Syllabus for LECON2608
Advanced Labor Economics
Economics School of Louvain (ESL)
Fall 2017

Course Description
It is widely accepted that the labor market does not function as a standard purely competitive market. Hall and Krueger write in the American Economic Journal: Macroeconomics (2012, Vol 4, p. 56): "Labor is one of the most heterogeneous products traded in a modern economy. The competitive market for a commodity, where all units are interchangeable and all trade for the same price, could hardly be a worse description of the labor market. No Walrasian auctioneer determines the wage". LECON2608 discusses why actual labor markets are often far from competitive. It advances four main channels: (1) firms’ market power and employees bargaining power (due to turnover costs, investment, institutions, unionization); (2) uncertainty and risk aversion with incomplete insurance markets; (3) imperfect information; (4) "social norms".

The course consists of lectures. The topics will be introduced during the lectures.

The objective of the course is to develop graduate students’ abilities in acquiring a better understanding of the functioning of labor markets on the basis of the recent literature of the profession. This literature is usually formulated in terms of formal mathematical models. The lectures aim at helping the student to use and understand the intuition of these formal models as tools for the analysis of the labor market. Students should understand the functioning of these models, their main implications and shortcomings. Students should also confront the predictions of these models with the available empirical evidence.

There will also be some individual homework assignments that you will be asked to turn in.

Teaching: Instructor and Support
Instructors:
Bruno Van der Linden (bruno.vanderlinden@uclouvain.be), Collège Dupriez, 3 place Montesquieu, office D-108, office hours on Mondays 8:45-10:00 am
Marion Collewet (marion.collewet@uclouvain.be), CORE, 34 voie du Roman Pays, office B.038, office hours upon appointment.

Class Meeting: Tuesdays 2:00-4:00 pm.
Classroom: LECL 73 in Collège Jacques Leclerq, Place Montesquieu, Louvain-la-Neuve.

Slides, Exercises, compulsory readings are or will be available on the course Webpage at http://moodleucl.uclouvain.be/enrol/index.php?id=7807

Information about Moodle is available at http://moodleucl.uclouvain.be/

The course uses the following textbook: Cahuc, Pierre, Carcillo Stéphane and André Zylberberg (2014), Labor Economics, London, England: The MIT Press. (Two copies should be available at the library, place Montesquieu, www.uclouvain.be/bspo.html). See also the

The following chapters will be (partially) covered: Chapter 5. Job search; Chapter 6. Contracts, risk-sharing and incentives; Chapter 9. Equilibrium unemployment; Chapter 13. Insurance policies.

The course also covers some topics not included in this book. There is no teaching assistant.

**Prerequisites**

Economics: A course in microeconomics

Math: A course in algebra and some familiarity with calculus and, especially, with the concept of derivatives.

Econometrics: It is assumed that students have at least a basic knowledge in econometrics (OLS, IV, maximum likelihood).

Although it is not a prerequisite, some students have already taken classes in labor economics at the undergraduate level ("LECON2051 Travail, chômage et politiques d'emploi" is an example at the ESL). If not, the student should be aware that some basic topics in labor economics are not covered by the LECON2608 course: labor supply, labor demand and human capital theory in particular. Often, they have to some extent been introduced in a course in microeconomics. It is assumed that students have at least a basic knowledge about static labor demand and supply, perfect competition theory. Having heard about compensating wage differentials and human capital theory is an advantage but not a prerequisite.

**Evaluation**

Homework assignments: 15%

Final exam (during the regular examination period): 85%

You know that you are allowed to present the final exam twice during a single academic year: In January and in August 2017. If you fail at the first occasion (i.e. in January 2017) the weight attached to the second final exam will be 100% if this improves your final result.

The course material of the lectures will be evaluated on the basis of a written closed-book final exam. Questions may relate to topics discussed during the lectures, the homework assignments, other exercises provided along the term, and the compulsory readings. Examples of exam questions will be provided beforehand. The exam aims at evaluating whether students are able to construct a coherent and critical argumentation of labor market issues treated in the lectures. It will also gauge whether the students understand the logic of arguments within formal economic models and whether they can use these models. Being able to interpret correctly empirical results is also essential.

Approximately each week, there will be one homework assignment. Typically, you will have to solve (an) exercise(s). Producing a hand-written note is fine. Solutions will be provided afterwards. Solving these exercises is an excellent preparation for the exam. The evaluation of the homework assignments is based on the following main criterion: What matters is that you very seriously try to solve the weekly exercise(s), not necessarily that you deliver the right answer. The same rule does not apply at the exam where correct answers are expected.