

# Sciences Po Graduate Labour Spring 2017

## Earnings, Employment and Consumption

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### 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, which will refer to [Adda and Cooper \[2003\]](#), [Rust \[1987\]](#), [Aguirregabiria and Mira \[2010\]](#) so that we can have a closer look at dynamic labour supply. This will be based on [Cahuc et al. \[2014\]](#), and as application we will have [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. This idea can be extended into family labour supply in [Blundell et al. \[2016\]](#). 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. \[2016\]](#). This connects to the housing literature and we will study [Mian and Sufi \[2014\]](#) to understand why employment fell after the 2008 housing crisis.

- 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.

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