

Labour Economics with Search Frictions

Dr. Anna Zaharieva

Course syllabus WS 2011/2012

Lecture: 4ECTS/2 hours per week (30 hours total)

Tutorial (Simon Gemkow): 2ECTS/2 hours bi-weekly (15 hours total)

Grading: 75% - final exam, 25% - tutorial

Contact	Dr. Anna Zaharieva	Simon Gemkow
Office :	W8-103	V8-136
Email :	azaharieva@wiwi.uni-bielefeld.de	simon.gemkow@uni-bielefeld.de
Office hours :	Thursday 15.00	t.b.a.
Class :	Monday 14:00-16:00, weekly	Friday 12:00-14:00, bi-weekly
Start on :	October 17, 2011	October 28, 2011
End on :	January 30, 2012	February 03, 2012
Room :	C0-269	t.b.a

Motivation

The field of labour economics was originally established in the United States in the 1940s. There are a number of reasons explaining why labour markets differ from other markets for material goods, and therefore why labour economics has become an independent academic discipline. First of all, the exchange of labour has a social aspect because individual time and effort are exchanged against a monetary compensation. Second, labour is one of the immobile inputs in the production process and is associated with a problem of asymmetric information, since the individual motivation and ability of the worker are not observed by the potential employer. Furthermore, unemployment persistence, search frictions and wage inequality contribute to the specific standing of the labour market on the macroeconomic level. Being special, the labour market is also a large part of the economic system as a whole, in developed countries, labour income accounts for about two thirds of the national income, and roughly a half of the working age population in these countries is made up of wage-earners. These and other reasons combined together motivate the conclusion that a sound understanding of the labour market structure and its dynamics is crucial for a successful career in economic profession.

Objectives

In the process of this lecture course students will become familiar with the individual decision making of labour market participants – workers and firms. From the perspective of workers such decisions as labour market participation, the number of working hours, work intensity and the optimal quit behavior are going to be in the focus of this course. In addition, the optimal level of employment, worker dismissal decisions, new hires and vacancies are going to be analyzed from the perspective of firms. Furthermore, students will learn how these decisions adjust in response to changes in the economic environment and government policy. Every productive match between a firm and a worker results in the specification of the labour contract with an expected amount of labour services and respective remuneration. This course will provide students with a useful insight into the process of wage-setting ranging from the theory of efficiency wages to wage bargaining. Finally, individual decisions of workers and firms are aggregated to consider the properties of the labour market, the equilibrium rates of participation and unemployment, the tightness of the labour market and wage inequality in a static and a dynamic framework.

Contents

This lecture course combines an intensive overview of the traditional topics in labour economics with an introduction into the theory of search and matching which is a modern economic tool to analyze the equilibrium dynamics of the labour market.

1. Introduction
2. Labour supply and labour demand
 - 2.1 The choice between consumption and leisure
 - 2.2 Labour supply with home production
 - 2.3 Labour demand in the short run
 - 2.4 Labour demand in the long run
3. The competitive labour market
 - 3.1 Equilibrium in the competitive labour market
 - 3.2 Social welfare analysis

- 3.3 Compensating wage differentials
- 4. Trade unions and bargaining theory
 - 4.1 Bargaining theory
 - 4.2 The Right-to-Manage model
 - 4.3 Efficient bargaining
- 5. Implicit contracts and efficiency wages
 - 5.1 Risk-sharing with symmetric information
 - 5.2 Risk-sharing with asymmetric information
 - 5.3 Efficiency wages and involuntary unemployment (Shapiro and Stiglitz (1984))
- 6. Job search theory: partial search
 - 6.1 The reservation wage policy
 - 6.2 Separations and on-the-job search
- 7. Equilibrium search and matching models
 - 7.1 The Mortensen-Pissarides (1994) model
 - 7.2 Social welfare and efficiency
 - 7.3 Competitive search (Moen (1997))
- 8. Models of wage dispersion
 - 8.1 The Burdett-Mortensen model (1998)

Recommended Literature

Textbooks

1. Borjas G.J. (2010): *Labor Economics*, McGraw-Hill, Boston, MA.
2. Cahuc P., Zylberberg A. (2004): *Labour Economics*, The MIT Press, Cambridge, MA.
3. Ehrenberg R.G., Smith R. (2006): *Modern Labour Economics*, Addison Wesley, Boston, MA

4. Mortensen D. T. (2003): *Wage Dispersion*. The MIT Press.
5. Pissarides C. A. (2000): *Equilibrium Unemployment Theory*, The MIT Press, Cambridge, MA.

Articles

1. Burdett K., D.T. Mortensen (1998): "Wage differentials, Employer Size, and Unemployment", *International Economic Review*, 39: 257-273.
2. Moen E.R. (1997): "Competitive Search Equilibrium", *Journal of Political Economy*, 105(2): 385-411.
3. Mortensen D.T., C.A. Pissarides (1994): "Job Creation and Job Destruction in the theory of unemployment", *Review of Economic Studies*, 61: 397-415.
4. Shapiro C., J.E. Stiglitz (1984): "Equilibrium Unemployment as a Worker Discipline Device", *The American Economic Review*, 74(3): 433-444.