Labor Markets Theory and Policy
ECO 5321-001
9:30-10:50 pm Tue Thu HH-00225
Course Syllabus – Spring 2012

Professor: Dr. Andres J. Vargas
Office: HH 252
Office Hours: Tues, Thur 1:00 - 2:00 pm or by appointment
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Class Web Page: Students should check Blackboard for information about the class.

Required Textbook:
- Labor Economics, by Pierre Cahuc, André Zylberberg, MIT Press, 2004

Additional Reading Material:
- Class readings will also be based on published papers (see reading list)

Prerequisites: ECO 5312: Microeconomic Analysis and ECO 5314: Econometrics I

Course Overview: This is the first course in the two-semester graduate labor economics sequence. It aims to develop the student's ability to apply the economic theory and econometric techniques to analyze the operation of the labor market, and to familiarize the student with major market institutions and stylized facts about the US labor market.

The course starts with an analysis of how persons decide whether to enter the labor market and how many hours to supply. The basic model is subsequently extended to analyze why workers differ in their attachment to the labor market, how supply decisions are made throughout the life-cycle, how decisions of individuals belonging to the same household are interdependent, and how alternative types of welfare, unemployment compensation, and social security systems affect labor supply. The discussion then switches to the labor demand decision of firms. In that section, the short and long term demand for labor are derived and the tradeoff between the number of workers hired and the hours worked per week is examined. Next, the equilibrium of the labor market is analyzed including a discussion on how it is influenced by different labor market policies. The class continues with an analysis of job search activities, the sources of unemployment and the impact of institutions on unemployment. Afterwards, the class concentrates on the characteristics of workers, particularly schooling. The lessons cover the differences between general and specific human capital investment and their optimal cost sharing, the effects of ability and financial situation on the choice of human capital investment; and the role of education as a signal. Finally, the course analyzes labor mobility. This section studies the determinants of migration, differences between migrants and non-migrants workers, and consequences of migration in both the recipient and the source countries.
Learning Outcomes: Students successfully completing the course should be able to:

- Distinguish the major determinants of labor market participation and hours worked;
- Identify the major issues underlying the estimation of labor supply functions.
- Analyze how alternative types of welfare, unemployment compensation, and social security systems affect labor supply, and recognize the main econometric techniques used in the estimation of these effects;
- Derive and estimate the short and long term demand for labor;
- Construct a detailed demand and supply model of the labor market;
- Analyze the effect of job search activities on unemployment
- Identify the factors that prevent the labor market from clearing.
- Develop a schooling model that differentiates between general and specific human capital investment;
- Analyze the role of education as a signal in the labor market;
- Utilize models of labor mobility to analyze the determinants of migration, differences between migrants and non-migrants workers, and consequences of migration.

Course Requirements and Assessment:

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Presentation: Each student will present one article in class during the semester. This presentation should be no longer than 15-20 minutes. Within one week after your presentation, a written report based on the article is due. The presentation and article report should contain a concise statement of the author’s research question; a brief outline of how the author answers the question including methods and data; and a list of critiques, praise, or questions you have regarding the adequacy of the methodology.

Research Proposal: For this course, you should write a research proposal and turn it in by the last day of class this semester (May 8th). The research proposal must be related to labor economics, contain a comprehensive literature review and must offer convincing support of need for the research study being proposed. In addition to providing rationale for the proposed research, the proposal must describe a detailed methodology for conducting the research including the data set and econometric model to be used.

The proposal should be arranged roughly into the following sub-sections:

1. Introduction: Research Question
2. Literature Review
3. Theoretical Framework
4. Sources of Data
5. Methodology
6. Expected Results
7. References

I encourage you to come to see me early and often regarding the research proposal.

**Exams:** The midterm exam will be held in class on October 26th. The final exam will be held on December 11th from 1:30 p.m. to 4:00 p.m., covers the material after the midterm and counts for 30 percent of your grade.

**Make-up examinations:** Failing to take a scheduled examination will result in a score of 0 unless replaced by a make-up exam in a timely fashion. ‘Make-up’ examinations are given at the discretion of the instructor, and will only be given in cases where there is a documented excuse beyond your reasonable control:

- Illness – you must have a physician note indicating that you were not in a physical condition to take the exam at the scheduled time. A note from a family member is insufficient.
- Death or grave illness in your immediate family.
- Significant scheduling conflicts such as job interviews or official TTU business. In this case, you must inform the instructor before the scheduled exam you may miss so that an alternate exam time can be scheduled.

No exam will be made-up after it has been graded and returned to the class.

**Grading:** All the grades will be posted on Blackboard. If you think that a grading error was made, you may submit a typed appeal within a week (7 days) of when the grade was returned to you. Your written appeal should be based on course materials and should stress the validity of your original response. Please staple your typed justification to your original exam/quiz. In grading (and re-grading) we will strive for fairness and consistency.

**Civility in the Classroom:** Students are expected to assist in maintaining a classroom environment that is conducive to learning. In order to assure that all students have the opportunity to gain from time spent in class, unless otherwise approved by the instructor; students are prohibited from engaging in any other form of distraction. Inappropriate behavior in the classroom shall result, minimally, in a request to leave class. Wireless phones must be turned off during class time.

**Attendance:** Attendance is required and will be monitored. Excessive absence (over 7 classes) will result in (i) informing the dean of students to take proper action, (ii) lowering your final grade from A to B, from B to C, from C to D, or from D to F.

**Academic Integrity and Dishonesty:** All students are expected to follow the policies of Texas Tech University as outlined in the graduate catalog. Cheating and plagiarism will not be tolerated. Terms associated with academic misconduct are explained in the current Code of Student Conduct.
Students that knowingly take any action that violates the Texas Tech University Code of Student Conduct are subject to disciplinary action including, but not limited to, the possibility of failure in the course.

**Students with Disabilities:** Any student who, because of a disability, may require special arrangements in order to meet the course requirements should contact the instructor as soon as possible to make any necessary arrangements. Students should present appropriate verification from Student Disability Services during the instructor’s office hours. Please note instructors are not allowed to provide classroom accommodations to a student until appropriate verification from Student Disability Services has been provided. For additional information, you may contact the Student Disability Services office at 335 West Hall or 806-742-2405

**Religious Holy Days:** Religious holy days sometimes conflict with class and examination schedules. The University policy is that students that miss course work due to the observance of a religious holy day must be given the opportunity to complete the work missed within a reasonable time after the absence. Notification must be made in writing and delivered in person to the instructor no later than the 15th class day of the

**READING LIST:** Students will be required to read some selected papers from the list

O. **Labor Market Data**


I. **Labor Supply**

A. **Background and Static Theory**

- Cahuc and Zylberberg, Ch. 1.

B. **Dynamic Models**

C. Empirical Studies


II. Labor Demand
- Cahuc and Zylberberg, Ch. 4.

A. Background and Static Theory

- Daniel Hamermesh, Labor Demand, 1993, Chapters 2-5.

B. Dynamic Models

- Cahuc and Zylberberg, pp. 505-516.

C. Empirical Studies


III. Job Search

- Cahuc and Zylberberg, Ch. 3.
IV. Human Capital

A. Background, Theory and General Issues

- Cahuc and Zylberberg, Ch. 2.

B. Estimation and Policy Issues

- David Card, Handbook of Labor Economics.
- Katz and Autor, Handbook, pp. 1463-1504

V. Migration