

**Course Outline**  
**ECO 5136 Labour Economics**

**Winter 2008**

**Department of Economics**  
**University of Ottawa**

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Classes	Mondays 11:30 to 14:30
Location	DMS 10 161
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Office Hours	Mondays 14:30 to 15:30

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### **I. Course Description**

Upon completion of this course students will be familiar with: (1) the principles of economic theory used to understand contemporary labour markets; (2) the use of theory to construct empirical models of the most important issues in labour market analysis; and (3) the most common econometric methods, identification strategies, and data sets used in applied analyses of these issues. The course involves developing knowledge of both economic theory and empirical methods, but also of the institutions and the data needed to use theory and econometrics to understand labour markets in the OECD, and particularly in Canada.

Students will read, summarize, and critically assess texts in microeconomic theory and econometric techniques, as well as develop a familiarity with the basic structure of Canadian and OECD labour markets and the types of data used to study them. With guidance from the instructor, and in conjunction with their peers, each student will prepare a term paper on an issue they find of interest and relevant to contemporary public policy.

The course is intended for graduate students of economics who have had exposure to microeconomic theory and econometrics during their undergraduate or graduate studies. Upon completion of the course students will have the skills and knowledge associated

with an advanced level in labour economics. They will be able to critically read public policy documents dealing with labour market issues, and many related articles published in academic journals. Students will have also developed most of the skills needed to formulate and complete a research project in applied labour market analysis.

## **II. Specific Objectives and Approaches**

1. To develop a knowledge of microeconomic theory used to understand contemporary labour markets
  - Students will be introduced to the basic principles of microeconomic theory through lectures based upon readings they will do from standard textbooks, but also from some of the most important journal articles and books that have influenced the discipline.
2. To use theory to construct empirical models of the most important issues in labour market analysis
  - Students will enhance their familiarity with microeconomic theory and its use to construct empirically testable models through a series of weekly assignments and presentations dealing with contemporary issues in public policy.
  - Students will work in small groups and individually in the preparation of presentations and assignments.
3. To understand the most common econometric methods, identification strategies, and data sets used in applied analyses of labour market issues
  - Students will be introduced to the most common econometric techniques and identification strategies through lectures based upon readings they will do from standard textbooks and the most influential journal articles.
  - Students will develop a sense of the most common data used in the study of contemporary Canadian and OECD labour markets through a series of weekly assignments and presentations.

Weekly assignments and presentations will be used as a means of progressively completing a term paper, covering all three of these objectives. The term paper should provide students with a basis for successfully completing, if they so wish, the research essay required to fulfill their degree requirements in the economics MA program.

## **III. Class Work and Context**

Successful learning requires continuous and conscious engagement with the subject, and active in-class participation is an essential part of this engagement. It will serve as an important basis for evaluating your work in this course.

The successful student will take full advantage of the opportunities provided in class. Attending classes, handing in assignments on time, and consistently contributing to the class in all activities—whether group, pair, or individual—will all be considered as measures of success in effectively using your class time.

The classroom is intended to be a safe place where students can question and practice, receive feedback from both the instructor and their peers, and rely on their classmates as partners and resources in the learning process.

The instructor's role is to provide resources, guidance, and support, but students are responsible for engaging actively in the process.

Students are responsible for completing readings before the class, being prepared for discussions, submitting assignments on time, volunteering material for consideration by the class, offering feedback to their classmates, and constructively incorporating the feedback they receive from both classmates and the instructor into their own work.

For the most part the class will, on a weekly basis, read and discuss a research paper applying aspects of economic theory to an issue in labour economics. All students will be required to submit a one to two page summary of the article, and the in-class discussion will be led by a group of three to five students. The choice of the discussion topic will in part be motivated by the themes chosen by students for their term papers.

Students will also make in-class presentations of early drafts of their term papers. As such the weekly summaries and discussions will offer a means of progressively obtaining feedback in order to successfully complete this requirement for the course.

#### **IV. Resources**

There are two required texts for the course. Students are asked to purchase both of these books, which are available at the University of Ottawa Bookstore.

The first is:

Pierre Cahuc and André Zylberberg (2004). *Labor Economics*. Cambridge Massachusetts: The MIT Press.

This text will serve as your primary resource for readings and some assignments. It will also be the starting point for the instructor's lectures. Other texts will be relied upon by the instructor in order to introduce more advanced or supplementary material. Some of this will include a more detailed study of the economics of the family, particularly as it relates to the theory of collective decision making, and the intra-household allocation of resources. These topics are covered by the second course text students are advised to purchase:

John F. Ermisch (2003). *An Economic Analysis of the Family*. Princeton: Princeton University Press.

