

# Labour Economics Econ 426 - Winter 2024

December 23, 2023

This course is co-taught by Professors Fabian Lange, Nicolas Gendron-Carrier, and Fernando Saltiel, all labour economists at the Department of Economics at McGill. Each of us will teach one-third of the course focusing on different topics.

The subject of “Labour economics” includes everything related to how humans work and get paid for it. This course is an economics class and we therefore analyze how purposeful agents make decisions while facing resource constraints. A large number of different issues are considered: how are wages determined in competitive and non-competitive markets? What are the consequences of wage regulations such as minimum wage legislation? Why do agents go to school rather than work? What accounts for earnings inequality with experience, education, across locations, and across occupations? How has earnings inequality evolved over the last half-century and why? These and other questions will be addressed in this course.

## General Information

Information related to the Professors teaching each of the three segments can be found in the parts of the syllabus referring to each segment.

**Prerequisites:** Econ 230 or Econ 250 or Econ 306.

**Math prerequisites:** Algebra, Geometry, Basic Linear Algebra, Single variable differential calculus. Most important: a willingness to analyze economic phenomena with mathematical, verbal-analytic, and graphical approaches.

Course Location: Strathcona Anatomy SADB 1/12

Meeting Times: Tuesday / Thursday 8:35-9:55am

TA: Iones Kelanemer Holban [iones.kelanemerholban@mail.mcgill.ca](mailto:iones.kelanemerholban@mail.mcgill.ca)

Office Hour: TBD

Review Sessions: TBD

## Course Materials

### Textbook

Derek Laing “Labor Economics: introduction to classic and new labor economics”, 1st Edition. Eds. W.W. Norton

The library has a few copies of the book. The book has also been ordered at the Le James bookstore.

## Course Requirements and Grading

You are expected to:

1. check myCourses daily.
2. do the assigned readings before you come to class.
3. come to and participate in class.
4. do your homework and assignments as specified in the modules and come to the exams.

### Examinations

There will be an in-class exam for each of the 3 modules taught by Fabian Lange, Nicolas Gendron-Carrier, and Fernando Saltiel. These exams will be administered on

Module 1: February 1

Module 2: March 12.

Module 3: April 9.

## **Grading**

Each module contributes one-third to the overall grade. To arrive at your overall grade, we will average grades across the 3 modules. Within each module, two-thirds of a grade is accounted for by the in-class exam with the remainder by the module-specific assignments.

In the event of extraordinary circumstances beyond the University's control, the content and/or evaluation scheme in this course is subject to change.

## **Module 1 (January 4 - February 1): Labour Demand and Earnings Inequality**

This module discusses the determinants of the demand for labour. To begin, we consider the demand for labour by a firm in a competitive labour market followed by the demand for labour by a firm with market power. We then discuss the implications of firm market power in the labour market for minimum wage policies.

Following this, we use the tools developed in the first part of the course to discuss changes in earnings and income inequality over time. In particular, we consider how the distribution of earnings earnings with education and across occupations changed over the last half-century as well as tools to analyze these changes. Should time permit, we finish by discussing income inequality at the very top of the income distribution: the top 1 or 0.1% of the population.

### **Fabian Lange**

Email: [fabian.lange@mcgill.ca](mailto:fabian.lange@mcgill.ca)

Office: Leacock 511

Office Hours: Tuesday 2:15-3:45p

Midterm: February 1, 2024. To be held in class.

I will assign 3 problem sets due on January 16th, 23rd, and 30th.

## **Lecture 1 Introduction (January 4th) Labour Demand in Competitive Markets**

\* Laing Chapter 3

## **Lecture 2 Labour Demand II - Non-competitive Markets**

## **Lecture 3 Minimum Wage Policy**

\* Laing Chapter 8

## **Lectures 4-8: Earnings Inequality**

Lecture 4: Empirical Facts: Education and Occupations.

Lecture 5: Skill-biased Technical Change since the 1960s

Lecture 6: Wage Polarization across the Occupation Distribution.

Lecture 7: What will the future bring?

Lecture 8: Wage Inequality at the Top of the Earnings Distribution

## **Module 2 (February 6 - March 12): Labour Supply and Labour Market Discrimination**

This module discusses the determinants of labour supply and labour market discrimination.

### **Nicolas Gendron-Carrier**

Email: [nicolas.gendron-carrier@mcgill.ca](mailto:nicolas.gendron-carrier@mcgill.ca)

Office: Leacock 543

Office Hours: TBA

Midterm: March 12, 2024. To be held in class.

