Journal of Political Economy*.
4. Garicano, L., and E. Rossi-Hansberg. 2006. Organization and Inequality in a Knowledge Economy. *Quarterly Journal of Economics*.

Discussion material:

5. Rosen, S. 1982. "Authority, control, and the distribution of earnings." *Bell Journal of Economics*, 13, 311-323.
6. Geerolf, F. 2014. A Theory of Pareto Distributions. Mimeo, UCLA.
7. Caicedo, S., R. Lucas, and E. Rossi-Hansberg. 2016. Learning, Career Paths and the Distribution of Wages.
8. Benhabib, J, A. Bisin, M. Luo. 2016. Wealth Distribution and Social Mobility in the US: A Quantitative Approach. Mimeo, New York University.