

LABOR ECONOMICS

Academic Year: 2023/2024

Term: 4th Trimester

ECTS: 3.5

INSTRUCTOR(S)

Pedro Raposo

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BIOGRAPHY

Pedro Raposo is an Associate Professor at CATÓLICA-LISBON, teaching Mathematics, Labor Economics, Microeconometrics, with research interests in Labor Economics and on high dimensional fixed effects in the context of big panel datasets. He is a consultant at National Statistics Institute working mainly on a big data project. Since 2008, Pedro worked on several research projects with different institutions, such as Banco de Portugal, the National Statistics Institute (INE) on topics ranging from Econometrics to Labor Economics. Some of this research was used in his PhD in Economics at Tilburg University, under the supervision of Prof. Jan van Ours. Pedro has published his work in top journals such as Journal of Econometrics, Review of Economics and Statistics, Journal of Human Resources, Labour Economics, Economics Letters, Population and Development Review, and the Journal of Population Economics. Before Pedro taught at ISEGI (UNL), where he did a MSc in Statistics, and worked in the financial sector at SIBS, after his undergraduate studies in Economics at ISEG.

COURSE OVERVIEW

This course is based on a course given by Pierre Cahuc. This course introduces the latest theoretical, methodological, and empirical developments in labor economics. It presents empirical methods (relevant for the policy makers) using contributions that have proved to be milestones in labor economics.

LEARNING OBJECTIVES

Besides theoretical knowledge, the students are supposed to learn how to analyze public policy. The analysis of public policy and the information available to policy makers, on such topics as discrimination, globalization, income redistribution, employment protection, and the minimum wage or labor market programs for the unemployed will allow fulfilling the learning goals.

TEACHING AND LEARNING METHODOLOGY

In the first part of the lecture, the slides will be briefly presented, and students are supposed to present and discuss the most recent scientific papers in the second half of the lecture. The student's presentation and discussion of the scientific papers will allow the students to learn from recent papers mainly orientated to public policy applied to the labor market.

REQUIRED BACKGROUND

Every student is expected to know calculus and basic probability and statistics. Although I will not emphasize the technical aspects of the final exam, the presentations, and the lectures will require some knowledge of mathematics.

ASSESSMENT

| | | |
|------------------------|------------------|-----|
| Class Participation | individual grade | 20% |
| Homework/Class Project | individual grade | 30% |
| Final Exam | individual grade | 50% |

The final grade is based on:

1. Individual Class Participation (Paper presentation: 20%): 5 minutes summary (motivation, research question, data, method, results, put paper in perspective) + 5 minutes discussion.
2. Homework and (or) Class Project (30%):
 - a. #8 assignments: #7 summaries of papers (PPQ) 1 page individual assignment: half page summary, half page put paper in perspective in the literature and/or page explaining what could you add to that paper (Deadline: Every Thursday 23:55 on moodle).
 - b. #1 Stata session on week 6 counts as a paper: submit the code that was prepared in class.
 - c. Only the best 6 out of 8 assignments count.
3. Final Exam (50%): minimum grade 7.

COURSE CONTENT

- Week 1: Introduction and Overview of the labor market.
- Week 1: The supply of labor: The decision to work.
- Week 2: The demand for labor and elasticities: The decision to hire.
- Week 3: Human capital: Is it worth to invest in education.
- Week 4+5: Frictions and obstacles to competition: discrimination, minimum wage, compensating differentials, monopsony, unions.
- Week 5+6: Inequality (technological progress, migration, international competition).
- Week 6: Stata session: replicating in practice what we have learned.

BIBLIOGRAPHY

Required readings:

Research articles:

Week1: Overview of the labor market

*D. Card, 'The Impact of the Mariel Boatlift on the Miami Labor Market.' Industrial and Labor Relations Review, vol.43, (January 1990), pp. 245--257.

