This course is the first of a two-semester sequence of courses in labor economics and industrial relations. The purpose of the course is twofold. On the one hand, the student should obtain a general survey of the problems, methods, and substantive literature in labor economics. On the other hand, the student should learn how measurement and hypothesis testing are carried on in the application of economic analysis to specific problems. To serve both purposes, students are expected to prepare a presentation during the first semester. Students are expected to prepare a paper during the second semester.

An outline of the topics covered throughout the year and the instructor responsible for each topic.

There is no single textbook for the course. Were it affordable, we would recommend that you purchase *The Handbook of Labor Economics*, edited by Orley Ashenfelter and Richard Layard. Several surveys from this collection will be used as assigned reading. Copies are on reserve in the Industrial Relations Section Library.
Reading List

Labor Supply

A. Static Analyses of the Classical Model


B. Life-Cycle Analyses of the Classical Model (Much of this material is reviewed in Pencavel's paper above)


C. Poverty Traps and State Dependence in Incomes: This issue concerns what inference about poverty programs we are entitled to draw from the fact that the same people stay in them for several periods, or the fact receiving income transfers if their fathers (or mothers) were. The goal is to separate the part of the dependence that results from the natural correlation of incomes from the incentive effects of social programs.

O. Ashenfelter, "Determining Participation in Income-Tested Social Programs," Journal of the American Statistical Association, September 1983. This paper clarifies the relationship between participation in an income tested social program and the natural parameters of the income distribution in the absence of the program. The economic analysis is in an appendix.


D. Labor Supply in Markets without Complete Worker Flexibility: In the last decade many labor economists have come to believe that it is difficult or impossible to identify incentives in worker labor supply functions from the available data on their choices—especially with the assumption that workers face a perfectly elastic demand for their hours worked. The literature in this field attempts to document just what is wrong with the classical assumption, suggests alternative assumptions, and explores their empirical implications.

D. Card, "Supply and Demand in the Labor Market," W.P. No. 228, Industrial Relations Section, Princeton University, Nov. 1987. An excellent readable summary and starting point for this literature.


John Ham, "Testing Whether Unemployment Represents Intertemporal Labor Supply Behavior," Review of Economic Studies, 1986. Similar to Ham's 1982 paper, this one deals with a more complex intertemporal labor supply model, and establishes just how poorly this model does compared to model that explicitly allows for the presence of employer demands for hours.

John Abowd and O. Ashenfelter, "Unemployment and Compensating Wage Differentials," IRS Working Paper 120, March 1979. This paper, never published because the empirical material always seemed unsatisfactory, spells out a simple equilibrium model of labor supply and compensating wage differentials that is consistent with the employer interest in employee hours of work.


II. Labor Demand

A. Static Analyses


B. Dynamic Analyses


see also the paper by Thomas MaCurdy and John Pencavel, "Testing Between Competing Models of Wage and Employment Determination in Unionized Markets", in the same volume of the IPE.


III. Education, Experience, and Earnings

A. Human Capital Earnings Functions: Empirical Regularities and Hedonic Interpretation


B. Education and Earnings: Human Capital Market Perspectives

G. Becker, Human Capital.


C. Evidence on the Return to Schooling


Princeton University

Department of Economics
Economics 532
Spring Term 1995

Topics in Labor Economics

Professors O. Ashenfelter
J. DiNardo

This course is the second of a two-semester sequence of courses in labor economics and industrial relations. The purpose of the course is twofold. On the one hand, the students should obtain a general survey of the problems, methods, and substantive literature in labor economics. On the other hand, the student should learn how measurement and hypothesis testing is carried on in the application of economic analysis to specific problems. To serve both purposes, students are expected to prepare a paper on a topic of their choice within the general scope of the course. This might be a small theoretical or empirical exploration, or a discussion and critique of existing literature.
This course is a continuation of Econ 531 and is a survey of additional topics not covered in the first semester. There is no required textbook for the course. Were it affordable, I would recommend purchasing The Handbook of Labor Economics, edited by Orley Ashenfelter and Richard Layard. A few surveys from this collection will be assigned reading. The list is too long to be read in its entirety. I will assign specific papers as required reading well in advance.

1. Compensating Wage Differentials


2. Implicit Contracts


3. Recent Developments in the Wage Structure


4. Social Program Evaluation

4.1. The Minimum Wage


4.2. Training Programs


5. Unions and Collective Bargaining

5.1. Background, Growth, and Decline


5.2. Modelling Union Behavior


5.3. Unions and Wages


6. Search


