

Praktische Übung: Labour Econometrics

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Course syllabus SS 2016

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ECTS points: 5ECTS/2 hours per week

First class: 18.04.2016

Objectives

In the process of this course students will become familiar with a number of selected topics in labour economics. These topics include the theory of human capital and returns to schooling, discrimination of minorities, and the role of social networks in the labour market. In particular, the focus of this course is on testing predictions from theoretical models by means of standard econometric techniques. In each of the three large topics emphasized above students will study the benchmark labour market model and analyze the set of corresponding model predictions. These theoretical hypotheses will then be confronted with the empirical data for Germany, which is a subset of variables from the German Socio-Economic Panel. Empirical analysis will be conducted in STATA and will follow the lines of standard econometric techniques, including a multivariate linear regression model, hypothesis testing, interaction terms, the Blinder-Oaxaca decomposition and the models of binary variables. The key indicators to be analyzed from a theoretical and an empirical perspective are the returns to schooling and seniority for men and women, the gender wage gap, wage inequality between native and foreign workers as well as the effect of social contacts on wages and the probability of finding a job. In the end of the course students are expected to conduct an own project with an individual empirical estimation.

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.

Contents

1. Basic econometric concepts: linear regression
2. Theory of human capital and educational choice
3. Computer tutorial: returns to schooling and seniority
4. Theory of discrimination in the labour market
5. Computer tutorial: Blinder-Oaxaca decomposition
6. Social networks and employment outcomes
7. Computer tutorial: multinomial logistic regression
8. Intergenerational schooling mobility
9. Computer tutorial: ordered response models
10. Computer test on econometric analysis of the labour market

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. Greene W. (2008): *Econometric Analysis*, Pearson Prentice Hall, NY.