

ECONOMICS 642

READING LIST
SEMINAR IN LABOR ECONOMICS:
The Life Cycle and Earnings
FALL 2009
48:00-9:30 M/W LN2402

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The purpose of this course is to gain insights into life cycle aspects of economics. We thus develop the tools for decisions made in a dynamic framework, and apply them to understanding earnings within the labor market. This entails learning the mathematical technique of optimal control theory and applying it to the allocation of resources used in the earnings augmentation process. After understanding this process, we shall deal with the application of this theory in explaining the earnings distribution and occupational distribution as well as other labor market phenomena. In addition, the relationship of this "human capital" type theory to other approaches is to be studied.

REQUIRED TEXT: POLACHEK, S. & SIEBERT, S., *The Economics of Earnings*, (Cambridge Univ. Press), 1993.

RECOMMENDED TEXT: POLACHEK, S. *Earnings Over the Lifecycle: The Mincer Earnings Function and Its Applications* (Hannover, MA: NOW Publishers), 2008.

JOURNAL ABBREVIATIONS:

AER	-	AMERICAN ECONOMIC REVIEW
IER	-	INTERNATIONAL ECONOMIC REVIEW
JASA	-	JOURNAL OF AMERICAN STATISTICAL ASSOCIATION
JEL	-	JOURNAL OF ECONOMIC LITERATURE
JEP	-	JOURNAL OF ECONOMIC PERSPECTIVE
JHR	-	JOURNAL OF HUMAN RESOURCES
JOLE	-	JOURNAL OF LABOR ECONOMICS
IER	-	INTERNATIONAL AND LABOR RELATIONS REVIEW
ILRR	-	INDUSTRIAL AND LABOR RELATIONS REVIEW
R.E.STAT.	-	REVIEW OF ECONOMICS AND STATISTICS
REHO	-	REVIEW OF ECONOMICS OF THE HOUSEHOLD
RLE	-	RESEARCH IN LABOR ECONOMICS
SEJ	-	SOUTHERN ECONOMIC JOURNAL

EXAMS / Homework Assignments:

Periodic written homework assignments will be required. There will be two exams: (1) **MID-TERM EXAM - Wednesday, October 14th** and (2) **FINAL EXAM DEC 10 THUR 06:30 PM-08:30 PM ROOM TBA.**

Readings marked with an asterisk (*) are HIGHLY recommended.

I. MOTIVATION AND OVERVIEW

A. OVERVIEW

*POLACHEK, S. (2008) "Earnings Over the Lifecycle: The Mincer Earnings Function and Its Applications," in *Foundations and Trends in Microeconomics*, 4(3): 165-272.

B. WHAT IS THE APPROPRIATE WORK HORIZON

*POLACHEK & SIEBERT, Chap. 1.

KNIESNER, T.J. and Arthur Goldsmith, "A Survey of Alternative Models of the Aggregate U.S. Labor Market," *JEL*, (September 1987) pp. 1241-1280.

*HALL, Robert E., "Importance of Lifetime Work in the U.S. Economy," *AER*, September 1982 (pp. 716-724).

BURGESS, Simon & Hedley Rees, "Transient Jobs and Lifetime Jobs: Dualism in the British Market," *Oxford Bulletin, Economics and Statistics*, August 1997, 59(3): 309-328.

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II. OPTIMIZATION OVER THE LIFE TIME: OPTIMAL CONTROL THEORY

*DORFMAN, Robert, "An Economic Interpretation of Optimal Control Theory," *AER*, 1969 (pp. 817-831).

INTRILIGATOR, Michael, *MATHEMATICAL OPTIMIZATION AND ECONOMIC THEORY*, 1971, Chap. 14 (Englewood Cliffs, NJ: Prentice Hall).

HADLEY, G. and KEMP, M. - *VARIATIONAL METHODS IN ECONOMICS*, Chap. 4, pp. 239-249, (Amsterdam: North Holland) 1971.

III. APPLICATIONS TO HUMAN CAPITAL OVER THE INDIVIDUAL LIFE CYCLE

A. Exogenous Labor Force Participation

*POLACHEK & SIEBERT, "The Life Cycle Human Capital Model," Chap. 2.

*BEN-PORATH, Yoram, "The Production of Human Capital over the Life Cycle", *JPE*, July/August 1967 (pp. 352-365).

WALLACE, T.D. and IHNEN, L. "Full-Time Schooling in Life-Cycle Models of Human Capital Accumulation," JPE, February 1975.

