



Course: **Topics in Macroeconomics Labor**

Faculty: Javier Fernández-Blanco

Term: Second

E-mail: Javier.fernandez@uab.cat

Web page: <https://sites.google.com/site/fernandezblancojavier/>

Office Hours: Upon request

Description: A distinctive feature of Walrasian economies is that all markets clear. That is, no delay takes place when trading is mutually beneficial. This immediate implication is at odds with the empirical evidence in many markets: unemployed workers coexist with vacant jobs in the labor markets, buying/selling in the housing market is not instantaneous, singles take time to find a suitable partner, etc. To address these issues, modern macroeconomics has incorporated frictions, for instance, in financial, housing or marriage in addition to labor markets.

In this course, we will first look at empirical evidence on labor market outcomes, and then use models to rationalize the facts and undertake policy analysis. We will mix theory and applications on a regular basis.

Objective:

Outline:

1. Implications from a perfectly competitive equilibrium model. Empirical Evidence.
2. One-sided search models. McCall (1970).
 - a. Employment Protection and Unemployment Insurance (UI). Ljungqvist and Sargent (2008)

Javier Fernández-Blanco. Spring 2017

Departament d'Economia i d'Història Econòmica · UAB · Edifici B · 08193 Bellaterra · Barcelona (Spain) Phone (+34) 93 581 13 59 · Fax (+34) 93 581 20 12 · E-mail idea@uab.es · Web idea.uab.es

3. Two-sided random search. The Diamond-Mortensen-Pissarides framework. Pissarides (2000)
 - a. Constrained efficiency. Hosios (1990)
 - b. Multiworker firms. Stole and Zwiebel (1996)
 - c. Business cycles. Shimer (2005),...

4. Risk aversion and optimal unemployment insurance. Blanchard and Tirole (2008), Krusell et al. (2010), Feldstein and Altman (2007), Hopenhayn and Nicolini (1997), Shimer and Werning (2008)

5. Employment protection and UI. Rogerson and Schindler (2002), Pries and Rogerson (2005)

6. Directed search framework.
 - a. Game-theoretical foundations. Burdett et al. (2001), Galenianos and Kircher (2012)
 - b. Constrained efficiency. Moen (1997)
 - c. Heterogeneous workers. Shi (2001), Shimer (2005), Lang et al. (2005)
 - d. On-the-job search and risk aversion. Shi (2009)
 - e. Multiworker firms. Kaas and Kircher (2015)
 - f. Information frictions. Moen and Rosen (2004), Guerrieri et al. (2010)
 - g. Unemployment Insurance. Acemoglu and Shimer (1999)
 - h. Wage dispersion. Golosov et al. (2013)
 - i. Business cycles. Menzio and Shi (2011)

7. Income Inequality. Job and wage polarization. Acemoglu and Autor (2012), Jaimovich and Siu (2012).

References:

Acemoglu, D. and D. H. Autor (2012). "Skills, Tasks and Technologies: Implications for Employment and Earnings," *Handbook of Labor Economics*, 4.

Burdett, K., Shi, S., & Wright, R. (2001). "Pricing and matching with frictions," *Journal of Political Economy*, 109(5), 1060-1085.

Card, D., Chetty, R. and A. Weber (2007). "Cash-on-Hand and Competing Models of Intertemporal Behavior: New Evidence from the Labor Market," *Quarterly Journal of Economics*, 122(4): 1511-1560.

