

# 14.461 Advanced Macroeconomics Part II: Topics in Macroeconomic Analysis of Labor Markets

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## 1 Search Theory

### 1.1 Review of Dynamic Programming (1/2 lecture)

1. \*\* Stokey, Nancy, Robert E. Lucas and Edward Prescott (1989) *Recursive Methods in Economic Dynamics*, Harvard University Press, Cambridge.

### 1.2 The Basic Sequential Search Model (one lecture)

1. \*\* Ljungqvist, Lars and Thomas J. Sargent (2005) *Recursive Macroeconomic Theory*, MIT press, Chapter 5.

### 1.3 Paradoxes of Search (1/2 lecture)

1. Stigler, George (1961) "The Economics of Information," *Journal of Political Economy*, 69, 213–225.
2. Rothschild, Michael (1973) "Models of Market Organization With Imperfect Information: A Survey" *Journal of Political Economy*, 81, 1283–308.
3. \*\* Diamond, Peter (1971) "A Model of Price Adjustment," *Journal of Economic Theory*, 3, 156–168.

### 1.4 Search and Bargaining (one lecture)

1. Mortensen, Dale (1982) "Property Rights in Mating, Races, and Related Games," *American Economic Review* **27**, pp 968–979.
2. \*\* Diamond, Peter (1982) "Aggregate Demand Management in Search Equilibrium," *Journal of Political Economy* **90**, 881–894.

### **1.5 Prices, Frictions and Efficiency (one lecture)**

1. \* Hosios, Arthur (1989) “On the Efficiency of Matching and Related Models of Search and Unemployment,” *Review of Economic Studies*, 57:2, 279-98. [this is very important paper, but the exposition is not great; so the lecture will not follow the paper]
2. \*\* Pissarides, Christopher (2000); *Equilibrium Unemployment Theory*, MIT Press, chapters 1, 2 and 8
3. \* Rogerson, Richard, Robert Shimer and Randall Wright (2004) “Search Models of the Labor Market: A Survey” NBER Working Paper

### **1.6 Investment and Efficiency in Models with Frictions (1/2 lecture)**

1. \*\* Daron Acemoglu (1996) “A Microfoundation For Social Increasing Returns in Human Capital Accumulation,” *Quarterly Journal of Economics*, 111, 779–804.

### **1.7 Prices and Efficiency with Directed Search (one lecture)**

1. Montgomery, James (1991) “Equilibrium Wage Dispersion and Interindustry Wage Differentials,” *Quarterly Journal of Economics*, 106, 163–179.
2. Peters, Michael (1991) “Ex ante Price offers in Matching Games: Non-Steady States,” *Econometrica* **59**
3. \* Moen, Espen (1997) “Competitive Search Equilibrium,” *Journal of Political Economy*, 105, 385–411.
4. Shimer, Robert (1995) “Contracts in Frictional Labor Markets,” MIT Mimeo.
5. \*\* Acemoglu, their own and Robert Shimer (1999) “Holdups and Efficiency in Search Frictions” *International Economic Review*

### **1.8 Distribution of Prices and Wages in Search Equilibrium (two lectures)**

1. Butters, Gerard (1977) “Equilibrium Distribution of Sales and Advertising Prices,” *Review of Economic Studies*, 44, 465–491.
2. \*\* Burdett, Kenneth and Kenneth Judd (1983) “Equilibrium Price Dispersion,” *Econometrica* 51, 955–969.
3. \*\* Acemoglu, Daron and Robert Shimer (2000) “Wage and Technology Dispersion” *Review of Economic Studies*, 67, 585-608.

4. \*\* Burdett, Kenneth and Dale Mortensen (1998); “Equilibrium Wage Dispersion and Employer Size Effects” Northwestern Mimeo, *International Economic Review*, 39; 257-273.

## 1.9 Risk Aversion (one lecture)

1. \*\* Acemoglu, Daron and Robert Shimer (1999) “Efficient Unemployment Insurance” *Journal of Political Economy*, October, 1999, vol 107, 893-928.
2. \*\* Hopenhayn, Hugo and Juan Pablo Nicolini (1997) “Optimal Unemployment Insurance,” *Journal of Political Economy*, 105, 412–438.
3. Shavell, Steven and Laurence Weiss (1979) “The Optimal Payment of Unemployment Insurance Benefits over Time”, *Journal of Political Economy*, 87, 1347-62.
4. Shimer, Robert and Ivan Werning (2004) “Optimal Unemployment Insurance with Sequential Search” MIT mimeo.
5. Werning, Ivan (2003) “Optimal Unemployment Insurance with Unobservable Savings” MIT mimeo.

## 2 Unemployment and Labor Market Fluctuations

### 2.1 Review: Basic Facts and Patterns

1. Bean, Charles (1994); “European Unemployment a Survey” *Journal of Economic Literature* Vol 32, pp 573-619.
2. \*\* Blanchard, Olivier (1998) “The Medium Term”, *Brookings Papers on Economic Activity*.
3. \* Blanchard, Olivier and Justin Wolfers (2000) “The Role of Shocks and Institutions in the Rise of European Unemployment: the Aggregate Evidence” *Economic Journal*.
4. \* OECD (1994); *Jobs Study* Volumes 1 and 2.
5. \*\* Nickell, Stephen (1997), “Unemployment and Labor Market Rigidities: Europe versus North America,” *Journal of Economic Perspectives*, Vol 11, pp. 55-74.
6. Davis, Steven J., John Haltiwanger, and Scott Schuh (1996) *Job Creation and Destruction*, the MIT Press Cambridge, 1996.

