



# Labour Economics

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This course is designed for post-graduate students and aims to cover several of the most important topics in labour economics. Each topic will first be considered on theoretical grounds, further supplemented with illustrations of empirical research on the issue. Relevant policies will be presented and discussed.

## Recommended textbooks

- Ashenfelter, A. and Card, D. (eds) (1999), *Handbook of Labour Economics*, Elsevier.
- Borjas, G. (2009) *Labour Economics*, McGraw-Hill.
- Cahuc, P. and Zylberberg, A. (2004) *Labour Economics*, MIT Press.
- Smith, S. (2003) *Labour Economics*, Routledge.

Selected chapters are proposed as a reference point depending on the topic (see below).

Lecture notes and supporting materials will be provided.

## Program of the course

Day 1. Education and human capital

Day 2. Wage determination, inequality and discrimination

Day 3. Labour demand and labour supply

Day 4. The economics of migration

Day 5. Policies, institutions and labour market performance

## Assessment procedure

- attendance and participation<sup>2</sup> (1/3);
- in-class test<sup>3</sup> at the end of the fifth day (1/3);
- written essay on a given topic (take home exam) (1/3).

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<sup>2</sup> Students may choose to present one of the assigned readings in class (selected after consulting with the tutor). The purpose of this exercise is to increase class participation and to improve presentation skills.

<sup>3</sup> The test aims to check the understanding of basic concepts (listed in brackets after each of the topic) and will include problem sets and quick answers.

**Day 1. Education and human capital****[ human capital theory – returns to education (private/social) – signaling - overeducation ]****Readings:**

- Cahuc, P. and Zylberberg, A. (2004) 'Education and Human Capital', in *Labour Economics*, Ch. 2. pp. 59-106
- Card, D. (1999) 'The Causal Effect of Education on Earnings', in *Handbook of Labour Economics*, Ch. 30, North Holland, Amsterdam and New York.
- † Flabbi, L., Paternostro, S. and Tiongson, E. (2007). Returns to education in the economic transition: A systematic assessment using comparable data. World Bank Policy Research Working Paper 4225.
- Gorodnichenko, Y. and Sabirianova Peter, K. (2005) 'Returns to Schooling in Russia and Ukraine: A Semiparametric Approach to Cross-Country Comparative Analysis', *Journal of Comparative Economics* 33(2005): 223-240.
- Heckman, J. and Rubinstein (2001) 'The Importance of Noncognitive Skills: Lessons from the GED Testing Program', *The American Economic Review*, 91(2): 145-149.
- Heckman, J. (2000) 'Policies to foster human capital', *Research in Economics*, 54: 3–56.
- Heckman, J. J., Lochner, L.J. and Todd, P.E. (2003) 'Fifty Years of Mincer Earnings Regressions', NBER Working Paper No. 9732.
- Keep, E. and Mayhew, K. (2004) 'The economic and distributional implications of current policies on higher education', *Oxford Review of Economic Policy*, 2(2): 298-314.
- McGuinness, S. (2006) 'Overeducation in the labour market', *Journal of Economic Surveys*, vol. 20, no. 3: 387-418.
- † Muravyev, A. (2006) 'Human Capital Externalities: Evidence from the Transition Economy of Russia', DIW DP 629, Berlin, German Institute for Economic Research.
- Polachek, S.W. and Siebert, W.S. (1993) *The Economics of Earnings*. Cambridge University Press.
- Pastore, F. and Verashchagina, A (2006) 'Private Returns to Human Capital over Transition. A Case Study of Belarus', *Economics of Education Review*, 2006, 25(1): 91-107.
- Psacharopoulos, G. and Patrinos, H. A. (2004) 'Returns to investment in education : A Further Update', *Education Economics*, Vol. 12, No. 2: 111-134.
- \* Smith, S. (2004) 'Human capital', in *Labour Economics*, Ch. 5: 119-164

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\* the required minimum.

Papers marked with † are proposed for a short (10 minutes) presentation in the class.