- Week1: The supply of labor: The decision to work:

A. Deaton and J. Muellbauer, Economics and Consumer Behavior, Cambridge University Press, 1980, especially Chapter 4.

M. Killingsworth, *Labor Supply*, Cambridge University Press, 1983; Chapters 1, 2, and 7.

O. Ashenfelter and J. Heckman, "The Estimation of Income and Substitution Effects in a Model of Family Labor Supply," *Econometrica*, 42[1], January 1974, 73-86.

Heckman, James J., "Shadow Prices, Market Wages and Labor Supply," *Econometrica*, 42[4], July 1974, 679-94.

R. Blundell and T. MaCurdy, "Labor Supply: A Review of Alternative Approaches," *The HOLE Volume 3A*, chapter 27, 1999.

*PPQ1 (week2) Imbens, Rubin, and Sacerdote, "Estimating the Effect of Unearned Income on Labor Supply: Evidence from a Survey of Lottery Players," *American Economic Review* 91 (2001).

*D. Cesarini, E. Lindqvist, M. Notowidigdo, and R. Östling, "The Effect of Wealth on Individual and Household Labor Supply: Evidence from Swedish Lotteries," *American Economic Review*, 107 (2017).

Raposo, Pedro S. & van Ours, Jan C., 2010. "How working time reduction affects jobs and wages," *Economics Letters*, Elsevier, vol. 106(1), pages 61-63, January.

- Week2: The demand for labor and equilibrium

*J. Angrist, "Short-Run Demand for Palestinian Labor," *Journal of Labor Economics*, July 1996.

D. Card and T. Lemieux, "Can Falling Supply Explain the Rising Return to College for Younger Men? A Cohort-based Analysis," *The QJE* 116 (May 2001), 705-746.

L. Katz and K. Murphy. Changes in relative wages, 1963–1987: supply and demand factors. *The quarterly journal of economics*, 107(1), 35-78, 1992

*PPQ2 (week3) Goldin, C. and C. Rouse (2000) *Orchestrating impartiality: the impact of "blind" auditions on female musicians*, *American Economic Review*, 90, 4, 715-741.

- Week3: Wage and human capital

J. Mincer, *Schooling, Experience, and Earnings*, New York: NBER, 1974. G. Becker, *Human Capital*, 3rd Edition, Chicago: University of Chicago press, 1993.

R.J. Willis, "Wage Determinants," Chapter 10 in *The Handbook of Labor Economics*, volume 1, 1987.

Ben-Porath, Yoram (1967). "The Production of Human Capital Over the Life Cycle," *Journal of Political Economy*, Vol. 75, No. 4-1, pp. 352-365.

R.J. Willis, and Sherwin Rosen, "Education and Self-Selection," *Journal of Political Economy*, 87[5] Part 2, Oct 1979: S7-S36.

R. Freeman, "Demand for Education," Chapter 6 in *The Handbook of Labor Economics*, Volume 1, 1986.

Lang, Kevin, and David Kropp (1986), "Human Capital Versus Sorting: The Effects of Compulsory Attendance Laws," *Quarterly Journal of Economics* 101, 609-624.

*Tyler, John, Richard J. Murnane and John Willett, "Estimating the Labor Market Signaling value of the GED," *Quarterly Journal of Economics*, May 2000. (M)

P. Martorell and D. Clark, "The Signaling Value of a High School Diploma," *Journal of Political Economy*, 122[2], April 2014.

*Cipollone P. and Rosolia, A. (2007), *Social Interactions in High School: Lessons from an Earthquake*, *American Economic Review*, vol. 97(3), pages 948-965.

D. Card, "Estimating the Return to Schooling: Progress on Some Persistent Econometric Problems." *Econometrica* 69 (September 2001).



P. Oreopoulos, "Estimating Average and Local Average Treatment Effects of Education when Compulsory Schooling Laws really Matter," *American Economic Review* 96(1), March 2006, pp. 152-175. See also August 2008 (Link) correction.

