Course Outline and Annotated Reading List for Davis Lectures

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

** = Papers considered in the lectures and other essential background readings. These papers are required reading for the course.

* = Papers treated briefly in lectures and papers that are especially good complements to the lectures. These papers are highly recommended.

No ** or * = other suggested readings if you want to explore a particular topic

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

This section considers papers that use large-scale longitudinal business databases to study productivity, employment, labor market flows, business dynamics, and other topics.

Papers 3-5, 7-15 and 17 exploit major longitudinal firm-level and establishment-level databases for the United States. Similar datasets are available for many other countries, as illustrated by papers 1, 6 and 16. Paper 18 provides an excellent overview of the expansive literature that studies productivity behavior using firm-level and establishment-level data sources. Several other papers listed here focus on productivity and labor market outcomes associated with private equity buyouts: see 1, 3, 14 and 16. Paper 4 develops evidence of major secular changes in business volatility, a topic we return to in Section III.

1. 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.


Note: I won’t devote time to 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). 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 Petrungolo and Pissarides (2001) offer an extensive review of research on matching functions. The survey paper by Elsby et al. (2014)
takes the reader to several points at the frontier of research on the aggregate behavior of unemployment, vacancies, and labor market flows. I highly recommend it for any one who plans to conduct research on aggregate labor market fluctuations.

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. Labor Market Flows: Determinants and Consequences

As measured by job and worker flows across employers, U.S. labor markets became much less fluid in recent decades. Fluidity declines cut across states, industries and demographic groups defined by age, gender and education. Several indicators of business dynamism have also declined secularly in the United States. We will document these facts, investigate potential explanations, and consider their implications for employment, productivity and wages. Our in-class discussion will closely follow “Labor Market Fluidity and Economic Performance.” See that paper for a much more extensive list of references to the large and diverse literature on the determinants and consequences of labor market flows.

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 several other studies listed below.

Davis and von Wachter also show that standard search and matching models fail to explain the size of present value earnings losses associated with job loss. Observed losses are several times larger than predicted by the standard theory. Recent papers by Jung and Kuhn (2012), Krolikowski (2013), Huckfeldt (2014), Jarosch (2014) consider various modifications to search and matching models to address this issue.

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.
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

F. Field Studies of the Hiring Process

VI. 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. If 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. Chicago Booth’s Capital Ideas magazine has a useful non-technical article by Robin Mordfin, titled “The Price of Policy Uncertainty” (2 September 2014). It contains a short overview of the research on policy uncertainty by several faculty at the University of Chicago and other institutions.

There is a much larger (and expanding) literature on the economic effects of uncertainty. See Baker et al. (2013) and Bloom (2014) for references to some of the key articles in the broader literature. My list below includes only a few articles from this broader literature that are especially relevant to policy uncertainty.
A. Measuring (Policy) Uncertainty and Related Concepts


B. The Effects of (Policy) Uncertainty: Empirical Studies


C. The Effects of Policy Uncertainty: Theoretical Analyses

D. Political Economy and Political Science Perspectives on Policy Uncertainty
5. McCarty, Nolan, 2014. “The Decline of Regular Order in Appropriations: Does It Matter?” Princeton University. This paper by a prominent political scientist documents trends in “procedural fiscal performance” (e.g., timely budgets spending resolutions) of the U.S. Congress and President. It evaluates various hypotheses about the reasons for a decline in fiscal performance over time, and it relates this performance concept to policy uncertainty.

This course will consider only one small slice of recent work that uses automated text analysis methods as a research tool. Research using these methods is growing rapidly in economics and other fields. See the following papers to start gaining a fuller appreciation for how these methods can be deployed in economics research. For a good introduction to machine-learning methods for the analysis of high-dimensional data, see James, Gareth et al., 2013. *An Introduction to Statistical Learning: With Applications in R*. New York: Springer.

**Selected Studies that Use Automated Text Analysis Methods**


My teaching website at [http://faculty.chicagobooth.edu/steven.davis/teaching.html](http://faculty.chicagobooth.edu/steven.davis/teaching.html) contains (old) lecture notes on the following topics:
- The Unemployment Volatility Puzzle and the Role of Wage Determination
- Evidence of Nominal Wage Stickiness
- Evidence on Why Wages Are Sticky
- Persistent Wage Effects of Past Labor Market Conditions
- Selected Studies of Wage Rigidities

The same site also includes reading lists for earlier incarnations of this course.