Course Outline and Annotated Reading List for Davis Lectures

Lecture notes will be posted to the course website on Chalk. Make sure you have access to the course website throughout the quarter.

All readings can be found online. Unless otherwise noted, you should read the published version.

** = Papers considered in lectures; required reading for the course.
* = Papers treated briefly in lectures, or which are useful complements to papers covered in lectures; highly recommended readings.
No ** or * = other suggested readings if you want to explore a particular topic.

I. Using Large-Scale Longitudinal Business Databases: Selected Studies

Papers in this section use large-scale longitudinal business databases to study productivity, labor market flows, and other aspects and consequences of business dynamics. Papers 2, 4, 5, 6, 8 and 11 introduce you to several major longitudinal firm-level and establishment-level databases for the United States. Section II below introduces other important U.S. longitudinal business databases. Similar datasets are available for many other countries, as illustrated by papers 1, 3, 9, 13 and 14.

Papers 2 and 14 provide excellent overviews of the expansive literature that studies productivity behavior using firm-level and establishment-level data sources. Papers 10, 11 and 13 are important contributions to this area of research. Several other papers listed below focus on productivity and labor market outcomes associated with private equity buyouts: see 1, 3, 4, 12 and 14. Papers 5, 7 and 8 develop evidence of major secular changes in business volatility, and papers 2, 4, 5, 9 and 11 in Section II below consider the closely related topic of secular changes in the pace of labor market flows.

The classroom lecture for Section I will focus on “Volatility and Dispersion in Business Growth Rates: Publicly Traded versus Privately Held Firms” (Paper 5) and “Private Equity, Jobs, and Productivity” (Paper 4).

3. Boucly, Quentin, David Sraer and David Thesmar, 2011. “Growth LBOs,” *Journal of Financial Economics*. Studies French private equity buyouts using an empirical design similar to that of “Private Equity, Jobs, and Productivity.” Results suggest that private equity plays a rather different role in France as compared to the United States.


7. Davis, Steven J. and James A. Kahn “Interpreting the Great Moderation: Changes in the Volatility of Economic Activity at the Macro and Micro Levels,” *Journal of Economic Perspectives*, Fall 2008. Read this paper to gain an understanding of how the evidence in Davis et al. (2007) relates to the large macro literature on the Great Moderation.


Note: I will spend little time on this section in class but will post old lecture notes.

This section develops empirical foundations for the flow approach to labor market dynamics and theories of frictional unemployment. Some studies in this section – e.g., *Job Creation and Destruction* and related work reviewed in “Gross Job Flows” – mainly exploit longitudinal business databases. Other studies – e.g., Blanchard and Diamond (1989) and Elsby et al. (2009) – mainly exploit household surveys. For a gentle introduction to the literature, you should first
read Davis, Faberman and Haltiwanger (2006). Then read my short piece for the NBER reporter, which ties together several papers in Sections I and II. From there, you can profitably read any of the studies listed in this section. Davis and Haltiwanger (1999) offer an extensive review of first-generation empirical research on labor market flows, and Petrongolo and Pissarides (2001) offer an extensive review of research on matching functions.

The pace of U.S. labor market flows exhibits a pronounced secular decline. The deeper reasons for this phenomenon and its implications for economic performance are not yet well understood. For evidence regarding the secular behavior of U.S. labor market flows and related analysis and discussion, see Davis (2008), Davis et al. (2010), Davis, Faberman and Haltiwanger (2012), and Hyatt and Spletzer (2013) below and Davis et al. (2007) and Decker et al. (2013) in Section I above.


Selected Micro-Oriented Analyses of Labor Market Flows
III. Policy Uncertainty

This section considers a rapidly emerging literature on economic policy uncertainty. Our classroom treatment will address the measurement of economic policy uncertainty and issues that arise in evaluating the relationship of policy uncertainty to macroeconomic performance. As part of this discussion, we will introduce methods for using automated text-string searches on digital newspaper archives to construct new measures of economic policy uncertainty. Similar methods can be applied to quantify other concepts that are not well captured by traditional measures and data sources. As time permits, we will consider a few empirical studies of the relationship between policy uncertainty and economic outcomes and briefly discuss theoretical models of the mechanisms that link policy uncertainty to macroeconomic performance.