## **2.2 Search Approach to Labor Market Fluctuations (1/2 lecture)**

1. \*\* Pissarides, Christopher (2000); *Equilibrium Unemployment Theory*, MIT Press, chapters 1, 2 and 8

## **2.3 Job Creation and Job Destruction (1/2 lecture)**

1. \*\* Mortensen, Dale and Christopher Pissarides (1994) “Job Creation and Job Destruction in the Theory of Unemployment” *Review of Economic Studies* Vol 61, pp 397-416.
2. Caballero, Ricardo J. and Mohammad Hammour (1998) “Jobless Growth: Appropriability, Factor Substitution and Unemployment” *Carnegie-Rochester Conference Proceedings* 48, 51-94.

## **2.4 Challenges to the Standard Search Model (one lecture)**

1. \*\* Shimer, Robert (2005) “The Cyclical Behavior of Equilibrium Unemployment and Vacancies” *American Economic Review*, 95, 25-49.
2. Shimer, Robert (2004) “Consequences of Rigid Wages in Search Models” *Journal of the European Economic Association*, 2, 469-79.
3. \* Hall, Robert (2005) “Employment Fluctuations with Equilibrium Wage Stickiness” *American Economic Review*, 95, 50-65.
4. Hagedorn M. and I. Manovskii (2005) “The Cyclical Behavior of Equilibrium Unemployment and Vacancies Revisited’ University of Pennsylvania, mimeo.
5. Mortensen, Dale and Eve Nagypal (2005) “More on Unemployment and Vacancy Fluctuations” National Bureau of Economic Research, Working Paper No. 11692.

# **3 Changes in the Structure Wages and Models of Technology**

## **3.1 Basic Facts and Trends**

1. \*\* Katz, Lawrence F. and David H. Autor (1999) “Changes in the Wage Structure and Earnings Inequality” in Orley Ashtenfelder and David Card, eds. *Handbook of Labor Economics*, Vol. 3A, (Amsterdam: North-Holland).
2. Katz, Lawrence F. and Kevin M. Murphy (1995). “Changes in Relative Wages, 1963-1987: Supply and Demand Factors” *Quarterly Journal of Economics*, Vol. 107, pp. 35-78.

3. \*\* Autor, David H., Lawrence F. Katz and Alan B. Krueger (1998). “Computing Inequality: Have Computers Changed The Labor Market” *Quarterly Journal of Economics*, Vol. 113, No. 4, pp. 1169-1213.
4. Juhn, Chinhui, Kevin M. Murphy and Brooks Pierce (1993). “Wage Inequality and the Rise in Returns to Skill”, *Journal of Political Economy* Vol. 101, No. 3, pp. 410-442.

### 3.2 Skill-Biased Technical Change (1/2 lecture)

1. \* Krusell, Per, Lee Ohanian, Victor Rios-Rull and Giovanni Violante (2000), “Capital-Skill Complementarity and Inequality” *Econometrica* 68, 1029-1053.
2. Greenwood, Jeremy and Mehmet Yorukoglu (1997) “1974” *Carnegie-Rochester Conference Series on Public Policy*, 46, 49-95.
3. Caselli, Francesco (1999) “Technological Revolutions” *American Economic Review*, 89.
4. Galor, Oded and Omer Maov (2000) “Ability Biased Technological Transition, Wage Inequality and Economic Growth” *Quarterly Journal of Economics* 115 469-497.

### 3.3 Models of Technological Change: Review (one lecture)

- Background: material on endogenous growth from 14.451.
1. Romer, Paul M. (1990) “Endogenous Technological Change,” *Journal of Political Economy* 98, S71-S102.
  2. Aghion, Philippe and Peter Howitt (1992) “A Model of Growth Through Creative Destruction” *Econometrica*, 60, 323-351.
  3. Grossman, Gene and Elhanan Helpman (1991) “Quality Ladders in the Theory of Growth” *Review of Economic Studies*, LIX (1991), 43-61.
  4. \*\* Barro Robert and Xavier Sala-i-Martin (1995) *Economic Growth*, McGraw Hill, New York. Chapters 6 and 7.
  5. \* Aghion, Philippe and Peter Howitt (1998) *Endogenous Growth Theory*, Cambridge, MA, MIT Press, 1998, Chapters 1, 2 and 3.

### 3.4 Models of Directed Technical Change (one lecture)

1. \*\* Acemoglu, Daron (2002) “Directed Technical Change” *Review of Economic Studies*, November 2002, volume 69.
2. \*\* Acemoglu, Daron (2005) “Equilibrium Bias of Technology” MIT working paper.

### **3.5 Application to Wage Inequality (1/2 lecture)**

1. \* Acemoglu, Daron (2002) "Technical Change, Inequality and the Labor Market", *Journal of Economic Literature* March 2002, Vol. 40, pp. 7-72.
2. \*\* Acemoglu, Daron (1998) "Why Do New Technologies Complement Skills? Directed Technical Change and Wage Inequality" *Quarterly Journal of Economics*, CXIII (1998), 1055-1090.
3. Acemoglu, Daron (2003) "Patterns of Skill Premia", *Review of Economic Studies*, 70, 199-230.
4. \* Acemoglu, Daron (2003) "Cross-Country Inequality Trends", *Economic Journal*, 2003, F121-149.

### **3.6 Search Models, Composition of Jobs and Inequality (1/2 lecture)**

1. \*\* Acemoglu, Daron (1999) "Changes in Unemployment and Wage Inequality: An Alternative Theory and Some Evidence," *American Economic Review*, 89, 1259-1278.
2. Shimer, Robert (2005) "The Assignment of Workers to Jobs in an Economy with Coordination Frictions" *Journal of Political Economy*, 113, 996-1025.
3. Acemoglu, Daron (2001) "Good Jobs versus Bad Jobs", *Journal of Labor Economics*, 19, 1-22.