Labor Economics
Spring 2011

When: TR 3:00 – 4:30
Where: Swart 4

Instructor: Dr. Chad Cotti
Office: CF 328
E-mail: cotic@uwosh.edu
Phone: -3013
Office Hours: W 9:30 – 11:30, 1:00-2:30**

** The scheduled office hours are times during which I will be available to meet with students on a walk-in basis. Students who wish to meet with me at other times are invited to contact me to set up a special appointment. If you set up an appointment to meet with me you are required to show up, missing an appointment can impact your attendance grade. No meetings will be scheduled to begin less than 30 minutes before one of my lectures.

Course Web Site: Desire to Learn (D2L) website. If you have questions about D2L please ask.

Goals of This Course: This course will introduce students to the main topics, ideas, issues, and methodologies of labor economics. The goals are as follows: (1) to become familiar with basic economic theories about labor markets and labor market institutions, (2) to learn some empirical facts related to those theories, and (3) to develop an ability to think analytically and quantitatively about issues related to labor economics. See the handout entitled “The Economic Perspective” for an extended description of “the economic approach.”

Prerequisites: Economics 206 (Principles of Microeconomics)

Textbook (available at the University bookstore):


Other texts you might consider reading for a different presentation from what McConnell et al. offer:

Grading:

Grades will be based on homework/class participation (10 percent), two midterm exams (30 percent each), and the final exam (30 percent). See below for a description of each component.

1. Homework: The purpose of homework is not to test your understanding (that is what exams are for), but rather to develop it. Many assignments may not even be collected, but all homework will be discussed in class on or near the due date.

2. Class Participation: Obviously, you will learn more (and probably a lot more) if you are actively involved in the class. Beyond that, your active participation will help your classmates learn more as well. For instance, when you ask a question in class, you identify a concern that is likely shared by many of your fellow students. Similarly, bringing up a new example in discussion will help others see how the course material can be applied in practice.

   Accordingly, part of your grade will reward class participation. Everyone will start with a B on this factor, but that mark will be raised or lowered throughout the semester depending on how much you participate. (Last semester the average mark was a B+ on this part.) Since everyone will be better off if the class “stays together,” you may also receive participation credit for attending the professor’s office hours with questions about substantive material from the course.

3. Exams: There will be two midterm exams and a final exam. Each of these will test students’ understanding of course material and their ability to apply these theories to specific real-world problems. Most questions will be of the “short answer” variety (where the desired answer is 1-2 sentences on the topic), though some may be a bit more involved—homework assignments will be a good guide to the type of question to expect on exams.

   Midterm Exam dates: Around March 4th and April 19, the definite days will be announced in class at least one week prior to the exam.
   Final Exam: May 12th

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Policies:

Attendance and Promptness Policy:

Attendance is not mandatory, but promptness is required. Entering/exiting the class during lectures is unfair to other students in the class; late arrivals/early exits create a distraction. This consideration will be factored into students’ grades through the participation portion of the class grade. In addition, if class extends beyond scheduled time, you may leave without fear of penalty. This situation will not arise often—only when an extra minute or two is needed to finish a thought or answer questions.

Clarity Policy:

No credit will be granted for work that is unintelligible. This includes, but not exclusively, work that is illegible, incoherently organized, or poorly worded.

Academic Honesty Policy:

For the protection of honest students, academic dishonesty—including all forms of cheating and plagiarism—will not be tolerated. Violators will be reported to university administrators for disciplinary action. See the university’s web page on academic misconduct for information about unacceptable behaviors and their consequences. Permission is hereby granted for students to collaborate on all homework assignments (but not exams!), as discussed above in the section on “homework.” Note that even if a group of students works together, each student must submit his or her assignment individually.

Expectations and General Orientation:

• Students can expect 6 to 8 homework assignments during the semester. Plan to spend 1 to 2 hours on each assignment. If it is taking you longer than that, please consider coming to office hours or making an appointment to see if there is any way to streamline the process.

