

# Labor Market Adjustment to (Local) Economic Shocks

Syllabus

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## Course Description

How do labor markets adjust to economic shocks, and what can we learn from those adjustments about the overall functioning of labor markets? To answer such questions, researchers often study variation in economic shocks across areas. This “area approach” is becoming the dominant empirical approach in many economic literatures, and has led to breakthrough findings on important questions. However, the approach also has shortcomings in implementation and interpretability, and key questions on the functioning of labor markets remain unanswered.

In this course, we study recent theoretical and empirical work on the labor market effects of economic shocks, with a particular focus on labor supply (in particular, immigration) and demand shocks (including trade, fiscal and other types of shocks). Empirically, we study common implementations of the area approach as well as “shift share” instrumental variable estimators, which are often used in this context. Theoretically, we compare classic factor proportions models with more recent work on monopsony and wage-setting, and study the different margins of adjustment via which local labor markets may adjust.

## Logistics

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## Evaluation

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## References

The course is structured around research papers, in particular the main papers listed below. Lecture slides will be provided. Cahuc, Carcillo and Zylberberg (2014, or previous edition) or Borjas' "Labor Economics" are useful background readings.

## Topics

The course is divided into four modules. The outline of each module is given below.

### 1 Area Studies and Shift-share Instrumental Variables

#### 1.1 Main Papers

- Adao, Rodrigo, Michal Kolesár, and Eduardo Morales. 2019. "Shift-share Designs: Theory and Inference." *The Quarterly Journal of Economics*, 134(4): 1949–2010.
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- Blanchard, Olivier Jean, and Lawrence F. Katz. 1992. "Regional Evolutions." *Brookings Papers on Economic Activity*, 23(1): 1–76.
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#### 1.2 Useful References

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- Borusyak, Kirill, and Peter Hull. 2023. "Non-Random Exposure to Exogenous Shocks." *Econometrica*. 2155-2185.
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- Helm, Ines. 2020. "National Industry Trade Shocks, Local Labor Markets and Agglomeration Spillovers." *The Review of Economic Studies*.

- Jaeger, David A., Joakim Ruist, and Jan Stuhler. 2018. “Shift-Share Instruments and the Impact of Immigration.” National Bureau of Economic Research Working Paper 24285.
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## 2 Immigration and Labor Supply Shocks

### 2.1 Main Papers

- Amior, Michael and Jan Stuhler. 2024. “Immigration, Monopsony and the Distribution of Firm Pay”, IZA Discussion Paper No. 16692
- Borjas, George J. 1999. “The Economic Analysis of Immigration.” In Handbook of Labor Economics. Vol. 3 of Handbook of Labor Economics, , ed. O. Ashenfelter and D. Card, Chapter 28, 1697–1760. Elsevier.
- Borjas, George J. 2003. “The Labor Demand Curve is Downward Sloping: Re-examining the Impact of Immigration on the Labor Market\*.” Quarterly journal of Economics, 118(4): 1335–1374.
- Borjas, George. 2013. “The Analytics of the Wage Effect of Immigration.” IZA Journal of Migration, 2(1): 22.
- Card, D. 1990. “The Impact of the Mariel Boatlift on the Miami Labor Market.” Industrial and Labor Relations Review, 245–257.
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- Dustmann, Christian, Uta Schönberg, and Jan Stuhler. 2017. “Labor Supply Shocks, Native Wages, and the Adjustment of Local Employment.” The Quarterly Journal of Economics, 132(1): 435–483.
- Ottaviano, Gianmarco I. P., and Giovanni Peri. 2012. “Rethinking The Effect Of Immigration On Wages.” Journal of the European Economic Association, 10(1): 152–197.