**Day 2. Wage determination, inequality and discrimination****[ intergenerational mobility – compensating wage differentials – theories of discrimination]****Readings:**

- † Akerlof, G.A. and Kranton, R.E. (2000) 'Economics and Identity', *Quarterly Journal of Economics*, CXV (3): 715-753.
- Bettio, F. and Verashchagina, A. (2009) *Gender segregation in the labour market: root causes, implications and policy responses in the EU*, EC's Expert Group on Gender and Employment.
- Bowles, S., Gintis, H. and Osborne, M. (2001) 'The determinants of earnings: A Behavioral Approach', *Journal of Economic Literature*, 39(4): 1137-1176.
- † Bowles, S. and Gintis, H. (2002) 'The Inheritance of Inequality', *Journal of Economic Perspectives*, 16(3): 3-30.
- Brainerd, E. (2000) 'Women in transition: Change in gender wage differentials in Eastern Europe and FSU', *Industrial and Labor Relations Review*, 54(1): 139-162.
- \*\* Cahuc, P. and Zylberberg, A. (2004) 'Compensating wage differentials and discrimination', in *Labour Economics*, Ch. 5: 245-299.
- Hertz, T., Jayasundera, T., Piraino, P., Selcuk, S., Smith, N. and Verashchagina, A. (2007) 'The inheritance of educational inequality: International comparisons and fifty-year trends', *The B.E. Journal of Economic Analysis and Policy*, 7(2), Article 10.
- Jurajda, S. (2005) 'Gender segregation and wage gap: An East-West comparison', *Journal of the European Economic Association*, 3(2-3): 598-607.
- Machado, J. and Mata, J. (2005) 'Counterfactual decomposition of changes in wage distributions using quantile regression', *Journal of Applied Econometrics*, vol. 20: 445-465.
- Newman S. and Oaxaca R. (2004) 'Wage Decomposition with selectivity-corrected wage equations: a methodological note', *Journal of Economic Inequality*, 2: 3-10.
- Oaxaca, R. and Ransom, M.R. (1994) 'On discrimination and the decomposition of wage differentials', *Journal of Econometrics*, vol.61: 5-21.
- Pastore, F. and Verashchagina, A. (2006) 'The Distribution of Wages in Belarus', *Comparative Economic Studies*, 2006, 48 (2): 351–376.
- Pastore, F. and Verashchagina, A. (2010) 'When does transition increase the gender wage gap? An application to Belarus', BEROE WP no. 9.
- \* Smith, S. (2004) 'Wage determination and inequality', in *Labour Economics*, Ch. 3: 71-98
- \* Smith, S. (2004) 'Labour market discrimination', in *Labour Economics*, Ch. 6: 165-201.
- Solon, G. (1999) 'Intergenerational Mobility in the Labour Market' in Ashenfelter, O. and Card, D. (eds), *Handbook of Labour Economics*, vol. 3, Ch. 29, Elsevier.
- Verashchagina, A. (2009) 'Education and socioeconomic mobility in post-communist countries', BEROE WP no. 4
- Yemelyanau, M. (2008) 'Inequality in Belarus from 1995 to 2007', BEROE WR no. 1.

### Day 3. Labour demand and labour supply

#### [ labour demand/labour supply elasticities – substitution/income effect – reservation wage ]

##### Readings:

- † Alesina, A., Glaeser, A.E. and Sacerdote, B. (2005) "Work and Leisure in the US and Europe: Why so Different?" Harvard Institute of Economic Research, DP no. 2068.
- Alesina, A. and Ichino, A. (2007) 'Gender based taxation', working paper.
- † Blau, F. & Kahn, L. (2007) 'Changes in the labor supply behavior of married women: 1980-2000', *Journal of Labor Economics*, 25(3): 393-498.
- Blundell, R. and MaCurdy, T. (1999) 'Labour Supply: a Review of Alternative Approaches' in Ashenfelter, O. and Card D. (eds.) *Handbook of Labour Economics*, vol. 1: North Holland.
- \*\* Cahuc, P. and Zylberberg, A. (2004) 'Labour Supply', in *Labour Economics*, Ch. 1: 3-57.
- Heckman, J. (1993) 'What Has Been Learnt About Labour Supply in the Past Twenty Years?', *American Economic Review Papers and Proceedings*, 83: 116-21.
- Lundberg, S. (2009) 'Gender and household decision-making' in F. Bettio and A. Verashchagina (eds) *Frontiers in the Economics of Gender*, Routledge: 116-133
- Meghir, C. and Phillips, D. (2010) Labour Supply and Taxes, IFS WP 08/04.
- Pastore, F. and Verashchagina, A. (2009) 'The Determinants of Female Labour Supply in Belarus' in R. Kanbur and J. Svejnar (eds) *Labour Markets and Economic Development*, Routledge Studies in Development Economics, Routledge.
- \*Smith, S. (2003) 'Labour supply', in *Labour Economics*, Ch. 1: 6-39.
- \*Smith, S. (2003) 'Labour demand and productivity', in *Labour Economics*, Ch. 2: 40-70.
- Women and unpaid family care work in the EU (2009) Fondazione Giacomo Brodolini. Report prepared for the European Parliament.