*JOHNSON, T., "Time in School: The Case of the Prudent Patron," AER, December, 1978 (pp. 862-872).

HANUSHEK, E. and J. M. Quigley, "Life-Cycle Earnings Capacity and the OJT Investment Model," IER, June 1985 (pp. 365-385).

B. Endogenous Labor Force Participation

POLACHEK & SIEBERT - Chap. 6 (Labor Supply)

BLUNDELL, Richard and Thomas Macurdy, 1999. "Labor Supply: A Review of Alternative Approaches", in Handbook of Labor Economics, Vol. 3A, (1999) : 1559-1695.

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HECKMAN, J., "A Life-Cycle Model of Earnings, Learning, and Consumption", JPE, August 1976.

HECKMAN, J. and T. MaCurdy, "A Life Cycle Model of Labor Supply," R.E.STUDIES, January 1980 (pp. 47-74).

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JIANG, Feng-Fuh and Solomon Polachek, "Investment Dependent Labor Supply Choices Over the Life Cycle," RLE (1991) 12:245-267.

C. Endogenous Time Horizon: Investment in Health

*EHRlich, Isaac & HIROYUKI, Chuma, "A Model of the Demand for Longevity and the Value of Life Extension," JPE, August 1990, (pp. 761-782).

GROSSMAN, Michael, "The Human Capital Model at the Demand for Health", NBER Working Paper No. 7078, 1999.

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IV. ESTIMATION OF HUMAN CAPITAL PRODUCTION FUNCTION

*HALEY, William, "Estimation of the Earnings Profile From Optimal Human Capital Accumulation," Econometrica (Nov. 1976) 44 (6): 1223-1238.

HECKMAN, James, "Estimates of a Human Capital Production Function Embedded In a Life Cycle Model of Labor Supply," in HOUSEHOLD PRODUCTION AND CONSUMPTION [TERLECYJ, (ed.)] NBER 1976.

POLACHEK, S., KNIESNER, Thomas and HARWOOD, Richard "Educational Production Functions: A Microeconomic Analysis," JOURNAL OF EDUCATIONAL STATISTICS, Fall 1978.

WU, Huoying, "Can the Human Capital Approach Explain Life-Cycle Wage Differentials between Races and Sexes?" Economic Inquiry, January 2007, v. 45, iss. 1, pp. 24-39

*POLACHEK, S. and Rewat Thamma •"Are Ability Measures Racially Biased? A Test Using Nonlinearly Derived Earnings Function Parameters," Paper in Progress.

V. THE EARNINGS FUNCTION

A. Overview

* POLACHEK, S. W. "Labor Economics Mincer-Style: A Personal Reflection," REHO, December 2003, 1 (4): 363-6.

*CHISWICK, Barry, 'Jacob Mincer, Experience and the Distribution of Earnings,' REHO, December 2003, 1 (4): 343-361.

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B. Cross Sectional Analysis

1. General Earnings Functions:

*POLACHEK & SIEBERT, Chap. 4

*MINCER, Jacob, SCHOOLING EXPERIENCE AND EARNINGS, NBER 1975, Chapters 1, 3 and 4 (Columbia Univ. Press).

JOHNSON, Thomas, "Returns from Investment-Human Capital," AER, September 1970, (pp. 546-560).

*HECKMAN, James and Solomon Polachek, "The Functional form of the Income-Schooling Relation," JASA, June 1974.

MURPHY, Kevin and WELCH, Finis - "Empirical Age-Earnings Profiles," JOLE, 1990, 8, PP. 202-229.

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2. Rate of Return to Education:

*POLACHEK & SIEBERT - Chap. 3 (Schooling)

GRILICHES, Zvi, "Research Expenditures, Education and the Aggregate Agricultural Production Function," AER, 1964.

JONES, Patricia, "Are Educated Workers Really More Productive?" Journal of Development Economics, (February 2001) 64(I): 57-79.

FREEMAN, R., "Occupational Training in Proprietary Schools and Technical Institutions," R.E.STAT., August 1974 (pp. 310-318).

FREEMAN, R., "Overinvestment in College Training," JHR, Summer 1975, (pp. 287-311).

KNIESNER, T. A. Padilla and S. Polachek, "The Rate of Return to Schooling over the Business Cycle," JHR, Spring 1978 (pp. 264-277).

KNIESNER, T.; A Padilla; S. Polachek, "The Rate of Return and Business Cycle: Additional Estimates," JHR 1980 (pp. 273-277).