## 2.2 Useful References

- Albert, Christoph. 2021. “The Labor Market Impact of Immigration: Job Creation versus Job Competition.” *American Economic Journal: Macroeconomics*, 13(1): 35–78.
- Amior, Michael, and Alan Manning. 2020. “Monopsony and the Wage Effects of Migration.” CEP Discussion Paper No 1690.
- Angrist, Joshua D., and Adriana D. Kugler. 2003. “Protective or Counter-productive? Labour Market Institutions and the Effect of Immigration on EU Natives.” *Economic Journal*, 113(488): F302–F331.
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- Card, D. 2001. “Immigrant Inflows, Native Outflows, and the Local Labor Market Impacts of Higher Immigration.” *Journal of Labor Economics*, 19(1): 22–64.
- Chassambouli, Andri, and Giovanni Peri. 2015. “The Labor Market Effects of Reducing the Number of Illegal Immigrants.” *Review of Economic Dynamics*, 18(4): 792–821.
- Clemens, Michael A., Ethan G. Lewis, and Hannah M. Postel. 2018. “Immigration Restrictions as Active Labor Market Policy: Evidence from the Mexican Bracero Exclusion.” *American Economic Review*, 108(6): 1468–87.
- Cohen-Goldner, Sarit, and M. Daniele Paserman. 2011. “The Dynamic Impact of Immigration on Natives’ labor market Outcomes: Evidence from Israel.” *European Economic Review*, 55(8): 1027–1045.

- Delgado-Prieto, Lukas. 2021. “Immigration, Wages and Employment under Informal Labor Markets.” Working Paper, Universidad Carlos III de Madrid.
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- Lewis, Ethan. 2011. “Immigration, Skill Mix, and Capital Skill Complementarity.” *The Quarterly Journal of Economics*, 126(2): 1029–1069.
- Llull, Joan. 2018. “Immigration, Wages, and Education: A Labour Market Equilibrium Structural Model.” *The Review of Economic Studies*, 85(3): 1852–1896.
- Manacorda, Marco, Alan Manning, and Jonathan Wadsworth. 2012. “The Impact Of Immigration On The Structure Of Wages: Theory And Evidence From Britain.” *Journal of the European Economic Association*, 10(1): 120–151.
- Monras, Joan. 2020. “Immigration and Wage Dynamics: Evidence from the Mexican Peso Crisis.” *Journal of Political Economy*, 128(8): 3017–3089.
- Orefice, Gianluca, and Giovanni Peri. 2020. “Immigration and Worker-Firm Matching.” NBER Working Paper No. 26860.
- Peri, Giovanni, and Chad Sparber. 2009. “Task Specialization, Immigration, and Wages.” *American Economic Journal: Applied Economics*, 1(3).

### **3 Wage Setting and Monopsony**

#### **3.1 Main Papers**

- Abowd, John M., Francis Kramarz, and David N. Margolis. 1999. “High Wage Workers and High Wage Firms.” *Econometrica*, 67(2): 251–333.
- Burdett, Kenneth, and Dale T. Mortensen. 1998. “Wage Differentials, Employer Size, and Unemployment.” *International Economic Review*, 39(2): 257–273.

- Drenik, Andres, Simon Jäger, Pascuel Plotkin, and Benjamin Schoefer. 2023. “Paying Outsourced Labor: Direct Evidence from Linked Temp Agency-Worker-Client Data.” *Review of Economics and Statistics*, 105(1): 206–216.
- Lachowska, Marta, Alexandre Mas, Raffaele Saggio, and Stephen A Woodbury. 2022. “Wage Posting or Wage Bargaining? A Test Using Dual Jobholders.” *Journal of Labor Economics*, 40(S1): S469–S493.
- Manning, Alan. 2021. “Monopsony in Labor Markets: A Review.” *ILR Review*, 74(1): 3–26.
- Muñoz, Mathilde. 2023. “Trading Non-Tradables: The Implications of Europe’s Job Posting Policy.” *Quarterly Journal of Economics*, 139(1).
- Naidu, Suresh, Yaw Nyarko, and Shing-Yi Wang. 2016. “Monopsony Power in Migrant Labor Markets: Evidence from the United Arab Emirates.” *Journal of Political Economy*, 124(6): 1735–1792.

### 3.2 Useful References

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- Andrews, M. J., L. Gill, T. Schank, and R. Upward. 2008. “High wage workers and low wage firms: negative assortative matching or limited mobility bias?” *Journal of the Royal Statistical Society: Series A (Statistics in Society)*, 171(3): 673–697.
- Arellano-Bover, Jaime, and Shmuel San. 2020. “The Role of Firms in the Assimilation of Immigrants.” Working Paper,
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- Cahuc, P., Postel-Vinay, F. and Robin, J.M., 2006. “Wage Bargaining with On-the-Job Search: Theory and Evidence”. *Econometrica*, 74(2), pp.323-364.