### Day 4. The economics of migration

#### [Roy model – brain drain/brain gain – elasticity of substitution – remittances]

##### Readings:

- † Andrienko, Y. and Guriev, S. (2005) Understanding Migration in Russia, CEFIR Policy Paper series.
- \* Borjas (2009) 'Labour mobility' in *Labour Economics*, Chapter 8: 317-364.
- Borjas, G.J. (1999) 'The Economic Analysis of Immigration', Ch.28 in O.C. Ashenfelter and D. Card (eds), *Handbook of Labour Economics*, Amsterdam: North-Holland, pp. 1697-1760.
- Borjas, G.J. (1987) 'Self-Selection and the Earnings of Immigrants', *American Economic Review* 77(4): 531-553.

- Borjas, G.J. (2003) 'The Labour Demand Curve Is Downward Sloping: Reexamining the Impact of Immigration on the Labour Market', *Quarterly Journal of Economics* 118: 1335-1374.
- Brücker, H. (2002) *Economic Survey of Europe*, no.2.
- Card, D. (2001) 'Immigrant Inflows, Native Outflows, and the Local Market Impacts of Higher Immigration', *Journal of Labour Economics*, 19 (1): 22-64.
- Rapoport, H. and Docquier, F. (2005) 'The Economics of Migrants' Remittances', IZA DP No. 1531.
- † Kahanec, M., Zaiceva, A. and Zimmermann, K.F. (2009) *Lessons from Migration after EU Enlargement*, IZA DP no. 4230.
- Beine, M., Docquier, F. and Schiff, M. (2008) *International Migration, Transfers of Norms and Home Country Fertility*, IZA DP No. 3912.
- Borjas, G. J., Grogger, J. and Hanson, G.H. (2008) 'Imperfect Substitution between Immigrants and Natives: A Reappraisal', NBER Working Paper No. 13887.
- Facchini, G. and Mayda, A.M. (2009) 'Individual attitudes towards immigrants: Welfare-state determinants across countries', *Review of Economics and Statistics*, 91(2): 295-314.

### **Day 5. Policies, institutions and labour market performance**

#### **Readings:**

- Arpaia, A. and Mourre, G. (2005) 'Labour Market Institutions and Labour Market Performance: A Survey of the Literature', *Economic Papers*, no. 238, European Commission.
- Brixiova, Z. and Volchok, V. (2005) 'Labour Market Trends and Institutions in Belarus', WDI WP no. 777
- \*\* Cahuc, P. and Zylberberg, A. (2004) 'Labour Market Policies', in *Labour Economics*, Ch. 11: 635-712
- \*\* Cahuc, P. and Zylberberg, A. (2004) 'Institutions and Labour Market Performance', in *Labour Economics*, Ch. 12: 713-790
- † Gorodnichenko, Y., Martinez-Vazquez, J. and Peter, K. (2009) 'Myth and Reality of Flat Tax Reform: Micro Estimates of Tax Evasion Response and Welfare Effects in Russia', *Journal of Political Economy*, 117(3): 504-554.
- Heckman, J., Lalonde, R. and Smith, J. (1999) 'The economics and econometrics of active labour market programs', in Ashenfelter, O. And Card, D. (eds) *Handbook of Labour Economics*, vol. 3a, ch. 31: 1865-2097.
- Heckman, J. (2010) 'Building bridges between structural and program evaluation approaches to evaluating policy', *Journal of Economic Literature* 48(2): 356–398.
- Lehmann, H. and Muravyev, A. (2009) 'How Important Are Labour Market Institutions for Labour Market Performance in Transition Countries?', IZA DP No. 4673.
- Svejnar, J. (2003) 'Labor Market Flexibility in Central and Eastern Europe', M. Dabrowski and B. Slay (eds), *Beyond Transition*, M. E. Sharpe, 2003 [available also as WDI WP no. 296].