

SUNY-Stony Brook. Economics Department  
Fall 2011: Economics 640

Labor Economics: Theory and Empirical Applications

Tuesdays 3:00pm to 5:50pm. S-632

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**Course Description:** In this course we will build upon the tools learned in your previous year in the program to give you a first taste of the theory and applications of the field of Labor Economics. The student should obtain a general survey of the problems, methods, and substantive literature in labor economics. Students should also learn how measurement and hypothesis testing are carried out in the application of economic analysis to specific problems.

Labor is one of the main fields in Economics, and has evolved very rapidly in the last three decades, adopting new methodologies and using more and more sophisticated econometric tools to tackle the main outstanding questions in the field. Also, through its interactions with Public Economics, Public Finance, Health Economics, and Macroeconomics, has become one of the most attractive fields to do empirical research.

A majority of the current literature in the field is empirical in nature, however, the theory underlying all this work accounts for the the vast majority of the topics and papers covered in this first graduate class on Labor Economics.

Students will be expected to show their familiarity both with the theoretical models covered in class, and with the empirical tools used to take them to data. In some cases methodological issues connected with the econometric techniques used, will take central stage. Reading a lot is key in this class, I expect students to put in a substantial amount of time on the readings. Very little benefit can be derived from this type of class unless one becomes acquainted with the relevant literature.

One of the main objectives of this course is to show the wide range of research topics that can be tackled within this field, and in its interactions with related fields.

**Course Requirements:** There will be a number of assignments during the semester which will count 20% the course grade. One of these assignments is a first midterm in class exam on Tuesday October 4 on undergraduate material, a take home midterm exam which will count 25% which will be distributed on November 1, and will be due November 15, and a final exam which will count for 35%, and will take place on December 8. The other 20% will be a term paper, the rules of which are specified below.

All Students must pass the undergraduate midterm exam in order to obtain a passing grade in the class. If necessary, students will have a second opportunity to do so.

**Term Paper:** This requirement is a cornerstone of this class. The term paper is due at the end of the semester.

1. In collaboration with the instructor (and other faculty members) identify a research question of your interest. It has to be in Labor Economics. It can be a paper you are using for any other class or requirement in the program. Second year students are encouraged to use it as the basis for their second year paper requirement.
2. Prepare a three-page research proposal, which is due at the latest, October 28. They have to be no longer than 3 single-spaced letter sized typed pages. Electronic submissions will be accepted in Word, pdf and postscript formats. Those that do not submit a proposal cannot write papers for this class and they will get a 0 (zero) in this assignment.
3. Papers are due by the end of the semester, with the deadline being the last day of classes, December 8. The maximum permitted length of the paper is 25 pages, including graphs, tables, bibliography and notes, but excluding a title page. Any pages beyond 25 will be ignored. The paper has to use a minimum of 11pt fonts (except in graphs and tables) and 1.5 line spacing. Again electronic submissions are permitted. You are encouraged to submit your work to a conference. Most professional organizations welcome submissions by advanced graduate students and a lot of times provide financial help for them to travel to the venue. You can check conference dates at [www.inomics.com](http://www.inomics.com). Also check out using a search engine the Econometric Society, the Society Labor Economists, and other societies like the Eastern Economic Association, the Southern Economic Association, etc.

If you have a physical, psychological, medical, or learning disability that may impact your course work, please contact Disability Support Services at (631) 632-6748 or <http://studentaffairs.stonybrook.edu/dss/>. They will determine with you what accommodations are necessary and appropriate. All information and documentation is confidential.

Students who require assistance during emergency evacuation are encouraged to discuss their needs with their professors and Disability Support Services. For procedures and information go to the following website: <http://www.sunysb.edu/ehs/fire/disabilities.shtml>