CARD, David, "Earnings, Schooling and Ability Revisited," RLE (1995) 14:23-48.

*ASHENFELTER, Orley, et.al. "A Review of Estimates of the Schooling/Earnings Relationship, with Tests for Publication Bias", Labour Economics (November 1999) 6 (4): 453-70.

HENDERSON, Daniel J.; Olbrecht, Alexandre; Polachek, Solomon W., "Do Former College Athletes Earn More at Work? A Nonparametric Assessment; JHR, Summer 2006, v. 41, iss. 3, pp. 558-77

*HENDERSON, Daniel, Solomon W. Polachek, and Le Wang "Heterogeneity in Schooling Rates of Return," Paper Presented at the Joint IZA / Society of Labor Economics Conference, Munich, Germany, May 2009.

3. Black-White Differences:

* WELCH, Finis, "Black-White Differences in Returns to Schooling," American Economic Review, Vol. 63, No. 5 (Dec., 1973), pp. 893-907.

LAZEAR, Edward - "Narrowing of Black-White Wage Differentials is Illusory", AER, Sept. 1979, 69, (pp. 553-564).

BLAU, Francine and BELLER, A., "Black-White Earnings Over the 1970s and 1980s: Gender Differences in Trends," R.E.STAT., May 1992, 74 (2): pp. 276-286.

*CARD, David and KRUEGER, Alan, "School Quality and Black-White Relative Wages: A Direct Assessment," QJE, Feb. 1992, 107 (1): pp. 151-200.

4. Gender Differences:

FUCHS, V., "Differences in Hourly Earnings Between Men and Women," MONTHLY LABOR REVIEW, May 1971 (pp. 9-15).

*OAXACA, R., "Male-Female Wage Differentials in Urban Labor Markets," IER, 1973 (pp. 693-709).

OAXACA, Ronald and Michael Ransom, "On Discrimination and the Decomposition of Wage Differentials," Journal of Econometrics, (1994) 61(1):5-21.

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NEUMARK, David and HELLERSTEIN, Judith, "Sex, Wages, and Productivity: An Empirical Analysis of Israeli Film Data," IER, (February 1999) 40 (1): 95-123.

*POLACHEK, S. (1975), "Potential Biases in Measuring Male-Female Discrimination," JHR, 10(2):205-229.

5. Beauty

HAMERMESH, D. & J. Biddle, "Beauty and the Labor Market," AER, December 1994 pp. 2274-1194.

HAMERMESH, D. and Meng, Xin; Zhang, Junsen "Dress for Success – Does Priming Pay?" Labour Economics v9, n3 (July 2002): 361-73

6. Unions:

BOSKIN, M., "Unions and Relative Real Wages," AER 1972 (pp. 466-472).

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7. Urban/Rural:

CLARK, David, KAHN, J. and OFEK, H. - "City Size, Quality of Life, and the Urbanization Deflator of GNP: 1910-1984," SOUTHERN ECONOMIC JOURNAL, January 1988 (pp.701-714).

8. Secular Changes in Rates of Return

MURPHY, Kevin and WELCH, Finis, "The Structure of Wages," QJE, Feb. 1992, 107 (1): pp. 285-326.

KRUEGER, Alan, "How computers have changed our wage structure", QJE, Feb. 1993, 108(1): 33-60.

DANNING, R., Stephan and Jacob Mincer, "Technology, Unemployment, and Inflation" in Research Labor Economics, 2000, 19: 1-29.

DE GRIP, Andries Jasper van Loo and Ken Mayhew, The economics of skills obsolescence : theoretical innovations and empirical applications, Research in Labor Economics, (Volume 21), 2002.

DINARDO, John and Jorn-Steffen Pischke "The Returns to Computer Use Revisited: Have Pencils Changed the Wage Structure Too?" QJE (Feb 1997), 112 (1): 291-303.

C. Selectivity Biases: and Treatment Effects

GRONAU, R., "Wage Comparisons - A Selectivity Bias," JPE 1974 (pp.1119-1143).

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*GREENE, William, Econometric Analysis (5th ed.) "Regression is a Model of Selection" pp 782-789.

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BARNOW, Burt, Glen Cain and Arthur Goldberger, "Issues in the Analysis of Selectivity Bias" in Orley Ashenfeller and Robert LaLonde (eds.), The Economics of Training, Vol. 1 (1996): 182-98.

