Course overview

This course introduces the notion of and reasons for economic inequality. We start by exploring factors that affect income inequality across and within countries. We show that wage dispersion is key for overall income inequality and focus on factors that determine wage differentials among workers from a theoretical and empirical point of view. The course briefly covers human capital and compensating differentials theories of wage determination. Our main goal, however, is to answer the question of why similar workers are paid differently. We study a number of empirical facts related to the above question and introduce an analytical framework, the search and matching model, in which to understand these facts. Within this framework, we show how labour mobility (or the so-called job ladder) can improve the allocation of workers to firms, enhance aggregate productivity, and reduce inequality.

Learning Outcomes

Upon completion of the course the students should

- Distinguish factors that affect income inequality and be familiar with recent trends in wage and earnings inequality;
- Examine the role played by workers’ and jobs’ characteristics in generating wage differentials among workers, and be familiar with the relevant empirical evidence;
- Be knowledgeable about the potential causes of wage and productivity dispersion;
- Understand why an unemployed worker may reject a job offer;
- Understand the economic intuition for why similar workers are paid differently;
- Analyse the dynamics of wages throughout the life cycle and understand how job search may explain wage profiles;
- Identify how higher labour mobility can improve efficiency and reduce lifetime-income inequality.

Prerequisites

The prerequisites are EC2201, EC2202, and EC2203 or equivalent.

Course delivery

The course is taught through a two-hour lecture and a one-hour seminar every week. Lectures introduce the relevant economic models and highlight the central economic arguments behind these
models. Weekly seminars are aimed at practicing solving problems related to the topics covered in the lectures, as well as discussing relevant empirical evidence. Lectures and classes are complementary ways of achieving the learning outcomes in this course. To obtain a good result in the final exam students are advised to attend all lectures and to complete the problem sets each week before showing up in class. The problem sets are designed to prepare students for the exam.

Please note that excessive seminar absences can result in the student being barred from the final exam, as specified in the Economics Department UG Handbook.

**Course assessment**

The final mark is composed of

- Group Presentation 5% + Written Report 5%
- Midterm Exam 15%
- Final Exam 75%

Group presentation: Students will present one article in class during the Term. Depending on the class size, this will be done in groups of 2-4 people. The presentation should be no longer than 15-20 minutes. Within one week after your presentation, a short written report based on the article is due. The presentation and article report should contain a concise statement of the author’s research question; a brief outline of how the author answers the question including methods and data; and a list of critiques, praise, or questions you have regarding the adequacy of the methodology.

Exams: Both midterm and final exams will be closed book, closed notes exams. They will cover the material presented in lectures and seminars and will test your knowledge and understanding of the material covered in the course, your ability to manipulate, compare, and logically explain diagrammatic and mathematical versions of the models, your ability to apply the models and theories to real world situations, and your ability to critically appraise the models and their applications.

Make-up examinations: It is your responsibility to arrive at the exam on time. Exams will be held in our regular classroom. Students who arrive late will not be given additional time, and anyone arriving after other students have finished will not be permitted to take the exam.

Failing to take a scheduled examination will result in a score of 0 unless replaced by a make-up exam in a timely fashion. ‘Make-up’ examinations are given at the discretion of the instructor, and will only be given in cases where there is a documented excuse beyond your reasonable control. No exam will be made-up after it has been graded and returned to the class.

The current UG Handbook shows the week the midterm test will take place.

**Academic Integrity and Dishonesty:** Cheating and plagiarism will not be tolerated.

**Reading**

The course is mainly based on the lecture slides, which will be made available for download on the course website. The course outline (see below) lists a number of journal articles and book chapters as a background reading material. These are not part of the required reading for this course and are only included to inform students about further sources of information on the topics covered in lectures. Copyrights permitting, I will post these papers on the course Moodle page.
Handouts. Note that NO handouts of lecture materials will be provided. Lecture slides are designed to support a lecture presentation. They are NOT lecture notes. Students are expected to attend lectures and, if they wish, make their own notes.

Where students are unclear on any material set out in the lecture, they should consult any of the undergraduate Labour Economics textbooks. The following textbooks are recommended as a supplementary reading material:


Tentative Schedule

1. Inequality across countries. Development Accounting and the role of government and institutions for growth.
   Reading: Jones (2016), Jones and Klenow (2016)

2. Introduction to the economics of inequality. Measurement of income inequality, recent trends and cross-country comparisons.
   Reading: Krueger et al (2010), Blundell and Etheridge (2010), Heathcote, Perri and Violante (2010)

3. Determinants of wages in a competitive labour market. Human capital theory.


5. Wage and productivity dispersion: Empirical evidence

6. Frictional labour market: Reservation wage and unemployment duration

7. Wage posting and the Diamond paradox
   Reading: Mortensen Ch 1, Diamond (1982)

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1 Students are only asked to read chapters 1 and 2.
8. On-the-job search and wage dispersion. The Burdett-Mortensen model

9. (Time permitting) Lifecycle wage profiles, wage dynamics and job turnover
   Reading: Cahuc and Zylberberg Ch 9, Rubinstein and Weiss (2006), Jovanovic (1979), Lazear (1990)

10. Review
    We will use this lecture to recap lectures 1-9, to catch up if we have fallen behind schedule, or
to discuss relevant current events in the labour market.

References


Goldin, Claudia and Cecilia Rouse (2000), "Orchestrating Impartiality: The impact of blind Auditions on Female Musicians", American Economic review, 90(4); 715-741