## General References (Must Reads in an ideal world)

- Ronald G. Ehrenberg and Robert S. Smith (7th or 8th Edition): *Modern Labor Economics: Theory and Public Policy*. (Undergraduate Review)
- Richard B. Freeman. *Labor Economics*. (Undergraduate Review)
- Gary S. Becker. *Human Capital*. 3rd Edition.
- Gary S. Becker. *The Economics of Discrimination*.
- Gary S. Becker. *A Treatise on the Family*.
- Daniel S. Hamermesh. *Labor Demand*.
- Mark R. Killingsworth. *Labor Supply*.
- Theresa J. Devine and Nicholas M. Kiefer (1991). *Empirical Labor Economics: The Search Approach*. Oxford University Press, New York.
- *Handbook of Applied Econometrics, Vol. II: Microeconomics*. Chapters 6 and 7.
- *The Handbook of Labor Economics: Volume 1, 3A, 3B, 3C*.
- Sherwin Rosen (editor). *Studies in Labor Markets*. 1981.
- Heckman J.J. (1981): “Heterogeneity and State Dependence,” in *Studies in Labor Markets*, edited by Sherwin Rosen.
- James P. Smith (editor). *Female Labor Supply: Theory and Estimation*. 1980.
- Charles F. Manski, and Daniel McFadden. *Structural Analysis of Discrete Data with Econometric Applications*. (1981).
- A.D. Roy (1951): “Some Thoughts on the Distribution of Earnings.” *Oxford Economic Papers (New Series)*, **3** 135–146.
- *Economics of Aging*. Several Volumes from 1989 to present, edited by David Wise. NBER volumes.
- Heckman, J.J. (1979): “Sample Selection Bias as a Specification Error,” *Econometrica*, **47-1** 153–161.
- Heckman, J.J. (1980): “Sample Selection Bias as a Specification Error with an Application to the Estimation of Labor Supply Functions,” in *Female Labor Supply: Theory and Estimation* edited by James P. Smith.
- Lung-Fei Lee (1982): “Some Approaches to the Correction of Selectivity Bias,” *Review of Economic Studies*, **49-3** 355–372.
- Charles Manski (1994): “The Selection Problem,” in *Advances in Econometrics, Sixth World Congress*, Edited by Christopher A. Sims.

- Vella, F. (1998): “Estimating Models with Sample Selection Bias: A Survey,” *Journal of Human Resources*, **33-1** 127–169.
- J. Rust (1994): Structural Estimation of Markov Decision Processes. *Handbook of Econometrics*, Vol. 4., Chapter 51
- J. Rust (1994): Estimation of dynamic structural models, problems and prospects: discrete decision processes. *Advances in Econometrics. Sixth World Congress*. Econometric Society Monograph.
- Robert A. Moffitt (1999): “New Developments in Econometric Methods for Labor Market Analysis,” in the Handbook of Labor Economics: Vol. 3A.
- Wooldridge, J.M. (2002): *Econometric Analysis of Cross Section and Panel Data*. MIT Press.

### Topics to be Covered (In a perfect world)

#### 1. *Baby Steps: An Undergraduate Review*

- Ronald G. Ehrenberg and Robert S. Smith (7th or 8th Edition): *Modern Labor Economics: Theory and Public Policy*. Chapters 1 to 10, and 12.
- Bruce E. Kaufman, and Julie L. Hotchkiss (5th Edition): *The Economics of Labor Markets*.
- Thomas Hyclak, Geraint Johnes, and Robert Thornton: *Fundamentals of Labor Economics*.
- George J. Borjas (Second Edition or higher). *Labor Economics*.

#### 2. *Wage Determination: Human Capital*

- Gary Becker. *Human Capital*. 3rd Edition.
- Gary Becker (1965): “A Theory of the Allocation of Time,” *Economic Journal*, No. 299. Vol. 75. 493–517.
- Yoram Ben-Porath, 1967. The Production of Human Capital and the Life Cycle of Earnings. *JPE*, 352–365.
- J.J. Heckman 1976. A Life-Cycle Model of Earnings, Learning, and Consumption. *JPE*, S11-S44.
- Heckman, J.J., 1975. Estimates of a Human Capital Production Function Embedded in a Life-Cycle Model of Labor Supply, in *Household Production and Consumption*, N. E. Terleckyj (ed.). Columbia University Press.
- T. Paul Schultz, 1975. Comments on “Estimates of a Human Capital Production Function Embedded in a Life-Cycle Model of Labor Supply,” in *Household Production and Consumption*, N. E. Terleckyj (ed.). Columbia University Press.
- Z. Griliches, 1977. Estimating the Returns to Schooling: Some Econometric Problems. *Econometrica*, 1–22.

