Reading List (with some annotations)

The sequencing of topics in this reading list differs from the lecture sequence set forth in the course syllabus. All items on the reading list can be found online. Read the published version, unless noted otherwise.

** = Covered in lectures plus other essential readings for the course.
* = Treated briefly in lectures or especially good complements to the lectures.

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

This section lists selected papers that exploit large-scale longitudinal business databases to study various topics. Most of the papers listed here exploit U.S. databases. Similar datasets are available for many other countries, as illustrated by items 10 and 18. See Section III below on “Labor Market Flows and Frictional Unemployment” for works that use longitudinal business databases to study the creation, destruction and reallocation of jobs.

Quasi-experimental studies that exploit large-scale longitudinal business databases are growing rapidly in number and impact. As an example, we will cover “Private Equity, Jobs and Productivity” (item 20) in one of the lectures. We will briefly discuss the empirical design in several other quasi-experimental studies that use longitudinal business database.

Items 15 and 16 below are two great recent examples of how to exploit datasets that follow large numbers of individual employers (businesses) and their workers (owners) over time. These longitudinal employer-worker and business-owner linked datasets are growing in importance. We will consider a different application of these datasets in our treatment of “Displaced Workers: Earnings Losses and other Effects of Job Loss.”

Measurement and Description


7. **Davis, Steven J., John Haltiwanger, Ron Jarmin and Javier Miranda, 2007, “Volatility and Dispersion in Business Growth Rates: Publicly Traded versus Privately Held Firms,” in *NBER Macroeconomics Annual, 2006*, 107-155. We will study this paper carefully in class. It offers a good introduction to the Longitudinal Business Database (LBD) and will sensitize you to the special character of publicly listed firms – i.e., the ones covered by Compustat, CRSP, EDGAR and many other widely used firm-level data sources. The paper documents major secular developments related to business dynamism and labor market fluidity that will feature prominently in the course. Among other things, it shows that trends in business volatility differed drastically between publicly listed and privately held firms in the decades leading up to 2001. For more on the selectivity of listed firms, and how it changed over time, see Fama and Frend (2004) and Brown and Kapadia (2007).


**Quasi-Experimental Studies**


18. 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.


20. **Davis, Steven J., John Haltiwanger, Ron Jarmin, Josh Lerner and Javier Miranda, April 2014, “Private Equity, Jobs, and Productivity.” American Economic Review, December. We will cover this paper in detail during lecture. Read the version on my website, which includes the online appendix.


II. Empirical Studies of Management Practices and Business Performance

Syverson (2011) provides an excellent overview of the expansive literature on productivity behavior. I won’t cover Syverson’s paper in class, but I strongly encourage you to read it for background. We will treat particular slices of the literature that uses business-level datasets to study productivity behavior, including “Private Equity, Jobs and Productivity” above and items 4 and 6 in this section.


I won’t spend much time on this section in class, but many of the papers intersect with topics that we will cover in some detail. As minimal background, read my 2006 JEP with Faberman and Haltiwanger.

Papers in this section develop (or review) the empirical foundations of the flow approach to labor market dynamics and theories of frictional unemployment. Some studies (e.g., *Job Creation and Destruction*) mainly exploit longitudinal business databases. Others (e.g., Blanchard and Diamond, 1989 and Elsby et al., 2009) mainly exploit household surveys. For a gentle introduction to the literature, read Davis, Faberman and Haltiwanger (2006). From there, you can profitably read any of the studies listed in this section.


Selected Micro-Oriented Analyses of Labor Market Flows


Applications of the “Flow Approach” to Products, Capital Inputs and Credit Markets


IV. Trends in Business Dynamism and Labor Market Flows

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 classroom 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.
V. Displaced Workers: Earnings Losses and other Effects of Job Loss

Competitive equilibrium theory and standard equilibrium search models 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 equilibrium search theory. Recent papers by Jung and Kuhn (2016), Doppelt (2016), Krolikowski (2017), Huckfeldt (2014), and Jarosch (2015) consider various modifications to search and matching models to address this issue.

1. Basten, Christoph, Andreas Fagereng and Kjetil Telle, 2016. “Saving and Portfolio Allocation before and after Job Loss,” Journal of Money, Credit and Banking, 48, no. 2-3. This paper investigates 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


VI. Studies of the Hiring Process

A vast empirical literature explores the characteristics, behavior and outcomes of the unemployed. There is also a large theoretical literature on individual and aggregate unemployment behavior. Explaining cyclical fluctuations in the unemployment rate, for example, is one of the principal goals of equilibrium search models. In comparison, the study of employer behavior in the process of forming new employment relationships is less developed. The papers listed here consider several aspects of employer behavior on the new hires margin.