• The course will cover one or two chapters from the textbook in a typical week.

• Students are asked to come to class prepared. At the least, please skim over your notes from the last class session to remind yourself where we are. Obviously, it would be better if you would do more than that—read all assignments, study your notes, identify questions you have, etc.

• Please come to my office hours or make an appointment to resolve any concerns or difficulties you may have at any point during the semester.
There are two main schools of thought in labor economics: neoclassical and institutional. Neoclassical labor economists generally view the labor market as similar to markets for most other goods (oil, lumber, automobiles—you name it), and they are primarily interested in the broad forces that shape the supply of workers and the demand for them. In contrast, institutional labor economists are more interested in the effects of factors unique to labor markets: labor unions, discrimination, workplace rules, and the internal organization of the firm. It is probably fair to say that more economists subscribe to the neoclassical view, but the institutionalist school remains important as well. At any rate there is enough overlap and blending of the two that it is impossible to draw precise boundaries between the two.

This course will survey both of these schools of thought. We will begin by covering the main features of neoclassical labor economics—the factors that determine the supply and demand of workers. The major forces discussed in this part of the class are the number of workers in a particular labor market, their willingness to sell their time to employers, and employers’ willingness to pay them. While there will undoubtedly be some variation in the outcomes experienced by different people, we will typically discuss workers (and jobs, too) as if they are interchangeable with one another, at least within a particular occupation, industry, or geographical location. (For instance, we might speak of New Jersey pharmacists as if they were all the same.) Obviously this isn’t perfectly realistic, but it is an appropriate simplification insofar as we are mostly concerned about average and aggregate levels of wages and employment.

Of course, we are not always solely concerned with averages or aggregates. The second section of the course will cover topics related to the internal working of firms. This is the only point in the course where we will worry much about the distinction between wages and other forms of compensation (e.g., subsidized health insurance, better working conditions, etc.). We will also discuss the economics of compensation policies that seek to resolve conflicts in the goals of managers and workers (the so-called “principal-agent problem”), the politically charged issue of the compensation of high-level executives, and some factors that influence how the workload is divided within the firm.

The final section of the course will examine the variability of wages across people. We will begin by documenting recent trends in the inequality of wages across people, and we will consider theories that purport to explain those trends. We will also study the structure of wages—that is, how wages vary across occupations, industries, and demographic groups—and we will conclude the course by looking at two important institutions that create differences in wages across people: discrimination and labor unions.
Course Outline:

I. Overview and Review (Chapter 1 and parts of Chapter 6 of McConnell et al.)

II. Labor Supply
   A. Population of Workers (Chapter 3)
   B. Labor Force Participation and Average Hours of Work Supplied (Chapters 2-3)
   C. Human Capital and the Quality of the Labor Supply (Chapter 4)
   D. Migration (Chapter 9)

[EXAM 1 ABOUT HERE]

III. Labor Demand (Chapter 5)
   A. Production Functions and Profit-Maximizing Producers
   B. Demand for Labor in the Short-Run
   C. Demand for Labor in the Long-Run: Substituting Machines for Workers and Vice-Verse

IV. Wage Structure: Who Earns How Much and Why (Chapter 8)

V. Personnel Economics (Chapter 7)
   A. Fringe Benefits
   B. Principal-Agent Problems: Overcoming the Conflicting Goals of Workers and Firms
   C. Executive Salaries: Why Do Top Executives Earn So Much?
   D. The Structure of Work: Dividing Tasks among Workers and Teams of Workers

[EXAM 2 ABOUT HERE]

VI. Distribution of Income: Growing Inequality (Chapter 16)

VII. Labor Market Institutions
   A. Theories and Evidence about Labor Market Discrimination (Chapter 14)
   B. Labor Unions and Their Impact on Wages, Employment, Productivity, and Profits (Chapters 10-11)