- Belzil and Hansen, *Econometrica* 2002.
- Belzil, *European Economic Review* 2007.
- Richard B. Freeman, 1986. Demand for Education. *Handbook of Labor Economics*, Vol. 1.
- R.J. Willis, 1986. Wage Determinants. *Handbook of Labor Economics*, Vol. 1.
- Yoram Weiss, 1986. The Determination of Life-Cycle Earnings: A Survey. *Handbook of Labor Economics*, Vol. 1.
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- Bound, John, David A. Jaeger, and Regina M. Baker (1995): “Problems with Instrumental Variables Estimation When the Correlation Between the Instruments and the Endogenous Explanatory Variable is Weak,” *JASA-Applications and Case Studies*, **90-430** 443-450.
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- Cameron, S. V. and J. J. Heckman (1998): “Life Cycle Schooling and Dynamic Selection Bias: Models and Evidence for Five Cohorts of American Males,” NBER Working Paper Series.
- Card, D. (1999): The Causal Effect of Education on Earnings. *Handbook of Labor Economics*. Vol. 3A
- Eckstein, Z. AND K. I. Wolpin (1999): “Why Youths Drop Out of High School: The Impact Of Preferences, Opportunities, and Abilities,” *Econometrica*, **67** 1295–1339.
- Heckman, J.J., (2001): “Identifying The Role of Cognitive Ability in Explaining The Level Of and Change in Returns To Schooling,” *Review of Economics and Statistics*, **83** 1–12.
- Imai, S., and M. Keane (2004): “Intertemporal Labor Supply and Human Capital Accumulation,” *International Economic Review*, **45-2**.
- Keane, M. P. and K. I. Wolpin (1997): “The Career Decisions of Young Men,” *Journal of Political Economy*, **105** 473–522.
- Manski, C., and J. Pepper (2000): “Monotone Instrumental Variables with an Application to the Returns to Schooling,” *Econometrica*, **68** 997–1013.
- Rosen, S. (1977): “Human Capital: A Survey of Empirical Research,” in *Research in Labor Economics*, Vol. 1. Edited by R. Ehrenberg.
- Shaw, K. L. (1989): “Life-Cycle Labor Supply with Human Capital Accumulation,” *International Economic Review*, **30** 431–456.

- Snow, A. and R. Warren, Jr., (1990): “Human Capital Investment and Labor Supply under Uncertainty,” *International Economic Review*, **31** 195–206.
- Stiglitz, J. (1975): “The Theory of Screening, Education, and the Distribution of Income,” *American Economic Review*, 283–300.
- Taber, C.R., (2001): “The Rising College Premium in the Eighties: Return to College or Return to Unobserved Ability?” *Review of Economic Studies*, **68-3**.
- Willis, Robert, and Sherwin Rosen (1979). “Education and Self-Selection,” *Journal of Political Economy*, **87-5** S7–S36.

### 3. Labor Supply

- Mark R. Killingsworth, (1983): Labor Supply.
- John Pencavel, (1986): Labor Supply of Men: A Survey. Handbook of Labor Economics, Vol. 1.
- Mark R. Killingsworth and J.J. Heckman (1986): Female Labor Supply: A Survey. Handbook of Labor Economics, Vol. 1.
- Heckman, J.J. (1979): “Sample Selection Bias as a Specification Error,” *Econometrica*, **47-1** 153–161.
- James P. Smith (editor) (1980): Female Labor Supply: Theory and Estimation.
- Heckman, J.J., (1974): “Shadow Prices, Market Wages, and Labor Supply,” *Econometrica*, **42**, 679–694.
- Moffitt, R. (1984): “The Estimation of a Joint Wage Hours Labor Supply Model,” *Journal of Labor Economics*, **2**, 550–566.
- MaCurdy, T. (1981): “An Empirical Model of Labour Supply in a Life-Cycle Setting,” *JPE* **89** 1059–1085.
- Heckman, J. and T. MaCurdy. (1980) “A Life Cycle Model of Female Labour Supply,” *Rev. Econ. Studies*, **47** 47–74.
- Hotz, V.J., F. Kydland, and G. Sedlacek, (1988): “Intertemporal Preferences and Labor Supply,” *Econometrica* **56** 335–360.
- J. Altonji (1986): “Intertemporal Substitution in Labor Supply: Evidence in Micro Data,” *Journal of Political Economy*.
- Thomas A. Mroz, (1987): “The Sensitivity of an Empirical Model of Married Women’s Hours of Work to Economic and Statistical Assumptions,” *Econometrica*, **55-4** 765–799.
- David Card (1990): “Labor Supply with a Minimum Hours Threshold,” *Carnegie-Rochester Conference Series on Public Policy*, **33** 137–168.
- David Card (1994): “Intertemporal Labor Supply: An Assessment,” in *Advances in Econometrics, Sixth World Congress, Vol. II*. Chris Sims (editor).
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- Blundell, R., and T. MaCurdy (1999): “Labor Supply: a Review of Alternative Approaches,” *Handbook of Labor Economics*, Vol. 3A.

