

**Universidad de Los Andes**  
**Facultad de Economía**  
**Escuela Internacional de Verano 2005**  
**Curso: Reallocation, Economic Fluctuations and Growth**

**Profesor:** John Haltiwanger, Profesor de la Universidad de Maryland

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**Fecha:** Julio 5 – 18

**Horario:** 2:00 p.m. a 6:00 p.m.

**Código:** 4102

**Enfasis: Organización Industrial**

Nota: La fecha límite para retirarse del curso será el viernes 15 de julio.

**Introduction**

The allocation of factors of production to their most productive uses and the concentration of activity in the most productive producers are recognized by the theory as key forces behind aggregate productivity growth. This course will present an overview of the theory and the empirical evidence on factor adjustment, productivity growth, economic fluctuations and the relationship between these different phenomena. The course will be divided as follows:

- 1) Productivity dynamics, the allocation of activity, and the dynamics of entry and exit of plants.
  - a. A revision of basic facts and empirical evidence
  - b. Theoretical underpinnings
- 2) Factor reallocation and adjustment costs:
  - a. Employment dynamics and the costs of adjusting employment
  - b. Investment and the costs of adjusting capital

**READING LIST**

*I. Productivity dynamics and the allocation of activity*

*A. Basic Facts and Empirical Evidence*

\*Bartelsman, Eric, Doms, Mark, 2000. "Understanding productivity: lessons from longitudinal microdata." Journal of Economic Literature 38 (2), 569– 594.

\*Bartelsman, E., J. Haltiwanger and S. Scarpetta, "Microeconomic Evidence of Creative Destruction in Industrial and Developing Countries," IZA Working Paper No. 1374, October 2004.

Bartelsman, E., J. Haltiwanger and S. Scarpetta, "Measuring and Analyzing Cross Country Differences in Firm Dynamics," working paper, March 2005.

\*Eslava, M., J. Haltiwanger, A. Kugler and M. Kugler, "The Effect of Structural Reforms on Productivity and Profitability Enhancing Reallocation: Evidence from Colombia," Journal of Development Economics, December 2004.

\*Foster, L., J. Haltiwanger and C.J. Krizan, "Aggregate Productivity Growth: Lessons from Microeconomic Evidence," in *New Developments in Productivity Analysis*, NBER/University of Chicago Press, 2001.

Foster, L., J. Haltiwanger and C.J. Krizan, "The Link Between Aggregate and Micro Productivity Growth: Evidence from Retail Trade," NBER Working Paper No. 9120, August 2002.

\*Foster, L., J. Haltiwanger and C. Syverson, "Reallocation, Firm Turnover and Efficiency: Selection on Productivity and Profitability," working paper, June 2005.

\*Levinsohn, J. and A. Petrin, "Estimating Production Functions Using Inputs to Control for Unobservables," Review of Economic Studies, April 2003.

\*Olley, S. and A. Pakes, "The Dynamics of Productivity in the Telecommunications Equipment Industry," *Econometrica*, 1996, 64(6), 1263-1297.

Syverson, C. "Output Substitutibility and Productivity Heterogeneity," mimeo, March 2002.

### *B. Theoretical Underpinnings*

\*Aghion, P. and P. Howitt, "Growth and Unemployment," Review of Economic Studies, July 1994, 477-494.

\*Barlevy, G., "The Sullyng Effect of Recessions," Review of Economic Studies, January 2002.

\*Caballero, R. and M. Hammour, "The Cleansing Effect of Recessions," American Economic Review, 1994, 84: 1350-1368.

\*Caballero, R. and M. Hammour, "On the Timing and Efficiency of Creative Destruction," Quarterly Journal of Economics, 1996, August, 805-852.

Caballero, R. and M. Hammour, “Creative Destruction and Development: Institutions, Crises, and Restructuring,” mimeo, 2001.

\*Ericson, Richard and Ariel Pakes, “Markov Perfect Industry Dynamics: A Framework for Empirical Work,” Review of Economic Studies, Vol. 62(1), 1995, 53-82.

\*Hopenhayn, Hugo A. “Entry, Exit, and Firm Dynamics in Long Run Equilibrium.” *Econometrica*, 60(5), 1992, pp. 1127-50.

\*Jovanovic, Boyan, “Selection and the Evolution of Industry,” Econometrica, 50(3), 1982, 649-670.

Melitz, Marc J. “Estimating Firm-Level Productivity in Differentiated Product Industries.”  
Mimeo, Harvard University, 2000.

Melitz, Marc J. “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity.” *Econometrica*, 2003.