Students, particularly those who have not previously studied labour market economics, may wish to consult one or more undergraduate textbooks. One particularly appropriate text, based upon a Canadian perspective, is:

Dwayne Benjamin, Morley Gunderson, Thomas Lemieux, and W. Craig Riddell (2007). *Labour Market Economics*. Sixth edition. Toronto: McGraw-Hill Ryerson.

But others, with a US perspective, are also equally appropriate. These include but are not limited to:

George Borjas (2008). *Labor Economics*. Fourth edition. McGraw-Hill Higher Education.

Ronald G. Ehrenberg and Robert S. Smith (2006). *Modern Labor Economics: Theory and Public Policy*. Ninth edition. Addison-Wesley.

Reference will also be made throughout the course to a number of the essays in the following text, which has been placed upon Reserve at the Morisset Library:

Orley C. Ashenfelter and David Card, editors (1999). *Handbook of Labor Economics, Volume 3A*. Amsterdam: Elsevier North Holland.

Of particular interest will be the first essay in this volume by Joshua D. Angrist and Alan B. Krueger, "Empirical Strategies in Labor Economics." pp. 1277-1366. This essay will be referred to repeatedly throughout the course with reference to the empirical methods used in labour economics, and students may wish to obtain a copy. Angrist and Krueger offer an exposition and critical overview of some of the most important identification strategies used in modern labour economics, but they also presuppose a certain level of econometric knowledge.

Depending upon their background students may wish to rely upon standard econometric texts to support their work in this course. There are many such textbooks available, only one of which is:

William H. Greene (2007). *Econometric Analysis*. Sixth Edition. Prentice Hall.

The instructor can be relied upon to comment and give feedback on any text the student finds appropriate for his or her level of familiarity with the subject.

The course will also rely upon articles in standard economic journals, all but the most recent of which can be obtained through JSTOR, an electronic catalogue of academic

journals available through the University of Ottawa Library website by searching under the “Databases” link at <http://www.biblio.uottawa.ca/index-e.php>.

## **V. Evaluation**

Emphasis is given to your engagement in the course and the activities of the class. This is best demonstrated by motivated and informed involvement. This requires attending all scheduled classes, but also involves having completed the readings before the class and being prepared to engage in discussion. It involves your contributions to group work, completion of assignments by the required date, and attention to feedback from your peers and instructor. But obviously if you are not present you cannot participate, and regular attendance is therefore expected. Appropriate documentation justifying an extended absence is required.

The final mark will be determined as follows.

Attendance, participation, weekly assignments	30%
Class presentations	10%
In-class test	10%
Term Paper	20%
Final examination	30%

Class presentations will be scheduled during the course, and will require group as well as individual work.

The in-class test will be held on February 25<sup>th</sup>. It will be one hour in length.

A first draft of the term paper is due at the beginning of the class on March 10<sup>th</sup>, and the final draft is due at the beginning of the last class on April 7<sup>th</sup>.

The final examination will be three hours in length and will be scheduled by the University during the examination period between April 15<sup>th</sup> and April 30<sup>th</sup>.

The final grade will be the higher of the grade determined according to the above weighting, or according to a weighting in which the final exam counts for 40% and the in-class test for zero.

Students who miss the in-class test for whatever reason will be assigned a mark of zero, and their final examination mark will account for 40% of their grade.

Please note that the Faculty of Social Sciences has mandated that attendance at courses is compulsory, and that professors may exclude from the final examination any students whose attendance is unsatisfactory. Further, please note that students who do not submit a term paper according to the specified deadlines without valid and appropriate

documentation being given to the instructor will not be permitted to write the final examination.

## **VI. Disabilities and accommodations**

Students with disabilities requiring academic accommodations are encouraged to contact the Centre for Special Services. The Centre has a variety of assistance programs and options for students with a disability or requiring special equipment. You can obtain more information at <http://www.sass.uottawa.ca/access/> . After meeting with access services please feel free to make an appointment with the instructor to discuss any remaining concerns you may have. You should do this as soon as possible.

## **VI. Academic fraud and plagiarism**

Because of the growing number of allegations of academic fraud and plagiarism in recent years, the Faculty of Social Sciences has implemented a series of strategies to raise students' awareness of the rules of ethics governing university assignments and of the Faculty policy on academic fraud.

The first is a document called "Beware of Plagiarism!", which is available on the University's website at [www.uottawa.ca/plagiarism.pdf](http://www.uottawa.ca/plagiarism.pdf).