#### 4. Retirement and Disability

##### **Retirement of Individuals**

- John Rust, and Christopher Phelan (1997): “How Social Security and Medicare Affect Retirement Behavior in a World of Incomplete Markets,” *Econometrica*, **65** 781–831.
- Rust, J. (1989): “A Dynamic Programming Model of Retirement Behavior,” in David A. Wise (ed), *Economics of Aging*, Chicago, University of Chicago Press for the National Bureau of Economic Research.
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- Hurd, M. (1990): “Research on the Elderly: Economic Status, Retirement, and Consumption and Saving,” *Journal of Economic Literature*, **28** 565–637.
- Blau, D. (1994): “Labor Force Dynamics of Older Men,” *Econometrica*, **62** 117–156.
- Robin L Lumsdaine and Olivia S. Mitchell (1999): “New Developments in the Economic Analysis of Retirement,” *Handbook of Labor Economics*, Vol. 3C.
- Currie, J., and B.C. Madrian (1999): “Health, Health Insurance and the Labor Market,” *Handbook of Labor Economics*, Vol. 3C.
- Schulz, J. H. (1995): *The Economics of Aging*, Auburn House, sixth edition.
- Ruhm, C.J, (1996): “Historical Trends and the Future of Older Americans,” in *The Handbook on Employment and the Elderly*, William H. Crown, ed. Greenwood.
- Hugo Benítez-Silva, (2000): “Micro Determinants of Labor Force Status Among Older Americans,” manuscript.
- Hugo Benítez-Silva and Frank Heiland (2007): “Early Claiming of Social Security Benefits and Labor Supply Behavior of Older Americans,” forthcoming in *Applied Economics*.
- Hugo Benítez-Silva and Frank Heiland (2007): “The Social Security Earnings Test and Work Incentives,” **26-3** 527–555.
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- Blau, D., D. B. Gilleskie and C. Slusher (1997): “The Effect of Health on Employment Transitions of Older Men,” manuscript, University of North Carolina at Chapel Hill and Social Security Administration.
- Bound, J., M. Schoenbaum., T. Stinebrickner, and T. Waidmann (1998): “Modeling the Effects of Health on Retirement,” Draft presented at the NBER Aging & Health Care Summer Institute, July, 1998

- Bound, J., M. Schoenbaum., T. Stinebrickner, and T. Waidmann (1997): “Measuring the Effects of Health on Retirement Behavior,” Draft presented at the “Economics of Aging: International Health and Retirement Survey Conference,” Amsterdam, August 7-8, 1997.
- Burtless, G., and R. A. Moffitt (1985): “The Joint Choice of Retirement Age and Post-Retirement Hours of Work,” *Journal of Labor Economics*, **3** 209–236.
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- Dwyer, D.S., and O.S. Mitchell (1999): ”Health Shocks as Determinants of Retirement: Are Self-Rated Measures Endogenous?” *Journal of Health Economics*, **18** 173-193.
- Flippen, C., and M. Tienda (1996): “Labor Force Behavior of Hispanic elderly, insights from HRS,” Working Paper 96-032. HRS web page.
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- Gruber, J., and P. Orszag (1999): “What To Do About the Social Security Earnings Test?” Center for Retirement Research Brief July 1999 No. 1.
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- Gustman, A. L., and T. L. Steinmeier (2002): “The Social Security Early Retirement Age in a Structural Model of Retirement and Wealth,” NBER Working Paper No. 9183.
- Gustman, A. L., O. Mitchell, and T.L. Steinmeier (1994): “Retirement Research Using the Health and Retirement Survey,” NBER Working Paper No. 4813.
- Gustman, A. L., O. Mitchell, and T.L. Steinmeier (1995): “Retirement Measures in the Health and Retirement Study,” *The Journal of Human Resources* **30** (Supplement).
- Gustman, A. L., and Thomas Steinmeier (1986): “A Structural Retirement Model,” *Econometrica*, **54-3** 555–584.
- Herz, D. E. (1995): “Work After Early Retirement: and increasing trend among men”, in *The Monthly Labor Review*, US Department of Labor, Bureaus of Labor Statistics.
- Honig, M., and C. Reimers (1989): “Is It Worth Eliminating the Retirement Test?” *American Economic Review*, **79** 103–107.

