

Urban Labor Economics, by Yves Zenou. 2009. New York: Cambridge University Press. 509 + xiii. ISBN 978-0-521-87538-7, cloth, \$95; ISBN 978-0-521-69822-1, paper, \$34.95.

Yves Zenou's book reviews his pioneering contributions to urban labor economics.

Part 1 is devoted to search-matching models, part 2 to efficiency wage models, and part 3 to urban ghettos and labor markets. Appendices deal with the basic urban economics (monocentric) model without a developed labor market, Bellman equations, and the Harris-Todaro model. A key concern of the book is the integration of a noncompetitive labor market within standard urban economics models.

In the first part of the book Zenou places Pissarides's search-matching model (Pissarides, 2000) in an urban context. Zenou presents a series of models in which workers are homogeneous and mobility in the housing market is costless. The main theme of the book is the integration of the land and labor markets. Although workers are ex ante homogeneous, the functioning of the labor market implies that at every moment some are employed while others are not. Employed workers have to travel to work daily to the CBD, while the unemployed visit the CBD at a frequency that is determined by their search intensity. Since the slopes of the bid rent curves depend on the number of weekly trips to the CBD, which generally differs between the two groups, the outcome of these models is that employed and unemployed workers are separated spatially. If the unemployed have a low intensity of search, as is conventionally assumed, they end up at the outskirts of the city. However, Zenou also manages to formulate a model in which unemployed searchers can choose either to search intensively and locate close to the CBD, or search less intensively and locate close to the city edge.

The second part of the book presents a series of models based on efficiency wage theory (as developed by Shapiro and Stiglitz (1984)). In such models wages are set higher than the competitive level. The resulting unemployment serves as a threat to prevent workers from shirking. In equilibrium this threat is effective, and no worker shirks. Nevertheless,

workers may become unemployed because jobs are destroyed by chance. When that happens, the unemployed have to wait for some time until another job is available. Given this standard (but simple) search-matching mechanism of efficiency wage models, Zenou develops several extensions. Here also in this part of the book workers are usually *ex ante* identical.

The equilibria derived in these models have similarities with urban areas in which the unemployed are concentrated close to the city center (as in many American cities) or in the suburbs (as in many European cities). There are also clear differences. The models feature continuous flows from the unemployment areas to employment areas in the cities as a change in labor market status immediately implies a change in residential location (there are a few exceptions: models in which households are completely immobile). This means that in the course of every worker's lifetime some years are spent in a ghetto and others in different areas of the city.

Many observers regard heterogeneity in the urban labor force as a primary characteristic of the urban labor market. Low-skilled workers and ethnic minorities tend to become concentrated in specific parts of urban areas, and tend to stay in such areas throughout their life. According to the so-called spatial mismatch hypothesis, developed by Kain (1968), this remains true even if the low-skilled jobs move further away from these areas. Kain's analysis gave rise to a large empirical literature, and since the end of the 1990s a number of theoretical models have also been put forward that attempt to shed light on this issue. Unsurprisingly, (*ex ante*) heterogeneity plays an important role in these models.

The third part of the book is devoted to such models. The challenge in this literature is to provide a convincing explanation why the functioning of the urban labor market somehow enlarges relatively small *ex ante* differences into substantial differences in unemployment over the lifecycle that are also related to differences in health status and longevity. One interesting possibility is that small differences in wealth lead to different propensities of

automobile ownership. The workers who don't own a car are disadvantaged when searching for jobs and realizing long commutes, which may lead to substantial differences in employment outcomes. And also, presumably, in the wealth position of the next generation. Again the search-matching and efficiency wage models are the workhorses in the analysis. Apart from his own work, Zenou here also discusses Coulson et al. (2001) at some length.

The last chapter of this part of the book contains a very interesting discussion of peer effects and social networks. The literature on this subject is emerging and in addition to his own models Zenou deals with important work of others, such as Calvó-Armengol and Jackson (2004).

Although the book is lengthy, it focuses on a relatively narrow set of problems. For each of them Zenou presents a multitude of models in the search-matching or efficiency wage tradition. He presents each model masterfully, confirming his reputation as a skillful model builder. The variety of approaches serves to analyze a problem from various points of view, but in order to keep the alternative models tractable they have to embody different sets of assumptions. In some instances this gives the impression that ad hoc considerations weighed heavily. For instance, in one modeling exercise Zenou author imposes exogenously that the unemployed have lower housing consumption than workers, which leads to an equilibrium in which employers have to compensate workers for their larger houses. However, such somewhat surprising setups are exceptional, and in a number of places Zenou discusses the empirical relevance of his main assumptions at length.

Inevitably, a number of potentially relevant issues are ignored. Although the integration of the land and labor markets is a main theme, not much attention is paid to housing. It would be desirable to relate housing tenure choice and unemployment probabilities in various ways. The obvious connection is that a good job makes it easier to own a house, but a more subtle and controversial one is that homeowners will have more

difficulties in finding a job once they become unemployed. According to the so-called Oswald thesis the latter effect is empirically relevant (Oswald, 1996). A related potentially important issue is the relationship between the quality of housing and the residential neighborhood on the one hand and worker productivity on the other.

Another white spot—a field of research not covered—of the book is the important connection between agglomeration benefits and labor market issues. The connection between labor market issues and externalities through specialization or diversification is not completely ignored but it does not receive much attention. Also not discussed at length is the attractiveness of larger cities to higher educated workers through their richer amenities and larger labor markets.

Zenou has deliberately chosen to focus on other important research areas. The result is a very competently written and readable synthesis of the relevant literature that is compulsory reading for anyone interested in this field and will inspire others to do further work.

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