

TOPICS IN LABOR MARKETS

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Labor markets are the principal ingredient in much of the applied research in economics. Even the simplest model of the macro economy has labor demand/supply and wages. The main aspects of labor markets are the determination and distribution of wages, the allocation of workers to jobs, and unemployment. We study the essential theoretical underpinnings for analyzing labor markets: 1. The allocation process of skilled workers to jobs of different productivity (matching) to explain wages; and 2. The presence of market frictions (search) as an equilibrium phenomenon to explain unemployment. The objective of this course is to provide you with a set of ideas and tools that you can use in your research, whatever you study: macro economics, applied micro, micro theory, organizations, public finance, political economy, development, family economics,... Hopefully this will be helpful in writing a chapter of your thesis.

Course Outline

Below is a list of 4 topics, with an extensive list of papers. In the lectures we will cover a selection in detail. Covering much of the material on these 4 topics is a recent review article written for the *Journal of Economic Literature*:

CHADE, HECTOR, JAN EECKHOUT, AND LONES SMITH, "Search and Matching Models in Microeconomics," (2015), mimeo.

1 Frictionless Matching

ROTH, ALVIN AND MARILDA SOTOMAYOR, *Two-sided Matching. A Study in Game Theoretic Modelling and Analysis*, (1990), Cambridge University Press, Cambridge, Chapters 1, 2, 7, 8.

GALE, DAVID AND LLOYD SHAPLEY, "College Admission and the Stability of Marriage", *American Mathematical Monthly*, **69**, (1962), 9-15.

BECKER, GARY, "A Theory of Marriage: Part I," *Journal of Political Economy* **81**, (1973), 813-846.

MORTENSEN, DALE T. "Finding a Partner for Life or Otherwise," *American Journal of Sociology* **194** (1985): S215-S240.

ROTH, ALVIN, TAYFUN SÖNMEZ, AND UTKU ÜNVER "Kidney Exchange", *Quarterly Journal of Economics*, May 2004.

KOOPMANS, TJALLING C., AND MARTIN BECKMANN, "Assignment Problems and the Location of Economic Activities," *Econometrica* **25(1)**, 1957, 53-76.

KANTOROVICH, L.V., "On the Translocation of Masses", (Translated into English and reprinted in *Management Science* **5(1)**, 1-4 (1958)) *Comptes Rendus (Doklady) de l'Académie des Sciences de L'URSS* **37**, 199-201 (1942).

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LEGROS, PATRICK AND ANDREW F. NEWMAN, "Beauty is a Beast, Frog is a Prince: Assortative Matching with Nontransferabilities," *Econometrica* 75(4), 2007, 1073-1102.

EECKHOUT, JAN, AND PHILIPP KIRCHER, "Assortative Matching in Large Firms," mimeo 2011.

KELSO, ALEXANDER S.,JR. AND VINCENT P. CRAWFORD, "Job Matching, Coalition Formation, and Gross Substitutes", *Econometrica* **50**, 1483-1504.

2 Random Search and Sorting

- PISSARIDES, CHRISTOPHER, *Equilibrium Unemployment Theory*, 2000.
- STIGLER, GEORGE, “Information in the Labor Market,” *Journal of Political Economy* **70** (1962): 94-105.
- MCCALL, J.J., “Economics of Information and Job Search,” *Quarterly Journal of Economics* (1970): 113-126.
- ROTHSCHILD, MICHAEL, “Searching for the Lowest Price When the Distribution of Prices Is Unknown”, *Journal of Political Economy* **82**, (1974), 689-711.
- STOLE, LARS, AND JEFFREY ZWIEBEL, “Organizational Design and Technology Choice under Intrafirm Bargaining”, *American Economic Review* **86(1)** 1996.
- POSTEL-VINAY, FABIEN, AND JEAN-MARC ROBIN, “Equilibrium Wage Dispersion with Heterogeneous Workers and Firms”, *Econometrica* **70**, 2002, 1295-1350.
- SHIMER, ROBERT, AND LONES SMITH, “Assortative Matching and Search,” *Econometrica* **68**, 2000, 343–369.
- BURDETT, KEN AND MELVYN G. COLES : “Marriage and Class”, *Quarterly Journal of Economics*, **CXII**, (1997) 141-168.
- ECKHOUT, JAN, “Bilateral Search and Vertical Heterogeneity”, *International Economic Review*, **40**, 1999, 839-888.
- SMITH, LONES, “The Marriage Model With Search Frictions,” *Journal of Political Economy* **114**, 2006, 1124-1144.
- ATAKAN, ALP, “Assortative Matching with Explicit Search Costs”, *Econometrica* **74**, 2006, 667-680.
- ECKHOUT, JAN, AND PHILIPP KIRCHER, “Identifying Sorting – In Theory,” (with Philipp Kircher), *Review of Economic Studies* **78**, 2011, 872-906.

3 Directed Search and Sorting

- MOEN, ESPEN, “Competitive Search Equilibrium”, *Journal of Political Economy* **105(2)**, 1997, 385-411.
- MONTGOMERY, JAMES D., “Equilibrium Wage Dispersion and Inter-Industry Wage Differentials” *Quarterly Journal of Economics*, **CVI** (1991), 163-180.
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- ECKHOUT, JAN, AND PHILIPP KIRCHER, “Sorting vs Screening: Search Frictions and Competing Mechanisms,” *Journal of Economic Theory* **145**, 2010, 1354-1385.
- JACQUET, NICOLAS, AND SERENE TAN, “On the Segmentation of Markets”, manuscript, 2004.
- KAAS, LEO AND PHILIPP KIRCHER, “Efficient Firm Dynamics in a Frictional Labor Market”, mimeo, 2011.

4 Further Topics

Matching and Uncertainty

- ACKERBERG D., AND M. BOTTICINI, “Endogenous matching and the empirical determinants of contract form,” *Journal Political Economy* **110(3)**, 2002, 564-591.
- CHIAPPORI, PIERRE-ANDRÉ, AND PHILIP RENY, “Matching to Share Risk,” Chicago mimeo 2006.
- CHADE, HECTOR, AND JAN EECKHOUT, “Stochastic Sorting,” mimeo 2015.
- SERFES K., “Risk sharing vs. incentives: contract design under two-sided heterogeneity,” *Economics Letters* **88(3)**, 2005, 343-349.

Search and Risk Aversion

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- EECKHOUT, JAN, AND ALIRESA SEPHASALARI “Unemployment Risk and the Distribution of Assets,” UCL mimeo 2012.

Learning

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- BERGEMAN, DIRK AND JUUSO VALIMAKI, “Learning and Strategic Pricing”, *Econometrica* 1996.
- MOSCARINI, GIUSEPPE, “Job Matching and the Wage Distribution,” *Econometrica*, **73(2)**, 2005, 481-516.
- WOLINSKY, ASHER, “Information Revelation in a Market with Pairwise Meeting”, *Econometrica* **58**, (1990), 1-23.
- EECKHOUT, JAN, AND XI WENG, “Assortative Learning”, mimeo 2010.
- MORENO, DIEGO, AND JOHN WOODERS, “Prices, Delay, and the Dynamics of Trade”, *Journal of Economic Theory* **104**, 2002, 304-339.

Labor Mobility and Size Distributions

- GABAIX, XAVIER, “Zipf’s Law, An Explanation”, *Quarterly Journal of Economics*, 1999.
- EECKHOUT, JAN, “Gibrat’s Law for (All) Cities,” *American Economic Review* **94(5)**, 2004, 1429-1451
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