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- Hutchens, R. (1999): “Social Security Benefits and Employer Behavior: Evaluating Social Security Early Retirement Benefits as a Form of Unemployment Insurance,” *International Economic Review*, **40-3** 659–678.
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- Karoly, L., and J. Rogowski (1997): “Health Insurance and Labor Market Transitions of Older Workers,” RAND Working Paper.
- Leonesio, M. V. (1990): “Effects of the Social Security Earnings Test on the Labor Market Activity of Older Americans: A Review of the Evidence,” *Social Security Bulletin*, **53** 2–21.
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- Peracchi, F., and F. Welch (1994): “Trends in Labor Force Transitions of Older Men and Women,” *Journal of Labor Economics* **12-2** 210–242.
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- Quinn, J. (1998): “Retirement Patterns and Bridge Jobs in the 1990’s.” manuscript, Boston College.
- Reimers, C., and M. Honig (1993): “The Perceived Budget Constraint under Social Security: Evidence from Reentry Behavior,” *Journal of Labor Economics*, **11** 184–204.
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- Votruba, M. E. (2003): “Social Security And Retirees’ Decision to Work,” manuscript, Case Western Reserve University.
- van der Klaauw, W., and K.I. Wolpin (2002): “Social Security, Pensions and the Savings and Retirement Behavior of Households,” manuscript. University of North Carolina-Chapel Hill.

### **Retirement of Couples**

- Hurd, M. (1990): “The joint Retirement Decision of Husbands and Wives,” in David A. Wise (ed), *Issues in the Economics of Aging*, Chicago, University of Chicago Press for the National Bureau of Economic Research.
- Blau, D. (1998): “Labor Force Dynamics of Older Married Couples,” *Journal of Labor Economics*, **16-3** 595–629.
- Blau, D. (1997): “Social Security and the Labor Supply of Older Married Couples,” *Labour Economics*, **4** 373–418.
- Coile, C. (1999): “Social Security, Pensions, and the Retirement Decisions of Couples,” manuscript, NBER.
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## Disability

- John Bound and Richard V. Burkhauser (1999): “Economic Analysis of Transfer Programs Targeted on People with Disabilities,” *Handbook of Labor Economics*, Vol. 3C.
- Robert Haveman, and Barbara Wolfe (2000): “The Economics of Disability and Disability Policy,” *Handbook of Health Economics* Vol. 1.
- Hugo Benítez-Silva, John Rust and Moshe Buchinsky (2004): “How Large are the Classification Errors in the Social Security Disability Award Process?” NBER Working Paper 10219.

## 5. Other Topics

- Compensating Differentials in the Labor Market: Rosen, S. (1986): “A Theory of Equalizing Differences,” *Handbook of Labor Economics*, Vol. 1.
- Social Insurance: Krueger, A.B., and B.D. Meyer (2002): “Labor Supply Effects of Social Insurance,” NBER Working Paper No. 9014.
- Family Formation and Fertility
  - Montgomery, M and J. Trussell, (1986): “Models of Marital Status and Child-bearing,” in *Handbook of Labor Economics* Vol. 1.
  - Becker, G., (1991): *A Treatise on the Family*, Harvard University Press, Cambridge, Chapters 3 and 4.
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  - T. Paul Schultz (1990): “Testing the Neoclassical Model of Family Labor Supply and Fertility,” *Journal of Human Resources*, **25-4** 599–633
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- Discrimination: Gary S. Becker. *Economics of Discrimination*.