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UC Berkeley

Visiting Professor, U Mannheim, Summer 2021 (mid-June through July)

PhD-level Mini Research Course on Macro-Labor Topics: Extensive-Margin Labor Supply and the Business Cycle

Version 1.0 (dated June 17th, 2021)

There might be minor improvements to the syllabus between now and our first meeting. Please check back here for potential updates (if so, I will change the version counter and update its date):

https://eml.berkeley.edu/~schoefer/schoefer_files/syllabus_Mannheim_July2021.pdf

Mondays and Thursdays, 13:45-15:15

July 8th to 26th

Besides registering from the official system, please fill out this form when you register:

https://docs.google.com/document/d/1abzkyI71dFE9EdJOKJfherttZgQot_EY5dyDOrqapzQ/edit?usp=sharing

Overview: The mini course will cover six meetings. The goal is to explore recent research on labor supply, focusing on the business cycle as well as the employment margin (i.e., how many people are working, rather than how many hours employed individuals work). I will give two introductory lectures on labor supply in macroeconomics. Then, we will together review frontier research! I will start off this part by presenting one of my recent papers, and will try to give some additional information on the research process (and look forward to your feedback). To boost interaction, we then will flip the classroom, with the students presenting (individually or in teams) recent papers from the reading list below. *Our meetings are supposed to be low-stress, enjoyable, collaborative, constructive, and interactive.*

Rules: 30min per paper (sometimes: pairs of papers). Your presentation should include slides, and should give an overview of the paper that covers the key ingredients, methods and results. Your talk lasts 35min including *narrow (rather than big picture)* interruptions – so if the paper does too much to cover in this time, you should pick its key components and zoom into the essential ingredients and steps. You should assume that everyone has read the paper, with you giving us a guided tour. Please send your slides the morning of our meeting to everyone. Then, you (supported by me) will lead the group discussion, which will last for the remaining 10min. Everyone will have prepared for a critical discussion of interesting bugs and features of the paper, and questions the paper leaves open, specifically those that may merit future research.

Assignments: Students will pick the papers they like, and can gladly do so in teams.

Recommended: PhD-level background in macroeconomics and/or labor economics.

Reading List and Roadmap:

1. Macro Basics I: Labor Supply in Business Cycles Models & the Labor Wedge

Hansen, Gary, and Randall Wright. "The Labor Market in Real Business Cycle Theory." *Federal Reserve Bank of Minneapolis Quarterly Review* 16.2 (1992).

Shimer, Robert. "Convergence in Macroeconomics: The Labor Wedge," *American Economic Journal: Macro*, 2009.

Karabarbounis, Loukas. "The Labor Wedge: MRS vs. MPN." *Review of Economic Dynamics* 17.2 (2014): 206-223.

2. Macro Basics II: Extensive-Margin Labor Supply

Hansen, Gary. "Indivisible Labor and the Business Cycle." *Journal of Monetary Economics* 16.3 (1985): 309-327.

Prescott, Edward, and Johanna Wallenius. "Aggregate Labor Supply." *Federal Reserve Bank of Minneapolis Quarterly Review* 35.2 (2012).

Chetty, Raj, Adam Guren, Day Manoli, and Andrea Weber. "Does Indivisible Labor Explain the Difference Between Micro and Macro Elasticities? A Meta-Analysis of Extensive Margin Elasticities," *NBER Macroeconomics Annual*, vol. 27(1) (2013), pages 1-56.

3. Aggregate Evidence: Quasi-Experimental Designs Based on Tax Holidays

First half:

Bianchi, Marco, Björn Gudmundsson, and Gylfi Zoega. "Iceland's Natural Experiment in Supply-Side Economics." *The American Economic Review* 91.5 (2001): 1564-1579

and

Sigurdsson, Jósef. "Labor Supply Responses and Adjustment Frictions: A Tax-free Year in Iceland." Bocconi U working paper.

Second half:

Martinez, Isabel, Emmanuel Saez, and Michael Siegenthaler. "Intertemporal Labor Supply Substitution? Evidence from the Swiss Income Tax Holidays." *American Economic Review* 111.2 (2021): 506-46.

4. Micro-Macro Aggregation & Heterogeneity

First half:

Mui, Preston, and Benjamin Schoefer. *Reservation Raises: The Aggregate Labor Supply Curve at the Extensive Margin*. No. w28770. National Bureau of Economic Research, 2021.

Second half:

Chang, Yongsung, and Sun-Bin Kim. "Heterogeneity and Aggregation: Implications for Labor-Market Fluctuations." *American Economic Review* 97.5 (2007): 1939-1956.

Chang, Yongsung, and Sun-Bin Kim. "From Individual to Aggregate Labor Supply: A Quantitative Analysis Based on a Heterogeneous Agent Macroeconomy." *International Economic Review* 47.1 (2006): 1-27.

5. Beyond Neoclassical Labor Supply: Labor Market Frictions

Krusell, Per, Toshihiko Mukoyama, Richard Rogerson, and Aysegul Şahin. Gross Worker Flows Over the Business Cycle. *American Economic Review*, 107(11) (2017), 3447-76.

Yongsung Chang, Sun-Bin Kim, Kyooho Kwon, and Richard Rogerson. Individual and Aggregate Labor Supply in Heterogeneous Agent Economies with Intensive and Extensive Margins. *International Economic Review*, 60 (2019): 3-24.

Optional TBD:

Alvarez, Fernando, and Robert Shimer. "Search and Rest Unemployment." *Econometrica* 79.1 (2011): 75-122.

6. Inequality and Labor Supply

Heathcote, Jonathan, Fabrizio Perri, and Giovanni Violante. "The Rise of US Earnings Inequality: Does the Cycle Drive the Trend?" *Review of Economic Dynamics* 37 (2020): S181-S204.

Boerma, Job, and Loukas Karabarbounis. Inferring Inequality with Home Production. forthcoming in *Econometrica*