



Syllabus

Labor Supply, Immigration and Wage Inequality (SS 2024)

(Module: Topics in Advanced Labor Economics)

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General information: This is a free elective module in the 2nd semester in the Master's program in Economics at the University of Hohenheim. It consists of lectures and accompanying tutorials that both take place on campus.

Frequency: once a year (summer term)

Credits (lecture plus tutorials): 6 ECTS

Course language: English

Examination type: written exam (90 minutes) at the end of the semester with the possibility of retake near the beginning of the following semester.

Objective: The course provides a thorough analysis of labor supply and the search behavior of the unemployed and discusses the economic consequences of immigration as well as the implications of biased technological progress and international trade for labor market outcomes. Using variants of the presented theoretical models, students can assess how the tax system or the welfare state affect the labor supply decision or the search behavior of the unemployed, thereby identifying possible reasons for international differences in unemployment and participation rates. Students understand how immigration, technological progress, and globalization affect labor market outcomes by altering the structure and size of either labor supply or demand. Moreover, students critically review the pros and cons of various empirical approaches and understand how econometric methods can be used to quantify theoretical relationships and to identify causal effects of changes in economic policy. Accompanying tutorials offer students the opportunity to get a deeper understanding of the topics dealt with in the lecture. Students *must* attempt to solve the problem sets – in groups or individually. One of

the major goals of the course is to acquaint the students with the analytical tools commonly used in this research area. The *only* way to become proficient in their use is to solve exercises on one's own.

Course requirements

A solid understanding of microeconomics and econometrics as taught in the first master semester is necessary.

Literature: Selected chapters from:

- Cahuc, P., S. Carcillo and A. Zylberberg (2014), Labor Economics, 2nd edition, MIT Press (you can also use the first edition).
- Borjas, G. J. (2014), Immigration Economics, Harvard University Press.

Additional literature is announced in the lectures.

Contents

1. Some Facts About Labor Supply

- 1.1. Basic Definitions
- 1.2. Trend in Working Time
- 1.3. Evolution of Participation Rates
- 1.4. Part-time Work

2. The Theory of Labor Supply

- 2.1. The Consumption-Leisure Model
 - 2.1.1. Assumptions
 - 2.1.2. Budget Constraint
 - 2.1.3. Preferences
 - 2.1.4. Mathematical Analysis of the Labor Supply Decision
 - 2.1.5. Labor Market Participation and Reservation Wage
 - 2.1.6. Supplied Working Hours
 - 2.1.7. Compensated and Uncompensated Labor Supply
 - 2.1.8. Supplementary Constraints

- 2.2. Extensions of the Basic Model
 - 2.2.1. Household Production
 - 2.2.2. Family Models
 - 2.2.3. Intertemporal Labor Supply

3. The Econometrics of Labor Supply

- 3.1 Principal Ingredients of a Labor Supply Function
- 3.2 A Short Guide to Estimating Labor Supply
- 3.3. Natural Experiments and Randomized Trials
- 3.4. Differences in Differences

4. Job Search

- 4.1. Basic Job Search Theory
- 4.2. Extensions of the Basic Model
 - 4.2.1. Eligibility and Unemployment
 - 4.2.2. On-the-Job Search
 - 4.2.3. Endogenous Search Effort
 - 4.2.4. The Effect of Benefit Sanctions
 - 4.2.5. Nonstationary Environment

5. Immigration

- 5.1. Some Stylized Facts
- 5.2. A Short-Run Model with Homogenous Labor
- 5.3. A Long-Run Model with Homogenous Labor
- 5.4. Empirical Evidence

6. Inequality and Unemployment

- 6.1. Some Facts
- 6.2. Biased Technological Progress
 - 6.2.1. Exogenous Technological Progress
 - 6.2.2. Endogenous Technological Progress
- 6.3. International Trade
 - 6.3.1. Some Facts
 - 6.3.2. An Illustration of the Stolper-Samuelson Theorem
 - 6.3.3. Empirical Results