HWANG, Soo Kyeong, Polachek, S. and Yoon, B. "Occupational Selection and the Gender Wage Gap," working paper.

D. Unobserved Heterogeneity

HSIAO, C. - Analysis of Panel Data, 1986 (New York: Cambridge Univ. Press).

HECKMAN, J. and B. Singer, "Econometric Analysis of Longitudinal Data," Vol. III, Handbook of Econometrics, 1985.

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ASHENFELTER, Orley and KRUEGER, Alan, "Estimates of the Economic Return to Schooling From A New Sample of Twins," AER, (December 1994) pp. 1157-1173.

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E. Meta Analysis

*WEICHSELBAUMER, Doris and WINTER-EDMERG, Rudolf, "A Meta Analysis of the International Gender Wage Gap," Department of Economics, Johannes Kephher University of Linz Working Paper No. 0311 available at: [www. Econ.jku.at/weichsel/work/paper/meta.pdf](http://www.Econ.jku.at/weichsel/work/paper/meta.pdf)

F. Economic Experiments

*BERTRAND, Marianne and MULLAINATHAN, Sendhil, "Are Emily and Brendan More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination," *AER*, (September 2004) 94 (4): 991-1013

NELSON, Phillip and POLACHEK, Solomon, "Discerning Discrimination: Does Interviewing Firms Make a Difference?" *Eastern Economic Journal*(Summer 1995) 21 (3): 393-398.

*BELASEN, A. and S. Polachek, "How Disasters Affect Local Labor Markets: The Effects of Hurricanes in Florida," *JHR*, 2009, 44(1): 251-276.

G. The Power of the Earnings Function: How Much of Earnings Distribution Can Be Explained

CHISWICK, Barry and Jacob Mincer, "Time Series Changes in Personal Income Inequality in the U.S. from 1939, with Projections to 1985," *JPE*, May/June 1972 (pp. 534-566).

AUTOR, David H., Lawrence F. Katz, and Melissa S. Kearney "Trends in U.S. Wage Inequality: Revising The Revisionists," *The Review of Economics and Statistics*, May 2008, 90(2): 300–323

VI. INTERMITTENT LABOR FORCE PARTICIPATION AND THE INVESTMENT PROCESS

*POLACHEK & SIEBERT, "Sex in the Labor Market," Chap. 6.

POLACHEK, S., "Human Capital and the Gender Earnings Gap: A Response to Feminist Critiques", in E. Kuiper and J. Sap Out of the Margin: Feminist Perspectives on Economics, (1995): 61-79.

POLACHEK, S., "How the Human Capital Model Explains Why the Gender Wage Gap Narrowed," IZA Working Paper No. 1102 (downloadable at www.iza.org) (December 2003), in Controversies About Inequality, (David Grusky and Francine Blau, eds.), forthcoming.

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POLACHEK, S., "Potential Biases in Measuring Male-Female Discrimination," *JHR*, 1975.

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VII. HETEROGENOUS HUMAN CAPITAL

POLACHEK and SIEBERT, Chap. 7 (Compensating Wage Differentials and Heterogeneous Human Capital).

*HWANG, Soo Kyeong and Solomon Polachek (January 2004), "Occupational Self-Selection and the Gender Wage Gap," Evidence From Korea and the United States," working paper.

*POLACHEK, S., "Occupational Segregation: Theory, Evidence and a Prognosis", WOMEN IN THE LABOR MARKET [C. Lloyd & C. Gilrey, eds.] (Columbia Univ. Press).

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VIII. INFORMATION IN THE MARKET PLACE

*POLACHEK & SIEBERT, "Information in the Market Place," Chap. 8.

*STIGLER, George, "The Economics of Information," JPE, June 1961, (pp.213-225).

NELSON, Phillip, "Information and Consumer Behavior," JPE, July/August 1974, (pp. 729-754).

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IX. MOBILITY

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X. RISK AND THE INVESTMENT PROCESS

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XI. HUMAN CAPITAL AND GROWTH

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XII. A CRITIQUE OF HUMAN CAPITAL: EARNINGS AND PRODUCTIVITY

*SIEBERT and POLACHEK, Chap. 9 (Wage Payment Schemes).

*MEDOFF, James and K. Abraham, "Experience, Performance and Earnings," QJE, December 1980 (pp. 703-736).

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XIII - INCENTIVES FOR WORKER EFFORT

*POLACHEK-SIEBERT, Chap. 9 (Wage Payment Schemes)

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