The second document is called "How to Avoid Plagiarism", which is available on the Faculty's website at: [www.socialsciences.uottawa.ca/pdf/etudiantsBac/methodological\\_guides/Howtoavoidplagiarism.pdf](http://www.socialsciences.uottawa.ca/pdf/etudiantsBac/methodological_guides/Howtoavoidplagiarism.pdf) .

Students are advised to read both of these documents and in addition to be aware of the University regulation on academic fraud, also available on the University web site.

## Core Readings

### I. Labour Supply

1. The Neoclassical Model of Labour Supply
  - a. Pierre Cahuc and André Zylberberg. *Labor Economics*. Chapter 1.
  - b. Angus Deaton and John Muelbauer (1980). *Economics and Consumer Behaviour*. Cambridge: Cambridge University Press. Chapter 1, especially pages 3 to 14, and Chapter 4, especially pages 86 to 108.
  - c. J.R. Hicks (1946), *Value and Capital*, second edition. Oxford: Oxford University Press, pp. 35-7 and the Mathematical Appendix, sections 1-12.
  - d. Y. Ben-Porath (1973). "Labor Force Participation Rates and the Supply of Labor." *Journal of Political Economy*. Vol. 81, pp. 697-704.
  
2. Empirical Studies
  - a. Richard Blundell and Thomas Macurdy (1999). "Labor supply: A review of alternative approaches." Chapter 27 in Ashenfelter and Card editors, *Handbook of Labor Economics*, Volume 3A, pages 1560 to 1695.
  - b. James Heckman (1993). "What has been learned about labor supply in the past twenty years?" *American Economic Review*. Vol. 83 no.2, pages 116-21.
  - c. James Heckman (1974). "Shadow prices, Market Wages, and Labor Supply." *Econometrica*. Vol. 42 (July), pages 679-94.
  - d. Orley Ashenfelter and James Heckman (1974). "Estimating labor-supply functions." In G. Cain and H. W. Watts (editors). *Income Maintenance and Labor Supply: Econometric Studies*. Chicago: Rand McNally. Pages 265-78.

### II. Household and Family Models of Labour Supply, Investments in Children, and Generational Mobility

1. Theory
  - a. Pierre Cahuc and André Zylberberg. *Labor Economics*. Chapter 1.
  - b. John F. Ermisch. *An Economic Analysis of the Family*. Chapters 1 to 4, but especially chapter 2.
  - c. Martin Browning (1992). "Children and Household Economic Behavior." *Journal of Economic Literature*. Vol. 30 no. 3, pp. 1434-75.
  - d. Casey B. Mulligan (1997). *Parental Priorities and Economic Inequality*. Chicago: University of Chicago Press. Chapters 2 and 3.
  - e. Gary S. Becker (1991). *A Treatise on the Family. Enlarged Edition*. Cambridge Massachusetts: Harvard University Press. Chapter 7 and Supplement to Chapter 7, pages 201 to 276. Also published as articles co-authored with Nigel Tomes as: (1979), "An Equilibrium Theory of the Distribution of Income and Intergenerational Mobility, *Journal of Political Economy*, Vol. 87 no.6, pages 1153-89; and as (1986), "Human

Capital and the Rise and Fall of Families,” *Journal of Labor Economics*, Vol. 4 no.3, supplement, pages S1-S39.

## 2. Empirical Studies

- a. Bernard Fortin and Guy Lacroix (1997). “A test of neoclassical and collective models of household labor supply.” *Economic Journal*. Vol. 107, pages 933 to 55.
- b. Martin Browning, François Bourguignon, Pierre-Andre Chiappori, and Valerie Lechène (1994). “Income and outcomes: A structural model of intrahousehold allocation.” *Journal of Political Economy*. Vo. 102, pages 1067-96.
- c. Gary Solon (1992). “Intergenerational Income Mobility in the United States.” *American Economic Review*. Vol. 82 no. 3, pages 393-408.
- d. Miles Corak and Andrew Heisz (1999). “The Intergenerational Earnings and Income Mobility of Canadian men: Evidence from Longitudinal Income Tax Data.” *Journal of Human Resources*. Vol. 34 no. 3, pages 504-33.
- e. Miles Corak (2006). “Do Poor Children Become Poor Adults? Lessons from a Cross Country Comparison of Generational Earnings Mobility.” *Research on Economic Inequality*. Vol. 13 no. 1, pages 143-188. Also available at [www.iza.org](http://www.iza.org) as IZA discussion paper no. 1993.