Student presentation: On Thursday, February 29 we will discuss the latest book by the 2023 Nobel Prize Winner, Prof. Claudia Goldin titled “Career and the Family”. The class will be divided into teams and each team will be responsible to read in detail and prepare a 5-7 minute presentation on a specific chapter. Evaluation will be based on two criteria: (1) the quality of your presentation slides and (2) your active participation in class discussions.

You may only miss an in-class assessment (midterm exam or student presentation) for a documented family or medical emergency. If you miss an in-class assessment, you must hand me an original physician's note within 7 days of the date of the exam which explains the medical reason for your absence.

### **Labour supply: theory (February 6 and 8).**

- Laing, Chapter X.

### **Labour supply and public policy (February 13 and 15).**

- Eissa, N. and J. Leibman. 1996. "Labor Supply Response to the Earned Income Tax Credit." *Quarterly Journal of Economics*.
- Kleven, H. 2023. "The EITC and the Extensive Margin: A Reappraisal." Working Paper.
- Lemieux, T. and K. Milligan. 2008. "Incentive effects of social assistance: A regression discontinuity approach." *Journal of Econometrics*.
- Lee, D. and T. Lemieux. 2010. "Regression Discontinuity Designs In Economics." *Journal of Economic Literature*.

### **Fertility and labour supply decisions (February 20).**

- Child Penalties (Various studies by Henrik Kleven and coauthors).
- Angrist, J.D. and W. Evans. 1998. "Children and their Parents' Labor Supply: Evidence from Exogenous Variation in Family Size." *American Economic Review*.
- Lundborg, P., E. Plug, and A. W. Rasmussen. 2017. "Can Women Have Children and a Career? IV Evidence from IVF Treatments." *American Economic Review*.

### **Labour market discrimination (February 22 and 27).**

Theory: taste-based and statistical discrimination.

- Laing, Chapter X.

- Aigner, D. and G. Cain. 1977. “Statistical Theories of Discrimination.” *Industrial and Labor Relations Review*.
- Goldberg, M. S., 1982. “Discrimination, Nepotism, and Long-Run Wage Differentials.” *Quarterly Journal of Economics*.

Evidence:

- Oaxaca-Blinder decomposition.
- Goldin, C. and C. Rouse. 2000. “Orchestrating Impartiality: The Impact of ‘Blind’ Auditions on Female Musicians.” *American Economic Review*.
- Bertrand, M., C. Goldin, and L. Katz. 2008. “Dynamics of the Gender Gap for Young Professionals in the Financial and Corporate Sectors.” *American Economic Journal: Applied Economics*.
- Bertrand, M., E. Kamenica, and J. Pan. 2015. “Gender Identity and Relative Income within Households.” *Quarterly Journal of Economics*.
- Sarsons, H. 2023. “Interpreting Signals in the Labor Market: Evidence from Medical Referrals.” Working Paper.

### **Career and the Family (February 29)**

- Goldin, C. 2021. “Career and Family: Women’s Century-Long Journey toward Equity.” Princeton University Press.

## **Module 3 (March 14 - April 9): Human Capital and Job Training**

This module discusses the economics of human capital, analyzing the importance of education in the labor market, the estimation of the returns to education, the importance of specific investments, including vocational education and college majors, as well as the role of credit constraints in shaping educational choices. We also examine the importance of job training in the labor market.

### **Fernando Saltiel**

Email: fernando.saltiel@mcgill.ca

Office: Leacock 512

Office Hours: Tuesdays, 11am-12pm.

Midterm: April 9, 2024. To be held in class.

There is one problem set for this module, due on April 14th.

You may only miss an in-class assessment (midterm exam or student presentation) for a documented family or medical emergency. If you miss an in-class assessment, you must hand me an original physician's note within 7 days of the date of the exam which explains the medical reason for your absence.

### **Human Capital Theory (March 14 and 19).**

- Laing, Chapter 5: Human Capital.
- Mincer, J. (1958). Investment in human capital and personal income distribution. *Journal of Political Economy*, 66(4), 281-302.
- Ben-Porath, Y. (1967). "The production of human capital and the life cycle of earnings". *Journal of Political Economy* 75 (4), 352-365. Part 1. August.
- Mincer, J. (1974). *Schooling, Experience and Earnings*. Columbia University Press for National Bureau of Economic Research, New York. Chapters I and II.