* Acemoglu, Daron and Joshua Angrist (2000) "How Large Are The External Returns to Education: Evidence from Compulsory Schooling Laws" NBER Macro Annual 2000.

* Spence, Michael (1973) "Job Market Signaling" *Quarterly Journal of Economics*, 87(3), 355 – 374.

* Jacobson, Louis, Robert LaLonde and Daniel Sullivan (1993). "Earning Losses of Displaced Workers," *American Economic Review*, vol. 83, pp. 685-709.

B. Jovanovic (1979) "Firm-Specific Capital and Turnover" *Journal of Political Economy*, 87.6 (December), 1246-60.

J. Altonji and R. Shaktoko, "Do Wages Rise with Job Seniority?," *Review of Economic Studies*, July 1987.

* Acemoglu, Daron and Steve Pischke (1998). "Why Do Firms Train", *Quarterly Journal of Economics*, Vol. 113, No. 1, pp. 79-119.

* Acemoglu, Daron and Steve Pischke (1999). "The Structure of Wages and Investment in General Training," *Journal of Political Economy*, vol 107, June 1999, pp. 539-572.

* Autor, David H. (2001) "Why do Temporary Help Firms Provide Free General Skills Training?," *Quarterly Journal of Economics*, Vol. 116, No. 3, pp. 1409-1448.

* Nilsson, Kent W., and Cecilia Aslund. 2013. "Social capital in relation to alcohol consumption, smoking, and illicit drug use among adolescents: a cross-sectional study in Sweden". More information here: <https://pubmed.ncbi.nlm.nih.gov/23688242/>

*PPQ3 (week4) Almond, Douglas, Lena Edlund, and Mårten Palme. 2007. "Chernobyl's Subclinical Legacy: Prenatal Exposure to Radioactive Fallout and School Outcomes in Sweden".

- Week4: Obstacles to competition: min wage, discrimination, compensating differential, monopsony

Minimum wage:

Stewart, M.B. (2004), The employment effects of the national minimum wage, *Economic Journal*, 114, C110-116.

D. Card and A. Krueger *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton: Princeton University Press, 1995.

*PPQ4 (week5) Cengiz, Doruk, et al. "The effect of minimum wages on low-wage jobs." *The Quarterly Journal of Economics* 134.3, 2019, 1405-1454.

J. Kennan, "The Elusive Effects of Minimum Wages," *Journal of Economic Literature*, 33[4], December 1995, 1949-1965.

R. Dickens, S. Machin and A. Manning, "The Effects of Minimum Wages on Employment: Theory and Evidence From Britain", *Journal of Labor Economics*, 17[1], January 1999, 1-22.

Manning, Alan, *Monopsony in Motion: Imperfect Competition in Labor Markets*, Princeton University Press, 2003.

*Pedro Portugal & Ana Rute Cardoso, 2006. "Disentangling the Minimum Wage Puzzle: An Analysis of Worker Accessions

and Separations,"

Journal of the European Economic Association, MIT Press, vol. 4(5), pages 988-1013, September.

*Arulampalam, W., A.L. Booth and M.L. Bryan (2004), Training and the new minimum wage, *The Economic Journal*, 114, C87-94.

Discrimination:

*Hamermesh, D.S., and J.E. Biddle (1994) Beauty and the labor market, *American Economic Review*, 84, 5, 1174-1194.

Kahn, L.M. and M. Shah (2005), Race, compensation and contract length in the NBA: 2001-2002, *Industrial Relations*, 44, 3, 444-

*Paulo Guimarães & Pedro Portugal & Ana Rute Cardoso & Pedro S. Raposo, 2016. "The sources of the gender wage gap," *Economic Bulletin and Financial Stability Report Articles and Banco de Portugal Economic Studies*, Banco de Portugal, Economics and Research Department.

*Groschen, Erica L. (1991). "The structure of the female/male wage differential: Is it who you are, what you do, or where you work?" *Journal of Human Resources*, 26(3), 457-472

- Week6: Inequality (technological progress, migration, international competition)

*D. Autor, "Work of the Past, Work of the Future," *The AER* 109 (May 2019), 1-32.