## III. Human Capital, Education, Training, and Earnings

### 1. Theory and conceptual framework

- a. Pierre Cahuc and André Zylberberg. *Labor Economics*. Chapter 2.
- b. Gary S. Becker (1993). *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education*. Third Edition. Chicago: University of Chicago Press. Chapter III, “Investment in Human Capital: Effect on Earnings” pages 29 to 58, and Addendum to Chapter IV section 3 “Human Capital and the Personal Distribution of Income: An Analytical Approach” pages 108 to 130.
- c. Jacob Mincer (1974). *Schooling, Experience and Earnings*. New York: Columbia University Press for the National Bureau of Economic Research.
- d. Zvi Griliches (1977). “Estimating the Returns to Schooling: Some Econometric Problems.” *Econometrica*. Vol. 45, pages 1 to 22.
- e. David Card (1999). “The Causal Effect of Education on Earnings.” Chapter 30 in Ashenfelter and Card editors, *Handbook of Labor Economics*, Volume 3A, pages 1801 to 1858.

### 2. Empirical Studies

- a. Reuben Gronau (1974). “Wage Comparisons—a Selectivity Bias.” *Journal of Political Economy*. Vo. 82 no.6, pages 1119-43.



- b. H. Gregg Lewis (1974). "Comments on Selectivity Biases in Wage Comparisons." *Journal of Political Economy*. Vol. 82 no.6, pages 1145-55.
- c. James J. Heckman (1979). "Sample selection bias as a specification error." *Econometrica*. Vol. 47 no. 1, pages 153-61.
- d. Philip Oreopoulos (2006). "The Compelling Effects of Compulsory Schooling: Evidence from Canada." *Canadian Journal of Economics*. Vol. 39 no. 1, pages. 22-52.
- e. Orley Ashenfelter (1978). "Estimating the effect of training programs on earnings." *Review of Economics and Statistics*. Vol. 60 no. 1, pages 47-57.
- f. Orley Ashenfelter and David Card (1985). "Using the longitudinal structure of earnings to estimate the effect of training programs on earnings." *Review of Economics and Statistics*. Vol. 67 no. 4, pages 648 to 660.
- g. Robert Lalonde (1986). "Evaluating the econometric evaluations of training programs with experimental data." *American Economic Review*. Vol. 76 no. 4, pages 497-530.

#### IV. Job Search and Unemployment

##### 1. Theory

- a. Pierre Cahuc and André Zylberberg. *Labor Economics*. Chapter 3.
- b. Benjamin, Gunderson, Lemieux, and Riddell. *Labour Market Economics*. Sixth edition, Chapters 17 and 18.
- c. Martin Feldstein (1976). "Temporary Layoffs in the Theory of Unemployment." *Journal of Political Economy*. Vol. 84, pages 937-57.

##### 2. Measurement and Empirical studies

- a. Nicolas Kiefer (1988). "Economic duration data and hazard functions." *Journal of Economic Literature*. Vol. 26, pages 646-79.
- b. Anthony B. Atkinson and John Micklewright (1991). "Unemployment compensation and labor market transitions: a critical review." *Journal of Economic Literature*. Vol. 29, pp. 1679-1727.
- c. Stephen W. Salant (1977). "Search Theory and Duration Data: A Theory of Sorts." *Quarterly Journal of Economics*. Vol. 91 no. 1, pp. 39-57.
- d. Miles Corak and Andrew Heisz (1995). "The duration of unemployment: a user's guide." Statistics Canada, Research Paper No. 84.
- e. Peter Kuhn and Chris Riddell (2007). "The Long-Term Effects of Unemployment Insurance: Evidence from New Brunswick and Maine, 1940-1991." Unpublished paper available at <http://www.econ.ucsb.edu/~pjkuhn/Research%20Papers/NBMaine.pdf>

## **Student Initiated Readings and Term Paper Topics**

Students will work in small groups of three to five in order to study a topic dealing with the structure of wages or the impact of public policy and institutions on the labour market. The topics chosen should be relevant to the conduct of current public policy debates in Canada or other OECD countries. These topics may include more in depth studies of those listed in the core readings, or they may be chosen from the following list, or they may be student initiated in consultation with the instructor.

Some suggested topics, many of which are covered in the course text book by Cahuc and Zylberberg, include:

1. Earnings Inequality, technical change, and international trade
2. Male-Female wage differentials
3. The impact of the minimum wage on earnings and unemployment
4. Labour market consequences of immigration
5. Unemployment insurance and unemployment
6. Labour supply and tax-transfer programs
7. The impact of tax-transfer programs on the decision to retire
8. Relative wage effects of unions

Successful term papers will: outline the public policy relevance of the issue being addressed; outline the appropriate theoretical framework for analyzing the issue; review the econometric issues that need to be addressed to successfully put theory into practice; review the empirical findings in the literature while noting remaining gaps; and outline the appropriate data for the study of the issue or the gaps in data.