

## Labor Markets: A Macroeconomic Perspective

### *Syllabus (winter 2016)*

The existence of unemployment remains an eminent puzzle for economists. From the macroeconomic perspective, one needs to argue why wages do not clear markets. Why do job openings coexist with unemployment? What explains large up- and downswings of unemployment over the business cycle? What policies stabilize unemployment?

This seminar analyzes these questions. First, we provide some introductory lectures on macroeconomic modeling of unemployment and the role of wages over the business cycle. Then, students will prepare a seminar paper on one related topic of their choice. Topics will be assigned in the first lecture. Preliminary results and ideas are presented and discussed in a joint session (mid December or January). Deadline for handing in the seminar paper will be end of January 2017 (expected). There is not need to register for the seminar in advance. Just come to the first lecture (October 18th).

#### Requirements

- Seminar paper (10 pages, due end-January)
- Talk (30 minutes, mid-December/January)
- Discussion (5 minutes)

Lecture: Tuesday 11.30–13.00 (approx. 6 lectures), LG 3.125

Prerequisites: Macroeconomics 1 & a sound knowledge of econometric methods (e.g., Econometrics 1).

Language: English

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#### Contents of introductory lectures

##### Part 1: Macroeconomic labor market models

1. Introduction and background
2. The basic search model
3. Equilibrium search
  - Random and directed search
  - Reallocation
  - Heterogeneity and sorting

##### Part 2: Wages over the business cycle

1. Wage rigidity and the Shimer puzzle — Do real wage rigidities exist?
2. The connection between wage rigidity and unemployment

### Literature (non-exhaustive)

- Pissarides, C. (2000). *Equilibrium Unemployment*, MIT Press, Cambridge. Chapters 1 & 9.
- Mortensen, D. and C. Pissarides., 1994. “Job Creation and Job Destruction in the Theory of Unemployment,” *Review of Economic Studies*, 61, 397–415.
- Shimer, R. (2005). “The Cyclical Behavior of Equilibrium Unemployment and Vacancies”, *American Economic Review*, 95(1): 25–49.
- Pissarides, C. (2009). “The unemployment volatility puzzle: is wage stickiness the answer?”, *Econometrica*, 77(5), 1339–1369.
- Gertler, M. and A. Trigari (2009). “Unemployment fluctuations with staggered Nash wage bargaining”, *Journal of Political Economy*, 117(1), 38–86.
- Card, D. and Hyslop, D. (1997). Does inflation “grease the wheels of the labor market”? In Romer, C. and Romer, D. (editors) *Reducing Inflation: Motivation and Strategy*, pages 71–121. The University of Chicago Press, Chicago and London.

### Topics (suggestions)<sup>1</sup>

#### 1. Stock-flow matching

Coles, M. and B. Petrongolo (2008). “A Test Between Unemployment Theories Using Matching Data,” *International Economic Review* 49, 1113–1141. (T,E)

Ebrahimi, E. and R. Shimer (2010). “Stock-flow matching”, *Journal of Economic Theory*, 145(4), 1325–1353. (T)

#### 2. Rationing unemployment

Michaillat, P. (2011). “Do Matching Frictions Explain Unemployment? Not in Bad Times,” *American Economic Review*, 102(4), 1721–1750. (T)

#### 3. The role of labor force participation

Shimer, R. (2013). “Job Search and Labor Force Participation”, *Advances in Economics and Econometrics: Theory and Applications*, Tenth World Congress, Volume II, Chapter 5, edited by Daron Acemoglu, Manuel Arellano, and Eddie Dekel, Cambridge University Press. (T)

Haefke, C. and M. Reiter (2011). “What Do Participation Fluctuations Tell Us About Labor Supply Elasticities?”, *IZA Discussion Paper*, No. 6039. (T)

#### 4. Firm size and labor market flows

Acemoglu, D. and Hawkins, W.B. (2014). “Search with multi-worker firms”, *Theoretical Economics*, 9, 583–628. (T)

Elsby, M.W.L. and Michaels, R. (2013). “Marginal jobs, heterogeneous firms, and unemployment flows”, *American Economic Journal: Macroeconomics*, 5(1), 1–48. (T)

<sup>1</sup> (T) indicates theoretical paper and (E) indicates empirical paper.

5. The establishment-level behavior of vacancies and hiring

Davis, S.J., Faberman, R.J. and Haltiwanger, J.C. (2013). “The Establishment-Level Behavior of Vacancies and Hiring” , *The Quarterly Journal of Economics*, 128(2),581–622. (T,E)

6. Match quality, job-to-job transitions and wages

Gertler, M., Huckfeldt, C. and Trigari, A. (2016). “Unemployment fluctuations, match quality and the wage cyclicality of new hires”, Mimeo. (T,E)

Hagedorn, M. and Manovskii, I. (2013). “Job selection and wages over the business cycle”, *American Economic Review*, 103(2), 771–803. (T,E)

7. Pitfalls in estimating wage cyclicality

Solon, G., Barsky, R., and J. Parker (1994). “Measuring the cyclicality of real wages: How important is composition bias”, *Quarterly Journal of Economics*, 109(1), 1–25. (E)

8. Recent approaches of estimating real wage cyclicality

Martins, P., Solon, G., and J. Thomas (2012). “Measuring what employers do about entry wages over the business cycle: a new approach”, *American Economic Journal: Macroeconomics*, 4(4), 36–55. (E)

Carneiro, A. and Guimarães, P., and P. Portugal (2012). “Real wages and the business cycle: accounting for worker, firm, and job title heterogeneity”, *American Economic Journal: Macroeconomics*, 4(2), 133–152. (E)

9. The connection between inflation and unemployment

Tobin, J. (1972). “Inflation and Unemployment”. *The American Economic Review*, 62(1/2):1–18. (T)

Akerlof, G., Dickens, W., and Perry, G. (1996). “The Macroeconomics of Low Inflation”. *Brookings Papers on Economic Activity*, 1996(1):1–59. (T)

10. Measuring downward nominal wage rigidity

Kahn, S. (1997). “Evidence of nominal wage stickiness from microdata”. *The American Economic Review*, 87(5):993–1008. (E)

Beissinger, T. and C. Knoppik (2001). “Downward Nominal Rigidity in West-German Earnings, 1975–1995”, *German Economic Review*, 2(49), 385–417. (T,E)

11. Evaluating the Economic Significance of Downward Nominal Wage Rigidity

Elsby, M.W.L. (2009). “Evaluating the Economic Significance of Downward Nominal Wage Rigidity”, *Journal of Monetary Economics*, 56(2), 154–169. (T,E)