*PPQ5 (week 6) David Card & Ana Rute Cardoso & Patrick Kline, 2016. "Bargaining, Sorting, and the Gender Wage Gap: Quantifying the Impact of Firms on the Relative Pay of Women," *The Quarterly Journal of Economics*, Oxford University Press, vol. 131(2), pages 633-686.

Autor, David and David Dorn (2013) "The Growth of Low-Skill Service Jobs and Polarization in the US Labor Market" *American Economic Review*, 103(5), 1553-1597

Acemoglu, D. and Autor, D. (2011). Skills, tasks and technologies: Implications for employment and earnings, volume 4 of *Handbook of Labor Economics*, chapter 12, pages 1043-1171. Elsevier.

Armour, P., Burkhauser, R. V., and Larrimore, J. (2016). Using the pareto distribution to improve estimates of top-coded earnings. *Economic Inquiry*, 54(2):1263-1273.

Autor, D., Katz, L., and Kearney, M. (2006). The polarization of the US labor market. *The American Economic Review*, 96(2):189-194.

Autor, D., Katz, L., and Kearney, M. (2008). Trends in US wage inequality: Revisioning the revisionists. *The Review of Economics and Statistics*, 90(2):300-323.

Card, D. and DiNardo, J. E. (2002). Skill-biased technological change and rising wage inequality: Some problems and puzzles. *Journal of Labor Economics*, 20(4):733-783.

Goos, M. and Manning, A. (2007). Lousy and lovely jobs: The rising polarization of work in Britain. *The Review of Economics and Statistics*, 89(1):118-133.

Goos, M., Manning, A., and Salomons, A. (2014). Explaining job polarization: routine-biased technological change and offshoring. *The American Economic Review*, 104(8):2509-2526

Katz, L. and Murphy, K. (1992). Changes in relative wages, 1963 - 1987: Supply and demand factors. *The Quarterly Journal of Economics*, 107(1):35-78.

Lemieux, T. (2006). Increasing residual wage inequality: Composition effects, noisy data, or rising demand for skill? *American Economic Review*, 96(3):461-498.

Piketty, T. and Saez, E. (2003). Income inequality in the United States, 1913-1998. *The Quarterly Journal of Economics*, 118(1):1-41.

Paulo M.M. Rodrigues & João Nicolau & Pedro Raposo, 2020. "Measuring wage inequality under right censoring," *Working Papers w202008*, Banco de Portugal, Economics and Research Department.

- Extra readings:



DiNardo, J.E. and J-S. Pischke (1997) The returns to computer use revisited: have pencils changed the wage structure too?, *Quarterly Journal of Economics*, 112, 1, 291-303.

Lazear, E.P. (2000) Performance pay and productivity, *American Economic Review*, 90, 5, 1346-1361.

Lalive, R. and Zweimuller, J. (2004) Benefit entitlement and unemployment duration: The role of policy endogeneity, *Journal of Public Economics*, Elsevier, vol. 88(12), pages 2587-2616, December.

Peter Dolton, P., and O'Neill, D. (2002) The Long-Run Effects of Unemployment Monitoring and Work-Search Programs: Experimental Evidence from the United Kingdom, *Journal of Labor Economics*, 20, 2, 381-403.

Nickell, S.J. (1997) Unemployment and labor market rigidities: Europe versus North America, *Journal of Economic Perspectives*, 11, 3, 55-74.