Our classroom discussion will start with matching functions – a black-box approach, more or less, that treats “hiring” as the outcome of a production function with jobseekers and job openings as inputs. I will give you a basic introduction to labor market matching functions in one of my lectures, but you should read Petrongolo (2001) and Elsbys, Michaels and Ratner (2015) if you have time, especially if you plan to conduct research on unemployment, hiring behavior or labor market fluctuations. Matching functions are key building blocks in most equilibrium search theories. While there are many excellent treatments of equilibrium search theory, a very good place to start is *Equilibrium Unemployment Theory* by Chris Pissariedes.

During class, we will cover my paper on “The Establishment-Level Behavior of Vacancies and Hiring” in detail. That paper develops new evidence on hiring behavior. It also shows how to use matching functions to assess standard equilibrium search theories, extend them in useful new directions, and construct an index of employer recruiting intensity. “Aggregate Recruiting Intensity” by Gavazza, Mongey and Violante develop a different and complementary approach to measuring recruiting intensity and evaluating its usefulness in explaining hiring, vacancy fill rates and the job-finding rates of jobseekers. Hall and Schuhlofer-Wohl (2017) is one of several recent papers that focuses on developing better measures of the “jobseeker” input to matching functions.
I will also cover “Application Flows,” my new working paper with Brenda Samaniego de la Parra, during lecture. This paper introduces and studies an exciting new dataset that contains millions of applicants, applications and job vacancies for technology-oriented jobs in the United States. Brenda and I built the underlying database from the proprietary data of DHI Group, Inc. I am hoping that these data will become available for other researchers by this spring.

I don’t plan to spend a lot of time on the studies listed under sections D-G below, but I will mention a few of them in passing. You might want to dig into any that look interesting.

A. Matching Functions
3. *Elsby, Michael, Ryan Michaels and David Ratner, 2015. “The Beveridge Curve: A Survey,” Journal of Economic Literature, 53, no. 3, 571-630. This paper takes the reader to several points at the frontier of research on the aggregate behavior of unemployment, vacancies, and labor market flows. Highly recommended if you plan to conduct research on aggregate labor market fluctuations.

B. Job Vacancies in the Hiring Process

**C. Applications Behavior**

**D. Hiring Costs and Hiring as an Investment Decision**

**E. Selected Theoretical Models of the Hiring Process**

F. Wage Behavior on the New Hires Margin

G. Field Studies of the Hiring Process

VII. Policy Uncertainty

This section considers a rapidly growing literature on economic policy uncertainty. Our classroom treatment will address the measurement of economic policy uncertainty, issues that arise in evaluating the relationship of policy uncertainty to macroeconomic performance, and the use of firm-level data to assess the effects of policy uncertainty.

There is a much larger (and expanding) literature on the economic effects of uncertainty. See Baker et al. (2016) 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: Theory and Quantitative-Theoretic Analyses
5. *Gilchrist, Simon, Jae W. Sim and Egon Zakrajsek, 2014, “Uncertainty, Financial Friction and Investment Dynamics,” NBER Working Paper No. 20038. Many studies of how uncertainty shocks affect economic outcomes stress “wait-and-see” responses. This paper makes a strong case that uncertainty, policy-related or otherwise, also has important effects on economic outcomes through credit spreads.

D. Political Economy and Political Science Perspectives on Policy Uncertainty
6. 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.

VIII. Eliciting Subjective Expectations and Using Them in Economics Research

**IX. Selected Studies that Use Automated Text Analysis**

This course will consider several examples of 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. For an introductory course on text mining and machine learning developed by economist Stephen Hanson, go to [https://sekhansen.github.io/teaching.html](https://sekhansen.github.io/teaching.html). For an excellent overview of text-based analyses in economics, see “Text as Data” by Gentzkow, Kelly and Taddy.

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


**X. Other Studies on Course-Related Topics**

If time permits, I may cover one or more of the following papers in the last week or two of lectures. Some of the papers in this section may also feature in Homework Assignment #4.


My teaching website at [http://faculty.chicagobooth.edu/steven.davis/teaching.html](http://faculty.chicagobooth.edu/steven.davis/teaching.html) has reading lists for earlier incarnations of this course. It also has (old) lecture notes on the following topics that I won’t cover in this year’s course:

- Empirical Foundations for the Flow Approach to Labor Markets
- 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