- Heckman, James J., Lance J. Lochner, and Petra E. Todd. "Earnings functions, rates of return and treatment effects: The Mincer equation and beyond." *Handbook of the Economics of Education*. 1 (2006): 307-458.

## **Returns to Human Capital (March 21, 26 and 28).**

### Methodology:

- Laing, Chapter 5: Human Capital.
- J. Angrist and A. Krueger, "Does Compulsory School Attendance Affect Schooling and Earnings?" *Quarterly Journal of Economics*, CVI(4), 1991, pp. 979-1014.
- Card, David. *Using Geographic Variation in College Proximity to Estimate the Return to Schooling*. No. 4483. National Bureau of Economic Research, Inc, 1993.
- Card, David. "The causal effect of education on earnings." *Handbook of Labor Economics*. 3 (1999): 1801-1863.
- Imbens, G. W., and Angrist, J. D. (1994). Identification and Estimation of Local Average Treatment Effects. *Econometrica*, 62(2), 467-475.

### Empirical Evidence:

- S. Zimmerman. (2013) "The Returns to College Admission for Academically Marginal Students," *Journal of Labor Economics*. October 2014, pp. 711-754.
- Altonji, J. G., Arcidiacono, P., and Maurel, A. (2016). The analysis of field choice in college and graduate school: Determinants and wage effects. In *Handbook of the Economics of Education* (Vol. 5, pp. 305-396). Elsevier.
- Hanushek, E. A., Schwerdt, G., Woessmann, L., and Zhang, L. (2017). General education, vocational education, and labor-market outcomes over the lifecycle. *Journal of human resources*, 52(1), 48-87.
- Kirkeboen, L. J., Leuven, E., and Mogstad, M. (2016). Field of study, earnings, and self-selection. *The Quarterly Journal of Economics*, 131(3), 1057-1111.



- Bertrand, Marianne, Magne Mogstad, and Jack Mountjoy. "Improving educational pathways to social mobility: evidence from Norway's reform 94." *Journal of Labor Economics* 39.4 (2021): 965-1010.

### **Job Training, Labor Market Experience and Firm Tenure (April 2 and 4).**

- Laing, Chapter 6: On-the-Job Training.
- E. Lazear, "Why Is There Mandatory Retirement?" *Journal of Political Economy*, 87(6), 1979, pp. 1261-84.
- R. Topel and M. Ward, "Job Mobility and the Careers of Young Men," *Quarterly Journal of Economics*, May 1992, pp. 439-479.
- R. Topel, "Specific Capital, Mobility, and Wages: Wages Rise with Job Seniority." *Journal of Political Economy*, 99(1), 1991, pp. 145-76.
- J. Altonji and N. Williams, "Do Wages Rise with Job Seniority? A Re-assessment," *Industrial and Labor Relations Review*, April 2005, Vol. 58, no. 3, pp.
- Lagakos, David, Benjamin Moll, Tommaso Porzio, Nancy Qian, and Todd Schoellman. "Life cycle wage growth across countries." *Journal of Political Economy* 126, no. 2 (2018): 797-849.

## 1 Additional Statements:

- McGill University values academic integrity. Therefore all students must understand the meaning and consequences of cheating, plagiarism and other academic offenses under the Code of Student Conduct and Disciplinary Procedures (see [www.mcgill.ca/integrity](http://www.mcgill.ca/integrity) for further information).

*L'université McGill attache une haute importance à l'honnêteté académique. Il incombe par conséquent à tous les étudiants de comprendre ce que l'on entend par tricherie, plagiat et autres infractions académiques, ainsi que les conséquences que peuvent avoir de telles actions, selon le Code de conduite de l'étudiant et des procédures disciplinaires (pour de plus amples renseignements, veuillez consulter le guide pour l'honnêteté académique de McGill).*

- In accord with McGill University's Charter of Students' Rights, students in this course have the right to submit in English or in French any written work that is to be graded.

*Conformément à la Charte des droits de l'étudiant de l'Université McGill, chaque étudiant a le droit de soumettre en français ou en anglais tout travail écrit devant être noté (sauf dans le cas des cours dont l'un des objets est la maîtrise d'une langue).*

- According to Senate regulations, instructors are not permitted to make special arrangements for final exams. Please consult the calendar, section 4.7.2.1, General University Information and Regulations, at [www.mcgill.ca](http://www.mcgill.ca).