

Sciences Po Graduate Labour Spring 2017

Earnings, Employment and Consumption

Florian Oswald

December 9, 2016

Outline

In this course we will look at recent developments in the labour economics literature regarding the determinants of earnings, employment and consumption. We will start with a review of the classical static labour supply model and a series of its applications. We will extend the static into dynamic labour supply, in order to be able to study intertemporal considerations. Doing so will require us using dynamic programming methods, therefore we will review this technique as well. The next part of the course considers consumption and income dynamics, and in particular how shocks to income translate to changes in consumption. We will then move on to study how globalization and international trade affects local labor markets, and we will touch upon migration and inequality in this part of the course. Finally, we will talk about sorting in the labour market, and what this has to do with the female wage-gap, the assignment of workers to firms in general, and discrimination in the labour market.

In terms of methods, this course will place a strong emphasis on data and how to confront it with structural models of the labour market. The tools developed will thus be tools to solve and estimate such models.

Timeline and Reading List

- W1-W3, Labour Supply. We will be using chapter one from the textbook Cahuc et al. [2014] to get an overview of the static labor supply model. Also the surveys by Keane [2011] and Blundell and MaCurdy [1999] will be used here. We will be looking at applications like Blundell et al. [1998]. After this block, we will revise dynamic programming, so that we can have a closer look at dynamic labour supply. The main reference there will be French [2005].
- W4-W7, Consumption and earnings dynamics. Here we first look at Blundell et al. [2008] who devise a way to measure consumption insurance. They extend this idea into family labour supply in Blundell et al. [2016], and we will also look at that. We will then look at a way to nonparametrically estimate income and consumption processes in Arellano et al. [2014]. Finally in this part we will look at a

particular form of consumption insurance, consumer bankruptcy, and we will keep close to Meghir et al. [2016].

- W8-W9, Globalization and migration. We will start with chapter 11 of Cahuc et al. [2014] to gather some facts about international trade and labor markets. We will then look at one particular episode, trade liberalization in Brazil, and its impacts in Dix-Carneiro [2014]. Thinking more about internal displacement of workers after shocks, we will look at the classic Mariel boatlift episode in Card [1990] and how regional shocks interact with homeownership in Oswald [2016].
- W10-W12, Sorting. This section will start with the classic *high wage workers and high wage firms* theme in Abowd et al. [1999]. We will look at several applications concerned with sorting and the result gender wage gap, for example Card et al. [2013] or Kleven et al. [2015]. We will then use Shimer and Smith [2000] to think in a more structured way about how sorting might arise in equilibrium, and how recent advances in Lamadon et al. [2016] are helpful for nonparametric identification of sorting with complementarities and endogenous mobility.

References

- John M Abowd, Francis Kramarz, and David N Margolis. High wage workers and high wage firms. *Econometrica*, 67(2):251–333, 1999.
- Manuel Arellano, Richard Blundell, and Stéphane Bonhomme. Household earnings and consumption: A nonlinear framework. *Manuscript, University of Chicago*, 2014.
- R. Blundell and T. MaCurdy. Labor supply: A review of alternative approaches. *Handbook of labor economics*, 3:1559–1695, 1999. ISSN 1573-4463.
- R. Blundell, L. Pistaferri, and I. Preston. Consumption inequality and partial insurance. *American Economic Review*, 98(5):1887–1921, 2008.
- Richard Blundell, Alan Duncan, and Costas Meghir. Estimating labor supply responses using tax reforms. *Econometrica*, pages 827–861, 1998.
- Richard Blundell, Luigi Pistaferri, and Itay Saporta-Eksten. Consumption inequality and family labor supply. *The American Economic Review*, 106(2):387–435, 2016.
- Pierre Cahuc, Stéphane Carcillo, André Zylberberg, and William McCuaig. *Labor economics*. MIT press, 2014.
- David Card. The impact of the mariel boatlift on the miami labor market. *Industrial & Labor Relations Review*, 43(2):245–257, 1990.

- David Card, Ana Rute Cardoso, and Patrick Kline. Bargaining and the gender wage gap: A direct assessment. *IZA discussion paper*, 2013.
- Rafael Dix-Carneiro. Trade liberalization and labor market dynamics. *Econometrica*, 82(3):825–885, 2014.
- Eric French. The effects of health, wealth, and wages on labour supply and retirement behaviour. *The Review of Economic Studies*, 72(2):395–427, 2005. ISSN 00346527. URL <http://www.jstor.org/stable/3700657>.
- Michael P. Keane. Labor supply and taxes: A survey. *Journal of Economic Literature*, 49(4):961–1075, 2011. ISSN 00220515. URL <http://www.jstor.org/stable/23071663>.
- Henrik J Kleven, Camille Landais, and Jacob E Sogaard. Children and gender inequality: Evidence from denmark. *Unpublished manuscript, LSE*, 2015. URL http://www.henrikkleven.com/uploads/3/7/3/1/37310663/kleven-landais-sogaard_gender_oct2016.pdf.
- Thibaut Lamadon, Stephane Bonhomme, and Elena Manresa. Discretizing unobserved heterogeneity. *unpublished*, 2016. URL <http://lamadon.com/paper/blm.pdf>.
- C. Meghir, Wenli Li, and Florian Oswald. Consumer Bankruptcy and Mortgage Default. *mimeo*, 2016. URL <https://dl.dropboxusercontent.com/u/109115/website/bankruptcy.pdf>.
- Florian Oswald. Regional shocks, migration and homeownership. *mimeo*, 2016. URL https://dl.dropboxusercontent.com/u/109115/website/oswald_jmp.pdf.
- Robert Shimer and Lones Smith. Assortative matching and search. *Econometrica*, 68(2):343–369, 2000. ISSN 00129682, 14680262. URL <http://www.jstor.org/stable/2999430>.