

Labor Markets: A Macroeconomic Perspective

Syllabus (winter 2017)

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 **no need to register** for the seminar in advance. Just come to the first lecture (October 17).

Requirements

- Seminar paper (12 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)¹

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

Faberman, J., Mueller, A., Sahin, A. and Topa, G. (2017). “Job search behavior among the employed and non-employed”, NBER Working Paper, No. 23731. (E)

Elsby, M., Hobijn, B. and Sahin, A. (2015). “On the Importance of the Participation Margin for Labor Market Fluctuations”, *Journal of Monetary Economics*, 72, 64-82. (E)

4. Firm size and labor market flows

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

¹ (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. Uncertainty and unemployment
Schaal, E. (2017). “Uncertainty and unemployment” , *Econometrica*, forthcoming. (T,E)
7. 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” , NBER Working Paper. (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)
8. 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)
9. 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)
10. 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)
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)
12. Job Flows, Worker Flows, and Churn
Burgess, S., Lane, J., and Stevens, D. (2000). “Job flows, worker flows, and churning. *Journal of Labor Economics*” , 18(3), 472–502. (T,E)
Bachmann, R., Abyer, C., Merkl, C., Seth, S., Stüber, H., and Wellschmied, F. (2017). “Worker Churn and Employment Growth at the Establishment Level” . mimeo. (T,E)