

Syllabus: EUI Macroeconomics III – subsection “Labor Macro”, 2017

Professor Philipp Kircher

Overview: This half-course in the macro core sequence will introduce the basic concepts of labor search. It will explain the difference between “stocks” and “flows” and the most common tools in understanding labor flows. The first two lectures will introduce the basic work-horse model of search theory, and possibly explain continuous time Bellman equations. The next two lectures will introduce problems and solutions with wage-setting in such markets, and will introduce concepts of wage competition and on-the-job search. The next two lectures will look at business cycle dynamics. And the course will conclude with a brief outlook at large firms in labor markets. The syllabus is tentative and might be adapted based on the interest of the students and the skills they bring to the class. In particular the timing is not set in stone but will depend on the speed at which progress is made in class.

Lectures:

Lecture 1 (Mon 4/3/2017 11:00 AM Mon 4/3/2017 12:30 PM)

Lecture 2 (Wed 4/5/2017 11:00 AM Wed 4/5/2017 12:30 PM)

- Brief discussion on research ideas
- Discussion of stocks vs flows
- The basic Diamond-Mortensen-Pissarides (DMP) Model in Steady-State (Detour: continuous time value functions with poisson processes...)
- Some evidence

Lecture 3 (Mon 4/10/2017 11:00 AM Mon 4/10/2017 12:30 PM)

Lecture 4 (Wed 4/12/2017 11:00 AM Wed 4/12/2017 12:30 PM)

- Wage setting
- The “Diamond” Paradox
- Solutions to the Diamond Paradox, with emphasis on
 - o Wage competition (directed search)
 - o On-the-job search

Lecture 5 (Wed 4/19/2017 11:00 AM Wed 4/19/2017 12:30 PM)

Lecture 6 (Mon 4/24/2017 11:00 AM Mon 4/24/2017 12:30 PM)

- Business cycles
 - o The “Shimer” Paradox in the DMP model
 - o Solutions to the Shimer Paradox
 - High outside options (Hagedorn-Manovskii)
 - Fixed (sticky...) wages (Hall)
 - Non-employment...

Lecture 7 (Fri 4/28/2017 11:00 AM Fri 4/28/2017 12:30 PM)

- large firms in (directed) search
- use of dynamic programming for the study of search markets

Reading list (will possibly be extended/alterd in the actual lecture):

Lecture 1 and 2:

Christopher Pissarides, *Equilibrium Unemployment Theory*, MIT Press 2000.

Randall Wright, lecture notes on "Job Search Theory".

Lecture 3 and 4:

Dale Mortensen, *Wage Dispersion – Why are Similar Workers Paid Differently*, MIT Press 2003.

Burdett, Kenneth and Dale Mortensen, 1998, "Wage Differentials, Employer Size, and Unemployment," *International Economic Review*, 39, issue 2, pages 257-73.

Moen, Espen, 1997, "Competitive Search Equilibrium", *Journal of Political Economy* 105, 385-411.

Burdett, Kenneth, Shouyong Shi and Randall Wright, 2001, "Pricing and Matching with Frictions", *Journal of Political Economy*, 109 (5), 1060-1085.

Julien, Benoit, Philipp Kircher, Randall Wright, and Veronica Guerrieri, "Directed Search – A Guided Tour", mimeo.

Lecture 5 and 6:

Shimer, Robert, 2005, "The Cyclical Behaviour of Equilibrium Unemployment and Vacancies", *American Economic Review*, 95 (1), 25-49.

Hagedorn, Marcus, and Iourii Manovskii. 2008. "The Cyclical Behavior of Equilibrium Unemployment and Vacancies Revisited." *American Economic Review* 98 (4):1692-1706.

Hall, Robert. 2005 "Employment Fluctuations with Equilibrium Wage Stickiness," *American Economic Review*, 95(1), pp. 50-65.

Shimer, Robert. 2004, "The Consequences of Rigid Wages in Search Models," *Journal of the European Economic Association (Papers and Proceedings)*, 2: 469-479, 2004.

Mankart, Jochen, and Rigas Oikonomou, forthcoming, "Household Search and the Aggregate Labor Market," *Review of Economic Studies*.

Lecture 7:

Kaas, Leo and Philipp Kircher. 2015. "Efficient Firm Dynamics in a Frictional Labor Market." *American Economic Review*, 105(10): 3030-60