There is an older, larger and broader literature on the economic effects of uncertainty. See Baker et al. (2012) for references to a few key articles in the broader literature. My list below includes only a few articles from the broader literature that are especially relevant to policy uncertainty.


This course will consider only one small slice of recent work that uses automated text search methods as a research tool. See the following papers to gain a fuller appreciation for how these methods can be deployed in economics research.

Selected Studies that Use Automated Text String Search Methods
IV. Displaced Workers: Earnings Losses and other Effects of Job Loss

Equilibrium search theory and competitive equilibrium theory do not offer ready explanations for the magnitude of the earnings losses and other costs that many workers experience in the wake of job loss. Empirical research on this topic goes back a long way, but the extent and quality of this work has improved greatly in recent years, largely due to the advent of large-scale longitudinal worker-employer datasets. Jacobson, Lalonde and Sullivan (1993) provide an early and influential study that exploited the power of such datasets and applied empirical techniques previously developed in the literature on program evaluation. More recent studies in the same mold include Couch and Placzek (2010), Von Wachter, Song and Manchester (2009), Davis and von Wachter (2011) and many other studies listed below.

1. Basten, Christoph, Andreas Fagereng and Kjetil Telle, 2013. “Saving and Portfolio Allocation before and after Job Loss,” working paper, July. This paper and the one below by Gallen investigate whether foreknowledge about displacement affects worker savings behavior.


2. This paper offers a different, and rather eclectic, perspective on many of the topics treated in this course. A good source of ideas for research topics.


Theoretical and empirical studies of specific human capital are highly relevant to the literature on the earnings losses associated with job loss. See the studies listed above under Selected Micro-Oriented Analyses of Labor Market Flows and the following studies:

Selected Studies of Specific Human Capital

V. Employer Behavior on the Hiring Margin
A vast empirical literature explores the characteristics, behavior and outcomes of the unemployed. Theories of individual and aggregate unemployment behavior are also well developed. Explaining cyclical fluctuations in the unemployment rate, for example, is one of the principal goals of equilibrium search models. In contrast, the study of employer behavior in the process of forming new employment relationships is relatively underdeveloped. The papers listed here consider several aspects of employer behavior on the new hires margin.

A. Job Vacancies in the Hiring Process

B. Evidence on Hiring Costs
C. Selected Theoretical Models of the Hiring Process

D. Hiring as an Investment Decision

E. Wage Behavior on the New Hires Margin
If we have time to take up another topic in my portion of the course, I will choose one of the following:

- Job Search Behavior by Workers
- Psychological Effects of Job Loss and Unemployment
- Persistent Wage Effects of Past Labor Market Conditions
- Selected Studies of Wage Rigidities

You can find (old) lecture notes for the third and fourth bullet points above (and a few other topics) on my teaching website at [http://faculty.chicagobooth.edu/steven.davis/teaching.html](http://faculty.chicagobooth.edu/steven.davis/teaching.html).

That site also includes earlier incarnations of the course syllabus, with annotated reading lists for the following topics:

- Introduction to Search and Matching Models of Frictional Unemployment
- The Unemployment Volatility Puzzle in Equilibrium Search Models
- Wage Rigidities as a Solution to the Unemployment Volatility Puzzle
- Persistent Wage Effects of Past Labor Market Conditions
- Other Empirical Studies of Wage Rigidities
- Employer Behavior on the Separation Margin
- Theoretical Explanations for Wage Rigidities
- New Keynesian Models with Wage Rigidities
- New Keynesian Models with Wage Rigidities and Frictional Unemployment
- Psychological Effects of Job Loss and Unemployment