- Caldwell, S. and Harmon, N.. 2024. “Outside Options, Wages, and Bargaining: Evidence From Coworker Networks”, *Review of Economic Studies*.
- Card, D., Cardoso, A.R., Heining, J. and Kline, P., 2018. Firms and Labor Market Inequality: Evidence and some Theory. *Journal of Labor Economics*, 36(S1), pp.S13-S70.
- Card, D., Heining, J. and Kline, P., 2013. Workplace Heterogeneity and the Rise of West German Wage Inequality. *The Quarterly Journal of Economics*, 128(3), pp.967-1015.
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- Dube, A., Jacobs, J., Naidu, S. and Suri, S., 2020. Monopsony in Online Labor Markets. *American Economic Review: Insights*, 2(1), pp.33-46.
- Jäger, S., Schoefer, B., Young, S. and Zweimüller, J., 2020. Wages and the Value of Nonemployment. *The Quarterly Journal of Economics*, 135(4), pp.1905-1963.
- Lamadon, Thibaut, Magne Mogstad, and Bradley Setzler. 2022. “Imperfect Competition, Compensating Differentials, and Rent Sharing in the US Labor Market.” *American Economic Review*, 112(1): 169–212.
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- Staiger, D.O., Spetz, J. and Phibbs, C.S.. 2010. Is There Monopsony in the Labor Market? Evidence From a Natural Experiment. *Journal of Labor Economics*, 28(2), pp.211-236.

## 4 Labor Demand Shocks

### 4.1 Main Papers

- Amior, Michael, and Alan Manning. 2018. “The Persistence of Local Joblessness.” *American Economic Review*, 108(7): 1942–70.

- Bartik, Timothy J. 1991. Who Benefits from State and Local Economic Development Policies? Books from Upjohn Press, W.E. Upjohn Institute for Employment Research.
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- Card, David, Jörg Heining, and Patrick Kline. 2013. “Workplace Heterogeneity and the Rise of West German Wage Inequality.” *Quarterly Journal of Economics*, 128(3): 967–1015.
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- Moretti, Enrico. 2011. “Local Labor Markets.” In *Handbook of Labor Economics*. Vol. 4 of *Handbook of Labor Economics*, ed. O. Ashenfelter and D. Card, Chapter 14, 1237–1313. Elsevier.
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- Bentolila, Samuel, Marcel Jansen, and Gabriel Jiménez. 2018. “When Credit Dries Up: Job Losses in the Great Recession.” *Journal of the European Economic Association*, 16(3): 650–695.
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- Hershbein, Brad, and Bryan A Stuart. 2020. “Recessions and Local Labor Market Hysteresis.”
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- Topel, Robert H. 1986. “Local Labor Markets.” *Journal of Political Economy*, 94(3): pp. S111–S143.

## **5 Trade Shocks, Multipliers and other Applications**

### **5.1 Main Papers**

- Albert, Christoph, and Joan Monràs. 2019. “The Regional Impact of Economic Shocks: Why immigration is Different from Import Competition.” *Universitat Pompeu Fabra Economics Working Papers* 1758.
- Autor, David, David Dorn, and Gordon H. Hanson. 2016. “The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade.” *Annual Review of Economics*, 8: 205–240.
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- Feler, Leo, and Mine Z. Senses. 2017. “Trade Shocks and the Provision of Local Public Goods.” *American Economic Journal: Economic Policy*, 9(4): 101–43.
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- Nimeczik, Jan Sebastian. 2020. “Job Mobility Networks and Data-driven Labor Markets.” *Working Paper*.
- Serrato, Juan Carlos Suárez, and Philippe Wingender. 2014. “Estimating Local Fiscal Multipliers.” *Working Paper*.

### **5.2 Useful References**

- Acemoglu, Daron, and Pascual Restrepo. 2020. “Robots and Jobs: Evidence from US Labor Markets.” *Journal of Political Economy*, 128(6): 2188–2244.
- Albert, Christoph, and Joan Monràs. 2019. “The Regional Impact of Economic Shocks: Why immigration is Different from Import Competition.” *Universitat Pompeu Fabra Economics Working Papers* 1758.
- Autor, David H., and David Dorn. 2013. “The Growth of Low-Skill Service Jobs and the Polarization of the US Labor Market.” *American Economic Review*, 103(5): 1553–97.

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