## *II. Factor Reallocation and the Costs of Adjustment*

### *A. Employment Adjustment*

\*Caballero, Ricardo, Eduardo M.R.A. Engel, and John Haltiwanger, “Aggregate Employment Dynamics: Building from Microeconomic Evidence,” *American Economic Review*, March, 1997.

\*Cooper, R., J. Haltiwanger and J. Willis, “Dynamics of Labor Demand: Evidence from Plant-level Observations and Aggregate Implications,” mimeo, University of Maryland

Davis, S., J. Haltiwanger and J. Faberman, “The Flow Approach to Labor Markets: New Data Sources, Micro-Macro Links and the Recent Downturn,” mimeo, May 2005.

Davis, S., J. Haltiwanger and S. Schuh, Job Creation and Destruction, MIT Press: Cambridge, 1996.

\* Davis, S., and J. Haltiwanger, “Gross Job Flows,” in Ashenfelter and Card (eds.), Handbook of Labor Economics, North-Holland: Amsterdam, 1999.

\*Davis, S. and J. Haltiwanger, “On the Driving Forces Behind Cyclical Movements in Employment and Job Reallocation,” American Economic Review, 1999.

\*Foote, C.. “Trend Employment Growth and the Bunching of Job Creation and Destruction,” Quarterly Journal of Economics, 1998, 113(3), 809-834.

Gourinchas, P. "Exchange Rates, Job Creation and Destruction," NBER Macro Annual, 1998.

Haltiwanger, J. and M. Vodopivec, "Gross Worker and Job Flows in a Transition Economy: An Analysis of Estonia," Labour Economics, 2002.

Haltiwanger, J. and M. Vodopivec, "Worker Flows, Job Flows and Firm Wage Policies: An Analysis of Slovenia," Economics of Transition, Vol. 11, 2003.

\*Hamermesh, D. and G. Pfann, "Labor Demand and the Structure of Adjustment Costs," Journal of Economic Literature, pp. 1264-92, 1996.

\*Mortensen, D. and C. Pissarides, "Job Creation and Job Destruction in the Theory of Unemployment," Review of Economic Studies, 1994, 61: 397-415.

\*Mortensen, D. and C. Pissarides (1999), "New Developments in Models of Search in the Labor Market," Handbook of Labor Economics, Amsterdam: North-Holland, 2567-2628.

Nickell, Stephen J. (1998). "Job Tenure and Labour Reallocation: A Partial Overview," in *Job Creation: The Role of Labor Market Institutions*, (Jordi Gual, ed.), Cheltenham, U.K.: Elgar Publishing Co.

Shimer, Robert, "The Consequences of Rigid Wages in Search Models," mimeo, 2003.

### *B. Capital Adjustment*

Abel, A. and J. Eberly, "A Unified Model of Investment Under Uncertainty," American Economic Review, 84:5, 1994.

Barnett, S.A. and P. Sakellaris. "Non-linear Response of Firm Investment to Q: Testing a Model of Convex and Non-convex Adjustment Costs," Journal of Monetary Economics, 1998

\*Caballero, R., "Aggregate Investment: A 90's Views," in: John Taylor and Michael Woodford, editors, *The Handbook of Macroeconomics*, Amsterdam: North-Holland.

Caballero, Ricardo and Eduardo M.R.A. Engel, "Microeconomic Adjustment Hazards and Aggregate Dynamics," Quarterly Journal of Economics, 1993.

\*Caballero, Ricardo and Eduardo M.R.A. Engel, "Explaining Investment Dynamics in U.S. Manufacturing: A Generalized (S,s) Approach," Econometrica, July 1999. 1994.

Caballero, Ricardo and Eduardo M.R.A. Engel, "Three Strikes and You're Out: Reply to Cooper and Willis," NBER Working Paper No. 10368, 2004

Caballero, Ricardo, Eduardo M.R.A. Engel and John Haltiwanger, "Plant Level Adjustment and Aggregate Investment Dynamics," Brookings Papers on Economic Activity, 1995.

\*Cooper, Russell and John Haltiwanger, "On the Nature of Capital Adjustment Costs," NBER Working Paper No. 7925, September 2000.

Cooper, Russell and Jonathan Willis, "The Cost of Labor Adjustment: Inferences from the Gap," NBER Working Paper No. 10006, 2003

Doms, M and T. Dunne, "Capital Adjustment Patterns in Manufacturing Plants," Review of Economic Dynamics, 1998.

\*Eslava, M., J. Haltiwanger, A. Kugler and M. Kugler, "Employment and Capital Adjustments after Factor Market Deregulation: Panel Evidence from Colombian Plants", mimeo Universidad de Los Andes, 2005