- Chetty, R. (2008). "Moral Hazard vs. Liquidity and Optimal Unemployment Insurance," *Journal of Political Economy*, 116 (2): 173-204.
- Feldstein, M. and D. Altman (2007). "Unemployment insurance savings accounts," *Tax Policy and the Economy*, Volume 21 (pp. 35-64), MIT Press.
- Galenianos, M., & Kircher, P. (2012). On The Game-Theoretic Foundations Of Competitive Search Equilibrium. *International economic review*, 53(1), 1-21.
- Guerrieri, V., Shimer, R., & Wright, R. (2010). "Adverse selection in competitive search equilibrium. *Econometrica*," 78(6), 1823-1862.
- Hopenhayn, H. and J. P. Nicolini (1997). "Optimal Unemployment Insurance," *Journal of Political Economy*, 105, 412-438
- Hosios, A. J. (1990). On the efficiency of matching and related models of search and unemployment. *The Review of Economic Studies*, 57(2), 279-298.
- Jaimovich, N. and H. E. Siu (2012). "The trend is the cycle: Job polarization and jobless recoveries," (No. w18334) National Bureau of Economic Research.
- Kaas, L., & Kircher, P. (2015). "Efficient firm dynamics in a frictional labor market," *The American Economic Review*, 105(10), 3030-3060.
- Katz, L.F. and B. Meyer (1990). "Unemployment insurance, recall expectations, and unemployment outcomes," *The Quarterly Journal of Economics*, 973-1002
- Krusell, P., Mukoyama, T., & Şahin, A. (2010). "Labour-market matching with precautionary savings and aggregate fluctuations." *The Review of Economic Studies*, 77(4), 1477-1507.
- Lang, K., Manove, M., & Dickens, W. T. (2005). Racial discrimination in labor markets with posted wage offers. *The American economic review*, 95(4), 1327-1340.
- Ljungqvist, L., and Sargent, T. J. (2004). *Recursive macroeconomic theory*. MIT press.
- Ljunqvist, L. and T. Sargent (2008). "Two Questions About European Unemployment," *Econometrica*, 76:1, 1-29
- Machin, S. and A. Manning (1999). "The causes and consequences of longterm unemployment in Europe," *Handbook of Labor Economics*, 3, 3085-3139
- Meyer, B. (1990). "Unemployment insurance and unemployment spells," *Econometrica*, 58:4, 757-782
- Moen, E. R. (1997). "Competitive search equilibrium. *Journal of political Economy*," 105(2), 385-411.

- Moen, E. R., & Rosén, Å. (2004). "Does poaching distort training?" *The Review of Economic Studies*, 71(4), 1143-1162.
- Petrongolo, B. and C. Pissarides (2001). "Looking into the black box: a survey of the matching function," *Journal of Economic Literature* 39: 390-431.
- Pissarides, C. (2000) *Equilibrium Unemployment Theory*, MIT Press.
- Pries, M. and R. Rogerson (2005). "Hiring Policies, Labor Market Institutions, and Labor Market Flows," *Journal of Political Economy* 113:4, 811-839
- Rogerson, R., R. Shimer and R. Wright (2005). "Search Models of the Labor Market: A Survey," *Journal of Economic Literature*, 43, 959-988.
- Rogerson, R., & Schindler, M. (2002). "The welfare costs of worker displacement. *Journal of Monetary Economics*," 49(6), 1213-1234.
- Shi, S. (2009). "Directed search for equilibrium wage–tenure contracts," *Econometrica*, 77(2), 561-584.
- Shimer, R. (2005). The cyclical behavior of equilibrium unemployment and vacancies. *The American Economic Review*, 95(1), 25-49.
- Shimer, R. (2005). "The Assignment of Workers to Jobs in an Economy with Coordination Frictions," *Journal of Political Economy*, 113(5), 996-1025.
- Shimer, R. and I. Werning (2008). "Liquidity and Insurance for the Unemployed," *American Economic Review*, 98(5): 1922-1942.
- Stole, L. A., & Zwiebel, J. (1996). Intra-firm bargaining under non-binding contracts. *The Review of Economic Studies*, 63(3), 375-410.

Grading:

The evaluation system is as follows. Students are expected to successfully complete 3-4 homework sets in teams and a final exam. Furthermore, each paper covered in class will be assigned randomly to a student for a 30-minute presentation.