Overview and Objectives

Fields of research can define themselves by their questions, theories, or methods. All three matter for labor economics. Modern labor economics has considerably expanded the set of questions it considers, while settling on a core of commonly accepted methods, focused on causal identification using observational data.

Correspondingly, we will begin this class by a quick survey of the standard approaches to causal identification, including randomized experiments, instrumental variables, matching on observables, difference in differences, and regression discontinuity. For each of these we will discuss recent empirical applications which use these methods, covering a wide range of questions.

We will then zoom in on one of the core questions of labor economics, economic inequality and the determination of earnings. We will discuss estimation of top income shares, as well as distributional decompositions, which allow us to get a sense of the changing landscape of economic inequality.

We will next consider the competitive model of labor demand, which assumes that wages equal marginal productivity. This model has been used to study topics such as the effects of technical change, or of immigration, on wage inequality.

An alternative to the competitive model are models where employers have some market power, that is models of labor market monopsony. Em-
Employers have market power whenever their elasticity of labor supply is less than infinite. Such models imply that wages are below marginal productivity, and they can explain the empirical finding that minimum wages often don’t decrease employment.

My lectures will focus on the econometric methods used in modern labor economics. You should read the empirical papers assigned each week in order to learn how these methods are applied in practice.

Outline of the course

Week 1: Causal inference

- Causality and potential outcomes.
- Randomized experiments.
- Instrumental variables.

Week 2: Causal inference, continued

- Conditional independence, reweighting and regression with controls.
- Difference in differences.
- Regression discontinuity.

Week 3: Income inequality

- Top income shares, and their evolution over time.
- Distributional decompositions.

Week 4: Labor demand and wage determination

- Labor demand in the competitive model.
- Constant elasticity of substitution production functions.
- Market power and wage setting.
- Minimum wages.
Readings


Week 1: Causal inference

- Textbook:


- Randomized experiments:


- Instrumental variables:


**Week 2: Causal inference, continued**

- **Textbook:**


- **Difference in differences:**


- **Regression discontinuity:**


**Week 3: Income inequality**

- **Textbook:**


- **Top income shares, and their evolution over time.**

- Distributional decompositions.


**Week 4: Labor demand and wage determination**

- Labor demand in the competitive model.


- Minimum wages.


- Monopsony.