Detailed plan

- Week1 (4-5 April): Overview of the labor market
 - o chapter 2, Cahuc et al, C1.1, C1.2.1-2, C1.3.1-2);
- Week1: The supply of labor: The decision to work
 - o chapter 6, Cahuc et al, C1.1, C1.2.1-2, C1.3.1-2);
- Week2 (11-12 April): The demand for labor and elasticities **PPQ1 (April 12th, Friday)**
 - o chapter 3-4, Cahuc et al, C2.1, C2.2, C3.1.1-2, C3.3;
- Week3 (18-19 April): Wage and human capital **PPQ2 (April 19th, Friday)**
 - o chapter 9, Cahuc et al, C4.1, C4.2.1, C4.4.1, C4.5.1;
- Week4 (26 April) and Week 5 (2-3 May): Frictions and obstacles to competition: min wage, discrimination, compensating differential, monopsony, unions **PPQ3 (May 3rd, Friday)**
 - o chapter 5,12,8,13, Cahuc et al, C4.1, C4.2.1, C4.4.1, C4.5.1, C12.2 mw;
- Week 6 (May 9-10th): Inequality (technological progress, migration, international competition)
PPQ4 (May 10th, Friday) + PPQ5 (May 10th, Friday)
 - o chapter 15,10,16, Cahuc et al, C10.2.1-2, C11.1.2, C11.3.2;
- Week7 (16th May): Stata session: replicating in practice what we have learned

Recommended books:

Modern Labor Economics, 12th Edition, by Ronald Ehrenberg and Robert Smith

Labor Economics, Second Edition, by Pierre Cahuc, Stéphane Carcillo and André Zylberberg

ADDITIONAL RESOURCES

Bootstrap is a curated collection of resources, techniques, and personal development tools from academic sources, thought-leaders, and well-established productivity practices. [bootstrap - Productivity & Study Resources | CATÓLICA-LISBON \(ucp.pt\)](#)

CODE OF CONDUCT AND ETHICS

Católica Lisbon School of Business and Economics is a community of individuals with diverse backgrounds and interests who share certain fundamental goals. A crucial element to achieve these goals is the creation and maintenance of an atmosphere contributing to learning and personal growth for everyone in the community. The success of CATÓLICA-LISBON in attaining its goals and in maintaining its reputation of academic excellence depends on the willingness of its members, both collectively and individually, to meet their responsibilities.

Along with all the other members of our community, students are expected to follow professional standards and CATÓLICA-LISBON standards of Academic Integrity. Some details should be mentioned here: Please arrive on time for class with uninterrupted attendance for the duration of the class. Signing attendance sheet for anyone else in the class constitutes fraud and a violation of the CLSBE code of conduct. Use of computers and other electronic devices during the class is not allowed unless expressly requested by the instructor of the course. Students who persistently act in a disruptive and disrespectful manner during the class session may be invited to leave.

Students are expected to behave at all times according to the fundamental principles of academic integrity, including honesty, trust, fairness, respect, and responsibility. In particular,

- a. In **individual graded assignments** of any type, students may not collaborate with others or use any materials without explicit permission from the instructor of the course;
- b. In **group assignments** and reports, all students listed as authors should have performed a substantial amount of work for that assignment;
- c. It is dishonest to fabricate or falsify data in experiments, surveys, papers, reports or other circumstances; fabricate source material in a bibliography or “works cited” list; or provide false information in other documents in connection with academic efforts;
- d. **Plagiarizing**, i.e. “to steal and pass off the ideas or words of another as one’s own and or to use another’s production without crediting the source” (Merriam-Webster Dictionary) is an Academic Integrity breach. It can be avoided by using proper methods of documentation and acknowledgement. Visit this guide for additional resources on how to avoid plagiarism in your written submissions <http://en.writecheck.com/plagiarism-guide>
- e. In **exams** students must not receive or provide any unauthorized assistance. During an examination, students may use only material and items authorized by the faculty. Use of smartwatches or other communication devices is not permitted during the exam.

Academic integrity breaches will be dealt with in accordance with the [school’s code of Academic Integrity](https://www.clsbe.lisboa.ucp.pt/system/files/assets/files/academicintegritycode.pdf):
<https://www.clsbe.lisboa.ucp.pt/system/files/assets/files/academicintegritycode.pdf>

