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Boston University

Fall, 2003

Economics 356

Economics of the Labor Market

Course Outline and Readings

This course is intended for undergraduates interested in the microeconomics of labor markets and labor market policy. It covers the basic theories of labor supply and demand and human capital investment. These theories are used to analyze a topics current issues including welfare reform, minimum wages, immigration, career choice, unions, employment discrimination, and training policy. Ec. 303 (or its equivalent) is recommended, but not required.

The textbook for the course is McConnell, Brue and Macpherson, *Contemporary Labor Economics* (6th Edition). Additional readings are on reserve at Mugar Library. Please note that all of the assigned Annual Reports of the Council of Economic Advisors are on the web at: <http://w3.access.gpo.gov/eop/>

The course will be organized as a lecture, but students are expected to attend class and to be prepared to participate in class discussion. The course requirements include 3 quizzes, a mid-term, and a final examination. The mid-term will count for 30% of the grade, quizzes will count for 25%, and the final examination will count for 45%. Missed examinations can only be made-up with a written medical excuse. Regularity of class attendance and participation will count when the final course grade is on a borderline. CAS regulations governing plagiarism and cheating on exams are strictly enforced in this course.

My office is Room 404A at 264 Bay State Rd. I can be reached at 617-353-4438 or Doeringe@bu.edu.

Office Hours

Mondays 3 -4:30 and Wednesdays 3:30 -5:00, or by appointment.

Final Exam

December 20, 9-11 (no exceptions)

I. Introduction to Labor Markets

McConnell and Brue ch. 1

McConnell and Brue ch. 18, pp. 553-558

Handout: Counting the labor force

Economic Report of the President and the Annual Report of the Council of Economic Advisors, 2001, ch. 5, "Living in the New Economy", pp. 187-192

II. Labor Supply

1. The basic model of labor supply

McConnell and Brue ch. 2, pp. 14-31

2. Applications of the theory

McConnell and Brue ch. 2, pp. 31-46

Economic Report of the President and the Annual Report of the Council of Economic Advisors, 2001, ch. 5, "Living in the New Economy", pp. 193-202.

3. Explaining trends in labor supply

McConnell and Brue ch. 3

Dora L. Costa, "From Mill town to Board Room: The Rise of women's Paid Labor", ***Journal of Economic Perspectives***. Vol. 14 no. 4 fall 2000, pp. 101-122

III. Labor Demand

1. The Basic Model of Labor Demand

McConnell and Brue ch. 5, pp. 126-142

2. Demand elasticities

McConnell and Brue ch. 5, pp. 143-157

Handout: demand elasticity estimates

3. Policy application: minimum wages

McConnell and Brue ch. 13, pp. 408-413, 416-418

David Neumark, "The Employment Effects of Minimum Wages: Evidence From a Pre-specified Research Design", **Industrial Relations**, January 2001 vol.40, pp. 1121-143

IV. Wage Determination and the Allocation of Labor

1. Wages

McConnell and Brue ch. 6, pp. 167-177

2. Wages and employment under monopoly and monopsony conditions

McConnell and Brue ch. 6, pp. 177-184, ch. 12, pp. 383-387 (military draft)

3. Strategic fringe benefits

McConnell and Brue ch. 7, pp. 207-218

4. Wage differentials

McConnell and Brue ch. 8, pp. 241-252, 256-260

5. Hedonic wages

McConnell and Brue ch. 8, pp. 260-267

6. Application of the theory: workplace health and safety

McConnell and Brue ch. 13, pp. 420-429

V. Human Capital

1. The human capital investment model and career choice

McConnell and Brue ch. 4, pp. 84-110

Handout: Present Value Calculations

McConnell and Brue ch. 4, pp. 117-122

2. The college labor market

Julian R. Betts, "What Do Students Know About Wages?", *Journal of Human Resources*, Winter 1996

Richard B. Freeman, "Functioning of the College Graduates' Job Market"
McConnell and Brue ch. 6, pp. 198-201

Frederic L. Pryor and David Schaffner, "Wages and the University
Educated: A Paradox Resolved", *Monthly Labor Review*, July 1997.

Lois Joy, "Do Colleges Shortchange Women?", *American Economic Review*, May
2000, pp. 471-475

VI. Labor Mobility

1. Mobility, migration, and human capital

McConnell and Brue ch. 9, pp. 275-294; ch. 15, pp.479-483, 484-487

2. Policy application: Immigration

McConnell and Brue ch. 9, pp. 297-303

VII. Institutional Labor Markets

1. Internal labor markets

McConnell and Brue ch. 15, pp. 488-496

2. On-the-job training and specific human capital

McConnell and Brue ch. 4, pp. 111-116

3. Efficiency wages

McConnell and Brue ch. 7, pp. 219-237; ch. 8, pp. 252-254

VIII. Unions

1. The structure and pattern of unionization

McConnell and Brue ch. 10, pp. 306-311, 316-323

2. The theory of union wage effects

McConnell and Brue ch. 10, pp. 325-329; ch. 6, pp. 184-194, ch. 13, pp. 412-413
(shock effects), ch. 13, pp. 413-415 (monopsony)

3. The economic impact of unions

McConnell and Brue ch. 11, pp. 343-371

IX. Discrimination

1. Race and gender in the labor market

McConnell and Brue ch. 14, pp. 438-445

June O'Neill, "The Gender Gap in Wages, circa 2000", **American Economic Review**, vol. 93, No. 2, May 2003, pp. 309-314

Daniel E. Hecker, "Earnings of College Graduates: Women Compared With Men", *Monthly Labor Review*, March 1998

2. Economic theories of discrimination

McConnell and Brue ch. 14, pp. 445-469

3. Policy application: Equal employment opportunity

McConnell and Brue ch. 14, pp. 469-475

X. Income Distribution and the Distribution of Wages

McConnell and Brue ch. 16

XI. Dual Labor Markets: Labor Market Segmentation, Wages, and Unemployment

McConnell and Brue *4th Edition* ch. 16, pp. 460-472 **(Note: This reading is not in the textbook and is on reserve at Mugar)**

McConnell and Brue ch. 18 pp. 558-561, 563-574

XII. Labor Market Policy

1. The Performance of the American Labor Market

Economic Report of the President and the Annual Report of the Council of Economic Advisors, 2003, ch 1, pp. 47-51, ch.3, pp. 109-126

2. Labor Market Policies

Paul Osterman, *Employment Futures*, ch. 5

Sar Levitan and Garth Mangum, *Federal Human Resources Policy From Kennedy To Clinton*, "Assessment", pp.27-52.

Lori G. Kletzer, "Job Displacement", *Journal of Economic Perspectives*, Winter 1998

Commonwealth of Massachusetts Blue Ribbon Commission on Older Workers, *Older Workers: An Essential Resource for Massachusetts – Key Findings and Recommendations*, April 2000, pp. 8-19

3. Labor productivity and competitiveness

McConnell and Brue ch. 17, pp. 524-530, 532-537, 547-550